

**Washington, D.C. 20549**

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
Commission File Number: 333-112591

(Exact name of registrant as specified in its charter)

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|   |  |
|---|--|
| <b>Maryland</b><br>(State or other jurisdiction of<br>incorporation or organization)  | <b>52-2439556</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>9 West 57<sup>th</sup> Street</b><br><br><b>14th Floor</b><br><br><b>New York, N.Y.</b><br>(Address of principal executive office) | <b>10019</b><br>(Zip Code)                                   |
| <b>(212) 515-3450</b><br>(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 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.

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-Accelerated Filer ☐  
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 November 3, 2008 was 142,221,335.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2008**

**TABLE OF CONTENTS**

|  | <b>PAGE</b> |
|--|-------------|
| <b><u>PART I FINANCIAL INFORMATION</u></b>   |             |
| Item 1.  | 3           |
| <u>FINANCIAL STATEMENTS</u>  | 3           |
| <u>Statements of Assets and Liabilities as of September 30, 2008 and March 31, 2008</u>                                  | 3           |
| <u>Statements of Operations for the three and six months ended September 30, 2008 and September 30, 2007</u>             | 4           |
| <u>Statements of Changes in Net Assets for the six months ended September 30, 2008 and the year ended March 31, 2008</u> | 5           |
| <u>Statements of Cash Flows for the six months ended September 30, 2008 and September 30, 2007</u>                       | 6           |
| <u>Schedule of Investments as of September 30, 2008</u>  | 7           |
| <u>Schedule of Investments as of March 31, 2008</u>  | 14          |
| <u>Notes to Financial Statements</u>   | 21          |
| <u>Report of Independent Registered Public Accounting Firm</u>   | 34          |
| Item 2.  | 35          |
| <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                             | 35          |
| Item 3.  | 43          |
| <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 43          |
| Item 4.  | 44          |
| <u>Controls and Procedures</u>   | 44          |
| <b><u>PART II OTHER INFORMATION</u></b>  |             |
| Item 1.  | 45          |
| <u>Legal Proceedings</u>   | 45          |
| Item 1A.   | 45          |
| <u>Risk Factors</u>  | 45          |
| Item 2.  | 45          |
| <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 45          |
| Item 3.  | 45          |
| <u>Defaults upon Senior Securities</u>   | 45          |
| Item 4.  | 45          |
| <u>Submission of Matters to a Vote of Security Holders</u>   | 45          |
| Item 5.  | 45          |
| <u>Other Information</u>   | 45          |
| Item 6.  | 46          |
| <u>Exhibits</u>  | 46          |
| <u>Signatures</u>  | 47          |

**Table of Contents****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)

|  | September 30, 2008<br>(unaudited) | March 31, 2008      |
|--|-----------------------------------|---------------------|
| <b>Assets</b>  |                                   |                     |
| Non-controlled/non-affiliated investments, at value (cost \$3,288,014 and \$3,139,047, respectively)   | \$ 2,930,703                      | \$ 2,986,556        |
| Controlled investments, at value (cost \$310,297 and \$247,400, respectively)  | 261,795                           | 246,992             |
| Cash equivalents, at value (cost \$0 and \$404,063, respectively)  |                                   | 403,898             |
| Cash   | 409,086                           | 8,954               |
| Foreign currency (cost \$2,071 and \$2,140, respectively)  | 2,071                             | 2,130               |
| Interest receivable  | 52,557                            | 46,643              |
| Dividends receivable   | 32,813                            | 23,024              |
| Prepaid expenses and other assets  | 4,307                             | 5,896               |
| Receivable from investment adviser   |                                   | 231                 |
| <b>Total assets</b>  | <b>\$ 3,693,332</b>               | <b>\$ 3,724,324</b> |
| <b>Liabilities</b>   |                                   |                     |
| Payable for investments and cash equivalents purchased   | \$ 44,395                         | \$ 142,339          |
| Credit facility payable (see notes 7 & 12)   | 1,657,227                         | 1,639,122           |
| Management and performance-based incentive fees payable (see note 3)   | 30,476                            | 26,969              |
| Dividends payable  |                                   | 9,368               |
| Interest payable   | 6,600                             | 6,178               |
| Accrued administrative expenses  | 421                               | 288                 |
| Other liabilities and accrued expenses   | 1,217                             | 2,152               |
| <b>Total liabilities</b>   | <b>\$ 1,740,336</b>               | <b>\$ 1,826,416</b> |
| <b>Net Assets</b>  |                                   |                     |
| Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 142,221 and 119,894 issued and outstanding, respectively | \$ 142                            | \$ 120              |
| Paid-in capital in excess of par   | 2,352,883                         | 1,983,795           |
| Undistributed net investment income (see note 2f)  |                                   | 24,959              |
| Distributions in excess of net investment income (see note 2f)   | (20,147)                          |                     |
| Accumulated net realized gain (see note 2f)  | 26,342                            | 86,136              |
| Net unrealized depreciation  | (406,224)                         | (197,102)           |
| <b>Total Net Assets</b>  | <b>\$ 1,952,996</b>               | <b>\$ 1,897,908</b> |
| <b>Total liabilities and net assets</b>  | <b>\$ 3,693,332</b>               | <b>\$ 3,724,324</b> |

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|                           |    |       |    |       |
|---------------------------|----|-------|----|-------|
| Net Asset Value Per Share | \$ | 13.73 | \$ | 15.83 |
|---------------------------|----|-------|----|-------|

See notes to financial statements.

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

(in thousands, except per share amounts)

|   | Three months ended    |                       | Six months ended      |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2008 | September 30,<br>2007 | September 30,<br>2008 | September 30,<br>2007 |
| <b>INVESTMENT INCOME:</b>   |                       |                       |                       |                       |
| From non-controlled/non-affiliated investments:   |                       |                       |                       |                       |
| Interest  | \$ 90,225             | \$ 79,069             | \$ 175,200            | \$ 153,619            |
| Dividends   | 3,776                 | 3,341                 | 7,111                 | 7,367                 |
| Other income  | 3,276                 | 1,401                 | 3,473                 | 1,721                 |
| From controlled investments:  |                       |                       |                       |                       |
| Dividends   | 6,270                 | 2,258                 | 8,722                 | 2,308                 |
| Other income  |                       |                       |                       | 10,000                |
| Total Investment Income   | 103,547               | 86,069                | 194,506               | 175,015               |
| <b>EXPENSES:</b>  |                       |                       |                       |                       |
| Management fees (see note 3)  | \$ 16,354             | \$ 14,850             | \$ 32,376             | \$ 27,846             |
| Performance-based incentive fees (see note 3)   | 14,123                | (7,357)               | 25,701                | 3,478                 |
| Interest and other credit facility expenses   | 14,404                | 15,121                | 28,321                | 22,727                |
| Administrative services expense   | 855                   | 693                   | 2,723                 | 2,154                 |
| Other general and administrative expenses   | 1,366                 | 1,225                 | 2,713                 | 2,576                 |
| Total expenses  | 47,102                | 24,532                | 91,834                | 58,781                |
| Expense offset arrangement (see note 8)   | (46)                  | (86)                  | (132)                 | (147)                 |
| Net expenses  | 47,056                | 24,446                | 91,702                | 58,634                |
| Net investment income   | \$ 56,491             | \$ 61,623             | \$ 102,804            | \$ 116,381            |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b> |                       |                       |                       |                       |
| Net realized gain (loss):   |                       |                       |                       |                       |
| Investments and cash equivalents  | \$ (33,171)           | \$ (1,210)            | \$ (62,401)           | \$ (18,210)           |
| Foreign currencies  | 3,195                 | 304                   | 2,607                 | (3,439)               |
| Net realized loss   | (29,976)              | (906)                 | (59,794)              | (21,649)              |
| Net change in unrealized gain (loss):   |                       |                       |                       |                       |
| Investments and cash equivalents  | (307,592)             | (56,237)              | (252,703)             | 93,686                |
| Foreign currencies  | 43,125                | (27,656)              | 43,581                | (33,872)              |
| Net change in unrealized gain (loss)  | (264,467)             | (83,893)              | (209,122)             | 59,814                |
| Net realized and unrealized gain from investments, cash equivalents and foreign currencies          | (294,443)             | (84,799)              | (268,916)             | 38,165                |
|   | \$ (237,952)          | \$ (23,176)           | \$ (166,112)          | \$ 154,546            |

**NET INCREASE (DECREASE) IN NET ASSETS  
RESULTING FROM OPERATIONS**

|   |    |        |    |        |    |        |    |      |
|---|----|--------|----|--------|----|--------|----|------|
| <b>EARNINGS (LOSS) PER SHARE (see note 5)</b> | \$ | (1.67) | \$ | (0.22) | \$ | (1.21) | \$ | 1.47 |
|---|----|--------|----|--------|----|--------|----|------|

See notes to financial statements.

