

APOLLO INVESTMENT CORP  
Form 10-Q  
February 08, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarter Ended December 31, 2011

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

**APOLLO INVESTMENT CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

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

**37th Floor**

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

**10019**  
(Zip Code)

**(212) 515-3450**

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

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

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

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of February 7, 2012 was 197,043,398.

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APOLLO INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED DECEMBER 31, 2011

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**PART I. FINANCIAL INFORMATION**

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

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

(in thousands, except per share amounts)

	December 31, 2011 (unaudited)	March 31, 2011
<b>Assets</b>		
Non-controlled/non-affiliated investments, at value (cost \$2,813,436 and \$2,900,378, respectively)	\$ 2,577,312	\$ 2,901,295
Non-controlled/affiliated investments, at value (cost \$0 and \$22,407, respectively)		37,295
Controlled investments, at value (cost \$221,639 and \$376,051, respectively)	201,543	111,568
Cash		5,471
Foreign currency (cost \$632 and \$881, respectively)	635	883
Receivable for investments sold	81,810	13,461
Interest receivable	60,505	45,686
Dividends receivable	13	5,131
Miscellaneous income receivable	1,216	
Receivable from investment adviser		576
Prepaid expenses and other assets	19,902	27,447
<b>Total assets</b>	<b>\$ 2,942,936</b>	<b>\$ 3,148,813</b>
<b>Liabilities</b>		
Debt (see note 7 & 10)	\$ 1,213,185	\$ 1,053,443
Payable for investments purchased	25,000	37,382
Dividends payable	55,172	54,740
Management and performance-based incentive fees payable (see note 3)	24,327	27,553
Interest payable	10,614	9,703
Accrued administrative expenses	2,502	1,738
Other liabilities and accrued expenses	2,665	3,223
Due to custodian	2,064	
<b>Total liabilities</b>	<b>\$ 1,335,529</b>	<b>\$ 1,187,782</b>
<b>Net Assets</b>		
Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 197,043 and 195,502 issued and outstanding, respectively	\$ 197	\$ 196
Paid-in capital in excess of par (see note 2f)	2,886,449	2,871,559
Undistributed net investment income (see note 2f)	23,271	56,557
Accumulated net realized loss (see note 2f)	(1,055,001)	(713,873)
Net unrealized depreciation	(247,509)	(253,408)
<b>Total net assets</b>	<b>\$ 1,607,407</b>	<b>\$ 1,961,031</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,942,936</b>	<b>\$ 3,148,813</b>

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Net Asset Value Per Share	\$	8.16	\$	10.03
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See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share amounts)

	Three months ended		Nine months ended	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
<b>INVESTMENT INCOME:</b>				
From non-controlled/non-affiliated investments:				
Interest	\$ 77,220	\$ 83,820	\$ 238,264	\$ 233,166
Dividends	1,125	992	5,410	3,712
Other income	3,521	6,650	16,761	11,958
From non-controlled/affiliated investments:				
Interest		2,746	899	9,088
From controlled investments:				
Interest	1,297		2,565	
Dividends	652		8,489	6,031
Other income		110		110
Total Investment Income	\$ 83,815	\$ 94,318	\$ 272,388	\$ 264,065
<b>EXPENSES:</b>				
Management fees (see note 3)	\$ 14,693	\$ 15,203	\$ 46,171	\$ 44,787
Performance-based incentive fees (see note 3)	9,634	12,532	29,398	35,284
Interest and other debt expenses	16,926	13,433	50,222	34,079
Administrative services expense	1,500	1,540	3,887	4,348
Other general and administrative expenses	2,524	1,484	10,978	4,432
Total expenses	45,277	44,192	140,656	122,930
Net investment income	\$ 38,538	\$ 50,126	\$ 131,732	\$ 141,135
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b>				
Net realized gain (loss):				
Non-controlled/non-affiliated investments and cash equivalents	\$ (1,746)	\$ (55,650)	\$ (85,208)	\$ (142,777)
Non-controlled/affiliated investments	167		19,039	
Controlled investments	(274,452)		(274,452)	
Foreign currencies	1,036	(9,289)	(507)	(7,673)
Net realized loss	(274,995)	(64,939)	(341,128)	(150,450)
Net change in unrealized gain (loss):				
Investments and cash equivalents	298,005	89,088	(7,464)	71,140
Foreign currencies	2,149	10,229	13,363	6,535
Net change in unrealized gain (loss)	300,154	99,317	5,899	77,675
Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currencies	25,159	34,378	(335,229)	(72,775)
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 63,697</b>	<b>\$ 84,504</b>	<b>\$ (203,497)</b>	<b>\$ 68,360</b>

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**EARNINGS (LOSS) PER SHARE** (see note 5)

<b>BASIC</b>	\$ 0.32	\$ 0.43	\$ (1.04)	\$ 0.36
<b>DILUTED</b>	\$ 0.31	\$ 0.43	\$ (1.04)	\$ 0.36

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except shares)

	Nine months ended December 31, 2011 (unaudited)	Year ended March 31, 2011
<b>Increase (decrease) in net assets from operations:</b>		
Net investment income	\$ 131,732	\$ 191,172
Net realized loss	(341,128)	(152,017)
Net change in unrealized gain (loss)	5,899	141,257
Net increase (decrease) in net assets resulting from operations	(203,497)	180,412
<b>Dividends and distributions to stockholders:</b>	(165,018)	(218,079)
<b>Capital share transactions:</b>		
Net proceeds from shares sold		204,275
Less offering costs	(6)	(233)
Reinvestment of dividends	14,897	21,850
Net increase in net assets from capital share transactions	14,891	225,892
<b>Total increase (decrease) in net assets:</b>	(353,624)	188,225
Net assets at beginning of period	1,961,031	1,772,806
Net assets at end of period	\$ 1,607,407	\$ 1,961,031
<b>Capital share activity:</b>		
Shares sold		17,250,000
Shares issued from reinvestment of dividends	1,541,849	2,037,631
Net increase in capital share activity	1,541,849	19,287,631

See notes to financial statements.



## APOLLO INVESTMENT CORPORATION

## STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Nine months ended December 31,	
	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (203,497)	\$ 68,360
<i>Adjustments to reconcile net decrease:</i>		
PIK interest and dividends	(11,788)	(34,942)
Net amortization on investments	(14,069)	(28,568)
Decrease from foreign currency transactions	(888)	(7,630)
Net change in unrealized (gain)/loss on investments, cash equivalents and foreign currencies	(5,899)	(77,675)
Net realized loss on investments, cash equivalents and foreign currencies	341,128	150,450
<i>Changes in operating assets and liabilities:</i>		
Purchase of investments	(1,333,476)	(772,203)
Proceeds from disposition of investments and cash equivalents	1,282,605	701,886
Decrease (increase) in interest and dividends receivable	(9,701)	7,335
Decrease in prepaid expenses and other assets	7,596	8,264
Increase (decrease) in management and performance-based incentive fees payable	(3,226)	1,371
Increase in interest payable	911	4,232
Increase (decrease) in accrued expenses and other liabilities	206	(1,912)
Decrease in payable for investments purchased	(12,382)	(348,796)
Decrease (increase) in receivable for investments sold	(68,349)	49,643
<b>Net Cash Used by Operating Activities</b>	<b>\$ (30,829)</b>	<b>\$ (280,185)</b>
<b>Cash Flows from Financing Activities:</b>		
Net proceeds from the issuance of common stock	\$	\$ 204,275
Offering costs from the issuance of common stock	(6)	(427)
Dividends paid in cash	(149,689)	(141,493)
Proceeds from debt	1,891,011	1,307,460
Payments on debt*	(1,718,270)	(1,365,602)
Due to custodian	2,064	
<b>Net Cash Provided by Financing Activities</b>	<b>\$ 25,110</b>	<b>\$ 4,213</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (5,719)</b>	<b>\$ (275,972)</b>
Effect of exchange rates on cash balances		(2)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>\$ 6,354</b>	<b>\$ 487,585</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 635</b>	<b>\$ 211,611</b>

Non-cash financing activities consist of the reinvestment of dividends totaling \$14,897 and \$16,573, respectively.

\* Includes deferred financing costs of \$691 and \$3,913, respectively.  
See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited)

December 31, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 160.3%	Industry	Par Amount*	Cost	Fair Value(1)
<b>CORPORATE DEBT 150.7%</b>				
<b>BANK DEBT/SENIOR SECURED LOANS 50.8%</b>				
<b>1st Lien Bank Debt/Senior Secured Loans 4.9%</b>				
ATI Acquisition Company, P+1400 (P+10.00% Cash / 4.00% PIK), 6/30/12	Education	\$ 4,015	\$ 4,015	\$ 4,015
ATI Acquisition Company, L+600, 12/30/14***	Education	13,408	12,596	3,151
Grocery Outlet Inc., L+900, 12/15/17	Grocery	18,500	18,500	18,500
National Healing Corporation, L+675, 11/30/17	Healthcare	20,000	19,009	19,300
Penton Media, Inc., L+400 (L+300 Cash / 1.00% PIK), 8/1/14	Media	34,912	29,527	21,820
RBS Holding Company, LLC, L+500, 3/23/17	Business Services	15,880	15,738	13,022
<b>Total 1st Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 99,385</b>	<b>\$ 79,808</b>
<b>2nd Lien Bank Debt/Senior Secured Loans 45.9%</b>				
Advantage Sales & Marketing, Inc., L+775, 6/18/18	Grocery	\$ 58,000	\$ 57,559	\$ 56,598
Allied Security Holdings, LLC, L+700, 2/2/18	Business Services	43,000	42,611	42,032
Applied Systems, Inc., L+775, 6/8/17	Software	5,000	4,956	4,859
Asurion Corporation, L+750, 5/24/19	Insurance	56,000	55,735	55,440
Brock Holdings III, Inc., L+825, 3/16/18	Environmental & Facilities Services	39,000	38,281	35,880
Clean Earth, Inc., 13.00%, 8/1/14	Environmental & Facilities Services	25,000	25,000	24,875
Garden Fresh Restaurant Corp., L+975, 12/11/13	Retail	46,600	46,961	46,973
Insight Pharmaceuticals, LLC, L+1175, 8/25/17	Consumer Products	20,000	19,615	19,800
IPC Systems, Inc., L+525, 6/1/15	Telecommunications	44,250	42,021	36,674
Kronos, Inc., L+1000, 06/11/18	Electronics	35,000	35,000	34,737
Ozburn-Hessey Holding Company LLC, L+950, 10/8/16	Logistics	38,000	37,970	32,300
Ranpak Corp., L+750, 10/20/17	Packaging	85,000	85,000	79,900
Ranpak Corp., E+775, 10/20/17	Packaging	40,000	58,042	50,368
Sedgwick Holdings, Inc., L+750, 5/26/17	Business Services	\$ 15,225	15,036	15,073

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

December 31, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 160.3%	Industry	Par Amount*	Cost	Fair Value(1)
<b>2nd Lien Bank Debt/Senior Secured Loans (continued)</b>				
Sheridan Holdings, Inc., L+575 Cash or L+650 PIK, 6/15/15	Healthcare	\$ 45,847	\$ 45,206	\$ 43,830
TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15	Financial Services	37,512	36,830	34,249
Valeus Compression Services, LP, 11.50%, 3/26/18	Industrial	40,000	40,000	40,000
Vertafore, Inc., L+825, 10/29/17	Software	61,260	60,723	59,728
Wall Street Systems Holdings, Inc., L+750, 6/20/18	Software	25,000	24,764	24,000
<b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 771,310</b>	<b>\$ 737,316</b>
<b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>			<b>\$ 870,695</b>	<b>\$ 817,124</b>
<b>Subordinated Debt/Corporate Notes 99.9%</b>				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650 (GBP L+300 Cash / 3.50% PIK), 7/9/17				
	Retail	£ 22,384	\$ 44,015	\$ 31,308
Advantage Sales & Marketing, Inc., 13.00%, 12/31/18	Grocery	\$ 25,000	25,000	25,125
Altegrity Inc., 0.00%, 8/2/16 "	Diversified Service	3,545	2,024	1,870
Altegrity Inc., 11.75%, 5/1/16 "	Diversified Service	14,639	10,927	12,809
Altegrity Inc., 12.00%, 11/1/15 "	Diversified Service	100,000	100,000	99,300
Altegrity Inc., 10.50%, 11/1/15 "	Diversified Service	13,475	12,318	12,330
American Tire Distributors, Inc., 11.50%, 6/1/18 "	Distribution	25,000	25,000	25,300
Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 10/15/16	Healthcare	53,343	53,343	50,515
ATI Acquisition Company, L+1100, 12/30/15***	Education	41,515	37,867	1,038
Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15	Telecommunications	43,577	40,562	39,655
BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17	Transportation	£ 22,750	35,921	28,196
BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17	Transportation	13,773	19,120	14,259
Burlington Coat Factory, 10.00%, 2/15/19	Retail	\$ 3,750	3,593	3,675
Catalina Marketing Corporation, 11.625%, 10/1/17 "	Grocery	42,175	43,498	40,910
Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15	Diversified Service	55,950	55,831	43,641
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	34,300	33,995	26,840
Clearwire Communications, 12.00%, 12/1/15	Telecommunications	24,843	24,249	23,891
Delta Educational Systems, Inc., 14.20% (13.00% Cash / 1.20% PIK), 5/12/13	Education	19,931	19,734	20,110
Exova Limited, 10.50%, 10/15/18 "	Market Research	£ 18,000	28,823	22,659
Exova Limited, 10.50%, 10/15/18	Market Research	15,655	22,050	19,707
First Data Corporation, 12.625%, 1/15/21	Financial Services	\$ 9,219	8,016	8,021
First Data Corporation, 8.25%, 1/15/21	Financial Services	4,219	3,685	3,755
FoxCo Acquisition Sub LLC, 13.375%, 7/15/16 "	Broadcasting & Entertainment	26,125	26,555	28,737

See notes to financial statements.



## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

December 31, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 160.3%	Industry	Par Amount*	Cost	Fair Value(1)
<b>Subordinated Debt/Corporate Notes (continued)</b>				
Hub International Holdings, 10.25%, 6/15/15 "	Insurance	\$ 36,232	\$ 35,166	\$ 35,870
Intelsat Bermuda Ltd., 11.25%, 2/4/17	Broadcasting & Entertainment	99,000	101,200	96,525
Intelsat Bermuda Ltd., 11.50% Cash or 12.50% PIK, 2/4/17	Broadcasting & Entertainment	5,000	4,736	4,850
inVentiv Health, Inc., 10.50%, 8/15/18	Market Research	160,000	160,000	144,800
Laureate Education, Inc., 12.50%, 8/15/17 "	Education	53,540	53,181	55,682
N.E.W. Holdings I, LLC, L+750, 3/23/17	Consumer Services	45,111	45,215	39,472
Renal Advantage Holdings, Inc., 12.00%, 6/17/17	Healthcare	32,103	31,746	33,066
SeaCube Container Leasing Ltd., 11.00%, 4/28/16	Shipping	50,000	50,000	50,000
Sorenson Communications, Inc., 10.50%, 2/1/15 "	Consumer Services	32,500	32,083	22,669
SquareTwo Financial Corp. (Collect America, Ltd.), 11.625%, 4/1/17 "	Consumer Finance	40,000	39,430	38,900
SRA International, Inc., 11.00%, 10/1/19	Consulting Services	25,000	25,000	24,500
Texas Competitive Electric Holdings Company LLC, 11.50%, 10/1/20	Utilities	50,000	49,663	42,187
The ServiceMaster Company, 10.75% Cash or 11.50% PIK, 7/15/15 "	Diversified Service	39,673	41,200	41,656
TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 "	Education	120,500	99,824	86,358
Travelport LLC, 9.875%, 9/1/14	Business Services	19,779	18,504	11,670
Travelport LLC, L+462.5, 9/1/14	Business Services	13,000	10,793	6,337
Univar Inc., 12.00%, 6/30/18	Distribution	78,750	78,750	77,410
U.S. Renal Care, Inc., 13.25% (11.25% Cash /2.00% PIK), 5/24/17	Healthcare	50,569	50,569	52,338
U.S. Security Associates Holdings, Inc., 11.00%, 7/28/18	Business Services	135,000	135,000	134,330
Varietal Distribution, 10.75%, 6/30/17	Distribution	1,127	1,404	1,406
Varietal Distribution, 10.75%, 6/30/17	Distribution	\$ 22,204	21,758	21,338
<b>Total Subordinated Debt/Corporate Notes</b>			<b>\$ 1,761,348</b>	<b>\$ 1,605,015</b>
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 2,632,043</b>	<b>\$ 2,422,139</b>

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

December 31, 2011

(in thousands, except shares)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 160.3%	Industry	Par Amount*	Cost	Fair Value(1)
<b>COLLATERALIZED LOAN OBLIGATIONS 1.1%</b>				
Babson CLO Ltd., Series 2008-2A Class E, L+975, 7/15/18 "	Asset Management	\$ 11,000	\$ 10,209	\$ 10,435
Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 "	Asset Management	11,000	7,050	7,320
<b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>			<b>\$ 17,259</b>	<b>\$ 17,755</b>
<b>Shares</b>				
<b>PREFERRED EQUITY 2.2%</b>				
AHC Mezzanine LLC (Advanstar) **	Media		\$ 1,063	\$ 252
CA Holding, Inc. (Collect America, Ltd.) Series A **	Consumer Finance	7,961	788	1,592
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50% PIK, 5/12/14	Education	12,360	24,890	25,356
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% PIK (Convertible)	Education	332,500	6,656	5,476
Varietal Distribution Holdings, LLC, 8.00% PIK	Distribution	3,097	4,426	2,872
<b>TOTAL PREFERRED EQUITY</b>			<b>\$ 37,823</b>	<b>\$ 35,548</b>
<b>EQUITY 6.3%</b>				
<b>Common Equity/Interests 5.8%</b>				
AB Capital Holdings LLC (Allied Security) **	Business Services	2,000,000	\$ 2,000	\$ 2,980
Accelerate Parent Corp. (American Tire) **	Distribution	3,125,000	3,125	4,060
A-D Conduit Holdings, LLC (Duraline)	Telecommunications	2,778	2,778	4,072
Altegrity Holding Corp.**	Diversified Service	353,399	13,797	8,761
CA Holding, Inc. (Collect America, Ltd.) Series A **	Consumer Finance	25,000	2,500	401
CA Holding, Inc. (Collect America, Ltd.) Series AA **	Consumer Finance	4,294	429	859
Clothesline Holdings, Inc. **	Healthcare	6,000	6,000	
Explorer Coinvest LLC (Booz Allen) **	Consulting Services	430	4,300	6,898
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	8,563
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)**	Education	17,500	175	
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3) **	Industrial			198
JV Note Holdco LLC (DSI Renal Inc.)	Healthcare	9,303	85	81

See notes to financial statements.



## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

December 31, 2011

(in thousands, except shares and warrants)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 160.3%	Industry	Shares	Cost	Fair Value(1)
<b>Common Equity/Interests (continued)</b>				
New Omaha Holdings Co-Invest LP (First Data) **	Financial Services	13,000,000	\$ 65,000	\$ 22,875
Penton Business Media Holdings, LLC **	Media	124	4,950	10,499
RC Coinvestment, LLC (Ranpak Corp.) **	Packaging	50,000	5,000	8,041
Sorenson Communications Holdings, LLC Class A **	Consumer Services	454,828	45	2,230
Univar Inc. **	Distribution	900,000	9,000	12,710
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
<b>Total Common Equity/Interests</b>			<b>\$ 124,212</b>	<b>\$ 93,228</b>
<b>Warrants</b>				
<b>Warrants 0.5%</b>				
CA Holding, Inc. (Collect America, Ltd.), Common **	Consumer Finance	7,961	\$ 8	
Fidji Luxco (BC) S.C.A., Common (FCD)(2) **	Electronics	48,769	491	\$ 6,006
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	9,820	98	
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	45,947	459	918
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	104,314	1,043	1,718
<b>Total Warrants</b>			<b>\$ 2,099</b>	<b>\$ 8,642</b>
<b>TOTAL EQUITY</b>			<b>\$ 126,311</b>	<b>\$ 101,870</b>
<b>Total Investments in Non-Controlled/ Non-Affiliated Portfolio Companies</b>			<b>\$ 2,813,436</b>	<b>\$ 2,577,312</b>

See notes to financial statements.



## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

December 31, 2011

(in thousands, except shares)

INVESTMENTS IN CONTROLLED PORTFOLIO COMPANIES 12.6% (4)	Industry	Par Amount*	Cost	Fair Value (1)
<b>CORPORATE DEBT 2.3%</b>				
<b>Subordinated Debt/Corporate Notes 2.3%</b>				
Playpower Holdings Inc., 14.00% PIK, 12/15/15	Leisure Equipment	\$ 21,436	\$ 21,436	\$ 20,472
Playpower, Inc., 12.50% PIK, 12/31/15	Leisure Equipment	16,907	15,814	16,146
<b>Total Subordinated Debt/Corporate Notes</b>			<b>\$ 37,250</b>	<b>\$ 36,618</b>
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 37,250</b>	<b>\$ 36,618</b>
				<b>Shares</b>
<b>EQUITY 10.3%</b>				
<b>Common Equity/Interests 10.3%</b>				
AIC Credit Opportunity Fund LLC(5)	Asset Management		\$ 77,032	\$ 69,248
Generation Brands Holdings, Inc. (Quality Home Brands) **	Consumer			
	Products	750		131
Generation Brands Holdings, Inc. Series H (Quality Home Brands) **	Consumer			
	Products	7,500	2,297	1,312
Generation Brands Holdings, Inc. Series 2L (Quality Home Brands) **	Consumer			
	Products	44,957	11,242	7,867
LVI Parent Corp. (LVI Services, Inc.) **	Environmental & Facilities Services	14,981	16,096	17,147
Playpower Holdings Inc.	Leisure Equipment	1,000	77,722	69,220
<b>Total Common Equity/Interests</b>			<b>\$ 184,389</b>	<b>\$ 164,925</b>
<b>TOTAL EQUITY</b>			<b>\$ 184,389</b>	<b>\$ 164,925</b>
<b>Total Investments in Controlled Portfolio Companies</b>			<b>\$ 221,639</b>	<b>\$ 201,543</b>
<b>Total Investments 172.9% (6)</b>			<b>\$ 3,035,075</b>	<b>\$ 2,778,855</b>
<b>Liabilities in Excess of Other Assets (72.9%)</b>				<b>(1,171,448)</b>
<b>Net Assets 100.0%</b>				<b>\$ 1,607,407</b>

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

(2) Denominated in Euro ( ).

(3) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.

(4) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the nine months ended December 31, 2011 in these Controlled investments are as follows:

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

December 31, 2011

(in thousands)

Name of Issuer	Fair Value at March 31, 2011	Gross Additions	Gross Reductions	Interest/Dividend/ Other Income	Fair Value at December 31, 2011
Playpower Holdings, Inc., 14.00% PIK	\$	\$ 21,436	\$	\$ 1,445	\$ 20,472
Playpower, Inc., 12.50% PIK		15,716		1,023	16,146
AIC Credit Opportunity Fund LLC Common Equity	95,212	5,291		8,489	69,248
Generation Brands Holdings, Inc. (Quality Home Brands) Common Equity	8				131
Generation Brands Holdings, Inc. (Quality Home Brands) Series H Common Equity	77				1,312
Generation Brands Holdings, Inc. (Quality Home Brands) Series 2L Common Equity	379				7,867
LVI Parent Corp. Common Equity	15,892				17,147
Playpower Holdings Inc. Common Equity		77,722			69,220
	\$ 111,568	\$ 120,165	\$	\$ 10,957	\$ 201,543

As of December 31, 2011, the Company has a 100%, 32%, 34% and 100% equity ownership interest in AIC Credit Opportunity Fund LLC, Generation Brands Holdings, Inc., LVI Parent Corp. and Playpower Holdings Inc., respectively.

(5) See Note 6.

(6) Aggregate gross unrealized appreciation for federal income tax purposes is \$62,789; aggregate gross unrealized depreciation for federal income tax purposes is \$413,433. Net unrealized depreciation is \$350,644 based on a tax cost of \$3,129,499.

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

\* Denominated in USD unless otherwise noted.

