Apollo Global Management LLC
Form 10-Q
August 11, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2014 OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-35107

APOLLO GLOBAL MANAGEMENT, LLC
(Exact name of Registrant as specified in its charter)

Delaware	20-8880053
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9 West 57th Street, 43rd Floor
New York, New York 10019
(Address of principal executive offices) (Zip Code)
(212) 515-3200
(Registrant’s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

As of August 8, 2014 there were 156,771,918 Class A shares and 1 Class B share outstanding.

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Forward-Looking Statements

This quarterly report may contain forward-looking statements that are within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements include, but are not limited to, discussions related to Apollo’s expectations regarding the performance of its business, liquidity and capital resources and the other non-historical statements in the discussion and analysis. These forward-looking statements are based on management’s beliefs, as well as assumptions made by, and information currently available to, management. When used in this quarterly report, the words “believe,” “anticipate,” “estimate,” “expect,” “intend” and similar expressions are intended to identify forward-looki statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions, including risks relating to our dependence on certain key personnel, our ability to raise new private equity, credit or real estate funds, market conditions generally, our ability to manage our growth, fund performance, changes in our regulatory environment and tax status, the variability of our revenues, net income and cash flow, our use of leverage to finance our businesses and investments by our funds and litigation risks, among others. We believe these factors include but are not limited to those described under the section entitled “Risk Factors” in the Company's Annual Report on Form 10-K filed with the United States Securities and Exchange Commission ("SEC") on March 3, 2014 (the "2013 Annual Report"); as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC’s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this quarterly report and in our other filings. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Terms Used in This Report

In this quarterly report, references to “Apollo,” “we,” “us,” “our” and the “Company” refer collectively to Apollo Global Management, LLC, a Delaware limited liability company, and its subsidiaries, including the Apollo Operating Group and all of its subsidiaries;

“AMH” refers to Apollo Management Holdings, L.P., a Delaware limited partnership, that is an indirect subsidiary of Apollo Global Management, LLC;

“Apollo funds” and “our funds” refer to the funds, alternative asset companies and other entities that are managed by the Apollo Operating Group;

“Apollo Operating Group” refers to (i) the limited partnerships through which our Managing Partners currently operate our businesses and (ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our “principal investments”;

“Assets Under Management,” or “AUM,” refers to the assets we manage for the funds, partnerships and accounts to which we provide investment management services, including, without limitation capital that such funds, partnerships and accounts have the right to call from investors pursuant to capital commitments. Our AUM equals the sum of:

(i) the fair value of the investments of the private equity funds, partnerships and accounts we manage plus the capital that such funds, partnerships and accounts are entitled to call from investors pursuant to capital commitments;

(ii) the net asset value, or “NAV,” of the credit funds, partnerships and accounts for which we provide investment management services, other than certain collateralized loan obligations (“CLOs”) and collateralized debt obligations (“CDOs”), which have a fee generating basis other than the mark-to-market value of the underlying assets, plus used or available leverage and/or capital commitments;

(iii) the gross asset value or net asset value of the real estate funds, partnerships and accounts we manage, and the structured portfolio company investments of the funds, partnerships and accounts we manage, which includes the leverage used by such structured portfolio company investments;

(iv) the incremental value associated with the reinsurance investments of the portfolio company assets that we manage; and

(v)

the fair value of any other assets that we manage for the funds, partnerships and accounts to which we provide investment management services, plus unused credit facilities, including capital commitments to such funds, partnerships and accounts for investments

that may require pre-qualification before investment plus any other capital commitments to such funds, partnerships and accounts available for investment that are not otherwise included in the clauses above.

Our AUM measure includes Assets Under Management for which we charge either no or nominal fees. Our definition of AUM is not based on any definition of Assets Under Management contained in our operating agreement or in any of our Apollo fund management agreements. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers;

Fee-generating AUM consists of assets we manage for the funds, partnerships and accounts to which we provide investment management services and on which we earn management fees or, monitoring fees pursuant to management or other fee agreements on a basis that varies among the Apollo funds, partnerships and accounts we manage. Management fees are normally based on “net asset value,” “gross assets,” “adjusted par asset value,” “adjusted cost of all unrealized portfolio investments,” “capital commitments,” “adjusted assets,” “stockholders’ equity,” “invested capital” or “cap contributions,” each as defined in the applicable management agreement. Monitoring fees, also referred to as advisory fees, with respect to investments of the funds, partnerships and accounts we manage are generally based on the total value of such structured portfolio investments, which normally include leverage, less any portion of such total value that is already considered in fee-generating AUM.

Non-fee generating AUM consists of assets that do not produce management fees or monitoring fees. These assets generally consist of the following:

(i) fair value above invested capital for those funds that earn management fees based on invested capital;
(ii) net asset values related to general partner and co-investment ownership;
(iii) unused credit facilities;
(iv) available commitments on those funds that generate management fees on invested capital;
(v) structured portfolio company investments that do not generate monitoring fees; and
(vi) the difference between gross asset and net asset value for those funds that earn management fees based on net asset value.

Carry Eligible AUM refers to the AUM that may eventually produce carried interest income. All funds for which we are
entitled to receive a carried interest income allocation are included in Carry Eligible AUM, which consists of the following:

(i) Carry Generating AUM refers to funds' invested capital that is currently above its hurdle rate or preferred return, and the funds' profit is allocated to the general partner in accordance with the applicable limited partnership agreements or other governing agreements;

(ii) AUM Not Currently Generating Carry refers to funds' invested capital that is currently below its hurdle rate or preferred return; and

(iii) Uninvested Carry Eligible AUM refers to available capital for investment or reinvestment subject to the provisions of applicable limited partnership agreements or other governing agreements that are not currently part of the NAV or fair value of investments that may eventually produce carried interest income, which would be allocated to the general partner.

AUM with Future Management Fee Potential refers to the committed uninvested capital portion of total AUM not currently earning management fees. The amount depends on the specific terms and conditions of each fund.

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We use non-fee generating AUM combined with fee-generating AUM as a performance measure of our investment activities, as well as to monitor fund size in relation to professional resource and infrastructure needs. Non-fee generating AUM includes assets on which we could earn carried interest income;

“carried interest,” “carried interest income,” and “incentive income” refer to interests granted to Apollo by an Apollo fund that entitle Apollo to receive allocations, distributions or fees which are based on the performance of such fund or its underlying investments;

“Contributing Partners” refer to those of our partners and their related parties (other than our Managing Partners) who indirectly beneficially own (through Holdings) Apollo Operating Group units;

“feeder funds” refer to funds that operate by placing substantially all of their assets in, and conducting substantially all of their investment and trading activities through, a master fund, which is designed to facilitate collective investment by the participating feeder funds. With respect to certain of our funds that are organized in a master-feeder structure, the feeder funds are permitted to make investments outside the master fund when deemed appropriate by the fund’s investment manager;

“gross IRR” of a private equity fund represents the cumulative investment-related cash flows for all of the investors in the fund on the basis of the actual timing of investment inflows and outflows (for unrealized investments assuming disposition on June 30, 2014 or other date specified) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund’s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund’s investors;

“Holdings” means AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership through which our Managing Partners and Contributing Partners indirectly beneficially own their interests in the Apollo Operating Group units;

“Managing Partners” refer to Messrs. Leon Black, Joshua Harris and Marc Rowan collectively and, when used in reference to holdings of interests in Apollo or Holdings, includes certain related parties of such individuals;

“net IRR” of a private equity fund means the gross IRR applicable to all investors, including related parties which may not pay fees, net of management fees, organizational expenses, transaction costs, and certain other fund expenses (including interest incurred by the fund itself). The realized and the estimated unrealized value is adjusted such that up to 20.0% of the unrealized gain is allocated to the general partner, thereby reducing the balance attributable to fund investors’ carried interest all offset to the extent of interest income, and measures returns based on amounts that, if distributed, would be paid to investors of the fund, to the extent that a private equity fund exceeds all requirements detailed within the applicable fund agreement;

“net return” represents the calculated return that is based on month-to-month changes in net assets and is calculated using the returns that have been geometrically linked based on capital contributions, distributions and dividend reinvestments, as applicable;

“our manager” means AGM Management, LLC, a Delaware limited liability company that is controlled by our Managing Partners;

“permanent capital” means capital of publicly traded vehicles that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law, such as AP Alternative Assets, L.P. ("AAA"), Apollo Investment Corporation ("AINV"), Apollo Commercial Real Estate Finance, Inc. ("ARI"), Apollo Residential Mortgage, Inc. ("AMTG"), Apollo Tactical Income Fund Inc. ("AIF"), and Apollo Senior Floating Rate Fund Inc. ("AFT"); such publicly traded vehicles may be required, or elect, to return all or a portion of capital gains and investment income;

“private equity investments” refer to (i) direct or indirect investments in existing and future private equity funds managed or sponsored by Apollo, (ii) direct or indirect co-investments with existing and future private equity funds managed or sponsored by Apollo, (iii) direct or indirect investments in securities which are not immediately capable of resale in a public market that Apollo identifies but does not pursue through its private equity funds, and (iv) investments of the type described in (i) through (iii) above made by Apollo funds; and

“Strategic Investors” refer to the California Public Employees’ Retirement System, or “CalPERS,” and an affiliate of the Abu Dhabi Investment Authority, or “ADIA.”

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APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
JUNE 30, 2014 AND DECEMBER 31, 2013
(dollars in thousands, except share data)

	June 30, 2014	December 31, 2013
Assets:		
Cash and cash equivalents	$1,093,657	$1,078,120
Cash and cash equivalents held at consolidated funds	1,989	1,417
Restricted cash	7,646	9,199
Investments	2,882,683	2,393,883
Assets of consolidated variable interest entities:		
Cash and cash equivalents	1,189,378	1,095,170
Investments, at fair value	13,692,172	14,126,362
Other assets	445,705	280,718
Carried interest receivable	1,988,073	2,287,075
Due from affiliates	247,797	317,247
Fixed assets, net	37,781	40,251
Deferred tax assets	665,120	660,199
Other assets	68,925	44,170
Goodwill	49,243	49,243
Intangible assets, net	77,222	94,927
Total Assets	$22,447,391	$22,477,981
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and accrued expenses	$61,359	$38,159
Accrued compensation and benefits	85,409	41,711
Deferred revenue	272,727	279,479
Due to affiliates	574,272	595,371
Profit sharing payable	963,922	992,240
Debt	999,008	750,000
Liabilities of consolidated variable interest entities:		
Debt, at fair value	12,179,012	12,423,962
Other liabilities	607,141	605,063
Other liabilities	37,363	63,274
Total Liabilities	15,780,213	15,789,259
Commitments and Contingencies (see note 13)		
Shareholders' Equity:		
Apollo Global Management, LLC shareholders' equity:		
Class A shares, no par value, unlimited shares authorized, 156,296,748 and 146,280,784 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	—	—
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at June 30, 2014 and December 31, 2013	—	—
Additional paid in capital	2,413,115	2,624,582
Accumulated deficit	(1,425,244)	(1,568,487)
Appropriated partners' capital	1,405,064	1,581,079
Accumulated other comprehensive (loss) income	(952)	95
Total Apollo Global Management, LLC shareholders' equity	2,391,983	2,637,269
Non-Controlling Interests in consolidated entities	3,134,473	2,669,730

Non-Controlling Interests in Apollo Operating Group	1,140,722	1,381,723
Total Shareholders' Equity	6,667,178	6,688,722
Total Liabilities and Shareholders' Equity	$22,447,391	$22,477,981