**Table of Contents**

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

(in thousands, except shares)

|  | Six months ended<br>September 30, 2008<br>(unaudited) | Year ended<br>March 31, 2008 |
|--|---|------------------------------|
| <b>Increase (Decrease) in net assets from operations:</b>      |   |                              |
| Net investment income  | \$ 102,804  | \$ 201,606                   |
| Net realized gains (losses)                                    | (59,794)  | 54,300                       |
| Net change in unrealized gain (loss)                           | (209,122)   | (289,344)                    |
| <br>Net decrease in net assets resulting from operations       | <br>(166,112)   | <br>(33,438)                 |
| <br><b>Dividends and distributions to stockholders:</b>        | <br>(147,910)   | <br>(230,889)                |
| <br><b>Capital share transactions:</b>                         |   |                              |
| Net proceeds from shares sold                                  | 369,589   | 285,545                      |
| Less offering costs  | (479)   | (461)                        |
| Reinvestment of dividends                                      |   | 27,403                       |
| <br>Net increase in net assets from capital share transactions | <br>369,110   | <br>312,487                  |
| <br><b>Total increase in net assets:</b>                       | <br>55,088  | <br>48,160                   |
| Net assets at beginning of period                              | 1,897,908   | 1,849,748                    |
| <br>Net assets at end of period                                | <br>\$ 1,952,996                                      | <br>\$ 1,897,908             |
| <br><b>Capital share activity</b>                              |   |                              |
| Shares sold  | 22,327,500  | 14,950,000                   |
| Shares issued from reinvestment of dividends                   |   | 1,436,069                    |
| <br>Net increase in capital share activity                     | <br>22,327,500  | <br>16,386,069               |

See notes to financial statements.



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

(in thousands)

|  | Six months ended      |                       |
|--|-----------------------|-----------------------|
|  | September 30,<br>2008 | September 30,<br>2007 |
| <b>Cash Flows from Operating Activities:</b>   |                       |                       |
| Net Increase (Decrease) in Net Assets Resulting from Operations  | \$ (166,112)          | \$ 154,546            |
| Adjustments to reconcile net increase (decrease):  |                       |                       |
| Purchase of investment securities  | (385,734)             | (1,241,906)           |
| Proceeds from disposition of investment securities   | 111,504               | 495,590               |
| Increase (decrease) from foreign currency transactions   | 2,127                 | (3,439)               |
| Increase in interest and dividends receivable  | (15,703)              | (15,582)              |
| Decrease (increase) in prepaid expenses and other assets   | 1,820                 | (375)                 |
| Increase (decrease) in management and performance-based incentive fees payable   | 3,507                 | (17,105)              |
| Increase in interest payable   | 422                   | 2,674                 |
| Increase (decrease) in accrued expenses  | (780)                 | 848                   |
| Decrease in payable for investments and cash equivalents purchased   | (97,965)              | (267,013)             |
| Increase in receivables for securities sold  |                       | 28,248                |
| Net change in unrealized depreciation (appreciation) on investments, cash equivalents, foreign currencies and other assets and liabilities | 209,122               | (59,814)              |
| Net realized loss on investments and cash equivalents  | 59,793                | 21,649                |
| Net Cash Used by Operating Activities  | \$ (277,999)          | \$ (901,679)          |
| <b>Cash Flows from Financing Activities:</b>   |                       |                       |
| Net proceeds from the issuance of common stock   | \$ 369,589            | \$ 285,545            |
| Offering costs from the issuance of common stock   | (479)                 | (823)                 |
| Dividends paid in cash   | (157,278)             | (88,797)              |
| Borrowings under credit facility   | 1,247,835             | 1,724,288             |
| Repayments under credit facility   | (1,185,503)           | (1,416,357)           |
| Net Cash Provided by Financing Activities  | \$ 274,164            | \$ 503,856            |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>\$ (3,835)</b>     | <b>\$ (397,823)</b>   |
| Effect of exchange rates on cash balances  | 9                     | 47                    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD*</b>   | <b>\$ 414,983</b>     | <b>\$ 1,097,952</b>   |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD*</b>   | <b>\$ 411,157</b>     | <b>\$ 700,176</b>     |

Non-cash financing activities consist of the reinvestment of dividends totaling \$0 and \$18,020, respectively (in thousands).

\* Inclusive of foreign currencies.

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited)****September 30, 2008****(in thousands)****Investments in Non-Controlled/Non-Affiliated**

| <b>Portfolio Companies</b>   | <b>Industry</b>     | <b>Par Amount*</b> | <b>Cost</b> | <b>Fair Value (1)</b> |
|--|---------------------|--------------------|-------------|-----------------------|
| <b><i>Subordinated Debt/Corporate Notes 93.1%</i></b>                          |                     |                    |             |                       |
| AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650, 7/9/17         | Retail              | £ 38,828           | \$ 75,567   | \$ 55,886             |
| Advanstar, Inc., L+700, 11/30/15   | Media               | \$ 23,241          | 23,241      | 15,688                |
| Advantage Sales & Marketing, Inc., 12.00%, 3/29/14                             | Grocery             | 31,564             | 31,093      | 31,564                |
| Allied Security Holdings LLC, 13.75%, 8/21/15                                  | Business Services   | 20,000             | 19,604      | 19,200                |
| AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14                 | Building Products   | 51,226             | 50,452      | 40,981                |
| Angelica Corporation, 15.00%, 2/4/14   | Healthcare          | 60,000             | 60,000      | 60,000                |
| Applied Systems, Inc., 12.50%, 9/26/14   | Business Services   | 22,000             | 21,908      | 21,450                |
| Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14 | Direct Marketing    | 71,994             | 71,830      | 17,999                |
| Babson CLO Ltd., Series 2008-2A Class E, L+975, 7/15/18                        | Asset Management    | 11,000             | 9,968       | 7,845                 |
| Babson CLO Ltd., Series 2008-1A Class E, L+550, 7/20/18                        | Asset Management    | 10,150             | 7,145       | 6,226                 |
| BNY ConvergeX Group, LLC, 14.00%, 10/2/14                                      | Business Services   | 15,457             | 15,457      | 14,516                |
| Booz Allen Hamilton Inc., 13.00%, 7/31/16                                      | Consulting Services | 43,000             | 42,575      | 40,850                |
| Brenntag Holding GmbH & Co. KG, E+700, 12/23/15                                | Chemicals           | 19,425             | 24,012      | 22,886                |
| Catalina Marketing Corporation, L+600, 10/1/17                                 | Grocery             | \$ 31,959          | 30,273      | 26,846                |
| Ceridian Corp., 12.25%, 11/15/15   | Diversified Service | 50,000             | 50,000      | 40,500                |
| Ceridian Corp., 11.25%, 11/15/15   | Diversified Service | 36,000             | 35,073      | 29,250                |
| Cidron Healthcare C S.á.R.L. (Convatec) E+950, 8/1/17                          | Healthcare          | 7,477              | 11,773      | 10,503                |
| Collect America, Ltd., 13.50%, 8/5/12  | Consumer Finance    | \$ 38,136          | 37,620      | 38,136                |
| Delta Educational Systems, Inc., 16.00%, 5/12/13                               | Education           | 18,983             | 18,441      | 18,983                |
| DSI Renal Inc., 14.00%, 4/7/14   | Healthcare          | 10,508             | 10,508      | 10,508                |
| Dura-Line Merger Sub, Inc., 14.00%, 9/22/14                                    | Telecommunications  | 40,663             | 39,968      | 40,663                |
| Energy Future Holdings, 11.25%, 11/1/17  | Utilities           | 25,000             | 24,482      | 21,875                |
| Eurofresh, Inc., 0% / 14.50%, 1/15/14  | Agriculture         | 26,504             | 23,227      | 3,446                 |
| Eurofresh, Inc., 11.50%, 1/15/13   | Agriculture         | 50,000             | 50,000      | 32,500                |
| European Directories (DH5) B.V., 15.735%, 7/1/16                               | Publishing          | 2,741              | 3,471       | 3,176                 |
| European Directories (DH7) B.V., E+950, 7/1/15                                 | Publishing          | 16,248             | 20,146      | 19,970                |
| First Data Corporation, 11.25%, 3/31/16  | Financial Services  | \$ 40,000          | 32,935      | 29,700                |
| First Data Corporation, 9.875%, 9/24/15  | Financial Services  | 45,500             | 39,320      | 35,812                |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2008****(in thousands)**