\*\* Non-income producing security

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

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

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2011
Diversified Service	8.9%
Business Services	8.1%
Education	7.3%
Healthcare	7.2%
Market Research	6.7%
Distribution	5.2%
Grocery	5.1%
Packaging	5.0%
Broadcasting & Entertainment	4.7%
Leisure Equipment	3.8%
Telecommunications	3.8%
Insurance	3.3%
Retail	3.3%
Software	3.2%
Asset Management	3.1%
Environmental & Facilities Services	2.8%
Financial Services	2.5%
Consumer Services	2.3%
Shipping	1.8%
Transportation	1.5%
Utilities	1.5%
Consumer Finance	1.5%
Electronics	1.5%
Industrial	1.4%
Media	1.2%
Logistics	1.2%
Consulting Services	1.1%
Consumer Products	1.0%
Total Investments	100.0%

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS

March 31, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 147.9%	Industry	Par Amount*	Cost	Fair Value(1)
<b>CORPORATE DEBT 139.4%</b>				
<b>BANK DEBT/SENIOR SECURED LOANS 51.7%</b>				
<b>1st Lien Bank Debt/Senior Secured Loans 6.9%</b>				
Altegrity, Inc., L+600, 2/21/15	Diversified Service	\$ 12,406	\$ 12,187	\$ 12,499
Armored Autogroup Inc., L+425, 11/5/16	Consumer Products	3,491	3,491	3,491
ATI Acquisition Company, L+600, 12/30/14	Education	13,306	12,884	13,839
Brickman Group Holdings, Inc., L+550, 10/14/16	Environmental & Facilities Services	14,963	14,822	15,294
Brock Holdings III, Inc., L+450, 3/16/17	Environmental & Facilities Services	5,000	4,963	5,031
Educate, Inc., L+700, 6/14/14	Education	7,908	7,908	7,868
Insight Pharmaceuticals, LLC, L+500, 2/24/17	Consumer Products	7,500	7,388	7,462
Leslie's Poolmart, Inc., L+300, 11/21/16	Retail	5,985	5,985	6,034
Multiplan, Inc., L+325, 8/26/17	Business Services	4,808	4,808	4,826
Penton Media, Inc., L+300 Cash / 1.00% PIK, 8/1/14	Media	34,917	28,590	28,486
Playpower, Inc., L+950, 6/30/12	Leisure Equipment	15,890	14,433	14,380
RBS Holding Company, LLC, L+500, 3/23/17	Business Services	16,000	15,840	15,860
<b>Total 1st Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 133,299</b>	<b>\$ 135,070</b>
<b>2nd Lien Bank Debt/Senior Secured Loans 44.8%</b>				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+425, 7/9/16	Retail	£ 11,400	\$ 20,193	\$ 17,725
AB Acquisitions UK Topco 2 Limited (Alliance Boots), E+425, 7/9/16	Retail	3,961	5,563	5,537
Advantage Sales & Marketing, Inc., L+775, 6/18/18	Grocery	\$ 60,000	59,494	61,200
Allied Security Holdings, LLC, L+700, 2/2/18	Business Services	51,000	50,527	52,020
Applied Systems, Inc., L+775, 6/8/17	Software	26,500	26,244	26,853
Asurion Corporation, L+650, 7/3/15	Insurance	115,026	114,181	114,307
Brock Holdings III, Inc., L+825, 3/16/18	Environmental & Facilities Services	45,000	44,102	46,350
Clean Earth, Inc., 13.00%, 8/1/14	Environmental & Facilities Services	25,000	25,000	24,875
Datatel, Inc., L+725, 2/19/18	Education	21,000	20,896	21,341
Garden Fresh Restaurant Corp., L+975, 12/11/13	Retail	46,600	46,600	48,091
IPC Systems, Inc., L+525, 6/1/15	Telecommunications	44,250	41,635	42,038
Kronos, Inc., L+575 Cash or L+650 PIK, 6/11/15	Electronics	60,000	60,000	59,600

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 147.9%	Industry	Par Amount*	Cost	Fair Value(1)
<b>2nd Lien Bank Debt/Senior Secured Loans (continued)</b>				
Ozburn-Hessey Holding Company LLC, L+850, 10/8/16	Logistics	\$ 38,000	\$ 37,966	\$ 38,570
Ranpak Corp., 12/27/14 (2)	Packaging	43,550	38,532	43,550
Ranpak Corp., 12/27/14 (3)	Packaging	21,970	27,767	31,178
Sedgwick Holdings, Inc., L+750, 5/26/17	Business Services	\$ 25,000	24,657	25,250
Sheridan Holdings, Inc., L+575 Cash of L+650 PIK, 6/15/15	Healthcare	67,847	67,090	67,847
TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15	Financial Services	37,512	36,714	35,749
Valerus Compression Services, LP, 11.50%, 3/26/18	Industrial	40,000	40,000	40,000
Vertafore, Inc., L+825, 10/29/17	Software	75,000	74,282	76,594
<b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 861,443</b>	<b>\$ 878,675</b>
<b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>			<b>\$ 994,742</b>	<b>\$ 1,013,745</b>
<b>Subordinated Debt/Corporate Notes 87.7%</b>				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650 (GBP L+300 Cash / 3.50% PIK), 7/9/17	Retail	£ 49,664	\$ 93,048	\$ 77,618
Altegrity Inc., 0.00%, 8/2/16 "	Diversified Service	\$ 3,545	1,846	1,846
Altegrity Inc., 11.75%, 5/1/16 "	Diversified Service	14,639	10,390	15,737
Altegrity Inc., 12.00%, 11/1/15 "	Diversified Service	100,000	100,000	107,900
Altegrity Inc., 10.50%, 11/1/15 "	Diversified Service	13,475	12,114	14,385
American Tire Distributors, Inc., 11.50%, 6/1/18 "	Distribution	25,000	25,000	27,375
American Tire Distributors, Inc., 9.75%, 6/1/17	Distribution	10,000	9,887	11,000
Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 2/4/14	Healthcare	60,000	60,000	62,940
ATI Acquisition Company, L+1100, 12/30/15	Education	38,500	37,843	39,559
Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15	Telecommunications	7,140	7,176	7,289
Catalina Marketing Corporation, 11.625%, 10/1/17 "	Grocery	42,175	42,404	47,974
Catalina Marketing Corporation, 10.50%, 10/1/15 "	Grocery	5,000	5,108	5,425
Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15	Diversified Service	55,950	55,792	58,608
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	34,300	33,874	35,801
Checkout Holding Corp. (Catalina Marketing), 0.00%, 11/15/15	Grocery	40,000	24,655	26,200
Delta Educational Systems, Inc., 14.20% (13.00% Cash / 1.20% PIK), 5/12/13	Education	19,753	19,464	20,286
Dura-Line Merger Sub, Inc., 14.25%(11.25% Cash / 3.00% PIK), 9/22/14	Telecommunications	42,654	42,179	42,654
Exova Limited, 10.50%, 10/15/18	Market Research	£ 18,000	28,823	30,296
First Data Corporation, 12.625%, 1/15/21	Financial Services	\$ 9,219	7,971	10,053
First Data Corporation, 9.875%, 9/24/15	Financial Services	2,061	1,843	2,112

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 147.9%	Industry	Par Amount*	Cost	Fair Value(1)
<b>Subordinated Debt/Corporate Notes (continued)</b>				
First Data Corporation, 8.25%, 1/15/21	Financial Services	\$ 9,219	\$ 8,020	\$ 9,192
FleetPride Corporation, 11.50%, 10/1/14 "	Transportation	47,500	47,500	47,737
FoxCo Acquisition Sub LLC, 13.375%, 7/15/16 "	Broadcasting & Entertainment	26,125	25,927	28,999
FPC Holdings, Inc. (FleetPride Corporation), 14.00%, 6/30/15 "	Transportation	37,846	38,670	39,170
General Nutrition Centers, Inc., 10.75%, 3/15/15	Retail	24,500	24,674	24,500
General Nutrition Centers, Inc., L+450 Cash or L+525 PIK, 3/15/14	Retail	12,275	12,270	12,275
Hub International Holdings, 10.25%, 6/15/15 "	Insurance	36,232	34,990	37,772
Intelsat Bermuda Ltd., 11.25%, 2/4/17	Broadcasting & Entertainment	90,000	92,060	98,415
Laureate Education, Inc., 12.00%, 8/15/17 "	Education	53,540	52,244	58,760
MW Industries, Inc., 14.50%(13.00% Cash / 1.50% PIK), 5/1/14	Manufacturing	62,341	61,686	62,341
N.E.W. Holdings I, LLC, L+750, 3/23/17	Consumer Services	45,111	45,227	46,464
Playpower Holdings Inc., 15.50% PIK, 12/31/12 " ***	Leisure Equipment	112,831	112,831	54,176
Ranpak Holdings, Inc., 15.00% PIK, 12/27/15	Packaging	78,501	78,501	80,071
Renal Advantage Holdings, Inc., 12.00%, 6/17/17	Healthcare	32,103	31,713	32,424
Sorenson Communications, Inc., 10.50%, 2/1/15 "	Consumer Services	32,500	32,000	24,375
SquareTwo Financial Corp. (Collect America, Ltd.), 11.625%, 4/1/17 "	Consumer Finance	40,000	39,373	40,900
The ServiceMaster Company, 10.75% Cash or 11.50% PIK, 7/15/15 "	Diversified Service	52,173	52,751	55,640
TL Acquisitions, Inc. (Thomson Learning), 13.25%, 7/15/15 "	Education	82,500	82,845	86,178
TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 "	Education	22,000	20,943	22,477
Univar Inc., 12.00%, 6/30/18	Distribution	78,750	78,750	81,506
US Foodservice, 10.25%, 6/30/15 "	Beverage, Food & Tobacco	81,543	72,918	86,027
U.S. Renal Care, Inc., 13.25%(11.25% Cash / 2.00% PIK), 5/24/17	Healthcare	20,336	20,336	21,353
Varietal Distribution, 10.75%, 6/30/17	Distribution	1,127	1,392	1,609
Varietal Distribution, 10.75%, 6/30/17	Distribution	\$ 22,204	21,715	22,338
<b>Total Subordinated Debt/Corporate Notes</b>			<b>\$ 1,708,753</b>	<b>\$ 1,719,757</b>
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 2,703,495</b>	<b>\$ 2,733,502</b>

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands, except shares)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 147.9%	Industry	Par Amount*	Cost	Fair Value(1)
<b>COLLATERALIZED LOAN OBLIGATIONS 1.4%</b>				
Babson CLO Ltd., Series 2008-2A Class E, L+975, 7/15/18 "	Asset Management	\$ 11,000	\$ 10,158	\$ 11,592
Babson CLO Ltd., Series 2008-1A Class E, L+550, 7/20/18 "	Asset Management	10,150	7,698	8,788
Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 "	Asset Management	11,000	6,883	8,390
<b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>			<b>\$ 24,739</b>	<b>\$ 28,770</b>

	Shares			
<b>PREFERRED EQUITY 1.7%</b>				
AHC Mezzanine LLC (Advanstar) **	Media		\$ 1,063	\$ 220
CA Holding, Inc. (Collect America, Ltd.) Series A **	Consumer Finance	7,961	788	1,592
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50% PIK, 5/12/14	Education	12,360	22,330	22,943
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% PIK (Convertible)	Education	332,500	6,067	6,067
Varietal Distribution Holdings, LLC, 8.00% PIK	Distribution	3,097	4,169	2,310
<b>TOTAL PREFERRED EQUITY</b>			<b>\$ 34,417</b>	<b>\$ 33,132</b>

**EQUITY 5.4%****Common Equity/Interests 5.0%**

AB Capital Holdings LLC (Allied Security)	Business Services	2,000,000	\$ 2,000	\$ 2,650
Accelerate Parent Corp. (American Tire)	Distribution	3,125,000	3,125	4,110
A-D Conduit Holdings, LLC (Duraline) **	Telecommunications	2,778	2,778	5,007
Altegrity Holding Corp.	Diversified Service	353,399	13,797	14,749
CA Holding, Inc. (Collect America, Ltd.) Series A **	Consumer Finance	25,000	2,500	149
CA Holding, Inc. (Collect America, Ltd.) Series AA **	Consumer Finance	4,294	429	859
Clothesline Holdings, Inc. **	Healthcare	6,000	6,000	5,131
Explorer Coinvest LLC (Booz Allen) **	Consulting Services	430	4,300	7,202
FSC Holdings Inc. (Hanley Wood LLC) **	Media	10,000	10,000	
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	8,734
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)**	Education	17,500	175	573
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (4,5) **	Industrial			247

See notes to financial statements.



## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands, except shares and warrants)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 147.9%	Industry	Shares	Cost	Fair Value(1)
<b>Common Equity/Interests (continued)</b>				
New Omaha Holdings Co-Invest LP (First Data) **	Financial Services	13,000,000	\$ 65,000	\$ 20,024
Penton Business Media Holdings, LLC **	Media	124	4,950	6,049
Pro Mach Co-Investment, LLC **	Machinery	150,000	1,500	4,558
RC Coinvestment, LLC (Ranpak Corp.) **	Packaging	50,000	5,000	6,008
Sorenson Communications Holdings, LLC Class A **	Consumer Services	454,828	46	2,030
Univar Inc.	Distribution	900,000	9,000	9,400
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
<b>Total Common Equity/Interests</b>			<b>\$ 135,628</b>	<b>\$ 97,480</b>
<b>Warrants</b>				
<b>Warrants 0.4%</b>				
CA Holding, Inc. (Collect America, Ltd.), Common **	Consumer Finance	7,961	\$ 8	\$
Fidji Luxco (BC) S.C.A., Common (FCI) (4) **	Electronics	48,769	491	5,351
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	9,820	98	322
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	45,947	459	837
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	104,314	1,043	1,901
<b>Total Warrants</b>			<b>\$ 2,099</b>	<b>\$ 8,411</b>
<b>TOTAL EQUITY</b>			<b>\$ 137,727</b>	<b>\$ 105,891</b>
<b>Total Investments in Non-Controlled/ Non-Affiliated Portfolio Companies</b>			<b>\$ 2,900,378</b>	<b>\$ 2,901,295</b>

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands, except shares and warrants)

INVESTMENTS IN NON-CONTROLLED/AFFILIATED PORTFOLIO COMPANIES 1.9%(6)	Industry	Par Amount*	Cost	Fair Value(1)
<b>CORPORATE DEBT 0.6%</b>				
<b>Subordinated Debt/Corporate Notes 0.6%</b>				
DSI Renal Inc., 17.00% (10.00% Cash / 7.00% PIK), 4/7/14	Healthcare	\$ 10,686	\$ 10,686	\$ 10,899
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 10,686</b>	<b>\$ 10,899</b>
<b>Shares</b>				
<b>EQUITY 1.3%</b>				
<b>Common Equity/Interests 0.9%</b>				
CDSI I Holding Company, Inc. (DSI Renal Inc.) **	Healthcare	9,303	\$ 9,300	\$ 18,723
<b>Total Common Equity/Interests</b>			<b>\$ 9,300</b>	<b>\$ 18,723</b>
<b>Warrants</b>				
<b>Warrants 0.4%</b>				
CDSI I Holding Company, Inc. Series A (DSI Renal Inc.) **	Healthcare	2,031	\$ 773	\$ 2,169
CDSI I Holding Company, Inc. Series B (DSI Renal Inc.) **	Healthcare	2,031	645	1,837
CDSI I Holding Company, Inc. (DSI Renal Inc.) ** §	Healthcare	6,093,750	1,003	3,667
<b>Total Warrants</b>			<b>\$ 2,421</b>	<b>\$ 7,673</b>
<b>TOTAL EQUITY</b>			<b>\$ 11,721</b>	<b>\$ 26,396</b>
<b>Total Investments in Non-Controlled/Affiliated Portfolio Companies</b>			<b>\$ 22,407</b>	<b>\$ 37,295</b>

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands, except shares)

INVESTMENTS IN CONTROLLED PORTFOLIO COMPANIES 5.7%(7)	Industry	Shares	Cost	Fair Value(1)
<b>Preferred Equity 0.0%</b>				
Grand Prix Holdings, LLC Series A, 12.00% PIK (Innkeepers USA)(8) ***	Hotels, Motels, Inns & Gaming	2,989,431	\$ 102,012	\$
<b>EQUITY</b>				
<b>Common Equity/Interests 5.7%</b>				
AIC Credit Opportunity Fund LLC (9)	Asset Management		\$ 71,740	\$ 95,212
Generation Brands Holdings, Inc. (Quality Home Brands) **	Consumer Products	750		8
Generation Brands Holdings, Inc. Series H (Quality Home Brands) **	Consumer Products	7,500	2,297	77
Generation Brands Holdings, Inc. Series 2L (Quality Home Brands) **	Consumer Products	36,700	11,242	379
Grand Prix Holdings, LLC (Innkeepers USA) (8) **	Hotels, Motels, Inns & Gaming	17,335,834	172,664	
LVI Parent Corp. (LVI Services, Inc.)	Environmental & Facilities Services	14,981	16,096	15,892
<b>Total Common Equity/Interests</b>			<b>\$ 274,039</b>	<b>\$ 111,568</b>
<b>TOTAL EQUITY</b>			<b>\$ 274,039</b>	<b>\$ 111,568</b>
<b>Total Investments in Controlled Portfolio Companies</b>			<b>\$ 376,051</b>	<b>\$ 111,568</b>
<b>Total Investments 155.5%(10)</b>			<b>\$ 3,298,836</b>	<b>\$ 3,050,158</b>
<b>Liabilities in Excess of Other Assets (55.5%)</b>				<b>(1,089,127)</b>
<b>Net Assets 100.0%</b>				<b>\$ 1,961,031</b>

- (1) Fair value is determined in good faith by or under the direction of the Board of Directors of the Company (see Note 2).
- (2) Position is held across five US Dollar-denominated tranches with stated coupons between L+650 and L+850.
- (3) Position is held across three Euro-denominated tranches with stated coupons between E+700 and E+800.
- (4) Denominated in Euro ( ).
- (5) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
- (6) Denotes investments in which we are an Affiliated Person, as defined in the Investment Company Act of 1940 ( 1940 Act ), due to owning, controlling, or holding the power to vote, 5% or more of the outstanding voting securities of the investment. Transactions during the fiscal year ended March 31, 2011 in these Affiliated investments are as follows:

See notes to financial statements.

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (continued)

March 31, 2011

(in thousands)

Name of Issuer	Fair Value at March 31, 2010	Gross Additions	Gross Reductions	Interest/Dividend Income	Fair Value at March 31, 2011
Gray Wireline Service, Inc. 1 <sup>st</sup> Out	\$ 1,000	\$	\$ 1,000	\$ 57	\$
Gray Wireline Service, Inc. 2 <sup>nd</sup> Out	59,251	485	78,820	8,494	
DSI Renal, Inc., 17.00%	10,057	825		1,745	10,899
CDSI I Holding Company, Inc. (DSI Renal) Common Equity	10,206				18,723
Gray Energy Services, LLC Class H Common Equity			806		
CDSI I Holding Company, Inc. (DSI Renal) Series A Warrant	854				2,169
CDSI I Holding Company, Inc. (DSI Renal) Series B Warrant	693				1,837
CDSI I Holding Company, Inc. (DSI Renal) Contingent Payment Agreement	1,075				3,667
Gray Holdco, Inc. Warrant			2,654		
	\$ 83,136	\$ 1,310	\$ 83,280	\$ 10,296	\$ 37,295

- (7) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the fiscal year ended March 31, 2011 in these Controlled investments are as follows:

Name of Issuer	Fair Value at March 31, 2010	Gross Additions	Gross Reductions	Interest/Dividend/ Other Income	Fair Value at March 31, 2011
Grand Prix Holdings, LLC (Innkeepers USA) Series A Preferred (8)	\$ 5,268	\$	\$	\$	\$
AIC Credit Opportunity Fund LLC Common Equity (9)	73,514	1,700		12,334	95,212
Generation Brands Holdings, Inc. (Quality Home Brands) Common Equity	230				8
Generation Brands Holdings, Inc. (Quality Home Brands) Series H Common Equity	2,297				77
Generation Brands Holdings, Inc. (Quality Home Brands) Series 2L Common Equity	11,242				379
Grand Prix Holdings, LLC (Innkeepers USA) Common Equity (8)					
LVI Parent Corp. Common Equity		16,096		110	15,892
	\$ 92,551	\$ 17,796	\$	\$ 12,444	\$ 111,568

See notes to financial statements.



**APOLLO INVESTMENT CORPORATION**

**SCHEDULE OF INVESTMENTS (continued)**

**March 31, 2011**

**(in thousands)**

The Company has a 99%, 100%, 27% and 34% equity ownership interest in Grand Prix Holdings LLC, AIC Credit Opportunity Fund LLC, Generation Brands Holdings, Inc. and LVI Parent Corp., respectively.

(8) See note 12.

(9) See note 6.

(10) Aggregate gross unrealized appreciation for federal income tax purposes is \$202,082; aggregate gross unrealized depreciation for federal income tax purposes is \$454,897. Net unrealized depreciation is \$252,815 based on a tax cost of \$3,302,973.

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

\* Denominated in USD unless otherwise noted.

\*\* Non-income producing security

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

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

§ Position reflects a contingent payment agreement.

See notes to financial statements.

**APOLLO INVESTMENT CORPORATION**

**SCHEDULE OF INVESTMENTS (continued)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of March 31, 2011</b>
Diversified Service	10.4%
Education	9.9%
Healthcare	7.5%
Retail	6.6%
Packaging	5.3%
Distribution	5.2%
Insurance	5.0%
Grocery	4.6%
Broadcasting & Entertainment	4.2%
Asset Management	4.1%
Environmental & Facilities Services	3.5%
Software	3.4%
Business Services	3.3%
Telecommunications	3.2%
Transportation	2.8%
Beverage, Food & Tobacco	2.8%
Financial Services	2.5%
Consumer Services	2.4%
Leisure Equipment	2.3%
Electronics	2.1%
Manufacturing	2.0%
Consumer Finance	1.4%
Industrial	1.3%
Logistics	1.3%
Media	1.1%
Market Research	1.0%
Consumer Products	0.4%
Consulting Services	0.2%
Machinery	0.2%
Hotels, Motels, Inns & Gaming	0.0%
<b>Total Investments</b>	<b>100.0%</b>

See notes to financial statements.

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (unaudited)**

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

**Note 1. Organization**

Apollo Investment Corporation, a Maryland corporation organized on February 2, 2004, is a closed-end, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940 (the 1940 Act ). In addition, for tax purposes we have elected to be treated as a regulated investment company ( RIC ), under the Internal Revenue Code of 1986, as amended ( the Code ). Our primary investment objective is to generate current income and capital appreciation. We invest primarily in the form of subordinated debt, as well as by making investments in certain senior secured loans and/or equity in private middle-market companies. From time to time, we may also invest in the securities of public companies.

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

**Note 2. Significant Accounting Policies**

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

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

The significant accounting policies consistently followed by Apollo Investment are:

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

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



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**APOLLO INVESTMENT CORPORATION**

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

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

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

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

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When readily available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the quarter ended December 31, 2011, there has been no change to the Company's valuation techniques and related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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**APOLLO INVESTMENT CORPORATION**

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

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

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

Accounting Standards Update No. 2010-06, Improving Disclosure about Fair Value Measurements was released in January 2010 and is effective and adopted for periods beginning after December 15, 2009, except for separate disclosures for purchases, sales, issuances, and settlements, as applicable, in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective and were adopted on April 1, 2011. This update improved financial statement disclosure around transfers in and out of level 1 and 2 fair value measurements, around valuation techniques and inputs and around other related disclosures. Transfers between levels, if any, are recognized at the end of the reporting period. See certain additional disclosures in note 6, as well as in Valuation of Portfolio Investments within our Critical Accounting Policies section of Management's Discussion and Analysis of Financial Conditions and Results of Operations.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04) which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company plans to adopt ASU 2011-04 on January 1, 2012 and has assessed the potential impact that the adoption of ASU 2011-04 may have on the Company's financial position and results of operations.

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

(d) The Company records interest and dividend income, adjusted for amortization of premium and accretion of discount, on an accrual basis. Some of our loans and other investments, including certain preferred equity investments, may have contractual payment-in-kind (PIK) interest or dividends. PIK interest and dividends computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. For the nine months ended December 31, 2011, accrued PIK totaled \$13,093, on total investment income of \$272,388. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Structuring fees are recorded as other income when earned. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend

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**APOLLO INVESTMENT CORPORATION**

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

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

obligations. Interest or dividend cash payments received on non-accrual designated investments may be recognized as income or applied to principal depending upon management's judgment.