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS
OF OPERATIONS (UNAUDITED)
THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Advisory and transaction fees from affiliates, net	$60,786	$65,085	$176,851	$112,504
Management fees from affiliates	226,420	155,070	436,211	305,517
Carried interest income from affiliates	284,946	277,106	450,490	1,388,313
Total Revenues	572,152	497,261	1,063,552	1,806,334
Expenses:				
Compensation and benefits:				
Equity-based compensation	28,711	43,501	87,689	88,787
Salary, bonus and benefits	89,832	69,282	170,362	142,678
Profit sharing expense	160,778	127,244	264,737	550,864
Total Compensation and Benefits	279,321	240,027	522,788	782,329
Interest expense	4,524	7,594	7,638	15,112
Professional fees	20,211	21,665	39,663	37,725
General, administrative and other	25,291	26,037	49,969	48,978
Placement fees	3,489	3,120	5,275	12,478
Occupancy	10,418	10,149	20,321	19,954
Depreciation and amortization	11,115	14,195	22,834	28,813
Total Expenses	354,369	322,787	668,488	945,389
Other Income (Loss):				
Net (losses) gains from investment activities	(9,534)	1,116	213,874	53,249
Net gains (losses) from investment activities of consolidated variable interest entities	43,425	(35,198)	91,160	12,663
Income from equity method investments	30,701	20,090	53,611	47,880
Interest income	2,726	3,049	6,054	6,140
Other income, net	2,238	2,778	19,769	4,076
Total Other Income (Loss)	69,556	(8,165)	384,468	124,008
Income before income tax provision	287,339	166,309	779,532	984,953
Income tax provision	(35,037)	(18,139)	(67,586)	(36,718)
Net Income	252,302	148,170	711,946	948,235
Net income attributable to Non-controlling Interests	(180,634)	(89,433)	(568,109)	(640,520)
Net Income Attributable to Apollo Global Management, LLC	$71,668	$58,737	$143,837	$307,715
Net Income Per Class A Share:				
Net Income Available to Class A Share – Basic	$0.33	$0.32	$0.64	$1.94
Net Income Available to Class A Share –Diluted	$0.33	$0.32	$0.64	$1.93
Weighted Average Number of Class A Shares – Basic	152,852,427	137,289,147	150,328,495	134,285,776
Weighted Average Number of Class A Shares – Diluted	152,852,427	137,289,147	150,328,495	138,104,463

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
THREE AND SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(dollars in thousands, except share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net Income	$252,302	$148,170	$711,946	$948,235
Other Comprehensive Loss, net of tax:				
Net loss from change in fair value of cash flow hedge instruments	(1,043)	—	(1,043)	—
Net loss on available-for-sale securities (from equity method investment)	—	(3)	(4)	(5)
Total Other Comprehensive Loss, net of tax	(1,043)	(3)	(1,047)	(5)
Comprehensive Income	251,259	148,167	710,899	948,230
Comprehensive Income attributable to Non-Controlling Interests	(146,166)	(129,676)	(508,818)	(642,521)
Comprehensive Income Attributable to Apollo Global Management, LLC	$105,093	$18,491	$202,081	$305,709

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES
IN SHAREHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(dollars in thousands, except share data)

	Apollo Global Management, LLC Shareholders									
	Class A Shares	Class B Shares	Additional Paid in Capital	Accumulated Deficit	Appropriated Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Apollo Global Management, LLC Total Shareholders' Equity	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Apollo Operating Group	To Sh Ec
Balance at January 1, 2013	130,053,993	1	$3,043,334	$(2,142,020)	$1,765,360	$144	$2,666,818	$1,893,212	$1,143,353	$5
Dilution impact of issuance of Class A shares	—	—	4,545	—	—	—	4,545	—	—	4,
Capital increase related to equity-based compensation	—	—	68,058	—	—	—	68,058	—	19,163	87
Capital contributions	—	—	—	—	—	—	—	444,678	—	44
Distributions	—	—	(258,816)	—	(95,906)	—	(354,722)	(78,927)	(439,017)	(8
Distributions related to deliveries of Class A shares for RSUs	2,899,114	—	10,911	(41,763)	—	—	(30,852)	—	—	(3
Purchase of AAA units	—	—	—	—	—	—	—	(62,326)	—	(6
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	—	—	(1,921)	—	—	—	(1,921)	1,921	—	—
Satisfaction of liability related to AAA RDUs	—	—	1,027	—	—	—	1,027	—	—	1,
Exchange of AOG Units for Class A shares	8,769,364	—	64,631	—	—	—	64,631	—	(50,819)	13
Net income (loss)	—	—	—	307,715	(2,001)	—	305,714	30,792	611,729	94
Net loss on available-for-sale securities (from	—	—	—	—	—	(5)	(5)	—	—	(5

equity method investment)										
Balance at June 30, 2013	141,722,471	1	$2,931,769	$(1,876,068)	$1,667,453	$139	$2,723,293	$2,229,350	$1,284,409	$6
Balance at January 1, 2014	146,280,784	1	$2,624,582	$(1,568,487)	$1,581,079	$95	$2,637,269	$2,669,730	$1,381,723	$6
Dilution impact of issuance of Class A shares	—	—	3,184	—	—	—	3,184	—	—	3,
Capital increase related to equity-based compensation	—	—	72,590	—	—	—	72,590	—	—	72
Capital contributions	—	—	—	—	135,356	—	135,356	432,804	—	56
Distributions	—	—	(337,282)	—	(370,662)	—	(707,944)	(172,895)	(513,741)	(1
Distributions related to deliveries of Class A shares for RSUs	3,797,843	—	7,108	(594)	—	—	6,514	—	—	6,
Purchase of AAA units	—	—	—	—	—	—	—	(312)	—	(3
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities	—	—	(3,423)	—	—	—	(3,423)	3,423	—	—
Satisfaction of liability related to AAA RDUs	—	—	1,183	—	—	—	1,183	—	—	1,
Exchange of AOG Units for Class A shares	6,218,121	—	45,173	—	—	—	45,173	—	(34,355)	10
Net income	—	—	—	143,837	59,291	—	203,128	201,723	307,095	71
Change in cash flow hedge instruments	—	—	—	—	—	(1,043)	(1,043)	—	—	(1
Net loss on available-for-sale securities (from equity method investment)	—	—	—	—	—	(4)	(4)	—	—	(4
Balance at June 30, 2014	156,296,748	1	$2,413,115	$(1,425,244)	$1,405,064	$(952)	$2,391,983	$3,134,473	$1,140,722	$6

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(dollars in thousands, except share data)

	2014	2013
Cash Flows from Operating Activities:		
Net income	$711,946	$948,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity-based compensation	87,689	88,787
Non-cash management fees	(14,946)	—
Depreciation and amortization	5,129	5,766
Amortization of intangible assets	17,705	23,047
Amortization of debt issuance costs	2,655	320
Unrealized (gains) losses from investment in HFA and other investments	(8,833)	2,092
Non-cash interest income	(1,725)	(1,656)
Income from equity awards received for directors' fees	(242)	(516)
Distribution of earnings from equity method investments	29,878	49,556
Income from equity method investments	(53,611)	(47,880)
Change in market value on derivatives	(14,039)	(284)
Change in fair value of contingent obligations	4,793	9,919
Excess tax benefits from share-based payment arrangements	(7,108)	—
Deferred taxes, net	19,687	31,509
Net loss on disposal of assets	38	29
Changes in assets and liabilities:		
Carried interest receivable	299,002	(136,488)
Due from affiliates	(119,833)	(34,517)
Other assets	(14,697)	(16,938)
Accounts payable and accrued expenses	30,308	5,044
Accrued compensation and benefits	43,763	19,778
Deferred revenue	(6,752)	44,298
Due to affiliates	(70,636)	(37,598)
Profit sharing payable	(8,028)	40,550
Other liabilities	4,134	501
Apollo Funds related:		
Net realized gains from investment activities	(16,876)	(84,326)
Net unrealized (gains) losses from investment activities	(214,042)	58,505
Net realized gains on debt	(357)	(83,397)
Net unrealized losses on debt	6,528	156,249
Distributions from investment activities	—	62,189
Change in cash held at consolidated variable interest entities	(94,208)	165,208
Purchases of investments	(4,348,386)	(4,512,398)
Proceeds from sale of investments and liquidating distributions	4,796,355	4,967,429
Change in other assets	(164,987)	(111,683)
Change in other liabilities	37,008	254,558
Net Cash Provided by Operating Activities	$937,312	$1,865,888
Cash Flows from Investing Activities:		

Purchases of fixed assets	(2,710)	(4,669)
Proceeds from disposals of fixed assets	13	1,381
Cash contributions to equity method investments	(71,563)	(52,040)
Cash distributions from equity method investments	27,560	46,225
Change in restricted cash	1,553	3
Net Cash Used in Investing Activities	$(45,147)	$(9,100)
Cash Flows from Financing Activities:		
Principal repayments of debt	(250,000)	(9,545)
Issuance of debt	499,008	—
Issuance costs	(5,478)	—
Distributions related to cash flow hedge instruments	(1,052)	—
Satisfaction of tax receivable agreement	(32,032)	—
Satisfaction of contingent obligations	(25,083)	—
Distributions related to deliveries of Class A shares for RSUs	(594)	(41,763)
Distributions to Non-Controlling Interests in consolidated entities	(8,023)	(6,448)
Contributions from Non-Controlling Interests in consolidated entities	2,040	304
Distributions paid	(303,591)	(230,008)
Distributions paid to Non-Controlling Interests in Apollo Operating Group	(513,741)	(439,017)
Excess tax benefits from share-based payment arrangements	7,108	—
Apollo Funds related:		
Issuance of debt	1,168,967	332,250
Principal repayment of debt	(1,418,961)	(1,420,175)
Purchase of AAA units	(312)	(62,326)
Distributions paid	(360,905)	(95,906)
Distributions paid to Non-Controlling Interests in consolidated variable interest entities	(19,414)	(72,479)
Contributions from Non-Controlling Interests in consolidated variable interest entities	386,007	444,374
Net Cash Used in Financing Activities	$(876,056)	$(1,600,739)
Net Increase in Cash and Cash Equivalents	16,109	256,049
Cash and Cash Equivalents, Beginning of Period	1,079,537	947,451
Cash and Cash Equivalents, End of Period	$1,095,646	$1,203,500
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$6,865	$23,746
Interest paid by consolidated variable interest entities	76,856	63,219
Income taxes paid	23,266	2,513
Supplemental Disclosure of Non-Cash Investing Activities:		
Non-cash contributions to equity method investments	$—	$904
Non-cash distributions from equity method investments	(2,966)	(1,364)
Supplemental Disclosure of Non-Cash Financing Activities:		
Declared and unpaid distributions	(33,691)	(28,809)
Non-cash contributions to Non-Controlling Interests in consolidated entities from Appropriated Partners' Capital	9,757	—
Non-cash distributions from Non-Controlling Interests in consolidated entities to Appropriated Partners' Capital	(135,357)	—
Non-cash contributions from Non-Controlling Interests in Apollo Operating Group related to equity-based compensation	—	19,163
Satisfaction of liability related to AAA RDUs	1,183	1,027
Net transfers of AAA ownership interest to Non-Controlling Interests in consolidated entities	3,423	1,921
Net transfer of AAA ownership interest from Apollo Global Management, LLC	(3,423)	(1,921)
Unrealized loss on available for sale securities (from equity method investment)	(4)	(5)

Capital increases related to equity-based compensation	72,590	68,058
Dilution impact of issuance of Class A shares	3,184	4,545
Tax benefits related to deliveries of Class A shares for RSUs	—	(10,911)
Adjustments related to exchange of Apollo Operating Group units:		
Deferred tax assets	$58,696	$92,080
Due to affiliates	(47,878)	(78,268)
Additional paid in capital	(10,818)	(13,812)
Non-Controlling Interest in Apollo Operating Group	34,355	50,819

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

1. ORGANIZATION AND BASIS OF PRESENTATION

Apollo Global Management, LLC (together with its consolidated subsidiaries, the “Company” or “Apollo”) is a global alternative investment manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, credit and real estate funds as well as strategic investment accounts ("SIAs"), on behalf of pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. For these investment management services, Apollo receives management fees generally related to the amount of assets managed, transaction and advisory fees for the investments made and carried interest income related to the performance of the respective funds that it manages. Apollo has three primary business segments:

- Private equity—primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;
- Credit—primarily invests in non-control corporate and structured debt instruments; and
- Real estate—primarily invests in real estate equity for the acquisition and recapitalization of real estate assets, portfolios, platforms and operating companies, and real estate debt including first mortgage and mezzanine loans, preferred equity and commercial mortgage backed securities.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and instructions to the Quarterly Report on Form 10-Q. The condensed consolidated financial statements and these notes are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting only of normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The condensed consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities (“VIEs”) and for which the Company is considered the primary beneficiary, and certain entities which are not considered variable interest entities but which the Company controls through a majority voting interest. Intercompany accounts and transactions have been eliminated upon consolidation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2013 included in the 2013 Annual Report.