|  | <b>Industry</b>              | <b>Par Amount*</b> | <b>Cost</b> | <b>Fair Value (1)</b> |
|--|------------------------------|--------------------|-------------|-----------------------|
| <b><i>Subordinated Debt/Corporate Notes (continued)</i></b>                |                              |                    |             |                       |
| FleetPride Corporation, 11.50%, 10/1/14 <i>¿</i>                           | Transportation               | 47,500             | 47,500      | 43,700                |
| Fox Acquisition Sub LLC, 13.375%, 7/15/16 <i>¿</i>                         | Broadcasting & Entertainment | \$ 25,000          | \$ 24,777   | \$ 22,219             |
| FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 <i>¿</i> | Transportation               | 37,846             | 35,712      | 26,870                |
| General Nutrition Centers, Inc., L+450, 3/15/14                            | Retail                       | 29,775             | 29,326      | 23,820                |
| Goodman Global Inc., 13.50%, 2/15/16                                       | Manufacturing                | 25,000             | 25,000      | 24,125                |
| Hub International Holdings, 10.25%, 6/15/15 <i>¿</i>                       | Insurance                    | 25,000             | 24,119      | 18,500                |
| HydroChem Holding, Inc., 13.50%, 12/8/14                                   | Environmental                | 21,606             | 21,606      | 21,066                |
| Infor Lux Bond Company (Infor Global), L+800, 9/2/14                       | Business Services            | 9,088              | 9,088       | 3,294                 |
| KAR Holdings, Inc., 10.00%, 5/1/15   | Transportation               | 48,225             | 44,200      | 38,218                |
| Language Line Holdings, Inc., 0% / 14.125%, 6/15/13                        | Business Services            | 27,678             | 26,259      | 25,187                |
| Language Line Inc., 11.125%, 6/15/12                                       | Business Services            | 27,081             | 26,887      | 27,216                |
| Latham Manufacturing Corp., 14.00%, 12/30/12                               | Leisure Equipment            | 34,639             | 34,190      | 31,175                |
| Laureate Education, Inc., 11.75%, 8/15/17 <i>¿</i>                         | Education                    | 53,540             | 49,495      | 43,903                |
| LVI Services, Inc., 14.75%, 11/16/12                                       | Environmental                | 46,386             | 46,386      | 46,084                |
| MW Industries, Inc., 13.00%, 5/1/14  | Manufacturing                | 60,000             | 59,004      | 60,000                |
| NCO Group Inc., 11.875%, 11/15/14  | Consumer Finance             | 22,630             | 18,272      | 17,199                |
| Neff Corp., 10.00%, 6/1/15   | Rental Equipment             | 5,000              | 5,000       | 1,588                 |
| Nielsen Finance LLC, 0% / 12.50%, 8/1/16                                   | Market Research              | 61,000             | 44,446      | 39,650                |
| OTC Investors Corporation (Oriental Trading Company), 13.50%, 1/31/15      | Direct Marketing             | 26,072             | 26,072      | 16,386                |
| Pacific Crane Maintenance Company, L.P., 13.00%, 2/15/14                   | Machinery                    | 34,000             | 34,000      | 34,000                |
| PBM Holdings, Inc., 13.50%, 9/29/13  | Beverage, Food & Tobacco     | 17,723             | 17,723      | 16,571                |
| Playpower Holdings Inc., 15.50%, 12/31/12 <i>¿</i>                         | Leisure Equipment            | 77,686             | 77,686      | 77,686                |
| Plinius Investments II B.V. (Casema), E+925, 9/13/16                       | Cable TV                     | 18,126             | 23,726      | 23,757                |
| Pro Mach Merger Sub, Inc., 12.50%, 6/15/12                                 | Machinery                    | \$ 14,616          | 14,446      | 14,616                |
| QHB Holdings LLC (Quality Home Brands), 14.50%, 12/20/13                   | Consumer Products            | 47,436             | 46,702      | 38,779                |
| Ranpak Holdings, Inc., 15.00%, 12/27/15                                    | Packaging                    | 53,977             | 53,977      | 53,977                |
| RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 7/31/15    | Consumer Products            | 46,876             | 46,876      | 46,876                |
| Serpering Investments B.V. (Casema), E+925, 9/13/16                        | Cable TV                     | 16,802             | 21,318      | 22,155                |
| The Servicemaster Company, 10.75%, 7/15/15 <i>¿</i>                        | Diversified Service          | \$ 67,173          | 60,513      | 45,006                |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2008****(in thousands, except shares)**

|  | <b>Industry</b>          | <b>Par Amount*</b> | <b>Cost</b> | <b>Fair Value (1)</b> |
|--|--------------------------|--------------------|-------------|-----------------------|
| <b><i>Subordinated Debt/Corporate Notes (continued)</i></b>      |                          |                    |             |                       |
| TL Acquisitions, Inc. (Thomson Learning), 0% / 13.25%, 7/15/15 ¯ | Education                | \$ 72,500          | \$ 65,246   | \$ 50,387             |
| TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 ¯      | Education                | 47,500             | 46,728      | 38,237                |
| TP Financing 2, Ltd. (Travelex), GBP L+725, 4/1/15               | Financial Services       | £ 12,665           | 24,645      | 16,721                |
|  | Beverage, Food & Tobacco |                    |             |                       |
| US Foodservice, 10.25%, 6/30/17 ¯                                |                          | \$ 30,000          | 23,525      | 20,700                |
| US Investigations Services, Inc., 11.75%, 5/1/16 ¯               | Diversified Service      | 14,639             | 8,785       | 12,004                |
| US Investigations Services, Inc., 10.50%, 11/1/15 ¯              | Diversified Service      | 9,500              | 7,892       | 8,443                 |
| Varietal Distribution, 10.25%, 7/15/15                           | Distribution             | 15,000             | 15,000      | 13,088                |
| Varietal Distribution, 10.75%, 6/30/17                           | Distribution             | 21,875             | 21,267      | 18,594                |
| WDAC Intermediate Corp., E+600, 11/29/15                         | Publishing               | 43,882             | 59,455      | 14,294                |
| Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 ¯            | Asset Management         | \$ 11,000          | 6,429       | 5,115                 |

|  |  |  |                     |                     |
|--|--|--|---------------------|---------------------|
| <b>Total Subordinated Debt/Corporate Notes</b> |  |  | <b>\$ 2,153,367</b> | <b>\$ 1,818,165</b> |
|--|--|--|---------------------|---------------------|

|  | <b>Shares</b> |        |                  |                  |
|--|---------------|--------|------------------|------------------|
| <b><i>Preferred Equity 2.6%</i></b>  |               |        |                  |                  |
| DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14                          | Healthcare    | 32,500 | \$ 31,923        | \$ 32,500        |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14      | Education     | 12,360 | 11,273           | 12,360           |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible) | Education     | 3,325  | 3,325            | 1,723            |
| LVI Acquisition Corp. (LVI Services, Inc.), 14.00%                                   | Environmental | 1,875  | 1,875            |                  |
| Varietal Distribution Holdings, LLC, 8.00%   | Distribution  | 3,097  | 3,097            | 3,097            |
| <b>Total Preferred Equity</b>  |               |        | <b>\$ 51,493</b> | <b>\$ 49,680</b> |

|  |                     |           |          |          |
|--|---------------------|-----------|----------|----------|
| <b><i>Common Equity/Equity Interests 16.8%</i></b> |                     |           |          |          |
| AB Capital Holdings LLC (Allied Security)          | Business Services   | 2,000,000 | \$ 2,000 | \$ 2,000 |
| A-D Conduit Holdings, LLC (Duraline) **            | Telecommunications  | 2,778     | 2,778    | 2,750    |
| AHC Mezzanine LLC (Advanstar) **                   | Media               | 10,000    | 10,000   | 5,800    |
| CA Holding, Inc. (Collect America, Ltd.)           | Consumer Finance    | 25,000    | 2,500    | 4,466    |
| CA Holding, Inc. (Collect America, Ltd.)           | Consumer Finance    | 4,294     | 429      | 859      |
| Clothesline Holdings, Inc. (Angelica)              | Healthcare          | 6,000     | 6,000    | 6,000    |
| Exco Resources, Inc. **                            | Oil & Gas           | 1,791,117 | 34,031   | 29,231   |
| Explorer Coinvest LLC (Booz Allen)                 | Consulting Services | 430       | 4,300    | 4,300    |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2008****(in thousands, except shares and warrants)**

|   | Industry      | Shares     | Cost              | Fair Value (1)    |
|---|---------------|------------|-------------------|-------------------|
| <b>Common Equity/Equity Interests (continued)</b>                 |               |            |                   |                   |
| FSC Holdings Inc. (Hanley Wood LLC) **                            | Media         | 10,000     | \$ 10,000         | \$ 5,505          |
| Garden Fresh Restaurant Holding, LLC **                           | Retail        | 50,000     | 5,000             | 5,900             |
| Gray Energy Services, LLC Class H (Gray Wireline) **              | Oil & Gas     | 1,081      | 2,000             | 3,640             |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.) ** | Education     | 175        | 175               |                   |
| GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3)      | Industrial    |            |                   | 84,219            |
|   | Leisure       |            |                   |                   |
| Latham International, Inc. (fka Latham Acquisition Corp.) **      | Equipment     | 33,091     | 3,309             | 361               |
| LVI Acquisition Corp. (LVI Services, Inc.) **                     | Environmental | 6,250      | 625               |                   |
| MEG Energy Corp. (4) **   | Oil & Gas     | 1,718,388  | 44,718            | 80,812            |
|   | Financial     |            |                   |                   |
| New Omaha Holdings Co-Invest LP (First Data) **                   | Services      | 13,000,000 | 65,000            | 65,000            |
| PCMC Holdings, LLC (Pacific Crane) **                             | Machinery     | 40,000     | 4,000             | 2,718             |
| Prism Business Media Holdings, LLC (Penton Media, Inc.) **        | Media         | 68         | 14,947            | 9,934             |
| Pro Mach Co-Investment, LLC **                                    | Machinery     | 150,000    | 1,500             | 3,303             |
| RC Coinvestment, LLC (Ranpak Corp.)                               | Packaging     | 50,000     | 5,000             | 6,026             |
|   | Consumer      |            |                   |                   |
| Sorenson Communications Holdings, LLC Class A                     | Services      | 454,828    | 45                | 5,948             |
| Varietal Distribution Holdings, LLC Class A **                    | Distribution  | 28,028     | 28                |                   |
| <b>Total Common Equity and Equity Interests</b>                   |               |            | <b>\$ 218,385</b> | <b>\$ 328,772</b> |

|  |             | Warrants  |          |           |
|--|-------------|-----------|----------|-----------|
| Warrants 0.5%  |             |           |          |           |
| DSI Holdings Company, Inc. (DSI Renal Inc.), Common **                                 | Healthcare  | 5,011,327 | \$       | 2,428     |
| Fidji Luxco (BC) S.C.A., Common (FCI)(2) **  | Electronics | 48,769    | \$ 491   | 6,649     |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **              | Education   | 98        | 98       |           |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred ** | Education   | 459       | 460      | 616       |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred ** | Education   | 1,043     | 1,043    | 541       |
| Latham International, Inc.   | Leisure     |           |          |           |
|  | Equipment   | 173,848   | 174      | 174       |
| Total Warrants   |             |           | \$ 2,266 | \$ 10,408 |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2008****(in thousands, except shares)**