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

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

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

(h) In accordance with Regulation S-X, the Company generally will not consolidate its interest in any company other than in investment company subsidiaries and controlled operating companies substantially all of whose business consists of providing services to the Company. Consequently, the Company has not consolidated special purpose entities through which the special purpose entity acquired and holds investments subject to financing with third parties. At December 31, 2011, the Company did not have any subsidiaries or controlled operating companies that were consolidated. See additional information within note 6.

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

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

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

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

(m) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

changes in interest rates. Generally, only securities with a maturity of three months or less from the date of purchase would qualify, with limited exceptions. The Company deems that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

**Note 3. Agreements**

Apollo Investment has an Investment Advisory and Management Agreement (the *Investment Advisory Agreement*) with Apollo Investment Management, L.P. (the *Investment Adviser* or *AIM*), under which the Investment Adviser, subject to the overall supervision of Apollo Investment's board of directors, will manage the day-to-day operations of, and provide investment advisory services to, Apollo Investment. For providing these services, the Investment Adviser receives a fee from Apollo Investment, consisting of two components: a base management fee and a performance-based incentive fee. The base management fee is determined by taking the average value of Apollo Investment's gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Apollo Investment's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies accrued during the calendar quarter, minus Apollo Investment's operating expenses for the quarter (including the base management fee, any expenses payable under an administration agreement (the *Administration Agreement*) between Apollo Investment and Apollo Investment Administration, LLC (the *Administrator*), and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income does not include any realized capital gains computed net of all realized capital losses and unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of Apollo Investment's net assets at the end of the immediately preceding calendar quarter, is compared to the rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee.

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

**APOLLO INVESTMENT CORPORATION**

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

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

The accrual of this theoretical capital gains incentive fee assumes all unrealized capital appreciation and depreciation is realized in order to reflect a theoretical capital gains incentive fee that would be payable to the Investment Adviser at each measurement date. There was no such accrual for the three and nine months ended December 31, 2011 and 2010. It should be noted that a fee so calculated and accrued would not be payable under the Investment Advisers Act of 1940 ( Advisers Act ) or Investment Advisory Agreement, and would not be paid based upon such computation of capital gains incentive fees in subsequent periods. Amounts actually paid to the Investment Adviser will be consistent with the Advisers Act and formula reflected in the Investment Advisory Agreement which specifically excludes consideration of unrealized capital appreciation.

For the three and nine months ended December 31, 2011, the Company recognized \$14,693 and \$46,171, respectively, in base management fees and \$9,634 and \$29,398, respectively, in performance-based incentive fees. For the three and nine months ended December 31, 2010, the Company recognized \$15,203 and \$44,787, respectively, in base management fees and \$12,532 and \$35,284, respectively, in performance-based incentive fees. The fees for the three and nine months ended December 31, 2011 reflect a reduction due to a prior payment of an unearned portion of the fees to the Investment Adviser of \$0 and \$2,783, respectively.

Apollo Investment has also entered into an Administration Agreement with the Administrator under which the Administrator provides administrative services for Apollo Investment. For providing these services, facilities and personnel, Apollo Investment reimburses the Administrator for Apollo Investment's allocable portion of overhead and other expenses incurred by the Administrator and requested to be reimbursed in performing its obligations under the Administration Agreement, including rent and Apollo Investment's allocable portion of its chief financial officer and chief compliance officer and their respective staffs that are requested to be reimbursed. The Administrator will also provide, on Apollo Investment's behalf, managerial assistance to those portfolio companies to which Apollo Investment is required to provide such assistance. For the three and nine months ended December 31, 2011, the Company recognized expenses under the Administration Agreement of \$1,500 and \$3,887, respectively. For the three and nine months ended December 31, 2010, the Company recognized expenses under the Administration Agreement of \$1,540 and \$4,348, respectively.

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

At December 31, 2011, the Company's total net assets and net asset value per share were \$1,607,407 and \$8.16, respectively. This compares to total net assets and net asset value per share at March 31, 2011 of \$1,961,031 and \$10.03, respectively.

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

**Note 5. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings (loss) per share, pursuant to ASC 260-10, for the three and nine months ended December 31, 2011 and December 31, 2010, respectively:

	Three months ended December 31,		Nine months ended December 31,	
	2011	2010	2011	2010
<b>Earnings per share - basic</b>				
Numerator for increase (decrease) in net assets per share:	\$ 63,697	\$ 84,504	\$ (203,497)	\$ 68,360
Denominator for basic weighted average shares:	197,022,181	195,044,683	196,431,720	192,443,423
Basic earnings (loss) per share:	\$ 0.32	\$ 0.43	\$ (1.04)	\$ 0.36
<b>Earnings per share - diluted</b>				
Numerator for increase (decrease) in net assets per share:	\$ 63,697	\$ 84,504	\$ (203,497)	\$ 68,360
Adjustment for interest on convertible notes and for incentive fees, net	2,577		7,729	
Numerator for increase (decrease) in net assets per share, as adjusted	\$ 66,274	\$ 84,504	\$ (195,768)	\$ 68,360
Denominator for weighted average shares, as adjusted for dilutive effect of convertible notes:	211,570,281	195,044,683	210,979,820	192,443,423
Diluted earnings (loss) per share:	\$ 0.31	\$ 0.43	\$ (1.04)*	\$ 0.36

\* In applying the if-converted method, conversion shall not be assumed for purposes of computing diluted EPS if the effect would be anti-dilutive. For the nine months ended December 31, 2011, anti-dilution would total \$0.11.

**Note 6. Investments**

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

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



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**APOLLO INVESTMENT CORPORATION**

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

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

unwound unless Apollo FDC posts additional collateral for the benefit of the Senior Note. Consequently, the maximum exposure on this investment is the amount of our investment in the Junior Note and any additional collateral we determine to post.

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

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

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

The Senior Note, TRS and Acquisition Loan are non-recourse to AIC Holdco, its subsidiaries and us and have standard events of default including failure to pay contractual amounts when due and failure by each of the underlying Apollo special purpose entities to provide additional credit support, sell assets or prepay a portion of its obligations if the value of the FDC Term Loan, the TXU Term Loan or the Boots Term Loans, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty. From time to time we may provide additional capital to AIC Holdco for purposes of reserving for or funding margin calls under one or more of the transactions described above among other reasons. During the fiscal year ended March 31, 2009, we provided \$18,480 in additional net capital to AIC Holdco. During the fiscal year ended March 31, 2010, \$9,336 of net capital was returned to us from AIC Holdco. During the fiscal year ended March 31, 2011, \$1,700 of net capital was provided to AIC Holdco. During the nine months ended December 31, 2011, \$5,291 of net capital was provided to AIC Holdco. The Junior Note, TRS and Boots Term Loans were performing assets as of the date of these financial statements.



## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

Below is summarized financial information for AIC Holdco for the nine months ended December 31, 2011 and the fiscal year ended March 31, 2011.

	December 31, 2011	March 31, 2011 (unaudited)
<b>Assets</b>		
Cash	\$ 20	\$
Apollo FDC <sup>1</sup>	43,000	60,458
Apollo TXU <sup>2</sup>	22,041	16,749
Apollo Boots <sup>3</sup>	45,738	52,084
Other Assets		5,141
<b>Total Assets</b>	<b>\$ 110,799</b>	<b>\$ 134,432</b>
<b>Liabilities</b>		
Apollo FDC <sup>4</sup>	\$	\$
Apollo TXU <sup>5</sup>	12,383	2,919
Apollo Boots <sup>6</sup>	29,168	31,181
Other Liabilities		5,120
<b>Total Liabilities</b>	<b>\$ 41,551</b>	<b>\$ 39,220</b>
<b>Net Assets</b>		
Apollo FDC	\$ 43,000	\$ 60,458
Apollo TXU	9,658	13,830
Apollo Boots	16,570	20,903
Other	20	21
<b>Total Net Assets</b>	<b>\$ 69,248</b>	<b>\$ 95,212</b>
<b>Operating Income (Loss)</b>		
	Nine months ended December 31, 2011	Fiscal Year End March 31, 2011 (unaudited)
Net Operating Income (Loss)		
Apollo FDC <sup>7</sup>	\$ 5,126	\$ 10,286
Apollo TXU <sup>7</sup>	2,480	1,154
Apollo Boots <sup>7</sup>	933	939
Other	(21)	(24)
<b>Total Operating Income</b>	<b>\$ 8,518</b>	<b>\$ 12,355</b>
<b>Net Change in Unrealized Gain (Loss)</b>		
Apollo FDC	\$ (17,458)	\$ 16,208

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Apollo TXU	(9,464)	2,909
Apollo Boots	(4,333)	2,560
<b>Total Net Change in Unrealized Gain (Loss)</b>	<b>\$ (31,255)</b>	<b>\$ 21,677</b>
Net Income (Loss) <sup>8</sup>		
Apollo FDC	\$ (12,332)	\$ 26,494
Apollo TXU	(6,984)	4,063
Apollo Boots	(3,400)	3,499
Other	(21)	(24)
<b>Total Net Income (Loss)</b>	<b>\$ (22,737)</b>	<b>\$ 34,032</b>

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

- 1 Represents fair value of the Junior Note held by Apollo FDC. Cost: \$39,500 and \$39,500, respectively.
- 2 Represents fair value of collateral posted in relation to the TRS held by Apollo TXU. Cost: \$22,041 and \$16,749, respectively.
- 3 Represents fair value of the Boots Term Loans held by Apollo Boots. Cost: \$50,109 and \$50,109, respectively.
- 4 Apollo FDC's interest is subject to a senior note of a separate entity of \$39,500; However, Apollo FDC has no liability for such senior note.
- 5 Represents liability on the TRS held by Apollo TXU.
- 6 Represents liability of Apollo Boots on the Acquisition Loan.
- 7 In the case of Apollo FDC, net operating income consists of interest income on the Junior Note less interest paid on the senior note together with immaterial administrative expenses. In the case of Apollo TXU, net operating income consists of net payments from (to) the swap counterparty of Apollo TXU's obligation to pay interest and its right to receive the proceeds in respect of the reference asset, together with immaterial administrative expenses. In the case of AIC Boots, net operating income consists of interest income on the Boots Term Loans, less interest payments on the Acquisition Loan together with immaterial administrative expenses. There are no management or incentive fees.
- 8 Net income is the sum of operating income, realized gain (loss) (for the periods shown, there was no realized gain or loss) and net change in unrealized gain (loss).

**Investments and cash equivalents for the Company**

Investments and cash equivalents for the Company consisted of the following as of December 31, 2011 and March 31, 2011.

	December 31, 2011		March 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	\$ 870,695	\$ 817,124	\$ 994,742	\$ 1,013,745
Subordinated Debt/Corporate Notes	1,798,598	1,641,633	1,719,439	1,730,656
Collateralized Loan Obligations	17,259	17,755	24,739	28,770
Preferred Equity	37,823	35,548	136,429	33,132
Common Equity/Interests	308,601	258,153	418,967	227,771
Warrants	2,099	8,642	4,520	16,084
<b>Total Investments</b>	<b>\$ 3,035,075</b>	<b>\$ 2,778,855</b>	<b>\$ 3,298,836</b>	<b>\$ 3,050,158</b>
Cash Equivalents				
<b>Total Investments and Cash Equivalents</b>	<b>\$ 3,035,075</b>	<b>\$ 2,778,855</b>	<b>\$ 3,298,836</b>	<b>\$ 3,050,158</b>

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

At December 31, 2011, our investments and cash equivalents were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Description	December 31, 2011	Fair Value Measurement at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bank Debt/Senior Secured Loans	\$ 817,124	\$	\$	\$ 817,124
Subordinated Debt/Corporate Notes	1,641,633			1,641,633
Collateralized Loan Obligations	17,755			17,755
Preferred Equity	35,548			35,548
Common Equity/Interests	258,153			258,153
Warrants	8,642			8,642
Total Investments	\$ 2,778,855	\$	\$	\$ 2,778,855
Cash Equivalents				
Total Investments and Cash Equivalents	\$ 2,778,855	\$	\$	\$ 2,778,855

At March 31, 2011, our investments and cash equivalents were categorized as follows in the fair value hierarchy for ASC 820 purposes:

Description	March 31, 2011	Fair Value Measurement at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bank Debt/Senior Secured Loans	\$ 1,013,745	\$	\$	\$ 1,013,745
Subordinated Debt/Corporate Notes	1,730,656			1,730,656
Collateralized Loan Obligations	28,770			28,770
Preferred Equity	33,132			33,132
Common Equity/Interests	227,771			227,771
Warrants	16,084			16,084
Total Investments	\$ 3,050,158	\$	\$	\$ 3,050,158
Cash Equivalents				
Total Investments and Cash Equivalents	\$ 3,050,158	\$	\$	\$ 3,050,158



## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*						Total
	Bank Debt / Senior Secured Loans	Subordinated Debt/Corporate Notes	Collateralized Loan Obligations	Preferred Equity	Common Equity/Interests	Warrants	
Beginning Balance, March 31, 2011	\$ 1,013,745	\$ 1,730,656	\$ 28,770	\$ 33,132	\$ 227,771	\$ 16,084	\$ 3,050,158
Total realized gains (losses) included in earnings	4,096	(84,829)		(102,012)	(164,835)	7,013	(340,567)
Total unrealized gains (losses) included in earnings	(72,572)	(168,105)	(3,536)	101,023	140,747	(5,021)	(7,464)
Purchases, including capitalized							
PIK (1)	379,057	893,481	291	3,405	83,099		1,359,333
Sales	(507,202)	(729,570)	(7,770)		(28,629)	(9,434)	(1,282,605)
Transfer in and/or out of Level 3 (2)							
Ending Balance, December 31, 2011	\$ 817,124	\$ 1,641,633	\$ 17,755	\$ 35,548	\$ 258,153	\$ 8,642	\$ 2,778,855

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

	\$ (63,343)	\$ (210,087)	\$ (2,914)	\$ (990)	\$ (29,436)	\$ 232	\$ (306,538)
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(1) Includes accretion of discount and amortization of premiums of approximately \$2,836, \$10,796, \$291, \$146, \$0, \$0, and \$14,069, respectively.