Certain reclassifications, when applicable, have been made to the prior period's condensed consolidated financial statements and notes to conform to the current period's presentation and are disclosed accordingly.

Organization of the Company

The Company was formed as a Delaware limited liability company on July 3, 2007 and completed a reorganization of its predecessor businesses on July 13, 2007 (the “2007 Reorganization”). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is indirectly wholly-owned and controlled by Leon Black, Joshua Harris and Marc Rowan (the "Managing Partners").

As of June 30, 2014, the Company owned, through three intermediate holding companies that include APO Corp., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, APO Asset Co., LLC, a Delaware limited liability company that is a disregarded entity for U.S. federal income tax purposes, and APO (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S. federal income tax purposes (collectively, the “Intermediate Holding Companies”), 41.2% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group through its wholly-owned subsidiaries.

A.P. Professional Holdings, L.P., a Cayman Islands exempted limited partnership ("Holdings"), is the entity through which the Managing Partners and certain of the Company's other partners (the "Contributing Partners") indirectly beneficially own interests in each of the partnerships that comprise the Apollo Operating Group (“AOG Units”). As of June 30, 2014, Holdings owned the remaining 58.8% of the economic interests in the Apollo Operating Group. The Company consolidates the financial

results of the Apollo Operating Group and its consolidated subsidiaries. Holdings’ ownership interest in the Apollo Operating Group is reflected as a Non-Controlling Interest in the accompanying condensed consolidated financial statements.

Apollo also entered into an exchange agreement with Holdings (as amended, the “Exchange Agreement”) that allows the holders of the AOG Units (and certain permitted transferees thereof), subject to the applicable vesting and minimum retained ownership requirements and transfer restrictions to exchange, upon notice (subject to the terms of the Exchange Agreement), their AOG Units for the Company’s Class A shares on a one-for-one basis a limited number of times each year, subject to customary conversion rate adjustments for splits, distributions and reclassifications. Under the Exchange Agreement, a holder of AOG Units must simultaneously exchange one partnership unit in each of the Apollo Operating Group partnerships to effectuate an exchange for one Class A share. As a holder exchanges its AOG Units, the Company’s indirect interest in the Apollo Operating Group will be correspondingly increased.

In May 2013, the Company completed its public offering for resale of approximately 24.3 million Class A shares owned by the California Public Employees' Retirement System, or "CalPERS," and an affiliate of the Abu Dhabi Investment Authority (the "Strategic Investors") and certain of its Managing Partners, Contributing Partners and employees (collectively, the “Selling Shareholders”) at a price to the public of $25.00 per Class A share, which included approximately 3.2 million Class A shares sold by the Selling Shareholders upon the exercise in full of the underwriters' option to purchase additional shares (the “Secondary Offering”). In connection with the Secondary Offering, certain holders of AOG Units exchanged their AOG Units for Class A shares and approximately 8.8 million Class A shares were issued by the Company in the exchange. No proceeds were received by the Company from the sale of Class A shares by the Selling Shareholders in the Secondary Offering. All underwriting costs were borne by the Selling Shareholders. The Company incurred approximately $3.0 million of fees, consisting of legal and professional fees and filing costs, as a result of the Secondary Offering.

As a result of the exchange of AOG Units into Class A shares from the Secondary Offering, the Company's economic interest in the Apollo Operating Group increased and Holdings' economic interest in the Apollo Operating Group decreased, resulting in a transfer of $50.8 million to Apollo Global Management, LLC's shareholders' equity from Non-Controlling Interests in the Apollo Operating Group.

In November 2013, certain holders of AOG Units exchanged their AOG Units for Class A shares and approximately 2.2 million Class A shares were issued by the Company in the exchange. The dilution of Holdings' economic interest in the Apollo Operating Group as a result of the exchange resulted in a transfer of $12.2 million to Apollo Global Management, LLC's shareholders' equity from Non-Controlling Interests in the Apollo Operating Group.

In May 2014, certain holders of AOG Units exchanged their AOG Units for Class A Shares and approximately 6.2 million Class A shares were issued by the Company in the exchange. The dilution of Holdings' economic interest in the Apollo Operating Group, as a result of the exchange, resulted in a transfer of $34.4 million to Apollo Global Management, LLC's shareholders' equity from Non-Controlling Interests in the Apollo Operating Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation—The types of entities with which Apollo is involved generally include subsidiaries (i.e. general partners and management companies related to the funds the Company manages), entities that have all the attributes of an investment company (e.g., funds) and securitization vehicles (e.g., collateralized loan obligations). Each of these entities is assessed for consolidation on a case by case basis depending on the specific facts and circumstances surrounding that entity.

Pursuant to its consolidation policy, the Company first considers the appropriate consolidation guidance to apply including consideration of whether the entity qualifies for certain scope exceptions and whether the entity should be evaluated under either the previous rules on consolidation of variable interest entities (“VIEs”) or the amended

consolidation rules depending on whether or not the entity qualifies for the deferral as further described below. The Company then performs an assessment to determine whether that entity qualifies as a VIE. An entity in which Apollo holds a variable interest is a VIE if any one of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support, (b) the holders of equity investment at risk (as a group) lack either the direct or indirect ability through voting rights or similar rights to make decisions about a legal entity's activities that have a significant effect on the success of the legal entity or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the legal entity,

their rights to receive the expected residual returns of the legal entity, or both and substantially all of the legal entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. Entities that do not qualify as VIEs are generally assessed for consolidation as voting interest entities ("VOEs") under the voting interest model.

Under the voting interest model, Apollo consolidates those entities it controls through a majority voting interest or through other means, including those VOEs in which the general partner is presumed to have control. Apollo does not consolidate those VOEs in which the presumption of control by the general partner has been overcome through either the granting of substantive rights to the unaffiliated investors to either dissolve the fund or remove the general partner ("kick-out rights") or the granting of substantive participating rights.

As previously indicated, the consolidation assessment, including the determination as to whether an entity qualifies as a VIE depends on the facts and circumstances surrounding each entity and therefore certain of Apollo's funds may qualify as VIEs whereas others may qualify as VOEs. The granting of substantive kick-out rights is a key consideration in determining whether an entity is a VIE and whether or not that entity should be consolidated. For example, when the unaffiliated holders of equity investment at risk of a fund with sufficient equity to permit the fund to finance its activities without additional subordinated financial support are not granted substantive kick-out rights and the Company is not part of the group of holders of equity investment at risk, the fund is generally determined to be a VIE, as the holders of equity investment at risk as a group lack the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the legal entity. Alternatively, when the unaffiliated holders of equity investment at risk are granted substantive kick-out rights, the fund is generally determined to be a VOE. However, in certain cases where the Company holds a substantive equity investment at risk in the fund, the fund may be determined to be a VOE even though substantive kick-out rights were not granted to the unaffiliated holders of equity investment at risk. In these cases, the Company is part of the group of holders of equity investment at risk and therefore the holders of equity investment at risk as a group do not lack the direct or indirect ability through voting rights or similar rights to make decisions that have a significant effect on the success of the legal entity.

If the entity is determined to be a VIE under the conditions above, the Company then assesses whether the entity should be consolidated by applying either the previous consolidation rules or the amended consolidation rules depending on whether the entity qualifies for the deferral of the amended consolidation rules as further described below.

VIEs that qualify for the deferral of the amended consolidation rules because certain conditions are met, including if the entities have all the attributes of an investment company and are not securitization or asset-backed financing entities, will continue to apply the previous consolidation rules. VIEs that are securitization or asset-backed financing entities will apply the amended consolidation rules. Under both sets of rules, VIEs for which Apollo is determined to be the primary beneficiary are consolidated.

With respect to VIEs such as Apollo's funds that qualify for the deferral of the amended consolidation rules and therefore apply the previous consolidation rules, Apollo is determined to be the primary beneficiary if its involvement, through holding interests directly or indirectly in the VIE or contractually through other variable interests (e.g., carried interest and management fees), would be expected to absorb a majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. In cases where two or more Apollo related parties hold a variable interest in a VIE, and the aggregate variable interest held by those parties would, if held by a single party, identify that party as the primary beneficiary, then the Company is determined to be the primary beneficiary to the extent it is the party within the related party group that is most closely associated with the VIE.

For VIEs such as Apollo's CLOs that apply the amended consolidation rules, the Company is determined to be the primary beneficiary if it holds a controlling financial interest defined as possessing both (a) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (b) the obligation to absorb

losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. CLOs are generally determined to be VIEs if they are formed solely to issue collateralized notes in the legal form of debt and therefore do not have sufficient total equity investment at risk to permit the entity to finance its activities without additional subordinated financial support. With respect to such CLOs, Apollo generally possesses a controlling financial interest in, and therefore consolidates, such CLOs in accordance with the amended consolidation rules when Apollo's role as collateral manager provides the Company with the power to direct the activities that most significantly impact the CLO's economic performance and the Company has the right to receive certain benefits from the CLO (e.g., incentive fees) that could potentially be significant to the CLO.

Under the previous and the amended consolidation rules, Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes initially involved with the VIE and reconsiders that conclusion continuously. Investments and

redemptions (either by Apollo, affiliates of Apollo or third parties) or amendments to the governing documents of the respective entity may affect an entity's status as a VIE or the determination of the primary beneficiary.

The assessment of whether an entity is a VIE and the determination of whether Apollo should consolidate such VIE requires judgments. Under both sets of rules, those judgments include, but are not limited to: (i) determining whether the total equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, (ii) evaluating whether the holders of equity investment at risk, as a group, can make decisions that have a significant effect on the success of the entity, (iii) determining whether two or more parties' equity interests should be aggregated, (iv) determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive the expected residual returns from an entity, and (v) evaluating the nature of the relationship and activities of the parties involved in determining which party within a related-party group is most closely associated with the VIE. Where the VIEs have qualified for the deferral, judgments are also made in estimating cash flows to evaluate which member within the equity group absorbs a majority of the expected losses or residual returns of the VIE. Where the VIEs have not qualified for the deferral, judgments are also made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIE's economic performance and rights to receive benefits or obligations to absorb losses that could be potentially significant to the VIE.

Certain of the consolidated VIEs were formed to issue collateralized notes in the legal form of debt backed by financial assets. The difference between the fair value of the assets and liabilities of these VIEs is presented within appropriated partners' capital in the condensed consolidated statements of financial condition as these VIEs are funded solely with debt. Changes in the fair value of the assets and liabilities of these VIEs and the related interest and other income is presented within net gains from investment activities of consolidated variable interest entities and net income attributable to Non-Controlling Interests in the condensed consolidated statements of operations. Such amounts are recorded within appropriated partners' capital as, in each case, the VIE's note holders, not Apollo, will ultimately receive the benefits or absorb the losses associated with the VIE's assets and liabilities.

Assets and liability amounts of the consolidated VIEs are shown in separate sections within the condensed consolidated statements of financial condition as of June 30, 2014 and December 31, 2013.

For additional disclosures regarding VIEs, see note 4. Intercompany transactions and balances, if any, have been eliminated in consolidation.

Equity Method Investments—For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of such entities. Income (loss) from equity method investments is recognized as part of other income (loss) in the condensed consolidated statements of operations. The carrying amounts of equity method investments are reflected in investments in the condensed consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, primarily investment companies which reflect their investments at estimated fair value, the carrying value of the Company's equity method investments in such entities approximates fair value.