|  | <b>Industry</b>    | <b>Par Amount*</b> | <b>Cost</b>         | <b>Fair Value (1)</b> |
|--|--------------------|--------------------|---------------------|-----------------------|
| <b>2<sup>nd</sup> Lien Bank Debt/Senior Secured Loans (5) 37.1%</b>                  |                    |                    |                     |                       |
| AB Acquisitions UK Topco 2 Limited (Alliance Boots), 7/9/16                          | Retail             | £ 11,400           | \$ 19,710           | \$ 17,602             |
| AB Acquisitions UK Topco 2 Limited (Alliance Boots), 7/9/16                          | Retail             | 3,961              | 5,413               | 4,820                 |
| Advanstar Communications, Inc., 11/30/14   | Media              | \$ 20,000          | 20,000              | 11,500                |
| Asurion Corporation, 7/3/15  | Insurance          | 150,300            | 148,712             | 131,512               |
| BNY Convergenx Group, LLC, 4/2/14  | Business Services  | 50,000             | 49,799              | 43,500                |
| C.H.I. Overhead Doors, Inc., 10/22/11  | Building Products  | 15,000             | 15,021              | 12,900                |
| Clean Earth, Inc., 8/1/14  | Environmental      | 25,000             | 25,000              | 23,875                |
| Dresser, Inc., 5/4/15  | Industrial         | 61,000             | 60,919              | 52,917                |
| Educate, Inc., 6/14/14   | Education          | 10,000             | 10,000              | 8,100                 |
| Garden Fresh Restaurant Corp., 12/22/11  | Retail             | 26,000             | 25,840              | 23,140                |
| Generics International, Inc., 4/30/15  | Healthcare         | 20,000             | 19,910              | 17,000                |
| Gray Wireline Service, Inc., 12.25%, 2/28/13   | Oil & Gas          | 77,500             | 76,914              | 77,500                |
| HydroChem Industrial Services, Inc., 12/8/14   | Environmental      | 35,100             | 35,100              | 34,223                |
| Infor Enterprise Solutions Holdings, Inc., Tranche B-1, 3/2/14                       | Business Services  | 5,000              | 5,000               | 2,188                 |
| Infor Enterprise Solutions Holdings, Inc., 3/2/14                                    | Business Services  | 15,000             | 14,845              | 6,712                 |
| Infor Global Solutions European Finance S.á.R.L., 3/2/14                             | Business Services  | 6,210              | 8,263               | 3,860                 |
| IPC Systems, Inc., 6/1/15  | Telecommunications | \$ 37,250          | 36,239              | 21,884                |
| Kronos, Inc., 6/11/15  | Electronics        | 60,000             | 60,000              | 50,400                |
| Penton Media, Inc., 2/1/14   | Media              | 14,000             | 10,421              | 9,380                 |
| Quality Home Brands Holdings LLC, 6/20/13  | Consumer Products  | 40,053             | 39,591              | 17,023                |
| Ranpak Corp.(6), 12/27/14  | Packaging          | 12,500             | 12,500              | 12,500                |
| Ranpak Corp.(7), 12/27/14  | Packaging          | 5,206              | 7,584               | 7,313                 |
| Sheridan Holdings, Inc., 6/15/15   | Healthcare         | \$ 60,000          | 60,000              | 48,000                |
| Sorenson Communications, Inc., 2/18/14   | Consumer Services  | 62,103             | 62,103              | 58,377                |
| TransFirst Holdings, Inc., 6/15/15   | Financial Services | 34,750             | 33,619              | 27,452                |
| <b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>                                 |                    |                    | <b>\$ 862,503</b>   | <b>\$ 723,678</b>     |
| <b>Total Investments in Non-Controlled/Non-Affiliated Portfolio Companies 150.1%</b> |                    |                    | <b>\$ 3,288,014</b> | <b>\$ 2,930,703</b>   |

See notes to financial statements.

Table of Contents

## APOLLO INVESTMENT CORPORATION

## SCHEDULE OF INVESTMENTS (unaudited) (continued)

September 30, 2008

(in thousands)

| Investments in Controlled Portfolio Companies                    | Industry                         | Shares     | Cost                | Fair Value<br>(1)   |
|--|----------------------------------|------------|---------------------|---------------------|
| <b>Preferred Equity 3.8%</b>                                     |                                  |            |                     |                     |
| Grand Prix Holdings, LLC Series A, 12.00% (Innkeepers USA)       | Hotels, Motels, Inns<br>& Gaming | 2,989,431  | \$ 74,736           | \$ 74,736           |
| <b>Common Equity/Equity Interests 9.6%</b>                       |                                  |            |                     |                     |
| AIC Credit Opportunity Fund LLC (8)                              | Asset Management                 |            | \$ 62,897           | \$ 56,037           |
| Grand Prix Holdings, LLC (Innkeepers USA) **                     | Hotels, Motels, Inns<br>& Gaming | 17,335,834 | 172,664             | 131,022             |
| Total Common Equity/Equity Interests                             |                                  |            | \$ 235,561          | \$ 187,059          |
| <b>Total Investments in Controlled Portfolio Companies 13.4%</b> |                                  |            | <b>\$ 310,297</b>   | <b>\$ 261,795</b>   |
| <b>Total Investments</b>   |                                  |            | <b>\$ 3,598,311</b> | <b>\$ 3,192,498</b> |
| <b>Liabilities in Excess of Other Assets (63.5%)</b>             |                                  |            |                     | <b>(1,239,502)</b>  |
| <b>Net Assets 100.0%</b>   |                                  |            |                     | <b>\$ 1,952,996</b> |

(1) Fair value is determined by or under the direction of the Board of Directors of the Company (see Notes 2 and 6).

(2) Denominated in Euro ( ).

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

(4) Denominated in Canadian dollars.

(5) Includes floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At September 30, 2008, the range of interest rates on floating rate bank debt was 7.80% to 12.97%.

(6) Position is held across five US Dollar-denominated tranches with varying yields.

(7) Position is held across three Euro-denominated tranches with varying yields.

(8) See Note 6.

(9) Aggregate gross unrealized appreciation for federal income tax purposes is \$148,859; aggregate gross unrealized depreciation for federal income tax purposes is \$562,057. Net unrealized depreciation is \$413,198 based on a tax cost of \$3,605,696.

(10) 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

See notes to financial statements.





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

| <b>Industry Classification</b>  | <b>Percentage at<br/>September 30, 2008</b> |
|---------------------------------|---|
| Hotels, Motels, Inns and Gaming | 6.4%  |
| Oil & Gas                       | 6.0%  |
| Healthcare                      | 5.9%  |
| Education                       | 5.5%  |
| Financial Services              | 5.5%  |
| Business Services               | 5.3%  |
| Insurance                       | 4.7%  |
| Industrial                      | 4.3%  |
| Diversified Service             | 4.2%  |
| Retail                          | 4.1%  |
| Environmental                   | 3.9%  |
| Leisure Equipment               | 3.4%  |
| Transportation                  | 3.4%  |
| Consumer Products               | 3.2%  |
| Manufacturing                   | 2.6%  |
| Packaging                       | 2.5%  |
| Asset Management                | 2.4%  |
| Telecommunications              | 2.1%  |
| Consumer Services               | 2.0%  |
| Consumer Finance                | 1.9%  |
| Grocery                         | 1.8%  |
| Media                           | 1.8%  |
| Electronics                     | 1.8%  |
| Machinery                       | 1.7%  |
| Building Products               | 1.7%  |
| Cable TV                        | 1.4%  |
| Consulting Services             | 1.4%  |
| Market Research                 | 1.2%  |
| Publishing                      | 1.2%  |
| Beverage, Food, & Tobacco       | 1.2%  |
| Agriculture                     | 1.1%  |
| Distribution                    | 1.1%  |
| Direct Marketing                | 1.1%  |
| Chemicals                       | 0.7%  |
| Broadcasting & Entertainment    | 0.7%  |
| Utilities                       | 0.7%  |
| Rental Equipment                | 0.1%  |
| Total Investments               | 100.0%                                      |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****March 31, 2008****(in thousands)****Investments in Non-Controlled/Non-Affiliated**