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

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

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

PIK income activity for the nine months ended December 31, 2011:

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

The following chart shows the components of change in our investments categorized as Level 3, for the nine months ended December 31, 2010.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*						
	Bank Debt / Senior Secured Loans	Subordinated Debt/Corporate Notes	Collateralized Loan Obligations	Preferred Equity	Common Equity/Interests	Warrants	Total
Beginning Balance, March 31, 2010	\$ 843,098	\$ 1,659,504	\$ 25,866	\$ 33,868	\$ 281,009	\$ 10,235	\$ 2,853,580
Total realized gains (losses) included in earnings	314	(170,012)	56		(7,748)	2,392	(174,998)
Total unrealized gains (losses) included in earnings	17,482	107,329	1,462	(5,740)	(52,887)	3,472	71,118
Purchases, including capitalized PIK(1)	363,797	424,215	326	3,681	43,718		835,737
Sales	(371,210)	(240,089)	(216)		(751)	(2,393)	(614,659)
Transfer in and/or out of Level 3 (2)					(55,006)		(55,006)
<b>Ending Balance, December 31, 2010</b>	<b>\$ 853,481</b>	<b>\$ 1,780,947</b>	<b>\$ 27,494</b>	<b>\$ 31,809</b>	<b>\$ 208,335</b>	<b>\$ 13,706</b>	<b>\$ 2,915,772</b>

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

	\$ 19,211	\$ (22,278)	\$ 1,477	\$ (5,740)	\$ (28,192)	\$ 3,472	\$ (32,050)
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## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

- (1) Includes amortization of premium and/or discount of approximately \$5,830, \$22,269, \$326, \$144, \$0, \$0, and \$28,569, respectively.  
(2) MEG Energy Corp. common stock was transferred from Level 3 to Level 1 due to its initial public offering. There were no other transfers into or out of Level 1, Level 2 or Level 3 during the period shown.

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

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

At December 31, 2011, the Company had outstanding non-US borrowings on its multicurrency revolving credit facility (the Facility) denominated in Euros and British Pounds. Unrealized appreciation or depreciation on these outstanding borrowings is indicated in the table below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (Depreciation)
British Pound	£ 3,000	\$ 4,791	\$ 4,662	01/09/2012	\$ 129
Euro	5,500	7,977	7,140	01/19/2012	837
British Pound	£ 13,500	21,484	20,980	01/19/2012	504
Euro	12,000	17,302	15,578	01/30/2012	1,724
British Pound	£ 16,000	26,019	24,866	01/30/2012	1,153
British Pound	£ 40,000	63,723	62,164	01/30/2012	1,559
Euro	47,218	64,338	61,295	01/30/2012	3,043
		\$ 205,634	\$ 196,685		\$ 8,949

At March 31, 2011, the Company had outstanding non-US borrowings on its multicurrency revolving credit facility denominated in Euros and British Pounds. Unrealized appreciation or depreciation on these outstanding borrowings is indicated in the table below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (Depreciation)
British Pound	£ 2,202	\$ 3,631	\$ 3,530	04/13/2011	\$ 101
British Pound	£ 6,047	9,476	9,694	04/13/2011	(218)
British Pound	£ 10,989	17,607	17,615	04/13/2011	(8)
Euro	9,098	11,936	12,913	04/13/2011	(977)
British Pound	£ 7,266	11,978	11,647	04/26/2011	331
British Pound	£ 19,953	31,265	31,983	04/26/2011	(718)
British Pound	£ 36,258	58,093	58,120	04/28/2011	(27)
Euro	30,018	39,380	42,604	04/28/2011	(3,224)
		\$ 183,366	\$ 188,106		\$ (4,740)

**Note 8. Cash Equivalents**

There were \$0 and \$0 of cash equivalents held at December 31, 2011 and March 31, 2011, respectively.





## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

**Note 9. Financial Highlights**

The following is a schedule of financial highlights for the nine months ended December 31, 2011 and the year ended March 31, 2011:

	Nine months ended December 31, 2011 (unaudited)	Year ended March 31, 2011
<b>Per Share Data:</b>		
Net asset value, beginning of period	\$ 10.03	\$ 10.06
Net investment income	0.67	0.99
Net realized and unrealized loss	(1.70)	(0.05)
Net increase (decrease) in net assets resulting from operations	(1.03)	0.94
Dividends to stockholders (1)	(0.84)	(1.13)
Effect of anti-dilution (dilution)		0.16
Offering costs		
Net asset value at end of period	\$ 8.16	\$ 10.03
Per share market price at end of period	\$ 6.44	\$ 12.07
Total return (2)	(40.8%)	5.1%
Shares outstanding at end of period	197,043,398	195,501,549
<b>Ratio/Supplemental Data:</b>		
Net assets at end of period (in millions)	\$ 1,607.4	\$ 1,961.0
Ratio of net investment income to average net assets	7.24%	10.19%
Ratio of operating expenses to average net assets	4.97%	6.37%
Ratio of interest and other debt expenses to average net assets	2.76%	2.56%
Ratio of total expenses to average net assets	7.73%	8.93%
Average debt outstanding	\$ 1,238,740	\$ 1,072,646
Average debt per share	\$ 6.31	\$ 5.55
Portfolio turnover ratio	43.4%	33.6%

(1) Per share amounts reflect total dividends paid divided by average shares for the respective periods.

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- (2) Total return is based on the change in market price per share during the respective periods. Total return also takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

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

Class and Year	Total Amount Outstanding(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
<b>Revolving Credit Facility</b>				
Fiscal 2012 (through December 31, 2011)	\$ 743,185	\$ 1,424	\$	N/A
Fiscal 2011	628,443	1,707		N/A
Fiscal 2010	1,060,616	2,671		N/A
Fiscal 2009	1,057,601	2,320		N/A
Fiscal 2008	1,639,122	2,158		N/A
Fiscal 2007	492,312	4,757		N/A
Fiscal 2006	323,852	4,798		N/A
Fiscal 2005				N/A
<b>Senior Secured Notes</b>				
Fiscal 2012 (through December 31, 2011)	\$ 270,000	\$ 518	\$	N/A
Fiscal 2011	225,000	611		N/A
Fiscal 2010				N/A
Fiscal 2009				N/A
Fiscal 2008				N/A
Fiscal 2007				N/A
Fiscal 2006				N/A
Fiscal 2005				N/A
<b>Unsecured Notes</b>				
Fiscal 2012 (through December 31, 2011)	\$ 200,000	\$ 383	\$	N/A
Fiscal 2011	200,000	544		N/A
Fiscal 2010				N/A
Fiscal 2009				N/A
Fiscal 2008				N/A
Fiscal 2007				N/A
Fiscal 2006				N/A
Fiscal 2005				N/A

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

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

**Note 10. Debt**

*Revolving Credit Facility*

At December 31, 2011, under the terms of our senior secured multi-currency revolving credit facility maturing on April 12, 2013 (the Facility), certain lenders have agreed to extend credit to Apollo Investment in an aggregate principal or face amount not exceeding \$1,253,750 at any one time outstanding. The Facility permits Apollo Investment to seek additional commitments from new and existing lenders in the future, up to an aggregate Facility size not to exceed \$2,000,000. The Facility is secured by substantially all of the assets in Apollo Investment's portfolio, including cash and cash equivalents. Pricing with respect to the commitments is 300 basis points over LIBOR. The Facility contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintaining minimum stockholders' equity of the greater of (i) 40% of the total assets of Apollo Investment and its consolidated subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$725,000 plus (B) 25% of the net proceeds from the sale of equity interests in Apollo Investment after the closing date of the Facility, (c) maintaining a ratio of total assets, less total liabilities (other than indebtedness) to total indebtedness, in each case of Apollo Investment and its consolidated subsidiaries, of not less than 2.0:1.0, (d) maintaining minimum liquidity, (e) limitations on the incurrence of additional indebtedness, including a requirement to meet a certain minimum liquidity threshold before Apollo Investment can incur such additional debt, (f) limitations on liens, (g) limitations on investments (other than in the ordinary course of Apollo Investment's business), (h) limitations on mergers and disposition of assets (other than in the normal course of Apollo Investment's business activities), (i) limitations on the creation or existence of agreements that permit liens on properties of Apollo Investment's consolidated subsidiaries and (j) limitations on the repurchase or redemption of certain unsecured debt and debt securities. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under the Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in Apollo Investment's portfolio. The remaining capacity under the Facility was \$510,565 at December 31, 2011.

*Senior Secured Notes*

On September 30, 2010, the Company entered into a note purchase agreement with certain institutional accredited investors providing for a private placement issuance of \$225,000 in aggregate principal amount of five-year, senior secured notes with a fixed interest rate of 6.25% and a maturity date of October 4, 2015 (the Senior Secured Notes). On October 4, 2010, the Senior Secured Notes issued by Apollo Investment were sold to certain institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. Interest on the Senior Secured Notes is due semi-annually on April 4 and October 4, commencing on April 4, 2011.

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

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**APOLLO INVESTMENT CORPORATION**

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

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

*Senior Unsecured Convertible Notes*

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

The average outstanding debt balance was \$1,238,740 and \$1,072,646 for the nine months ended December 31, 2011 and the fiscal year ended March 31, 2011, respectively. The weighted average annual interest cost for the nine months ended December 31, 2011 was 4.38%, exclusive of 1.00% for commitment fees and for other prepaid expenses related to establishing debt. The weighted average annual interest cost for the nine months ended December 31, 2010 was 3.20%, exclusive of 0.95% for commitment fees and for other prepaid expenses related to establishing debt. This weighted average annual interest cost reflects the average interest cost for all debt. The maximum amount of debt outstanding during the nine months ended December 31, 2011 and the fiscal year ended March 31, 2011 was \$1,429,163 and \$1,235,464, respectively, at value. As of December 31, 2011, the Company is in compliance with all debt covenants.

**Note 11. Commitments and Contingencies**

As of December 31, 2011, AIC had outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate amount of \$140,000. AIC's commitments are subject to the consummation of the underlying corporate transactions and conditional upon receipt of all necessary shareholder, regulatory and other applicable approvals.

The Company also has a commitment to fund a revolving senior loan in the amount of \$5,500. As of December 31, 2011, this revolving senior loan remained unfunded.

**APOLLO INVESTMENT CORPORATION**

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

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

**Note 12. Grand Prix Holdings, LLC**

On July 19, 2010, InnKeepers USA Trust ( InnKeepers ), a subsidiary of Grand Prix Holdings, LLC, a portfolio company of the Company, disclosed that it had filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York under Chapter 11 of the United States Bankruptcy Code in order to effectuate a pre-arranged plan of reorganization. Following extensive proceedings in the Bankruptcy Court, on June 29, 2011, the Court confirmed a plan of reorganization (as subsequently modified, the Plan ). The Plan became effective as to all InnKeepers-related debtors as of October 27, 2011. With the effectiveness of the Plan as to all debtors, the Company received a general release, including, but not limited to, a release of any guaranty of property improvement obligations relating to InnKeepers. As such, the Company exited from its investments in Grand Prix Holdings during the December quarter.