Non-Controlling Interests—For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the Company is included in Non-Controlling Interests in the condensed consolidated financial statements. As of June 30, 2014, the Non-Controlling Interests relating to Apollo Global Management, LLC primarily includes the 58.8% ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings and other ownership interests in consolidated entities, which primarily consist of the approximately 97.5% ownership interest held by limited partners in AP Alternative Assets, L.P. ("AAA") as of June 30, 2014. Non-Controlling Interests also include limited partner interests of Apollo managed funds in certain consolidated VIEs.

Non-Controlling Interests are presented as a separate component of shareholders' equity on the Company's condensed consolidated statements of financial condition. The primary components of Non-Controlling Interests are separately presented in the Company's condensed consolidated statements of changes in shareholders' equity to clearly distinguish the interest in the Apollo Operating Group and other ownership interests in the consolidated entities. Net income (loss) includes the net income (loss) attributable to the holders of Non-Controlling Interests on the Company's condensed consolidated statements of operations. Profits and losses are allocated to Non-Controlling Interests in proportion to their relative ownership interests regardless of their basis.

Revenues—Revenues are reported in three separate categories that include (i) advisory and transaction fees from affiliates, net, which relate to the investments of the funds and may include individual monitoring agreements the Company has with the portfolio companies and debt investment vehicles of the private equity funds and credit funds; (ii) management fees from affiliates, which are based on committed capital, invested capital, net asset value, gross assets or as otherwise defined in the respective agreements; and (iii) carried interest income (loss) from affiliates, which is normally based on the performance of the funds subject to preferred return.

Advisory and Transaction Fees from Affiliates, Net—Advisory and transaction fees, including directors' fees, are recognized when the underlying services rendered are substantially completed in accordance with the terms of the transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated ("broken deal costs"). These costs (e.g., research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management's decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included as a component of the calculation of the Management Fee Offset described below. If a deal is successfully completed, Apollo is reimbursed by the fund or fund's portfolio company for all costs incurred and no offset is generated. As the Company acts as an agent for the funds it manages, any transaction costs incurred and paid by the Company on behalf of the respective funds relating to successful or broken deals are presented net on the Company's condensed consolidated statements of operations, and any receivable from the respective funds is presented in Due from Affiliates on the condensed consolidated statements of financial condition.

Advisory and transaction fees from affiliates, net, also includes underwriting fees. Underwriting fees include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which one of the Company's subsidiaries participates in the underwriter syndicate. Underwriting fees are recognized at the time the underwriting is completed and the income is reasonably assured and are included in the condensed consolidated statements of operations. Underwriting fees recognized but not received are included in other assets on the condensed consolidated statements of financial condition.

As a result of providing advisory services to certain private equity and credit portfolio companies, Apollo is generally entitled to receive fees for transactions related to the acquisition, in certain cases, and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations and directors' fees. The amounts due from portfolio companies are included in "Due from Affiliates," which is discussed further in note 12. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds may be subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ("Management Fee Offset"). Advisory and transaction fees from affiliates are presented net of the Management Fee Offset in the condensed consolidated statements of operations.

Management Fees from Affiliates—Management fees for private equity, credit, and real estate funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement, and are generally based upon (1) a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments, or (2) net asset value, gross assets or as otherwise defined in the respective agreements.

Carried Interest Income from Affiliates—Apollo is entitled to an incentive return that can normally amount to as much as 20% of the total returns on funds' capital, depending upon performance. Performance-based fees are assessed as a percentage of the investment performance of the funds. The carried interest income from affiliates for any period is based upon an assumed liquidation of the fund's net assets on the reporting date, and distribution of the net proceeds in accordance with the fund's income allocation provisions. Carried interest receivable is presented separately in the condensed consolidated statements of financial condition. The carried interest income from affiliates may be subject to reversal to the extent that the carried interest income recorded exceeds the amount due to the general partner based

on a fund's cumulative investment returns. When applicable, the accrual for potential repayment of previously received carried interest income, which is a component of due to affiliates, represents all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds' investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund's life.

Deferred Revenue—Apollo earns management fees subject to the Management Fee Offset. When advisory and transaction fees are earned by the management company, the Management Fee Offset reduces the management fee obligation of the fund. When the management company receives cash for advisory and transaction fees, a certain percentage of such advisory and/or transaction fees, as applicable, is allocated as a credit to reduce future management fees, otherwise payable by such fund. Such credit is classified as deferred revenue in the condensed consolidated statements of financial condition. A portion of any

excess advisory and transaction fees may be required to be returned to the limited partners of certain funds upon such fund's liquidation. As the management fees earned by the management company are presented on a gross basis, any Management Fee Offsets calculated are presented as a reduction to Advisory and Transaction Fees from Affiliates in the condensed consolidated statements of operations.

Additionally, Apollo earns advisory fees pursuant to the terms of the advisory agreements with certain of the portfolio companies that are owned by the funds. When Apollo receives a payment from a portfolio company that exceeds the advisory fees earned at that point in time, the excess payment is classified as deferred revenue in the condensed consolidated statements of financial condition. The advisory agreements with the portfolio companies vary in duration and the associated fees are received monthly, quarterly or annually. Deferred revenue is reversed and recognized as revenue over the period that the agreed upon services are performed.

Under the terms of the funds’ partnership agreements, Apollo is normally required to bear organizational expenses over a set dollar amount and placement fees or costs in connection with the offering and sale of interests in the funds to investors. The placement fees are payable to placement agents, who are independent third parties that assist in identifying potential investors, securing commitments to invest from such potential investors, preparing or revising offering and marketing materials, developing strategies for attempting to secure investments by potential investors and/or providing feedback and insight regarding issues and concerns of potential investors, when a limited partner either commits or funds a commitment to a fund. In certain instances the placement fees are paid over a period of time. Based on the management agreements with the funds, Apollo considers placement fees and organizational costs paid in determining if cash has been received in excess of the management fees earned. Placement fees and organizational costs are normally the obligation of Apollo but can be paid for by the funds. When these costs are paid by the fund, the resulting obligations are included within deferred revenue. The deferred revenue balance will also be reduced during future periods when management fees are earned but not paid.

Investments, at Fair Value—The Company follows U.S. GAAP attributable to fair value measurements which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. Investments, at fair value, represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which the fair value option was elected. The unrealized gains and losses resulting from changes in the fair value are reflected as net gains (losses) from investment activities and net gains (losses) from investment activities of the consolidated variable interest entities, respectively, in the condensed consolidated statements of operations. In accordance with U.S. GAAP, investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by U.S. GAAP, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

Level II—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These investments exhibit higher levels of liquid market observability as compared to Level III investments. The Company subjects broker quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II investment. These criteria include, but are not limited to, the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

Level III—Pricing inputs are unobservable for the investment and includes situations where there is little observable market activity for the investment. The inputs into the determination of fair value may require significant management

judgment or estimation. Investments that are included in this category generally include general and limited partner interests in corporate private equity and real estate funds, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs where the fair value is based on observable inputs as well as unobservable inputs. When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a

Level II or Level III investment. Some of the factors the Company considers include the number of broker quotes obtained, the quality of the broker quotes, the standard deviations of the observed broker quotes and the corroboration of the broker quotes to independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment when the fair value is based on unobservable inputs.

In cases where an investment or financial instrument that is measured and reported at fair value is transferred between levels of the fair value hierarchy, the Company accounts for the transfer as of the end of the reporting period.

Private Equity Investments

The value of liquid investments, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the close price on the date of determination.

Valuation approaches used to estimate the fair value of investments that are less liquid include the market approach and the income approach. The market approach provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry. The market approach is driven more by current market conditions, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. Consideration may also be given to such factors as the Company's historical and projected financial data, valuations given to comparable companies, the size and scope of the Company's operations, the Company's strengths, weaknesses, expectations relating to the market's receptivity to an offering of the Company's securities, applicable restrictions on transfer, industry and market information and assumptions, general economic and market conditions and other factors deemed relevant. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology in the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are assumptions of expected results and a calculated discount rate.

On a quarterly basis, Apollo utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to its funds' private equity investments. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Credit Investments

The majority of the investments in Apollo's credit funds are valued based on quoted market prices and valuation models. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing recognized pricing services, market participants or other sources. When market quotations are not available, a model based approach is used to determine fair value. The credit funds also enter into foreign currency exchange contracts, total return swap contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as

unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Total return swap contracts and credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the total return or credit default swap contract and the original contract price.

Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers. When determining fair value pricing when no market value exists, the value attributed to an investment is based on the enterprise value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation approaches used to estimate the fair value of

illiquid credit investments also may use the income approach or market approach. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.
On a quarterly basis, Apollo utilizes a valuation committee consisting of members from senior management, to review and approve the valuation results related to its funds' credit investments. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses.

Real Estate Investments

The estimated fair value of commercial mortgage-backed securities (“CMBS”) in Apollo’s funds is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs for certain investments. The Company evaluates its loans for possible impairment on a quarterly basis. For Apollo’s opportunistic and value added real estate funds, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values.
On a quarterly basis, Apollo utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to its funds' real estate investments. For certain publicly traded vehicles, a review is performed by an independent board of directors. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses.

Fair Value of Financial Instruments

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Except for the Company’s debt obligations related to the 2013 AMH Credit Facilities and 2024 Senior Notes (each as defined in note 9), Apollo’s financial instruments are recorded at fair value or at amounts whose carrying values approximate fair value. See “Investments, at Fair Value” above. While Apollo’s valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Financial instruments’ carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings.
Fair Value Option—Apollo has elected the fair value option for the Company's investment in Athene Holding Ltd. ("Athene Holding"), the convertible notes issued by HFA Holdings Limited (“HFA”) and for the assets and liabilities of the consolidated VIEs. Such election is irrevocable and is applied to financial instruments on an individual basis at

initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by the consolidated VIEs that otherwise would not have been carried at fair value. For the convertible notes issued by HFA, Apollo has elected to separately present interest income from other changes in the fair value of the convertible notes in the condensed consolidated statements of operations. See notes 3, 4, and 5 for further disclosure on the investments in Athene Holding, HFA and financial instruments of the consolidated VIEs for which the fair value option has been elected.

Financial Instruments held by Consolidated VIEs
The consolidated VIEs hold investments that could be traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the “bid” and “ask” prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions of similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors. When market quotations are not available, a model based approach is used to determine fair value.
The consolidated VIEs also have debt obligations that are recorded at fair value. The primary valuation methodology used to determine fair value for debt obligations is market quotation. Prices are based on the average of the “bid” and “ask” prices. In the event that market quotations are not available, a model based approach is used. The model based approach used to estimate the fair values of debt obligations for which market quotations are not available is the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. Debt obligations are discounted based on the appropriate yield curve given the loan’s respective maturity and credit rating. Management uses its discretion and judgment in considering and appraising relevant factors for determining the valuations of its debt obligations.
Goodwill and Intangible Assets
Goodwill and indefinite-life intangible assets must be reviewed annually for impairment or more frequently if circumstances indicate impairment may have occurred. Identifiable finite-life intangible assets, by contrast, are amortized over their estimated useful lives, which are periodically re-evaluated for impairment or when circumstances indicate an impairment may have occurred. Apollo amortizes its identifiable finite-life intangible assets using a method of amortization reflecting the pattern in which the economic benefits of the finite-life intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, Apollo uses the straight-line method of amortization. At June 30, 2014, the Company performed its annual impairment testing. As the fair value of the Company’s reporting units was in excess of the carrying value as of June 30, 2014, there was no impairment of goodwill and there was no impairment of indefinite-life intangible assets at such time.
Compensation and Benefits
Equity-Based Compensation—Equity-based awards granted to employees as compensation are measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e.,vested awards) are expensed immediately. Equity-based employee awards that require future service are expensed over the relevant service period. The Company estimates forfeitures for equity-based awards that are not expected to vest. Equity-based awards granted to non-employees for services provided to affiliates are remeasured to fair value at the end of each reporting period and expensed over the relevant service period.
Salaries, Bonus and Benefits—Salaries, bonus and benefits include base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are generally accrued over the related service period.
Also included within salaries, bonus and benefits is the expense related to profits interests issued to certain employees whereby they are entitled to a share in earnings and any appreciation in the value of a subsidiary of the Company during their term of employment. The expense related to these profits interests is recognized ratably over the requisite service period and thereafter will be recognized at the time the distributions are determined.
The Company sponsors a 401(k) Savings Plan whereby U.S. based employees are entitled to participate in the plan based upon satisfying certain eligibility requirements. The Company may provide discretionary contributions from time to time. No contributions relating to this plan were made by the Company for the three and six months ended

June 30, 2014 and 2013.