| <b>Portfolio Companies</b>   | <b>Industry</b>     | <b>Par Amount*</b> | <b>Cost</b> | <b>Fair Value (1)</b> |
|--|---------------------|--------------------|-------------|-----------------------|
| <b>Subordinated Debt/Corporate Notes 97.6%</b>                                 |                     |                    |             |                       |
| AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650, 7/9/17         | Retail              | £ 38,156           | \$ 74,087   | \$ 72,612             |
| Advanstar, Inc., L+700, 11/30/15   | Media               | \$ 22,115          | 22,115      | 22,225                |
| Advantage Sales & Marketing, Inc., 12.00%, 3/29/14                             | Grocery             | 31,245             | 30,746      | 31,245                |
| AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14                 | Building Products   | 50,314             | 49,501      | 50,314                |
| Applied Systems, Inc., 12.50%, 9/26/14   | Business Services   | 22,000             | 21,903      | 21,120                |
| Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14 | Direct Marketing    | 67,395             | 67,221      | 37,067                |
| Associated Materials, Inc., 0% / 11.25%, 3/1/14                                | Building Products   | 43,415             | 31,846      | 29,522                |
| BNY ConvergeX Group, LLC, 14.00%, 10/2/14                                      | Business Services   | 15,304             | 15,304      | 15,304                |
| Brenntag Holding GmbH & Co. KG, E+700, 12/23/15                                | Chemicals           | 19,135             | 23,548      | 24,221                |
| Catalina Marketing Corporation, L+500, 10/1/17                                 | Grocery             | \$ 31,959          | 30,218      | 28,124                |
| Ceridian Corp., 12.25%, 11/15/15   | Diversified Service | 50,000             | 50,000      | 41,750                |
| Ceridian Corp., 11.25%, 11/15/15   | Diversified Service | 31,000             | 30,539      | 26,376                |
| Collect America, Ltd., 13.50%, 8/5/12  | Consumer Finance    | 36,320             | 35,792      | 36,320                |
| Delta Educational Systems, Inc., 16.00%, 5/12/13                               | Education           | 18,789             | 18,210      | 18,789                |
| DSI Renal Inc., 14.00%, 4/7/14   | Healthcare          | 10,404             | 10,404      | 10,404                |
| Dura-Line Merger Sub, Inc., 13.25%, 9/22/14                                    | Telecommunications  | 40,461             | 39,732      | 40,461                |
| Energy Future Holdings, 11.25%, 11/1/17  | Utilities           | 25,000             | 24,466      | 24,750                |
| Eurofresh, Inc., 0% / 14.50%, 1/15/14  | Agriculture         | 26,504             | 21,467      | 10,602                |
| Eurofresh, Inc., 11.50%, 1/15/13   | Agriculture         | 50,000             | 50,000      | 31,750                |
| European Directories (DH5) B.V., 15.735%, 7/1/16                               | Publishing          | 2,539              | 3,153       | 3,439                 |
| European Directories (DH7) B.V., E+950, 7/1/15                                 | Publishing          | 15,867             | 19,546      | 22,628                |
| First Data Corporation, L+525, 3/31/16   | Financial Services  | \$ 100,000         | 79,000      | 79,000                |
| First Data Corporation, 9.875%, 9/24/15  | Financial Services  | 45,500             | 38,946      | 37,860                |
| FleetPride Corporation, 11.50%, 10/1/14  | Transportation      | 47,500             | 47,500      | 45,837                |
| FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15              | Transportation      | 37,846             | 33,179      | 33,304                |
| General Nutrition Centers, Inc., L+450, 3/15/14                                | Retail              | 29,775             | 29,296      | 24,862                |
| Goodman Global Inc., 13.50%, 2/15/16   | Manufacturing       | 25,000             | 25,000      | 24,625                |
| Hub International Holdings, 10.25%, 6/15/15                                    | Insurance           | 20,000             | 20,000      | 13,900                |
| HydroChem Holding, Inc., 13.50%, 12/8/14                                       | Environmental       | 20,226             | 20,226      | 19,720                |
| Infor Lux Bond Company (Infor Global), L+800, 9/2/14                           | Business Services   | 8,611              | 8,611       | 6,361                 |
| KAR Holdings, Inc., 10.00%, 5/1/15   | Transportation      | 43,225             | 39,816      | 38,092                |
| Language Line Holdings, Inc., 0% / 14.125%, 6/15/13                            | Business Services   | 27,678             | 24,468      | 22,641                |
| Language Line Inc., 11.125%, 6/15/12   | Business Services   | 27,081             | 26,863      | 27,623                |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2008****(in thousands)**

|   | <b>Industry</b>    | <b>Par Amount*</b> | <b>Cost</b>         | <b>Fair Value (1)</b> |
|---|--------------------|--------------------|---------------------|-----------------------|
| <b><i>Subordinated Debt/Corporate Notes (continued)</i></b>             |                    |                    |                     |                       |
|   | Leisure            |                    |                     |                       |
| Latham Manufacturing Corp., 14.00%, 12/30/12                            | Equipment          | \$ 34,467          | \$ 33,980           | \$ 34,467             |
| Laureate Education, Inc., L+550, 8/15/17                                | Education          | 53,540             | 49,385              | 47,115                |
| Lexicon Marketing (USA), Inc., 13.25%, 5/11/13***                       | Direct Marketing   | 28,482             | 28,482              |                       |
| LVI Services, Inc., 14.50%, 11/16/12                                    | Environmental      | 45,302             | 45,302              | 45,302                |
| MW Industries, Inc., 13.00%, 5/1/14                                     | Manufacturing      | 60,000             | 58,946              | 60,000                |
| Neff Corp., 10.00%, 6/1/15  | Rental Equipment   | 5,000              | 5,000               | 2,395                 |
| Nielsen Finance LLC, 0% / 12.50%, 8/1/16                                | Market Research    | 61,000             | 41,572              | 38,926                |
| OTC Investors Corporation (Oriental Trading Company), 13.50%, 1/31/15   | Direct Marketing   | 24,407             | 24,407              | 24,407                |
| Pacific Crane Maintenance Company, L.P., 13.00%, 2/15/14                | Machinery          | 34,000             | 34,000              | 34,000                |
|   | Beverage,          |                    |                     |                       |
| PBM Holdings, Inc., 13.50%, 9/29/13                                     | Food & Tobacco     | 17,723             | 17,723              | 17,014                |
|   | Leisure            |                    |                     |                       |
| Playpower Holdings Inc., 15.50%, 12/31/12 ;                             | Equipment          | 72,098             | 72,098              | 72,098                |
| Plinius Investments II B.V. (Casema), E+925, 9/13/16                    | Cable TV           | 17,701             | 23,060              | 26,841                |
| Pro Mach Merger Sub, Inc., 12.50%, 6/15/12                              | Machinery          | \$ 14,598          | 14,411              | 14,598                |
| QHB Holdings LLC (Quality Home Brands), 13.50%, 12/20/13                | Consumer Products  | 44,331             | 43,442              | 44,331                |
| Ranpak Holdings, Inc., 15.00%, 12/27/15                                 | Packaging          | 50,125             | 50,125              | 50,125                |
| RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 7/31/15 | Consumer Products  | 43,817             | 43,817              | 43,817                |
| Safety Products Holdings LLC, 11.75%, 1/1/12                            | Manufacturing      | 34,043             | 33,662              | 34,405                |
| Serpering Investments B.V. (Casema), E+925, 9/13/16                     | Cable TV           | 16,403             | 20,752              | 25,014                |
|   | Diversified        |                    |                     |                       |
| The Servicemaster Company, L+500, 7/15/15                               | Service            | \$ 67,173          | 60,177              | 51,051                |
| TL Acquisitions, Inc. (Thomson Learning), 0% / 13.25%, 7/15/15 ;        | Education          | 72,500             | 61,153              | 52,109                |
| TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 ;             | Education          | 47,500             | 46,680              | 41,681                |
| TP Financing 2, Ltd. (Travelex), GBP L+725, 4/1/15                      | Financial Services | £ 11,862           | 23,047              | 19,748                |
| US Investigations Services, Inc., 10.50%, 11/1/15 ;                     | Diversified        |                    |                     |                       |
|   | Service            | \$ 7,500           | 6,131               | 6,188                 |
| Varietal Distribution, 10.25%, 7/15/15                                  | Distribution       | 15,000             | 15,000              | 14,112                |
| Varietal Distribution, 10.75%, 6/30/17                                  | Distribution       | 21,875             | 21,247              | 19,359                |
| WDAC Intermediate Corp., E+600, 11/29/15                                | Publishing         | 41,611             | \$ 55,902           | \$ 45,607             |
| Yankee Acquisition Corp., 9.75%, 2/15/17                                | Retail             | \$ 17,000          | 16,971              | 13,579                |
| Yankee Acquisition Corp., 8.50%, 2/15/15                                | Retail             | 1,915              | 1,546               | 1,558                 |
| <b>Total Subordinated Debt/Corporate Notes</b>                          |                    |                    | <b>\$ 2,010,721</b> | <b>\$ 1,852,695</b>   |

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2008****(in thousands, except shares)**