**Note 13. Subsequent Events**

On January 20, 2012, we entered into a forbearance agreement with ATI Acquisition Company ( ATI ) with the intent of participating in a potential restructuring of ATI in the future.

As of February 8, 2012, \$40,000 of the \$140,000 aggregate outstanding commitments described in note 11 have been terminated and are no longer required to be funded.

As of February 8, 2012, \$1,100 of our \$5,500 revolving senior loan commitment described in note 11 has been funded.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Apollo Investment Corporation

We have reviewed the accompanying statements of assets and liabilities of Apollo Investment Corporation (the Company), including the schedule of investments, as of December 31, 2011 and the related statements of operations for the three and nine month periods ended December 31, 2011 and December 31, 2010, and the statement of cash flows for the nine month periods ended December 31, 2011 and December 31, 2010 and the statement of changes in net assets for the nine month period ended December 31, 2011. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the statement of assets and liabilities, including the schedule of investments, as of March 31, 2011, and the related statement of operations, statement of changes in net assets and of cash flows for the year then ended (not presented herein), and in our report dated May 31, 2011, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying statement of assets and liabilities as of March 31, 2011 and in the statement of changes in net assets for the year then ended, is fairly stated in all material respects in relation to the statement of assets and liabilities from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York

February 8, 2012



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

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

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

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

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

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

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

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

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

## OVERVIEW

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of the Code. Pursuant to this election and assuming we qualify as a RIC, we generally do not have to pay corporate-level federal income taxes on any income we distribute to our stockholders. Apollo Investment commenced operations on April 8, 2004 upon completion of its initial public offering that raised \$870 million in net proceeds selling 62 million shares of its common stock at a price of \$15.00 per share. Since then, and through December 31, 2011, we have raised approximately \$1.9 billion in net proceeds from

additional offerings of common stock.

### ***Investments***

Our level of investment activity can and does vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. As a business development company, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in eligible portfolio companies. Pursuant to rules adopted in 2006, the SEC expanded the definition of eligible portfolio company to include certain public companies that do not have any securities listed on a national securities exchange. The SEC also adopted an additional rule under the 1940 Act to expand the definition of eligible portfolio company to include companies whose securities are listed on a national securities exchange but whose market capitalization is less than \$250 million.

### ***Revenue***

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

### ***Expenses***

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

investment advisory and management fees;

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

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

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

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

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

offerings of our common stock and other securities;

registration and listing fees;

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

transfer agent and custodial fees;

taxes;

independent directors' fees and expenses;

marketing and distribution-related expenses;

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

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

organizational costs; and

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

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

#### **Portfolio and Investment Activity**

During the three months ended December 31, 2011, we invested \$95 million across 3 new and 6 existing portfolio companies, through a combination of primary and secondary market purchases. This compares to investing \$382 million in 8 new and 3 existing portfolio companies for the three months ended December 31, 2010. Investments sold or prepaid during the three months ended December 31, 2011 totaled \$175 million versus \$481 million for the three months ended December 31, 2010.

At December 31, 2011, our portfolio consisted of 67 portfolio companies and was invested 29% in senior secured loans, 60% in subordinated debt, 1% in preferred equity and 10% in common equity and warrants measured at fair value versus 69 portfolio companies invested 29% in senior secured loans, 62% in subordinated debt, 1% in preferred equity and 8% in common equity and warrants at December 31, 2010.

The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio as of December 31, 2011 at our current cost basis were 9.7%, 12.6% and 11.7%, respectively. At December 31, 2010, the yields were 8.7%, 12.9% and 11.5%, respectively.

Since the initial public offering of Apollo Investment in April 2004 and through December 31, 2011, invested capital totaled over \$8.6 billion in 164 portfolio companies. Over the same period, Apollo Investment completed transactions with more than 100 different financial sponsors.

At December 31, 2011, 66% or \$1.7 billion of our income-bearing investment portfolio is fixed rate and 34% or \$0.8 billion is floating rate, measured at fair value. On a cost basis, 65% or \$1.8 billion of our income-bearing investment portfolio is fixed rate and 35% or \$1.0 billion is floating rate. At December 31, 2010, 63% or \$1.7 billion of our income-bearing investment portfolio was fixed rate and 37% or \$1.0 billion was floating rate. On a cost basis, 63% or \$1.8 billion of our income-bearing investment portfolio was fixed rate and 37% or \$1.0 billion was floating rate.

#### **CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires management to make



estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ materially. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

### **Valuation of Portfolio Investments**

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

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

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

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal

market (as the reporting entity) and enterprise values, among other factors. When readily available, broker quotations and/or quotations provided by pricing services are considered in the valuation process of independent valuation firms. For the quarter ended December 31, 2011, there has been no change to the Company's valuation techniques and related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

Accounting Standards Update No. 2010-06, Improving Disclosure about Fair Value Measurements was released in January 2010 and is effective and adopted for periods beginning after December 15, 2009, except for separate disclosures for purchases, sales, issuances, and settlements, as applicable, in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective and were adopted for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This update improved financial statement disclosure around transfers in and out of level 1 and 2 fair value measurements, around valuation techniques and inputs and around other related disclosures. Transfers between levels, if any, are recognized at the end of the reporting period. See certain additional disclosures in note 6 to our financial statements. There were no transfers into or out of Level 1, Level 2 or Level 3 during the periods shown.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs, (ASU 2011-04) which results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. The Company is currently assessing the potential impact that the adoption of ASU 2011-04 may have on the Company's financial position and results of operations.

### **Revenue Recognition**

The Company records interest and dividend income, adjusted for amortization of premium and accretion of discount, on an accrual basis. Some of our loans and other investments, including certain preferred equity investments, may have contractual payment-in-kind (PIK) interest or dividends. PIK interest and dividends computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. For the nine months ended



December 31, 2011, accrued PIK totaled \$13.1 million, on total investment income of \$272.4 million. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Structuring fees are recorded as other income when earned. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on non-accrual designated investments may be recognized as income or applied to principal depending upon management's judgment.

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

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

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

#### **RESULTS OF OPERATIONS**

Results comparisons are for the three and nine months ended December 31, 2011 and December 31, 2010.

##### **Investment Income**

For the three and nine months ended December 31, 2011, gross investment income totaled \$83.8 million and \$272.4 million, respectively. For the three and nine months ended December 31, 2010, gross investment income totaled \$94.3 million and \$264.1 million, respectively. The decrease in gross investment income for the three months ended December 31, 2011 as compared to the three months ended December 31, 2010 was primarily due to a decrease in the receipt of prepayment premiums and other deal related income. The increase in gross investment income for the nine months ended December 31, 2011 as compared to the nine months ended December 31, 2010 was primarily due to an increase in the receipt of prepayment premiums and other deal related income.

##### **Expenses**

Expenses totaled \$45.3 million and \$140.7 million, respectively, for the three and nine months ended December 31, 2011, of which \$24.3 million and \$75.6 million, respectively, were base management fees and performance-based incentive fees and \$16.9 million and \$50.2 million, respectively, were interest and other debt expenses. Administrative services and other general and administrative expenses totaled \$4.0 million and \$14.9 million, respectively, for the three and nine months ended December 31, 2011. Expenses totaled \$44.2 million and \$122.9 million, respectively, for the three and nine months ended December 31, 2010, of which \$27.7 million and \$80.1 million, respectively, were base management fees and performance-based incentive fees and \$13.4 million and \$34.1 million, respectively, were interest and other debt expenses. Administrative services and other general and administrative expenses totaled \$3.0 million and \$8.8 million, respectively, for the three and nine months ended December 31, 2010. Expenses consist of base investment advisory and management fees, insurance expenses, administrative services fees, legal fees, directors' fees, audit and tax services expenses, and

other general and administrative expenses. The increase in expenses from the December 2010 periods to the December 2011 periods was primarily due to an increase in interest expense as our average interest cost in the current periods is over 100 basis points higher than in the year ago periods and the average debt outstanding is roughly \$150 million higher on a year over year basis. The increase in average interest cost resulted from the issuance of new tranches of long-term fixed rate debt in periods during and subsequent to the three and nine month periods ended December 31, 2010. In addition, in the nine month period ended December 31, 2011, the Company recognized approximately \$4.0 million in net non-recurring expenses, including legal and other professional expenses of \$4.7 million net of a non-recurring reduction of administrative expenses.

#### **Net Investment Income**

The Company's net investment income totaled \$38.5 million and \$131.7 million, or \$0.20 and \$0.67, per average basic share, respectively, for the three and nine months ended December 31, 2011. The Company's net investment income totaled \$50.1 million and \$141.1 million, or \$0.26 and \$0.73, per average basic share, respectively, for the three and nine months ended December 31, 2010.

#### **Net Realized Losses**

The Company had investment sales and prepayments totaling \$175 million and \$1.3 billion, respectively, for the three and nine months ended December 31, 2011. The Company had investment sales and prepayments totaling \$481 million and \$722 million, respectively, for the three and nine months ended December 31, 2010. Net realized losses for the three and nine months ended December 31, 2011 were \$275.0 million and \$341.1 million, respectively. For the three and nine months ended December 31, 2010, net realized losses totaled \$64.9 million and \$150.5 million, respectively. Net realized losses for the three and nine month periods ended December 31, 2011 were primarily derived from the exits of select investments, specifically Grand Prix Holdings, which accounted for \$274 million of the realized loss totals, but also included Playpower Holdings, TL Acquisitions and FSC Holdings. The realized losses incurred upon the exit of these investments reversed out previously reported unrealized losses. Net realized losses for the three and nine months ended December 31, 2010 were primarily derived from selective exits and restructurings of underperforming investments.

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

For the three and nine months ended December 31, 2011, net change in unrealized appreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$300.2 million and \$5.9 million, respectively. For the three and nine months ended December 31, 2010, net change in unrealized appreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$99.3 million and \$77.7 million, respectively. For the three months ended December 31, 2011, the increase in unrealized appreciation was mainly derived from the reclassification of \$274 million of previously recognized unrealized depreciation on our investment in Grand Prix Holdings to a realized loss. For the nine months ended December 31, 2011, the change in unrealized depreciation was comprised of the impact from Grand Prix Holdings together with the general decline in capital market conditions during the period. For the three and nine months ended December 31, 2010, net unrealized appreciation was impacted by net changes in specific portfolio company fundamentals and stronger capital market conditions.

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

For the three months ended December 31, 2011, the Company had a net increase in net assets resulting from operations of \$63.7 million. For the nine months ended December 31, 2011, the Company had a net decrease in net assets resulting from operations of \$203.5 million. For the three and nine months ended December 31, 2010, the Company had a net increase in net assets resulting from operations of \$84.5 million and \$68.4 million, respectively. For the three months ended December 31, 2011 basic and diluted earnings per average share were \$0.32 and \$0.31, respectively. For the nine months ended December 31, 2011, basic and diluted losses per average share were \$1.04 and \$1.04, respectively. The basic and diluted earnings per average share were \$0.43 and \$0.36 for the three and nine months ended December 31, 2010.

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and generally available through periodic follow-on equity and debt offerings, our senior secured, multi-currency \$1.254 billion revolving credit facility maturing on April 12, 2013 (see note 10 within the Notes to Financial Statements) (the Facility), our senior secured notes, investments in special purpose entities in which we hold and finance particular investments on a non-recourse basis, as well as from cash flows from operations, investment sales of liquid assets and prepayments of senior and subordinated loans and income earned from investments. The Company also has investments in its portfolio that contain PIK provisions. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. In order to maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders annually in the form of dividends, even though the Company has not yet collected the cash. For the nine months ended December 31, 2011, accrued PIK totaled \$13.1 million, on total investment income of \$272.4 million. On April 13, 2011, \$380 million of commitments on the Facility matured. At December 31, 2011, the Company had \$743 million in borrowings outstanding on its Facility and \$511 million of unused capacity. As of December 31, 2011, aggregate lender commitments under the Facility total \$1.254 billion.