Profit Sharing Expense—Profit sharing expense primarily consists of a portion of carried interest recognized in one or more funds allocated to employees and former employees. Profit sharing expense is recognized on an accrued basis as the related carried interest income is earned. Profit sharing expense can be reversed during periods when there is a decline in carried interest

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income that was previously recognized. Additionally, profit sharing expenses previously distributed may be subject to clawback from employees, former employees and Contributing Partners.

Changes in the fair value of the contingent obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company’s condensed consolidated statements of operations as profit sharing expense.

The Company has a performance based incentive arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall realized performance of the Company. This arrangement enables certain partners and employees to earn discretionary compensation based on carried interest realizations earned by the Company in a given year, which amounts are reflected in profit sharing expense in the accompanying condensed consolidated financial statements.

Other Income (Loss)

Net Gains (Losses) from Investment Activities—Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in the Company’s investment portfolio between the opening reporting date and the closing reporting date. The condensed consolidated financial statements include the net realized and unrealized gains (losses) of investments, at fair value. For the Company's investments held by AAA (see note 3), a portion of the net gains (losses) from investment activities are attributable to Non-Controlling Interests in the condensed consolidated statements of operations.

Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities—Changes in the fair value of the consolidated VIEs’ assets and liabilities and related interest, dividend and other income and expenses subsequent to consolidation are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the condensed consolidated statements of operations.

Other Income (Loss), Net—Other income (loss), net includes the recognition of bargain purchase gains as a result of Apollo acquisitions, gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities of foreign subsidiaries, reversal of a portion of the tax receivable agreement liability (see note 12), gains (losses) arising from the remeasurement of derivative instruments associated with fees from certain of the Company’s affiliates and other miscellaneous non-operating income and expenses.

Net Income (Loss) Per Class A Share—U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for distributions declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to Class A shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Earnings or losses allocated to each class of security are then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding Class A shares and includes the number of additional Class A shares that would have been outstanding if the dilutive potential Class A shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the issuance of these potential Class A shares.

Use of Estimates—The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Apollo’s most significant estimates include goodwill, intangible assets, income taxes, carried interest income from affiliates, contingent consideration obligations related to acquisitions, non-cash compensation, and fair value of investments and debt in the consolidated and unconsolidated funds and VIEs. Actual results could differ materially

from those estimates.

Condensed Consolidated Statements of Cash Flows— During the second quarter of 2014, the Company identified that return on capital related to cash distributions from equity method investments had been previously reported as cash flows provided by investing activities. Cash flows received from equity method investments should have been separately identified as either return of investment or return on investment. Cash flows from the return of investment should be presented in cash flow provided by investing activities and return on investment presented within cash flows provided by operating activities. The Company

restated the previously presented cash flows for these cash distributions from equity method investments and in doing so, for the six months ended June 30, 2013, the condensed consolidated statement of cash flows was restated to increase net cash flows provided by operating activities by $49.6 million with a corresponding decrease in net cash flows provided by investing activities. The Company has evaluated the effect of the incorrect presentation both qualitatively and quantitatively, and concluded that it did not have a material impact on, nor require amendment of, any previously filed annual or quarterly consolidated financial statements. The impact to previously presented periods is as follows:

	For the three months ended March 31, 2013	For the three months ended March 31, 2014	For the nine months ended September 30, 2013	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Net Cash Provided by Operating Activities - as previously reported	$885,125	$389,178	$927,029	$1,025,382	$265,551	$743,821
Reclassification adjustment	19,899	23,261	77,563	109,076	66,063	24,674
Net Cash Provided by Operating Activities - as restated	$905,024	$412,439	$1,004,592	$1,134,458	$331,614	$768,495

	For the three months ended March 31, 2013	For the three months ended March 31, 2014	For the nine months ended September 30, 2013	For the year ended December 31, 2013	For the year ended December 31, 2012	For the year ended December 31, 2011
Net Cash Provided by (Used in)Investing Activities - as previously reported	$462	$(1,520)	$87,296	$111,727	$(84,791)	$(129,536)
Reclassification adjustment	(19,899)	(23,261)	(77,563)	(109,076)	(66,063)	(24,674)
Net cash (Used in) Provided by Investing Activities - as	$(19,437)	$(24,781)	$9,733	$2,651	$(150,854)	$(154,210)

restated

Recent Accounting Pronouncements

In April 2013, the Financial Accounting Standards Board ("FASB") issued guidance that requires an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The financial statements prepared using the liquidation basis of accounting should present relevant information about the expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any items it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities. Liabilities should be recognized and measured in accordance with U.S. GAAP that otherwise applies to those liabilities. The guidance requires an entity to accrue and separately present the costs that it expects to incur and the income that it expects to earn during the expected duration of the liquidation, including any costs associated with the sale or settlement of those assets and liabilities. Additionally, the amended guidance requires disclosures about an entity's plan for liquidation, the methods and significant assumptions used to measure assets and liabilities, the type and amount of costs and income accrued, and the expected duration of the liquidation process. The guidance is effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. The guidance provides that entities should apply the requirements prospectively from the day that liquidation becomes imminent. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In June 2013, the FASB issued guidance to change the assessment of whether an entity is an investment company by developing a new two-tiered approach that requires an entity to possess certain fundamental characteristics while allowing judgment in assessing certain typical characteristics. The fundamental characteristics that an investment company must have include the following: (1) it obtains funds from one or more investors and provides the investor(s) with investment management services; (2) it commits to its investor(s) that its business purpose and only substantive activities are investing the funds solely for returns from capital appreciation, investment income or both; and (3) it does not obtain returns or benefits from an investee or its affiliates that are not normally attributable to ownership interests. The typical characteristics of an investment company

that an entity should consider before concluding whether it is an investment company include the following: (1) it has more than one investment; (2) it has more than one investor; (3) it has investors that are not related parties of the parent or the investment manager; (4) it has ownership interests in the form of equity or partnership interests; and (5) it manages substantially all of its investments on a fair value basis. The new approach requires an entity to assess all of the characteristics of an investment company and consider its purpose and design to determine whether it is an investment company. The guidance includes disclosure requirements about an entity's status as an investment company and financial support provided or contractually required to be provided by an investment company to its investees. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In July 2013, the FASB issued guidance to eliminate the diversity in practice on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under the new guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carry forward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statement as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date (e.g. an entity should not evaluate whether the deferred tax asset expires before the statute of limitations on the tax position or whether the deferred tax asset may be used prior to the unrecognized tax benefit being settled). The guidance does not require new recurring disclosures. The guidance applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, similar tax loss, or a tax credit carryforward exists at the reporting date. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The guidance provides that the amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date, although retrospective application is permitted. The adoption of this guidance did not have a material impact on the Company's condensed consolidated financial statements.

In April 2014, the FASB issued guidance to improve the definition of discontinued operations and to enhance convergence between the FASB's and International Accounting Standard Board's (IASB) reporting requirements for discontinued operations. The new definition of discontinued operations limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have (or will have) a major effect on an entity's operations and financial results. The new guidance affects entities that have either of the following: (1) a component of an entity that either is disposed of or meets the criteria under current guidance to be classified as held for sale or (2) a business or nonprofit activity that, on acquisition, meets the criteria under current guidance to be classified as held for sale. The guidance is effective for all disposals (or classifications as held for sale) of components of an entity and all businesses or nonprofit activities that, on acquisition, are classified as held for sale that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. Early adoption is permitted, but only for disposals (or classifications has held for sale) that have not been reported in financial statements previously issued or available for issuance. The Company is in the process of evaluating the impact that this guidance will have on its condensed consolidated financial statements.

In May 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue across industries, transactions, and geographies. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new guidance also specifies the accounting for certain costs to obtain or fulfill a contract with a customer. The new guidance requires improved disclosures to help users of financial statements better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Qualitative and quantitative information is required to be disclosed about: (1) contracts with customers, (2) significant judgments and changes in judgments, and (3) assets recognized from costs to obtain or fulfill a contract. The new guidance will apply to all entities. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. Early

application is not permitted. The Company is in the process of evaluating the impact that this guidance will have on its condensed consolidated financial statements, including the timing of the recognition of carried interest income.

In June 2014, the FASB issued guidance to resolve diversity in practice in the accounting for share-based payments where the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Accordingly, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The new guidance applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. The guidance is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early application is permitted. The Company is in the process of evaluating the impact that this guidance will have on its condensed consolidated financial statements.

In August 2014, the FASB issued guidance to eliminate diversity in practice in the accounting for measurement differences in both the initial consolidation and subsequent measurement of the financial assets and the financial liabilities of a collateralized financing entity. A reporting entity that consolidates a collateralized financing entity within the scope of the new guidance may elect to measure the financial assets and the financial liabilities of that collateralized financing entity using either the measurement alternative included in the new guidance or the existing guidance on fair value measurement. When the measurement alternative is not elected for a consolidated collateralized financing entity within the scope of the new guidance, the new guidance clarifies that (1) the fair value of the financial assets and the fair value of the financial liabilities of the consolidated collateralized financing entity should be measured using the requirements of the existing guidance on fair value measurement and (2) any differences in the fair value of the financial assets and the fair value of the financial liabilities of that consolidated collateralized financing entity should be reflected in earnings and attributed to the reporting entity in the consolidated statement of income (loss). When a reporting entity elects the measurement alternative included in the new guidance for a collateralized financing entity, the reporting entity should measure both the financial assets and the financial liabilities of that collateralized financing entity in its consolidated financial statements using the more observable of the fair value of the financial assets and the fair value of the financial liabilities. The new guidance clarifies that when the measurement alternative is elected, a reporting entity’s consolidated net income (loss) should reflect the reporting entity’s own economic interests in the collateralized financing entity, including (1) changes in the fair value of the beneficial interests retained by the reporting entity and (2) beneficial interests that represent compensation for services. Beneficial interests retained by the reporting entity that represent compensation for services (for example, management fees or servicing fees) and nonfinancial assets that are held temporarily by a collateralized financing entity should be measured in accordance with other applicable guidance. The guidance applies to a reporting entity that is required to consolidate a collateralized financing entity under the existing variable interest entity guidance when (1) the reporting entity measures all of the financial assets and the financial liabilities of that consolidated collateralized financing entity at fair value in the consolidated financial statements based on other guidance and (2) the changes in the fair values of those financial assets and financial liabilities are reflected in earnings. The guidance is

effective for interim and annual reporting periods in fiscal years beginning after December 15, 2015. Early adoption is permitted as of the beginning of an annual period. The Company is in the process of evaluating the impact that this guidance will have on its condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(dollars in thousands, except share data, except where noted)

3. INVESTMENTS
The following table represents Apollo’s investments:

	As of June 30, 2014	As of December 31, 2013
Investments, at fair value	$2,436,061	$2,012,027
Other investments	446,622	381,856
Total Investments	$2,882,683	$2,393,883

Investments, at Fair Value
Investments, at fair value, consist of financial instruments held by AAA, the Company's investment in Athene Holding, investments held by the Apollo Credit Senior Loan Fund, L.P. ("Apollo Senior Loan Fund"), the Company’s investment in HFA and other investments held by the Company at fair value. As of June 30, 2014 and December 31, 2013, the net assets of the consolidated funds (excluding VIEs) were $2,176.1 million and $1,971.1 million, respectively. The following investments, except the investments in Athene Holding, HFA and Other Investments, are presented as a percentage of net assets of the consolidated funds:

	As of June 30, 2014 Fair Value					As of December 31, 2013 Fair Value				
Investments, at Fair Value – Affiliates	Private Equity	Credit	Total	Cost	% of Net Assets of Consolidated Funds	Private Equity	Credit	Total	Cost	% of Net Assets of Consoli Funds
AAA	$2,146,979	$—	$2,146,979	$1,494,358	98.7 %	$1,942,051	$—	$1,942,051	$1,494,358	98.5 %
Athene Holding	$18,939	$188,314	$207,253	$207,253	N/A	—	—	—	—	N/A
Apollo Senior Loan Fund	—	30,657	30,657	30,319	1.4	—	29,603	29,603	29,226	1.5
HFA	—	50,091	50,091	62,944	N/A	—	39,534	39,534	61,218	N/A
Other Investments	1,081	—	1,081	4,017	N/A	839	—	839	4,159	N/A
Total Securities	$2,166,999	$269,062	$2,436,061	$1,798,891	100.1%	$1,942,890	$69,137	$2,012,027	$1,588,961	100.0%

As of June 30, 2014 and December 31, 2013, the sole investment held by AAA was its investment in AAA Investments, L.P. (“AAA Investments”), which is measured based on AAA’s share of net asset value of AAA Investments. The following table represents the sole investment of AAA Investments, which constitutes more than five percent of the net assets of the funds that the Company consolidates (excluding VIEs) as of the aforementioned dates:

As of June 30, 2014				As of December 31, 2013			
Instrument Type	Fair Value	Cost	% of Net Assets of	Instrument Type	Fair Value	Cost	% of Net Assets of

				% of Consolidated Funds					% of Consolidated Funds	
Athene Holding	Equity	$2,149,593	$1,317,090	98.8	%	Equity	$1,950,010	$1,331,942	98.9	%

As of June 30, 2014, AAA Investments portfolio consisted of a single investment in the economic equity of Athene Holding. Athene Holding is the ultimate parent of various insurance company operating subsidiaries. Through its subsidiaries, Athene Holding provides insurance products focused primarily on the retirement market and its business centers primarily on issuing or reinsuring fixed indexed annuities. See note 12 for further information regarding Athene.

On October 31, 2012, AAA Investments consummated a transaction whereby substantially all of its assets were contributed to Athene in exchange for common shares of Athene Holding, cash and a short term promissory note (the "AAA Transaction"). Following receipt of required regulatory consents, AAA Investments transferred its remaining investments to Athene Holding on July 29, 2013. After the AAA Transaction, Athene Holding was AAA's only material investment. As of December 31, 2013, AAA, through its investment in AAA Investments was the largest shareholder of Athene Holding with an economic ownership stake of approximately 72.5% (without giving effect to restricted common shares issued under Athene's management equity plan and conversion of AAA Investments' note receivable) and effectively held 45% of the voting power of Athene.

At December 31, 2013, Athene's fair value was determined using the embedded value method which was based on the present value of the future expected regulatory distributable income generated by the net assets plus the excess capital (i.e., the capital in excess of what is required to be held against Athene's liabilities). The net assets of Athene consist of the current and projected assets less the current and projected liabilities related to in force insurance contracts. The assets considered capital in excess are fair valued in accordance with the fair value policies disclosed in note 2. The approach of using actuarially projected asset and liability income to value an insurance company is widely used by market participants in the insurance industry, particularly in private company acquisitions. The embedded value of the in force insurance contracts incorporates actuarial projections of expected income utilizing most recently available policyholder contract and experience data, industry information and assumptions, general economic and market conditions, and other factors deemed relevant, including the cost of capital. In addition, consideration is also given to comparable company multiples in the determination of fair value.

The Company, through its consolidation of AAA, had an approximate 68% fully diluted ownership interest in Athene (after giving effect to restricted common shares issued under Athene's management equity plan and conversion of AAA Investments' note receivable) through AAA's investment in AAA Investments as of December 31, 2013. AAA Investments' ownership interest in Athene is held indirectly through its subsidiaries and is comprised of common shares and a promissory note which can be settled in cash or common shares of Athene Holding at AAA Investments' option. Based on the above, the Company had an approximate 1.9% economic ownership interest in the common equity of Athene Holding, as of December 31, 2013. The approximate 1.9% economic ownership interest is calculated as the Company's approximate 2.6% ownership interest in AAA plus the Company's approximate 0.06% economic ownership interest in AAA Investments multiplied by AAA Investments' approximate 68% fully diluted ownership interest in Athene, as of December 31, 2013. The remaining ownership interest in AAA is recognized in the Company's condensed consolidated statements of operations as non-controlling interest in consolidated entities.

As further described in note 12, in the second quarter of 2014, Athene Holding raised $1.218 billion of net equity commitments (the "Athene Private Placement"), which was priced at $26 per common share of Athene Holding. As of June 30, 2014, AAA Investments' ownership stake in Athene was reduced as a result of the Athene Private Placement and the issuance of 3.7 million unrestricted common shares of Athene Holding under Athene's management equity plan resulting in an approximate 47.8% economic ownership stake (calculated as if the commitments in the Athene Private Placement closed through June 30, 2014 were fully drawn down but without giving effect to (i) restricted common shares issued under Athene's management equity plan or the (ii) conversion to common shares of AAA Investments' note receivable from Athene, or (iii) common shares to be issued under the Amended AAA Services Agreement or the Amended Athene Services Agreement subsequent to June 30, 2014) and effectively 45% of the voting power of Athene. As discussed further in note 12, in connection with the Athene Private Placement, the Athene Services Derivative was settled on April 29, 2014 by delivery to Apollo of shares of Athene Holding. The settlement of the AAA Services Derivative has resulted in a transfer of shares of Athene from AAA Investments to Apollo which reduced AAA Investments cost basis in Athene.

Given the observability of the Athene Private Placement, and the proximity to the June 30, 2014 financial statement date, the $26 per share price was considered to be the best measure of fair value and was therefore utilized for valuing

the Athene investment at June 30, 2014. In addition, consideration was also given to a market comparable multiple approach based on Athene's U.S. GAAP equity book value excluding accumulated other comprehensive income. The Company, through its consolidation of AAA, had an approximate 47.8% economic ownership interest in Athene (calculated as described above) through AAA's investment in AAA Investments as of June 30, 2014. AAA Investments' ownership interest in Athene is held indirectly through its subsidiaries.

In addition, the Company had an approximate 5.8% economic ownership interest in Athene Holding as of June 30, 2014, which comprises Apollo's direct ownership of 4.6% of the economic equity of Athene Holding plus an additional 1.2% economic ownership interest, which is calculated as the Company's approximate 2.6% economic ownership interest in AAA plus the Company's approximate 0.06% economic ownership interest in AAA Investments multiplied by AAA Investments'

approximate 47.8% economic ownership interest in Athene as of June 30, 2014. The remaining ownership interest in AAA is recognized in the Company's condensed consolidated statements of operations as non-controlling interest in consolidated entities.

Athene Holding

In connection with the Athene Private Placement, both the Athene Services Derivative and the AAA Services Derivative were settled on April 29, 2014 by delivery to Apollo of common shares of Athene Holding, and as a result, such derivatives were terminated. Following settlement of these derivatives, future monitoring fees and management fees paid to Apollo pursuant to the Amended Athene Services Agreement and the Amended AAA Services Agreement, respectively, will be paid on a quarterly basis in arrears by delivery to Apollo of common shares of Athene Holding (unless such payment in shares would violate Section 16(b) of the Exchange Act).

The Company elected the fair value option for its investment in Athene Holding at the time of settlement of the Athene Services Derivative and AAA Services Derivative. The Company has classified this investment as a Level III asset in the fair value hierarchy, as the pricing inputs into the determination of fair value require significant judgment and estimation. The investment is valued based on the price of a common share of Athene Holding, which as of June 30, 2014 was determined to be the $26 per common share price at which shares were offered in the Athene Private Placement. See note 5 for further discussion regarding fair value leveling and note 12 for further information regarding Athene.

Apollo Senior Loan Fund

On December 31, 2011, the Company invested an initial $26.0 million in the Apollo Senior Loan Fund. As a result, the Company became the sole investor in the fund and therefore consolidated the assets and liabilities of the fund. The fund invests in U.S. denominated senior secured loans, senior secured bonds and other income generating fixed-income investments. At least 90% of the Apollo Senior Loan Fund's portfolio of investments must consist of senior secured, floating rate loans or cash or cash equivalents. Up to 10% of the Apollo Senior Loan Fund's portfolio may consist of non-first lien fixed income investments and other income generating fixed income investments, including but not limited to senior secured bonds. The Apollo Senior Loan Fund may not purchase assets rated (tranche rating) at B3 or lower by Moody's, or equivalent rating by another nationally recognized rating agency.
The Company has classified the instruments associated with the Apollo Senior Loan Fund investment as Level II and Level III investments. All Level II and Level III investments of the Apollo Senior Loan Fund were valued using broker quotes. See note 5 for further discussion regarding fair value leveling.

HFA

On March 7, 2011, the Company invested $52.1 million (including expenses related to the purchase) in a convertible note with an aggregate principal amount of $50.0 million and received 20,833,333 stock options issued by HFA, an Australian based specialist global funds management company.
The terms of the convertible note allow the Company to convert the note, in whole or in part, into common shares of HFA at an exchange rate equal to the principal plus accrued payment-in-kind interest (or "PIK" interest) divided by US$0.98 at any time, and convey participation rights, on an as-converted basis, in any dividends declared in excess of $6.0 million per annum, as well as seniority rights over HFA common equity holders. Unless previously converted, repurchased or canceled, the note will be converted on the eighth anniversary of its issuance, on March 11, 2019. Additionally, the note has a percentage coupon interest of 6% per annum, paid via principal capitalization (PIK interest) for the first four years, and thereafter either in cash or via principal capitalization at HFA's discretion. The PIK interest provides for the Company to receive additional common shares of HFA if the note is converted. The Company has elected the fair value option for the convertible note. The convertible note is valued using an "if-converted basis," which is based on a hypothetical exit through conversion to common equity (for which a quoted price exists) as of the valuation date. The Company separately presents interest income in the condensed consolidated

statements of operations from other changes in the fair value of the convertible note. The terms of the stock options allow for the Company to acquire 20,833,333 fully paid ordinary shares of HFA at an exercise price in Australian Dollars (“A$”) of A$8.00 (exchange rate of A$1.00 to $0.94 and A$1.00 to $0.91 as of June 30, 2014 and 2013, respectively) per stock option. The stock options became exercisable upon issuance and expire on the eighth anniversary of the issuance date. The stock options are accounted for as a derivative and

are valued at their fair value under U.S. GAAP at each reporting date. The Company has classified the instruments associated with the HFA investment as Level III investments. See note 5 for further discussion regarding fair value leveling.

The following table presents PIK interest income included in interest income in the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Interest income	$854	$833	$1,725	$1,656

The following table presents the unrealized (loss) gain related to the convertible note and stock options within net gains from investment activities in the condensed consolidated statements of operations for the three and six months ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Change in net unrealized (losses) gains due to changes in fair values	$(9,181)	$(5,752)	$8,833	$(1,722)

Effective July 2, 2014, Apollo entered into a buy-back agreement with HFA, in which HFA agreed to repurchase the convertible note at its face value of $50 million. As a result, the fair value of Apollo's investment in HFA at June 30, 2014 was $50 million, resulting in a $9.2 million unrealized loss and $8.8 million unrealized gain for the three and six months ended June 30, 2014, respectively.