|  | <b>Industry</b>    | <b>Shares</b> | <b>Cost</b>       | <b>Fair Value (1)</b> |
|--|--------------------|---------------|-------------------|-----------------------|
| <b>Preferred Equity 5.6%</b>   |                    |               |                   |                       |
| DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14                          | Healthcare         | 32,500        | \$ 31,875         | \$ 32,500             |
| Exco Resources, Inc., 7.00%/9.00% (Convertible)                                      | Oil & Gas          | 975           | 9,750             | 10,871                |
| Exco Resources, Inc., 7.00%/9.00% Hybrid (Convertible)                               | Oil & Gas          | 4,025         | 40,250            | 44,879                |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14      | Education          | 12,360        | 11,180            | 12,360                |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible) | Education          | 3,325         | 3,325             | 1,369                 |
| LVI Acquisition Corp. (LVI Services, Inc.), 14.00%                                   | Environmental      | 1,875         | 1,875             | 529                   |
| Varietal Distribution Holdings, LLC, 8.00%   | Distribution       | 3,097         | 3,097             | 3,097                 |
| <b>Total Preferred Equity</b>  |                    |               | <b>\$ 101,352</b> | <b>\$ 105,605</b>     |
| <b>Common Equity/Partnership Interests 15.5%</b>                                     |                    |               |                   |                       |
| A-D Conduit Holdings, LLC (Duraline) **  | Telecommunications | 2,778         | \$ 2,778          | \$ 3,730              |
| AHC Mezzanine LLC (Advanstar)  | Media              | 10,000        | 10,000            | 9,000                 |
| CA Holding, Inc. (Collect America, Ltd.)   | Consumer Finance   | 25,000        | 2,500             | 3,720                 |
| DTPI Holdings, Inc. (American Asphalt & Grading) **                                  | Infrastructure     | 200,000       | 2,000             |                       |
| FSC Holdings Inc. (Hanley Wood LLC) **   | Media              | 10,000        | 10,000            | 10,000                |
| Garden Fresh Restaurant Holding, LLC **  | Retail             | 50,000        | 5,000             | 4,832                 |
| Gray Energy Services, LLC Class H (Gray Wireline) **                                 | Oil & Gas          | 1,081         | 2,000             | 3,540                 |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.) **                    | Education          | 175           | 175               |                       |
| GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3)                         | Industrial         |               |                   | 93,073                |
| Latham International, Inc. (fka Latham Acquisition Corp.) **                         | Leisure Equipment  | 33,091        | 3,309             | 1,127                 |
| LM Acquisition Ltd. (Lexicon Marketing Inc.) **                                      | Direct Marketing   | 10,000        | 10,000            |                       |
| LVI Acquisition Corp. (LVI Services, Inc.) **  | Environmental      | 6,250         | 625               |                       |
| MEG Energy Corp. (4) **  | Oil & Gas          | 1,718,388     | \$ 44,718         | \$ 68,665             |
| New Omaha Holdings Co-Invest LP (First Data)   | Financial Services | 13,000,000    | 65,000            | 65,000                |
| PCMC Holdings, LLC (Pacific Crane)   | Machinery          | 40,000        | 4,000             | 3,607                 |
| Prism Business Media Holdings, LLC   | Media              | 68            | 14,947            | 14,810                |
| Pro Mach Co-Investment, LLC **   | Machinery          | 150,000       | 1,500             | 3,303                 |
| RC Coinvestment, LLC (Ranpak Corp.)  | Packaging          | 50,000        | 5,000             | 5,047                 |
| Sorenson Communications Holdings, LLC Class A **                                     | Consumer Services  | 454,828       | 45                | 5,436                 |
| Varietal Distribution Holdings, LLC Class A  | Distribution       | 28,028        | 28                | 88                    |
| <b>Total Common Equity and Partnership Interests</b>                                 |                    |               | <b>\$ 183,625</b> | <b>\$ 294,778</b>     |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2008****(in thousands, except warrants)**

|  | <b>Industry</b> | <b>Warrants</b> | <b>Cost</b>     | <b>Fair Value (1)</b> |
|--|-----------------|-----------------|-----------------|-----------------------|
| <b>Warrants 0.6%</b>   |                 |                 |                 |                       |
| DSI Holdings Company, Inc. (DSI Renal Inc.), Common **                                 | Healthcare      | 5,011,327       |                 | \$ 2,920              |
| Fidji Luxco (BC) S.C.A., Common (FCI) (2) **   | Electronics     | 48,769          | \$ 491          | 7,604                 |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **              | Education       | 98              | 98              |                       |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred ** | Education       | 459             | 460             | 579                   |
| Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred ** | Education       | 1,043           | 1,043           | 430                   |
| <b>Total Warrants</b>  |                 |                 | <b>\$ 2,092</b> | <b>\$ 11,533</b>      |

|   |                    | Par Amount* |           |           |
|---|--------------------|-------------|-----------|-----------|
| <b>2<sup>nd</sup> Lien Bank Debt/Senior Secured Loans (5) 38.1%</b> |                    |             |           |           |
| Advanstar Communications, Inc., 11/30/14                            | Media              | \$ 20,000   | \$ 20,000 | \$ 14,600 |
| American Asphalt & Grading Co., 7/10/09                             | Infrastructure     | 31,596      | 31,596    | 8,200     |
| Asurion Corporation, 7/3/15   | Insurance          | 135,300     | 134,876   | 116,020   |
| BNY Convergenx Group, LLC, 4/2/14                                   | Business Services  | 50,000      | 49,787    | 43,000    |
| C.H.I. Overhead Doors, Inc., 10/22/11                               | Building Products  | 15,000      | 15,023    | 14,175    |
| Clean Earth, Inc., 8/1/14   | Environmental      | 25,000      | 25,000    | 24,875    |
| Dresser, Inc., 5/4/15   | Industrial         | 61,000      | 60,915    | 55,663    |
| Educate, Inc., 6/14/14  | Education          | 10,000      | 10,000    | 8,500     |
| Garden Fresh Restaurant Corp., 12/22/11                             | Retail             | 26,000      | 25,821    | 25,480    |
| Generics International, Inc., 4/30/15                               | Healthcare         | 20,000      | 19,903    | 19,875    |
| Gray Wireline Service, Inc., 12.25%, 2/28/13                        | Oil & Gas          | 77,500      | 76,866    | 77,500    |
| HydroChem Industrial Services, Inc., 12/8/14                        | Environmental      | 35,100      | 35,100    | 34,223    |
| Infor Enterprise Solutions Holdings, Inc.,<br>Tranche B-1, 3/2/14   | Business Services  | 5,000       | 5,000     | 4,125     |
| Infor Enterprise Solutions Holdings, Inc., 3/2/14                   | Business Services  | 15,000      | 14,836    | 12,375    |
| Infor Global Solutions European Finance<br>S.á.R.L., 3/2/14         | Business Services  | 6,210       | 8,263     | 8,856     |
| IPC Systems, Inc., 6/1/15   | Telecommunications | \$ 37,250   | 36,167    | 26,634    |
| Kronos, Inc., 6/11/15   | Electronics        | 60,000      | 60,000    | 44,100    |
| Quality Home Brands Holdings LLC, 6/20/13                           | Consumer Products  | 40,000      | 39,504    | 32,000    |
| Ranpak Corp. (6), 12/27/14  | Packaging          | 12,500      | 12,500    | 12,500    |
| Ranpak Corp. (7), 12/27/14  | Packaging          | 5,206       | 7,584     | 8,249     |
| Sheridan Holdings, Inc., 6/15/15                                    | Healthcare         | \$ 60,000   | 60,000    | 46,500    |

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2008****(in thousands, except shares)**

|  | <b>Industry</b>               | <b>Par Amount*</b> | <b>Cost</b>         | <b>Fair Value (1)</b> |
|--|-------------------------------|--------------------|---------------------|-----------------------|
| <b>2<sup>nd</sup> Lien Bank Debt/Senior Secured Loans (5) (continued)</b>            |                               |                    |                     |                       |
| Sorenson Communications, Inc., 2/18/14   | Consumer Services             | \$ 62,103          | \$ 62,103           | \$ 60,705             |
| TransFirst Holdings, Inc., 6/15/15   | Financial Services            | 30,500             | 30,413              | 23,790                |
| <b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>                                 |                               |                    | <b>\$ 841,257</b>   | <b>\$ 721,945</b>     |
| <b>Total Investments in Non-Controlled/Non-Affiliated Portfolio Companies 157.4%</b> |                               |                    | <b>\$ 3,139,047</b> | <b>\$ 2,986,556</b>   |
| <b>Investments in Controlled Portfolio Companies</b>                                 |                               |                    |                     |                       |
| <b>Preferred Equity 3.9%</b>   |                               | <b>Shares</b>      |                     |                       |
| Grand Prix Holdings, LLC Series A, 12.00% (Innkeepers USA)                           | Hotels, Motels, Inns & Gaming | 2,989,431          | \$ 74,736           | \$ 74,736             |
| <b>Common Equity 9.1%</b>  |                               |                    |                     |                       |
| Grand Prix Holdings, LLC (Innkeepers USA)  | Hotels, Motels, Inns & Gaming | 17,335,834         | \$ 172,664          | \$ 172,256            |
| <b>Total Investments in Controlled Portfolio Companies 13.0%</b>                     |                               |                    | <b>\$ 247,400</b>   | <b>\$ 246,992</b>     |
| <b>Total Investments</b>   |                               |                    | <b>\$ 3,386,447</b> | <b>\$ 3,233,548</b>   |
| <b>Cash Equivalents 21.3%</b>  |                               |                    |                     |                       |
| U.S. Treasury Bill, 1.075%, 6/19/08  | Government                    | \$ 405,000         | \$ 404,063          | \$ 403,898            |
| <b>Total Investments &amp; Cash Equivalents 191.7% (8)</b>                           |                               |                    | <b>\$ 3,790,510</b> | <b>\$ 3,637,446</b>   |
| <b>Total Investments &amp; Cash Equivalents 191.7% (8)</b>                           |                               |                    | <b>\$ 3,790,510</b> | <b>\$ 3,637,446</b>   |
| <b>Liabilities in Excess of Other Assets (91.7%)</b>                                 |                               |                    |                     | <b>(1,739,538)</b>    |
| <b>Net Assets 100.0%</b>   |                               |                    |                     | <b>\$ 1,897,908</b>   |

(1) Fair value is determined 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) Denominated in Canadian dollars.

See notes to financial statements.



**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

**SCHEDULE OF INVESTMENTS (continued)**

**March 31, 2008**

- (5) Includes floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At March 31, 2008, the range of interest rates on floating rate bank debt was 7.67% 12.38%.
- (6) Position is held across five US Dollar-denominated tranches with varying yields.
- (7) Position is held across three Euro-denominated tranches with varying yields.
- (8) Aggregate gross unrealized appreciation for federal income tax purposes is \$160,652; aggregate gross unrealized depreciation for federal income tax purposes is \$321,299. Net unrealized depreciation is \$160,647 based on a tax cost of \$3,798,093.
- ι 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 notes to financial statements.