On May 3, 2010, the Company closed on its most recent follow-on public equity offering of 17.25 million shares of common stock at \$12.40 per share raising approximately \$204 million in net proceeds. In the future, the Company may raise additional equity or debt capital, among other considerations. The primary use of funds will be investments in portfolio companies, reductions in debt outstanding and other general corporate purposes, including the payment of interest, fees or distributions to shareholders.

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

On January 25, 2011, the Company closed a private offering of \$200 million aggregate principal amount of senior unsecured convertible notes (the Convertible Notes). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The Convertible Notes bear interest at an annual rate of 5.75%, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2011. The Convertible Notes will mature on January 15, 2016 unless earlier converted or repurchased at the holder's option. Prior to December 15, 2015, the Convertible Notes will be convertible only upon certain corporate reorganizations, dilutive recapitalizations or dividends, or if, during specified periods our shares trade at more than 130% of the then applicable conversion price or the Convertible Notes trade at less than 97% of their conversion value and, thereafter, at any time. The Convertible Notes will be convertible by the holders into shares of common stock, initially at a conversion rate of 72.7405 shares of the Company's common stock per \$1,000 principal amount of Convertible Notes (14,548,100 common shares) corresponding to an initial conversion price per share of approximately \$13.75, which represents a premium of 17.5% to the \$11.70 per share closing price of the Company's common stock on The NASDAQ Global Select Market on January 19, 2011. The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.28 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$11.70 per share. The Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is

expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

On August 11, 2011, the Company adopted a plan for the purpose of repurchasing up to \$200 million of its common stock in accordance with the guidelines specified in Rule 10b-18 and Rule 10b5-1 of the Securities Exchange Act of 1934. The Company's plan was designed to allow it to repurchase its shares both during its open window periods and at times when it otherwise might be prevented from doing so under insider trading laws or because of self-imposed trading blackout periods. A broker selected by the Company will have the authority under the terms and limitations specified in the plan to repurchase shares on the Company's behalf in accordance with the terms of the plan. Repurchases are subject to SEC regulations as well as certain price, market volume and timing constraints specified in the plan. While the portion of the plan reliant on Rule 10b-18 remains in effect, the portion reliant on Rule 10b5-1 is subject to periodic renewal and is not currently in effect. As of December 31, 2011, no shares have been repurchased.

On September 29, 2011, the Company closed a private offering of \$45 million aggregate principal amount of senior secured notes (the Notes) consisting of two series: (1) 5.875% Senior Secured Notes, Series A, of the Company due September 29, 2016 in the aggregate principal amount of \$29 million; and (2) 6.250% Senior Secured Notes, Series B, of the Company due September 29, 2018, in the aggregate principal amount of \$16 million. The Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended. The net proceeds from the offering of Notes are intended to be used to fund new portfolio investments, reduce outstanding borrowings on the Company's Facility and for general corporate purposes, including the payment of interest, fees or distributions to shareholders.

### Cash Equivalents

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. (See note 2(m) within the accompanying financial statements.) At the end of each fiscal quarter, we consider taking proactive steps utilizing cash equivalents with the objective of enhancing our investment flexibility during the following quarter, pursuant to Section 55 of the 1940 Act. More specifically, we may purchase U.S. Treasury bills from time-to-time on the last business day of the quarter and typically close out that position on the following business day, settling the sale transaction on a net cash basis with the purchase, subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our Facility, as we deem appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. There were no cash equivalents held as of December 31, 2011.

### Contractual Obligations

#### Payments due by Period as of December 31, 2011 (dollars in millions)

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Secured Revolving Credit Facility (1)	\$ 743	\$	\$ 743	\$	\$
Senior Secured Notes	\$ 270	\$	\$	\$ 254	\$ 16
Unsecured Notes	\$ 200	\$	\$	\$ 200	\$

(1) At December 31, 2011, the Facility had \$511 million of unused capacity.

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

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

As of December 31, 2011, AIC had outstanding commitments with banks to purchase secured term loans and unsecured bridge loans in the aggregate amount of \$140,000. AIC's commitments are subject to the consummation of the underlying corporate transactions and conditional upon receipt of all necessary shareholder, regulatory and other applicable approvals.

The Company also has a commitment to fund a revolving senior loan in the amount of \$5,500. As of December 31, 2011, this revolving senior loan remained unfunded.

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

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

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

In the second of these investments, in June 2008 we invested through AIC Holdco \$11,375 in AIC (TXU) Holdings LLC (Apollo TXU). Apollo TXU acquired exposure to \$50,000 notional amount of a Libor plus 3.5% senior secured delayed draw term loan of Texas Competitive Electric Holdings (TXU) due 2014 through a non-recourse total return swap (the TRS) with an unaffiliated third party expiring on October 10, 2013. Pursuant to such delayed draw term loan, Apollo TXU pays an unaffiliated third-party interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Term Loan). Like

Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Term Loan and, since the TRS is a non-recourse arrangement, Apollo TXU is exposed only up to the amount of its investment in the TRS, plus any additional margin we decide to post, if any, during the term of the financing. The TRS does not constitute a senior security or a borrowing of Apollo TXU. In connection with the amendment and extension of the TXU Term Loan in April 2011, for which Apollo TXU received a consent fee along with an increase in the rate of the TXU Term Loan to Libor plus 4.5%, Apollo TXU extended its TRS to 2016 at a rate of Libor plus 2.0%.

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

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

The Senior Note, TRS and Acquisition Loan are non-recourse to AIC Holdco, its subsidiaries and us and have standard events of default including failure to pay contractual amounts when due and failure by each of the underlying Apollo special purpose entities to provide additional credit support, sell assets or prepay a portion of its obligations if the value of the FDC Term Loan, the TXU Term Loan or the Boots Term Loans, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty. From time to time we may provide additional capital to AIC Holdco for purposes of reserving for or funding margin calls under one or more of the transactions described above among other reasons. During the fiscal year ended March 31, 2009, we provided \$18,480 in additional net capital to AIC Holdco. During the fiscal year ended March 31, 2010, \$9,336 of net capital was returned to us from AIC Holdco. During the fiscal year ended March 31, 2011, \$1,700 of net capital was provided to AIC Holdco. During the nine months ended December 31, 2011, \$5,291 of net capital was provided to AIC Holdco. The Junior Note, TRS and Boots Term Loans were performing assets as of the date of these financial statements.

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Below is summarized financial information for AIC Holdco for the nine months ended December 31, 2011 and the fiscal year ended March 31, 2011 (all dollar amounts in thousands).

	December 31, 2011	March 31, 2011 (unaudited)
<b>Assets</b>		
Cash	\$ 20	\$
Apollo FDC <sup>1</sup>	43,000	60,458
Apollo TXU <sup>2</sup>	22,041	16,749
Apollo Boots <sup>3</sup>	45,738	52,084
Other Assets		5,141
<b>Total Assets</b>	<b>\$ 110,799</b>	<b>\$ 134,432</b>
<b>Liabilities</b>		
Apollo FDC <sup>4</sup>	\$	\$
Apollo TXU <sup>5</sup>	12,383	2,919
Apollo Boots <sup>6</sup>	29,168	31,181
Other Liabilities		5,120
<b>Total Liabilities</b>	<b>\$ 41,551</b>	<b>\$ 39,220</b>
<b>Net Assets</b>		
Apollo FDC	\$ 43,000	\$ 60,458
Apollo TXU	9,658	13,830
Apollo Boots	16,570	20,903
Other	20	21
<b>Total Net Assets</b>	<b>\$ 69,248</b>	<b>\$ 95,212</b>
	<b>Nine months ended December 31, 2011</b>	<b>Fiscal Year End March 31, 2011 (unaudited)</b>
<b>Net Operating Income (Loss)</b>		
Apollo FDC <sup>7</sup>	\$ 5,126	\$ 10,286
Apollo TXU <sup>7</sup>	2,480	1,154
Apollo Boots <sup>7</sup>	933	939
Other	(21)	(24)
<b>Total Operating Income</b>	<b>\$ 8,518</b>	<b>\$ 12,355</b>
<b>Net Change in Unrealized Gain (Loss)</b>		
Apollo FDC	\$ (17,458)	\$ 16,208
Apollo TXU	(9,464)	2,909
Apollo Boots	(4,333)	2,560
<b>Total Net Change in Unrealized Gain (Loss)</b>	<b>\$ (31,255)</b>	<b>\$ 21,677</b>
<b>Net Income (Loss)<sup>8</sup></b>		
Apollo FDC	\$ (12,332)	\$ 26,494
Apollo TXU	(6,984)	4,063

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Apollo Boots	(3,400)	3,499
Other	(21)	(24)
<b>Total Net Income (Loss)</b>	<b>\$ (22,737)</b>	<b>\$ 34,032</b>

1 Represents fair value of the Junior Note held by Apollo FDC. Cost: \$39,500 and \$39,500, respectively.



- 2 Represents fair value of collateral posted in relation to the TRS held by Apollo TXU. Cost: \$22,041 and \$16,749, respectively.
- 3 Represents fair value of the Boots Term Loans held by Apollo Boots. Cost: \$50,109 and \$50,109, respectively.
- 4 Apollo FDC's interest is subject to a senior note of a separate entity of \$39,500; However, Apollo FDC has no liability for such senior note.
- 5 Represents liability on the TRS held by Apollo TXU.
- 6 Represents liability of Apollo Boots on the Acquisition Loan.
- 7 In the case of Apollo FDC, net operating income consists of interest income on the Junior Note less interest paid on the senior note together with immaterial administrative expenses. In the case of Apollo TXU, net operating income consists of net payments from (to) the swap counterparty of Apollo TXU's obligation to pay interest and its right to receive the proceeds in respect of the reference asset, together with immaterial administrative expenses. In the case of AIC Boots, net operating income consists of interest income on the Boots Term Loans, less interest payments on the Acquisition Loan together with immaterial administrative expenses. There are no management or incentive fees.
- 8 Net income is the sum of operating income, realized gain (loss) (for the periods shown, there was no realized gain or loss) and net change in unrealized gain (loss).

#### **Dividends**

Dividends to stockholders for the three and nine months ended December 31, 2011 totaled \$55.2 million or \$0.28 per share, and \$165.0 million or \$0.84 per share, respectively. Dividends to stockholders for the three and nine months ended December 31, 2010 totaled \$54.6 million or \$0.28 per share, and \$163.3 million or \$0.84 per share, respectively. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of each calendar year. Our quarterly dividends, if any, are determined by our Board of Directors.

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

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

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

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

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

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

We are subject to financial market risks, including changes in interest rates. During the three and nine months ended December 31, 2011, many of the loans in our portfolio had floating interest rates. These loans are usually based on floating LIBOR and typically have durations of one to six months after which they reset to current market interest rates. As the percentage of our U.S. mezzanine and other subordinated loans increase as a percentage of our total investments, we expect that more of the loans in our portfolio will have fixed rates. The Company also has a revolving credit facility that is based on floating LIBOR rates. Assuming no changes to our balance sheet as of December 31, 2011, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would decrease our earnings by approximately three cents per average share over the next twelve months. Assuming no changes to our balance sheet as of December 31, 2011, a hypothetical one percent decrease in LIBOR on our floating rate assets and liabilities would increase our earnings by approximately three cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the three and nine months ended December 31, 2011, we did not engage in interest rate hedging activities.

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

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

As of December 31, 2011 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

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

Management has not identified any change in the Company's internal control over financing reporting that occurred during the third fiscal quarter of 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011 and the new or amended risk factors set forth in the Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011, which could materially affect our business, financial condition and/or operating results. These risks are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

(a) Exhibits

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

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

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

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

\* Filed herewith.

- (1) Incorporated by reference from the Registrant's post-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on August 14, 2006.
- (2) Incorporated by reference from the Registrant's Form 8-K filed on November 6, 2009.
- (3) Incorporated by reference from the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on March 12, 2004.
- (4) Incorporated by reference from the Registrant's Form 10-K, filed on May 26, 2010.
- (5) Incorporated by reference from the Registrant's Form 8-K filed on December 23, 2009.
- (6) Incorporated by reference from the Registrant's 14A filed on June 21, 2011.

**SIGNATURES**

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

APOLLO INVESTMENT CORPORATION

By: /s/ JAMES C. ZELTER  
James C. Zelter  
Chief Executive Officer

By: /s/ GENE DONNELLY  
Gene Donnelly  
Chief Financial Officer and Treasurer