Net Gains from Investment Activities

Net gains from investment activities in the condensed consolidated statements of operations include net realized gains from sales of investments, and the change in net unrealized gains resulting from changes in fair value of the consolidated funds’ investments and realization of previously unrealized gains. Additionally, net gains from investment activities include changes in the fair value of the investment in HFA and other investments held at fair value. The following tables present Apollo’s net gains from investment activities for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30, 2014		
	Private Equity	Credit	Total
Realized gains on sales of investments	$—	$41	$41
Change in net unrealized losses due to changes in fair values	(436)	(9,139)	(9,575)
Net Losses from Investment Activities	$(436)	$(9,098)	$(9,534)

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	For the Three Months Ended June 30, 2013		
	Private Equity	Credit	Total
Realized gains on sales of investments	$—	$167	$167
Change in net unrealized gains (losses) due to changes in fair values	7,064	(6,115)	949
Net Gains (Losses) from Investment Activities	$7,064	$(5,948)	$1,116

	For the Six Months Ended June 30, 2014		
	Private Equity	Credit	Total
Realized gains on sales of investments	$—	$153	$153
Change in net unrealized gains due to changes in fair values	204,927	8,794	213,721
Net Gains from Investment Activities	$204,927	$8,947	$213,874

	For the Six Months Ended June 30, 2013		
	Private Equity	Credit	Total
Realized gains on sales of investments	$—	$408	$408
Change in net unrealized gains (losses) due to changes in fair values	54,833	(1,992)	52,841
Net Gains (Losses) from Investment Activities	$54,833	$(1,584)	$53,249

Other Investments

Other Investments primarily consist of equity method investments. Apollo's share of operating income generated by these investments is recorded within income from equity method investments in the condensed consolidated statements of operations.

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The following table presents income from equity method investments for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Investments:				
Private Equity Funds:				
AAA Investments	$—	$6	$124	$33
Apollo Investment Fund V, L.P. ("Fund V")	—	(1)	10	6
Apollo Investment Fund VI, L.P. ("Fund VI")	(352)	(5)	(822)	1,073
Apollo Investment Fund VII, L.P. ("Fund VII")	14,074	11,064	23,304	31,477
Apollo Investment Fund VIII, L.P. ("Fund VIII")	(278)	—	(512)	—
Apollo Natural Resources Partners, L.P. ("ANRP")	249	152	235	163
AION Capital Partners Limited ("AION")	5,488	369	8,275	553
Apollo Asia Private Credit Fund, L.P. ("APC")	5	2	7	3
VC Holdings, L.P. Series A ("Vantium A/B")	(6)	—	(6)	13
VC Holdings, L.P. Series C ("Vantium C")	(203)	1,333	3,485	1,325
VC Holdings, L.P. Series D ("Vantium D")	(437)	46	(1,912)	(1)
Other	—	8	—	—
Total Private Equity Funds[2]	18,540	12,974	32,188	34,645
Credit Funds:				
Apollo Special Opportunities Managed Account, L.P. ("SOMA")	124	30	575	414
Apollo Value Investment Fund, L.P. ("VIF")	2	(1)	6	6
Apollo Strategic Value Fund, L.P. ("SVF")	—	(2)	(1)	1
Apollo Credit Liquidity Fund, L.P. ("ACLF")	508	(36)	686	668
Apollo Lincoln Fixed Income Fund, L.P.	6	—	6	—
Apollo Structured Credit Recovery Fund III LP	14	—	14	—
Apollo Total Return Fund (Onshore) LP	1	—	2	—
Apollo/Artus Investors 2007-I, L.P. ("Artus")	—	(2)	—	(2)
Apollo Credit Opportunity Fund I, L.P. ("COF I")	681	563	897	4,137
Apollo Credit Opportunity Fund II, L.P. ("COF II")	86	(304)	252	584
Apollo Credit Opportunity Fund III, L.P. ("COF III")	487	(11)	1,145	(11)
Apollo European Principal Finance Fund, L.P. ("EPF I")	1,420	3,079	2,723	2,748
Apollo European Principal Finance Fund II, L.P. ("EPF II")	2,292	23	2,196	86
Apollo Investment Europe II, L.P. ("AIE II")	30	349	176	406
Apollo Palmetto Strategic Partnership, L.P. ("Palmetto")	265	259	1,126	842
Apollo Senior Floating Rate Fund Inc. ("AFT")	(1)	(3)	—	5
Apollo Residential Mortgage, Inc. ("AMTG")	211 [1]	22 [1]	299 [1]	508 [1]
Apollo European Credit, L.P. ("AEC")	29	71	146	147
Apollo European Strategic Investments, L.P. ("AESI")	120	106	243	258
Apollo Centre Street Partnership, L.P. ("ACSP")	296	108	808	289
Apollo Investment Corporation ("AINV")	2,040 [1]	2,037 [1]	5,216 [1]	1,410 [1]
Apollo SK Strategic Investments, L.P. ("SK")	42	23	122	49
Apollo SPN Investments I, L.P.	85	501	267	88

Apollo Tactical Income Fund Inc. (“AIF”)	3	(10)	2	(5)
Apollo Franklin Partnership, L.P. ("Franklin Fund")	216	(7)	432	(7)
Apollo Zeus Strategic Investments, L.P. ("Zeus")	130	—	277	—
Total Credit Funds[2]	9,087	6,795	17,615	12,621
Real Estate Funds:				
Apollo Commercial Real Estate Finance, Inc. (“ARI”)	2,696 [1]	93 [1]	3,060 [1]	316 [1]
AGRE U.S. Real Estate Fund, L.P.	385	227	677	241
CPI Capital Partners North America L.P.	(5)	16	(5)	74
CPI Capital Partners Asia Pacific, L.P.	(6)	(6)	(7)	(4)
Apollo GSS Holding (Cayman), L.P.	(7)	(1)	74	(5)
BEA/AGRE China Real Estate Fund, L.P.	11	(8)	9	(8)
Total Real Estate Funds[2]	3,074	321	3,808	614
Total	$30,701	$20,090	$53,611	$47,880

(1) Amounts are reported a quarter in arrears.

(2) Certain funds invest across multiple segments. Presentation in the table above is based on majority of fund investment classi

Other investments as of June 30, 2014 and December 31, 2013 consisted of the following:

	Equity Held as of June 30, 2014	% of Ownership	Equity Held as of December 31, 2013	% of Ownership
Investments:				
Private Equity Funds:				
AAA Investments	$1,293	0.057 %	$1,168	0.057 %
Fund IV	8	0.024	9	0.019
Fund V	90	0.020	94	0.020
Fund VI	8,094	0.107	9,964	0.103
Fund VII	139,650	1.246	137,960	1.258
Fund VIII	20,247	3.406	4,310	3.996
ANRP	4,668	0.804	3,735	0.831
AION	17,993	6.043	6,425	9.970
APC	42	0.045	49	0.046
Vantium A/B	9	6.450	15	6.450
Vantium C	148	2.071	1,233	2.071
Vantium D	90	6.345	2,190	6.345
Total Private Equity Funds[5]	192,332		167,152	
Credit Funds:				
SOMA	7,405	0.844	6,833	0.853
VIF	157	0.071	151	0.124
SVF	11	0.033	17	0.079
ACLF	5,176	3.289	4,559	3.341
COF I	10,469	1.845	10,077	1.850
COF II	3,405	1.413	5,015	1.428
COF III	18,337	2.447	6,720	2.450
EPF I	16,552	1.465	19,332	1.363
EPF II	39,883	1.838	23,212	1.994
AIE II	3,790	3.062	4,500	2.772
Palmetto	13,898	1.186	16,054	1.186
AFT	95	0.034	95	0.034
AMTG[3]	4,187 [1]	0.642 [1]	4,015 [2]	0.632 [2]
AEC	2,589	1.081	2,482	1.230
AESI	3,994	0.990	3,732	0.956
ACSP	10,815	2.473	7,690	2.465
AINV[4]	61,167 [1]	2.918 [1]	55,951 [2]	2.933 [2]
SK	1,836	1.017	1,714	0.997
Apollo SPN Investments I, L.P.	4,443	0.666	4,457	0.828
CION Investment Corporation	1,000	0.337	1,000	0.716
AIF	96	0.036	94	0.036
Franklin Fund	10,610	9.195	10,178	9.107
Zeus	5,602	3.386	1,678	3.383

Apollo Lincoln Fixed Income Fund, L.P.	606		0.990		—		—	
Apollo Structured Credit Recovery Master Fund III, L.P.	1,863		2.439		—		—	
Apollo Total Return Fund L.P.	82		0.052		—		—	
Total Credit Funds(5)	228,068				189,556			
Real Estate:								
ARI(3)	13,836	(1)	1.887	(1)	11,550	(2)	1.500	(2)
AGRE U.S. Real Estate Fund, L.P.	8,471		1.845		9,473		1.845	
CPI Capital Partners North America, L.P.	153		0.411		272		0.416	
CPI Capital Partners Europe, L.P.	5		0.001		5		0.001	
CPI Capital Partners Asia Pacific, L.P.	99		0.042		106		0.042	
Apollo GSS Holding (Cayman), L.P.	3,576		4.751		3,670		3.460	
BEA/AGRE China Real Estate Fund, L.P.	82		1.031		72		1.031	
Total Real Estate Funds(5)	26,222				25,148			
Total	$446,622				$381,856			

(1) Amounts are as of March 31, 2014.
(2) Amounts are as of September 30, 2013.
(3) Investment value includes the fair value of RSUs granted to the Company as of the grant date. These amounts are not considered in the percentage of ownership until the RSUs are vested and issued to the Company, at which point the RSUs are converted to common stock and delivered to the Company.
(4) The value of the Company's investment in AINV was $59,475 and $57,249 based on the quoted market price as of June 30, 2014 and December 31, 2013, respectively.
(5) Certain funds invest across multiple segments. Presentation in the table above is based on majority of fund investment classification.

As of June 30, 2014 and December 31, 2013 and for the three and six months ended June 30, 2014 and 2013, on an individual or aggregate basis, no equity method investment held by Apollo met the significance criteria as defined by the SEC. As such, Apollo is not required to present separate financial statements or summarized income statement information for any of its equity method investments.

4. VARIABLE INTEREST ENTITIES

As described in note 2, the Company consolidates entities that are VIEs for which the Company has been designated as the primary beneficiary. The purpose of such VIEs is to provide strategy-specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the entities that the Company manages may vary by entity; however, the fundamental risks of such entities have similar characteristics, including loss of invested capital and the return of carried interest income previously distributed to the Company by certain private equity, credit, and real estate entities. The nature of the Company's involvement with VIEs includes direct and indirect investments and fee arrangements. The Company does not provide performance guarantees and has no other financial obligations to provide funding to VIEs other than its own capital commitments. There is no recourse to the Company for the consolidated VIEs' liabilities.

The assets and liabilities of the consolidated VIEs are comprised primarily of investments and debt, at fair value, and are included within assets and liabilities of consolidated variable interest entities, respectively, in the condensed consolidated statements of financial condition.

Consolidated Variable Interest Entities

Apollo has consolidated VIEs in accordance with the policy described in note 2. The majority of the consolidated VIEs were formed for the sole purpose of issuing collateralized notes to investors. The assets of these VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt. Through its role as collateral manager of these VIEs, it was determined that Apollo had the power to direct the activities that most significantly impact the economic performance of these VIEs. Additionally, Apollo determined that the potential fees that it could receive directly and indirectly from these VIEs represent rights to returns that could potentially be significant to such VIEs. As a result, Apollo determined that it is the primary beneficiary and therefore should consolidate the VIEs.

The assets of these consolidated VIEs are not available to creditors of the Company. In addition, the investors in these consolidated VIEs have no recourse against the assets of the Company. The Company has elected the fair value option for financial instruments held by its consolidated VIEs, which includes investments in loans and corporate bonds, as well as debt obligations held by such consolidated VIEs. Other assets include amounts due from brokers and interest receivables. Other liabilities include payables for securities purchased, which represent open trades within the consolidated VIEs and primarily relate to corporate loans that are expected to settle within the next 60 days.