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**  
**SCHEDULE OF INVESTMENTS (continued)**

| Industry Classification         | Percentage at<br>March 31, 2008 |
|---------------------------------|---------------------------------|
| Hotels, Motels, Inns and Gaming | 7.6%                            |
| Financial Services              | 7.0%                            |
| Oil & Gas                       | 6.4%                            |
| Education                       | 5.7%                            |
| Business Services               | 5.0%                            |
| Industrial                      | 4.6%                            |
| Retail                          | 4.4%                            |
| Insurance                       | 4.0%                            |
| Diversified Service             | 3.9%                            |
| Environmental                   | 3.9%                            |
| Consumer Products               | 3.7%                            |
| Manufacturing                   | 3.7%                            |
| Transportation                  | 3.6%                            |
| Healthcare                      | 3.5%                            |
| Leisure Equipment               | 3.3%                            |
| Building Products               | 2.9%                            |
| Packaging                       | 2.3%                            |
| Publishing                      | 2.2%                            |
| Telecommunications              | 2.2%                            |
| Media                           | 2.2%                            |
| Consumer Services               | 2.0%                            |
| Direct Marketing                | 1.9%                            |
| Grocery                         | 1.8%                            |
| Machinery                       | 1.7%                            |
| Cable TV                        | 1.6%                            |
| Electronics                     | 1.6%                            |
| Agriculture                     | 1.3%                            |
| Consumer Finance                | 1.2%                            |
| Market Research                 | 1.2%                            |
| Distribution                    | 1.1%                            |
| Utilities                       | 0.8%                            |
| Chemicals                       | 0.8%                            |
| Beverage, Food, & Tobacco       | 0.5%                            |
| Infrastructure                  | 0.3%                            |
| Rental Equipment                | 0.1%                            |
| Total Investments               | 100.0%                          |

See notes to financial statements.

## **Table of Contents**

### **APOLLO INVESTMENT CORPORATION**

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

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

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

Apollo Investment Corporation ( Apollo Investment , the Company , or We ), a Maryland corporation organized on February 2, 2004, is a closed-end, non-diversified management investment company that has filed an election to be treated as a business development company ( BDC ) under the Investment Company Act of 1940. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in middle-market companies in the form of mezzanine and senior secured loans, each of which may include an equity component, and, to a lesser extent, by making direct equity investments in such 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 period. 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, consisting solely of normal recurring accruals, 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 subordinated debt, senior secured 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 typically 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. From time to time, we may also utilize independent third party valuation firms to assist us in determining fair value if and when such market quotations are deemed not to represent fair value. Investments maturing in 60 days or less are valued at cost plus accreted discount, or minus amortized premium, which approximates value. Debt and equity securities 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, Apollo Investment Management, L.P. ( AIM ), responsible for the portfolio investment;



**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

- 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 the Investment Adviser's preliminary valuations and make their own independent assessment;
- 4) the audit committee of our Board of Directors reviews and discusses the preliminary valuation of our Investment Adviser and that of the independent valuation firms; 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 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, the principal market and enterprise values, among other factors.

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We adopted this statement for our first fiscal quarter ended June 30, 2008.

SFAS No. 157 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.

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



**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

- (d) Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination and/or commitment fees associated with debt investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination and/or commitment fees are recorded as interest income. Structuring fees are recorded as other income when earned.
- (e) Apollo Investment intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it from substantially all Federal income taxes. Apollo Investment, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. Apollo Investment will accrue excise tax on estimated excess taxable income as required.
- (f) Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified among the Company's capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America.
- (g) Dividends and distributions to common stockholders are recorded as of record date. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and the AICPA Audit and Accounting Guide for Investment Companies, the Company does 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 does not consolidate special purpose entities through which it holds investments subject to financing with third parties. See 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 such as 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 expenses related to its multi-currency revolving credit facility as prepaid assets. These expenses are deferred and amortized using the straight-line method over the stated life of the facility.





**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

- (l) The Company records registration expenses related to Shelf filings as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with the AICPA Audit and Accounting Guide for Investment Companies.
- (m) Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current.
- (n) In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 was effective for financial statements issued for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation requires recognition of the impact of a tax position if that position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In addition, FIN 48 provides measurement guidance whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. The adoption of FIN 48 did not have a material impact on the Company's financial condition or results of operations. If the tax law requires interest and/or penalties to be paid on an underpayment of income taxes, interest and penalties will be classified as income taxes on our financial statements, if applicable.
- (o) In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB No. 115. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement was effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company did not elect fair value measurement for assets or liabilities other than portfolio investments, which are already measured at fair value, therefore, the adoption of this statement did not impact the Company's consolidated financial position or its results of operations.

**Note 3. Agreements**

Apollo Investment has an Investment Advisory and Management Agreement with the Investment Adviser, 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 an 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

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

(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 the Administration Agreement, 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 hurdle 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 the hurdle rate; (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 the hurdle rate but is less than 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 and adjusted for any share issuances or repurchases during the relevant 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 and Management Agreement, as-of the termination date), commencing on December 31, 2004, 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 the three and six months ended September 30, 2008, the Investment Adviser received \$16,354 and \$32,376, respectively, in base investment advisory and management fees and \$14,123 and \$25,701, respectively, in performance-based incentive fees from Apollo Investment. For the three and six months ended September 30, 2007, the Investment Adviser received \$14,850 and \$27,846, respectively, in base investment advisory and management fees and \$10,853 and \$23,972, respectively, in performance-based incentive fees from Apollo Investment. In addition, Apollo Investment accrued (\$18,210) and (\$20,494) in performance-based incentive fees for the three and six months ended September 30, 2007, respectively.

Apollo Investment has also entered into an Administration Agreement with Apollo Investment Administration, LLC (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 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. 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 six months ended September 30, 2008, the Administrator was reimbursed \$434 and \$2,302, respectively, from Apollo Investment on the \$855 and \$2,723, respectively, of expenses accrued under the Administration Agreement. For the three and six months ended September 30, 2007, the Administrator was reimbursed \$465 and \$1,873, respectively, from Apollo Investment on the \$693 and \$2,154, respectively, of expenses accrued under the Administration Agreement.

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

On April 14, 2005, Apollo Investment entered into an \$800,000 Senior Secured Revolving Credit Agreement (the "Facility"), among Apollo Investment, the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent for the lenders. Effective December 29, 2005, lenders provided additional commitments in the amount of \$100,000, increasing the total facility size to \$900,000 on the same terms and conditions as the existing commitments. On March 31, 2006, Apollo Investment Corporation amended and restated its \$900,000 senior secured, multi-currency, revolving credit facility due April 14, 2010. The amended Facility increased total commitments outstanding to \$1,250,000 and extended the maturity date to April 13, 2011. The amended Facility also permits Apollo to seek additional commitments from new and existing lenders in the future, up to an aggregate amount not to exceed \$2,000,000. In February 2007, Apollo Investment increased total commitments to \$1,700,000 under the Facility with the same terms. Pricing remains at 100 basis points over LIBOR. The Facility is used to supplement Apollo's equity capital to make additional portfolio investments and for general corporate purposes. From time to time, certain of the lenders provide customary commercial and investment banking services to affiliates of Apollo Investment. JPMorgan also serves as custodian and fund accounting agent for Apollo Investment.

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

At September 30, 2008, the Company's total net assets and net asset value per share were \$1,952,996 and \$13.73, respectively. This compares to total net assets and net asset value per share at March 31, 2008 of \$1,897,908 and \$15.83, respectively.

**Note 5. Earnings (Loss) Per Share**

The following information sets forth the computation of basic and diluted earnings (loss) per share for the three and six months ended September 30, 2008 and September 30, 2007, respectively:

|  | Three months ended    |                       | Six months ended      |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2008 | September 30,<br>2007 | September 30,<br>2008 | September 30,<br>2007 |
| Numerator for increase (decrease) in net assets per share: | \$ (237,952)          | \$ (23,176)           | \$ (166,112)          | \$ 154,546            |
| Denominator for basic and diluted weighted average shares: | 142,221,335           | 106,032,306           | 136,730,966           | 104,783,368           |
| Basic and diluted earnings (loss) per share:               | \$ (1.67)             | \$ (0.22)             | \$ (1.21)             | \$ 1.47               |

**Note 6. Investments**

**AIC Credit Opportunities Fund LLC** We own all of the common member interests in AIC Credit Opportunity Fund LLC ("AIC Holdco"), which was formed for the purpose of holding various financed investments. Effective in June 2008, we invested \$39,500 in a special purpose entity wholly owned by AIC Holdco, AIC (FDC) Holdings LLC ("Apollo FDC"), which was used to purchase a Junior Profit-Participating Note due 2013 in principal amount of \$39,500 (the "Junior Note") from 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 interim loan of First Data Corporation (the "FDC Reference Obligation") due 2016 and paying interest at 11.25% per year. The Junior Note generally entitles Apollo FDC to the net interest and other proceeds

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

due under the FDC Reference Obligation after payment of interest due under the Senior Notes, as described above. In addition, Apollo FDC is entitled to 100% of any realized appreciation in the FDC Reference Obligation and, since the Senior Note is a non-recourse obligation, is exposed up to the amount of equity used by AIC Holdco to fund the purchase of the Junior Note plus any additional margin Apollo decides to post, if any, during the term of the financing.

Through AIC Holdco, effective in June 2008, we invested \$11,375 in a special purpose entity wholly owned by AIC Holdco, AIC (TXU) Holdings LLC ( Apollo TXU ), which 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 with an unaffiliated third party expiring on October 10, 2013 and pursuant to which Apollo TXU pays interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Reference Obligation ). Like Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Reference Obligation and, since the total return swap is a non-recourse obligation, is exposed up to the amount of equity used by AIC Holdco to fund the investment in the total return swap, plus any additional margin we decide to post, if any, during the term of the financing.