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Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities

The following table presents net gains (losses) from investment activities of the consolidated VIEs for the three and six months ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Net unrealized gains (losses) from investment activities	$10,449	$(138,181)	$9,538	$(113,061)
Net realized (losses) gains from investment activities	(192)	32,988	16,822	83,918
Net gains (losses) from investment activities	10,257	(105,193)	26,360	(29,143)
Net unrealized gains (losses) from debt	7,591	(68,013)	(6,528)	(156,249)
Net realized gains from debt	—	91,000	357	83,397
Net gains (losses) from debt	7,591	22,987	(6,171)	(72,852)
Interest and other income	147,142	152,501	318,136	329,626
Other expenses	(121,565)	(105,493)	(247,165)	(214,968)
Net Gains (Losses) from Investment Activities of Consolidated Variable Interest Entities	$43,425	$(35,198)	$91,160	$12,663

Senior Secured Notes and Subordinated Notes—Included within debt are amounts due to third-party institutions by the consolidated VIEs. The following table summarizes the principal provisions of the debt of the consolidated VIEs as of June 30, 2014 and December 31, 2013:

	As of June 30, 2014			As of December 31, 2013		
	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes[2][3]	$11,636,675	1.34 %	7.0	$11,877,744	1.31 %	7.3
Subordinated Notes[2][3]	973,467	N/A [1]	7.8	963,099	N/A [1]	8.1
Total	$12,610,142			$12,840,843		

(1) The subordinated notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the VIEs.

(2) The fair value of Senior Secured Notes and Subordinated Notes as of June 30, 2014 and December 31, 2013 was $12,179 million and $12,424 million, respectively.

(3) The debt at fair value of the consolidated VIEs is collateralized by assets of the consolidated VIEs and assets of one vehicle may not be used to satisfy the liabilities of another vehicle. As of June 30, 2014 and December 31, 2013, the fair value of the consolidated VIE assets was $15,327 million and $15,502 million, respectively. This collateral consisted of cash and cash equivalents, investments, at fair value, and other assets.

The consolidated VIEs' debt obligations contain various customary loan covenants as described above. As of June 30, 2014, the Company was not aware of any instances of non-compliance with any of these covenants.

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Variable Interest Entities Which are Not Consolidated

The Company holds variable interests in certain VIEs which are not consolidated, as it has been determined that Apollo is not the primary beneficiary.

The following tables present the carrying amounts of the assets and liabilities of the VIEs for which Apollo has concluded that it holds a significant variable interest, but that it is not the primary beneficiary as of June 30, 2014 and December 31, 2013. In addition, the tables present the maximum exposure to losses relating to those VIEs.

	As of June 30, 2014		
	Total Assets	Total Liabilities	Apollo Exposure
Total	$13,889,028 (1)	$(991,382) (2)	$28,826 (3)

(1) Consists of $466,850 in cash, $12,755,983 in investments and $666,195 in receivables.

(2) Represents $545,173 in debt and other payables, $442,907 in securities sold, not purchased, and $3,302 in capital withdrawals payable.

(3) Represents Apollo’s direct equity method investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, is $4,148 million as of June 30, 2014 as discussed in note 13.

	As of December 31, 2013		
	Total Assets	Total Liabilities	Apollo Exposure
Total	$12,866,498 (1)	$(1,311,279) (2)	$34,665 (3)

(1) Consists of $354,686 in cash, $12,034,487 in investments and $477,325 in receivables.

(2) Represents $1,161,549 in debt and other payables, $106,532 in securities sold, not purchased, and $43,198 in capital withdrawals payable.

(3) Represents Apollo’s direct equity method investment in those entities in which Apollo holds a significant variable interest. Additionally, cumulative carried interest income is subject to reversal in the event of future losses. The maximum amount of future reversal of carried interest income from all of Apollo's funds, including those entities in which Apollo holds a significant variable interest, was $4,858 million as of December 31, 2013.

5. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following tables summarize the valuation of the Company's financial assets and liabilities by the fair value hierarchy as of June 30, 2014 and December 31, 2013, respectively:

	As of June 30, 2014			
	Level I[5]	Level II[5]	Level III	Total
Assets				
Investment in AAA Investments[1]	$—	$—	$2,146,979	$2,146,979
Investments held by Apollo Senior Loan Fund[1]	—	29,670	987	30,657
Investments in HFA and Other[1]	—	—	51,172	51,172
Investment in Athene Holding[2]	—	—	207,253	207,253
AAA/Athene Receivable[2]	—	—	55,836	55,836
Investments of VIEs, at fair value[4]	117	11,640,193	2,051,862	13,692,172
Total Assets	$117	$11,669,863	$4,514,089	$16,184,069
Liabilities				
Debt of VIEs, at fair value[4]	$—	$1,967,676	$10,211,336	$12,179,012
Contingent Consideration Obligations[3]	—	—	115,220	115,220
Total Liabilities	$—	$1,967,676	$10,326,556	$12,294,232

	As of December 31, 2013			
	Level I[5]	Level II[5]	Level III	Total
Assets				
Investment in AAA Investments[1]	$—	$—	$1,942,051	$1,942,051
Investments held by Apollo Senior Loan Fund[1]	—	28,711	892	29,603
Investments in HFA and Other[1]	—	—	40,373	40,373
Athene and AAA Services Derivatives[2]	—	—	130,709	130,709
Investments of VIEs, at fair value[4]	3,455	12,203,370	1,919,537	14,126,362
Total Assets	$3,455	$12,232,081	$4,033,562	$16,269,098
Liabilities				
Debt of VIEs, at fair value[4]	$—	$2,429,815	$9,994,147	$12,423,962
Contingent Consideration Obligations[3]	—	—	135,511	135,511
Total Liabilities	$—	$2,429,815	$10,129,658	$12,559,473

(1) See note 3 for further disclosure regarding the investment in AAA Investments, investments held by Apollo Senior Loan Fund, and investments in HFA and Other.

(2) See note 12 for further disclosure regarding the Athene Services Derivative, the AAA Services Derivative, the investment in Athene Holding and the AAA/Athene Receivable.

(3) See note 13 for further disclosure regarding Contingent Consideration Obligations.

(4) See note 4 for further disclosure regarding VIEs.

(5) All Level I and Level II investments and liabilities were valued using third party pricing.

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There were no transfers of financial assets into Level I for the three and six months ended June 30, 2014 and 2013. The following table summarizes the fair value transfers of financial assets between Level II and Level III for positions that existed as of the three and six months ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Transfers from Level I into Level II[(1)]	$4,084	$—	$4,084	$—
Transfers from Level III into Level II[(1)]	161,665	444,462	471,607	782,756
Transfers from Level II into Level III[(1)]	440,893	194,452	582,246	467,045

(1) Transfers between Level I, II and III were a result of subjecting the broker quotes on these investments to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

There were no transfers of financial liabilities into or out of Level I for the three and six months ended June 30, 2014. In addition, there were no transfers of financial liabilities between Level I, Level II or Level III for the three and six months ended June 30, 2013. The following table summarizes the fair value transfers of financial liabilities between Level II and Level III for positions that existed as of the three and six months ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
Transfers from Level III into Level II[(1)]	$137,108	$—	$207,427	$—
Transfers from Level II into Level III[(1)]	57,819	—	374,071	—

(1) Transfers between Level II and III were a result of subjecting the broker quotes on these financial liabilities to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes and the percentage deviation from independent pricing services.

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The following tables summarize the changes in fair value in financial assets, which are measured at fair value and characterized as Level III investments, for the three and six months ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended June 30, 2014							
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Investments in HFA and Other	Athene and AAA Services Derivatives	Investment in Athene Holding	AAA/Athene Receivable	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$2,147,415	$—	$59,324	$206,476	$—	$—	$1,837,451	$4,250,666
Elimination of investments attributable to consolidation of VIEs	—	—	—	—	—	—	13,524	13,524
Fees	—	—	—	(1,306)		55,836	—	54,530
Purchases	—	1,990	855	—	2,083	—	49,861	54,789
Sale of investments/Distributions	—	(1,503)	(65)	—	—	—	(116,549)	(118,117)
Net realized gains (losses)	—	10	—	24,242	—	—	(20,248)	4,004
Changes in net unrealized (losses) gains	(436)	8	(8,942)	(24,242)	—	—	9,077	(24,535)
Transfer into Level III	—	482	—	—	—	—	440,411	440,893
Transfer out of Level III	—	—	—	—	—	—	(161,665)	(161,665)
Settlement of derivatives[1]	—	—	—	(205,170)	205,170	—	—	—
Balance, End of Period	$2,146,979	$987	$51,172	$—	$207,253	$55,836	$2,051,862	$4,514,089
Change in net unrealized losses included in Net Gains from Investment Activities related to investments still held at reporting date	$(436)	$5	$(8,942)	$—	$—	$—	$—	$(9,373)
Change in net unrealized gains included in Net Gains from Investment Activities of Consolidated VIEs related to investments still held at reporting date	—	—	—	—	—	—	1,273	1,273
Change in net unrealized gains included in Other Income, net related to assets still held at reporting date	—	—	—	—	—	—	—	—

(1) See note 12 for further disclosure regarding the settlement of the Athene Services Derivative, the AAA Services Derivative and the investment in Athene Holding.

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	For the Three Months Ended June 30, 2013					
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Investments in HFA and Other	Athene and AAA Services Derivatives	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$1,652,029	$—	$55,407	$24,127	$1,765,988	$3,497,551
Elimination of investments attributable to consolidation of VIEs	—	—	—	—	19,302	19,302
Fees	—	—	—	23,705	—	23,705
Purchases	—	—	833	—	538,507	539,340
Sale of investments/Distributions	—	—	—	—	(319,231)	(319,231)
Net realized losses	—	—	—	—	(2,566)	(2,566)
Changes in net unrealized gains (losses)	7,064	—	(5,848)	284	6,304	7,804
Transfer into Level III	—	437	—	—	194,015	194,452
Transfer out of Level III	—		—	—	(444,462)	(444,462)
Balance, End of Period	$1,659,093	$437	$50,392	$48,116	$1,757,857	$3,515,895
Change in net unrealized gains (losses) included in Net Gains (Losses) from Investment Activities related to investments still held at reporting date	$7,064	$—	$(5,848)	$—	$—	$1,216
Change in net unrealized gains included in Net Gains from Investment Activities of Consolidated VIEs related to investments still held at reporting date	—	—	—	—	3,850	3,850
Change in net unrealized gains included in Other Income, net related to assets still held at reporting date	—	—	—	284	—	284

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	For the Six Months Ended June 30, 2014							
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Investments in HFA and Other	Athene and AAA Services Derivatives	Investment in Athene Holding	AAA/Athene Receivable	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$1,942,051	$892	$40,373	$130,709	$—	$—	$1,919,537	$4,033,562
Elimination of investments attributable to consolidation of VIEs	—	—	—	—	—	—	(1,096)	(1,096)
Fees	—	—	—	60,422		55,836	—	116,258
Purchases	—	1,990	1,725	—	2,083	—	314,924	320,722
Sale of investments/Distributions	—	(1,509)	(143)	—	—	—	(297,984)	(299,636)
Net realized gains (losses)	—	10	—	24,242	—	—	(21,202)	3,050
Changes in net unrealized gains (losses)	204,928	36	9,217	(10,203)	—	—	26,612	230,590
Transfer into Level III	—	482	—	—	—	—	581,764	582,246
Transfer out of Level III	—	(914)	—	—	—	—	(470,693)	(471,607)
Settlement of derivatives[1]	—	—	—	(205,170)	205,170	—	—	—
Balance, End of Period	$2,146,979	$987	$51,172	$—	$207,253	$55,836	$2,051,862	$4,514,089
Change in net unrealized gains included in Net Gains from Investment Activities related to investments still held at reporting date	$204,928	$3	$9,217	$—	$—	$—	$—	$214,148
Change in net unrealized gains included in Net Gains from Investment Activities of Consolidated VIEs related to investments still held at reporting date	—	—	—	—	—	—	14,212	14,212
Change in net unrealized gains included in Other Income, net related to assets still held at reporting date	—	—	—	—	—		—	—

(1) See note 12 for further disclosure regarding the settlement of the Athene Services Derivative, the AAA Services Derivative and the investment in Athene Holding.

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	For the Six Months Ended June 30, 2013					
	Investment in AAA Investments	Investments held by Apollo Senior Loan Fund	Investments in HFA and Other	Athene and AAA Services Derivatives	Investments of Consolidated VIEs	Total
Balance, Beginning of Period	$1,666,448	$590				