Through AIC Holdco, effective in September 2008, we invested \$10,022 equivalent, in a special purpose entity wholly owned by AIC Holdco, AIC (Boots) Holdings, LLC ( Apollo Boots ), which 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 Reference Obligations ), 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 Reference Obligations pay interest at the rate of LIBOR plus 3% per year and mature in June 2015.

Pursuant to applicable investment company accounting, 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 balance sheet. The Senior Note, total return swap 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 Reference Obligation, the TXU Reference Obligation or the Boots Reference Obligation, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty.

Investments and cash equivalents consisted of the following as of September 30, 2008 and March 31, 2008.

|                                   | September 30, 2008  |                     | March 31, 2008      |                     |
|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                   | Cost                | Fair Value          | Cost                | Fair Value          |
| Subordinated Debt/Corporate Notes | \$ 2,153,367        | \$ 1,818,165        | \$ 2,010,721        | \$ 1,852,695        |
| Preferred Equity                  | \$ 126,229          | \$ 124,416          | 176,088             | 180,341             |
| Common Equity/Equity Interests    | \$ 453,946          | \$ 515,831          | 356,289             | 467,034             |
| Warrants                          | \$ 2,266            | \$ 10,408           | 2,092               | 11,533              |
| Bank Debt/Senior Secured Loans    | \$ 862,503          | \$ 723,678          | 841,257             | 721,945             |
| Cash Equivalents                  | \$                  | \$                  | 404,063             | 403,898             |
| <b>Totals</b>                     | <b>\$ 3,598,311</b> | <b>\$ 3,192,498</b> | <b>\$ 3,790,510</b> | <b>\$ 3,637,446</b> |

Table of Contents

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

At September 30, 2008, our investments and cash equivalents were categorized as follows in the fair value hierarchy for SFAS No. 157 purposes:

| Description                            | September 30,<br>2008 | Fair Value Measurement at Reporting Date Using:                                     |   |  |
|--|-----------------------|---|---|--|
|  |                       | Quoted Prices<br>in<br>Active<br>Markets<br>for<br>Identical Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| Cash Equivalents                       | \$                    | \$  | \$  | \$   |
| Total Investments                      | \$ 3,192,498          | \$  | \$  | \$ 3,192,498                                       |
| Total Investments and Cash Equivalents | \$ 3,192,498          | \$  | \$  | \$ 3,192,498                                       |

The following chart shows the components of change in our investments and cash equivalents categorized as Level 3, for the six months ended September 30, 2008.

|  | Fair Value Measurements Using<br>Significant Unobservable<br>Inputs<br>(Level 3) |
|--|--|
| Beginning Balance, March 31, 2008                  | \$ 3,233,548   |
| Total realized gains/losses included in earnings   | (62,367)   |
| Total unrealized gains/losses included in earnings | (252,913)  |
| Purchases, including capitalized PIK interest (1)  | 385,734  |
| Sales  | (111,504)  |
| Transfer in and/or out of Level 3                  |  |
| Ending Balance, September 30, 2008                 | \$ 3,192,498   |

The amount of total gains/(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/(losses) on investments in our Statement of Operations.

\$ (316,004)

(1) Includes amortization of approximately \$17,169

Table of Contents

## APOLLO INVESTMENT CORPORATION

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

(in thousands except share and per share amounts)

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

At September 30, 2008, the Company had outstanding non-US borrowings on its \$1,700,000 multicurrency revolving credit facility denominated in euros, pounds sterling, and Canadian dollars. Unrealized appreciation (depreciation) on these outstanding borrowings is indicated in the table below:

| Foreign Currency | Local<br>Currency | Original<br>Borrowing<br>Cost | Current<br>Value | Reset Date | Unrealized<br>Appreciation<br>(Depreciation) |
|------------------|-------------------|-------------------------------|------------------|------------|--|
| British Pound    | £ 10,000          | 19,916                        | 17,825           | 10/03/2008 | 2,091  |
| Euro             | 3,500             | 5,513                         | 4,916            | 10/03/2008 | 597  |
| British Pound    | £ 35,700          | 72,891                        | 63,633           | 10/07/2008 | 9,258  |
| British Pound    | £ 2,000           | 3,928                         | 3,565            | 10/16/2008 | 363  |
| Euro             | 1,000             | 1,463                         | 1,405            | 10/20/2008 | 58   |
| Euro             | 112,000           | 150,802                       | 157,321          | 10/28/2008 | (6,519)                                      |
| Euro             | 7,000             | 10,522                        | 9,833            | 11/12/2008 | 689  |
| Canadian Dollar  | C\$ 17,000        | 16,096                        | 15,989           | 11/13/2008 | 107  |
| British Pound    | £ 2,500           | 4,957                         | 4,456            | 11/13/2008 | 501  |
| Canadian Dollar  | C\$ 29,700        | 25,161                        | 27,935           | 11/20/2008 | (2,774)                                      |
| Euro             | 42,500            | 56,599                        | 59,698           | 11/21/2008 | (3,099)                                      |
| Euro             | 2,000             | 2,961                         | 2,809            | 11/28/2008 | 152  |
| Canadian Dollar  | C\$ 16,500        | 15,568                        | 15,519           | 11/28/2008 | 49   |
| Canadian Dollar  | C\$ 22,500        | 19,189                        | 21,163           | 12/05/2008 | (1,974)                                      |
| Euro             | 3,000             | 4,037                         | 4,214            | 12/10/2008 | (177)  |
| Euro             | 3,500             | 5,025                         | 4,916            | 12/18/2008 | 109  |
| British Pound    | £ 3,000           | 5,896                         | 5,347            | 12/30/2008 | 549  |
|                  |                   |                               |                  |            |  |
|                  |                   | \$ 420,524                    | \$ 420,544       |            | \$ (20)                                      |

At March 31, 2008, the Company had outstanding non-US borrowings on its \$1,700,000 multicurrency revolving credit facility denominated in euros, pounds sterling, and Canadian dollars. Unrealized appreciation (depreciation) on these outstanding borrowings is indicated in the table below:

| Foreign Currency | Local<br>Currency | Original<br>Borrowing<br>Cost | Current<br>Value | Reset Date | Unrealized<br>Appreciation<br>(Depreciation) |
|------------------|-------------------|-------------------------------|------------------|------------|--|
| British Pound    | £ 35,700          | \$ 72,891                     | \$ 70,954        | 4/07/2008  | \$ 1,937                                     |
| British Pound    | £ 2,000           | 3,928                         | 3,975            | 4/16/2008  | (47)   |
| Euro             | 1,000             | 1,463                         | 1,584            | 4/18/2008  | (121)  |
| Euro             | 112,000           | 150,802                       | 177,469          | 4/28/2008  | (26,667)                                     |
| Canadian Dollar  | C\$ 17,000        | 16,096                        | 16,568           | 5/13/2008  | (472)  |
| British Pound    | £ 2,500           | 4,957                         | 4,969            | 5/13/2008  | (12)   |
| Canadian Dollar  | C\$ 29,700        | 25,161                        | 28,946           | 5/20/2008  | (3,785)                                      |
| Euro             | 42,500            | 56,599                        | 67,343           | 5/21/2008  | (10,744)                                     |

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|                 |     |        |            |            |           |          |
|-----------------|-----|--------|------------|------------|-----------|----------|
| Euro            |     | 2,000  | 2,961      | 3,169      | 5/28/2008 | (208)    |
| Canadian Dollar | C\$ | 22,500 | 19,189     | 21,929     | 6/05/2008 | (2,740)  |
| Euro            |     | 3,000  | 4,037      | 4,754      | 6/10/2008 | (717)    |
| Euro            |     | 3,500  | 5,025      | 5,546      | 6/18/2008 | (521)    |
| British Pound   | £   | 6,750  | 13,266     | 13,416     | 6/30/2008 | (150)    |
|                 |     |        | \$ 376,375 | \$ 420,622 | \$        | (44,247) |

**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

**Note 8. Expense Offset Arrangement**

The Company benefits from an expense offset arrangement with JPMorgan Chase Bank, N.A. ( custodian bank ) whereby the Company earns credits on any uninvested US dollar cash balances held by the custodian bank. These credits are applied by the custodian bank as a reduction of the monthly custody fees charged to the Company. The total amount of credits earned during the three and six months ended September 30, 2008 are \$46 and \$132, respectively. The total amount of credits earned during the three and six months ended September 30, 2007 are \$86 and \$147, respectively.

**Note 9. Cash and Cash Equivalents**

Pending investment in longer-term portfolio holdings, Apollo Investment may make temporary investments in U.S. Treasury bills (of varying maturities), repurchase agreements and certain other high-quality debt securities maturing in one year or less from the time of investment. These temporary investments are deemed cash equivalents by us and are included in our Schedule of Investments. At the end of each fiscal quarter, Apollo Investment typically takes proactive steps with the objective of enhancing investment flexibility in the next quarter. For example, Apollo Investment may purchase U.S. Treasury bills from time-to-time on the last business day of the quarter and would typically close out its position on a net cash basis subsequent to quarter end. Apollo Investment may also utilize repurchase agreements or other balance sheet transactions, including drawing down on its revolving credit facility, as it deems 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. Temporary investments with maturities of greater than 60 days from the time of purchase are marked-to-market as per our valuation policy.

**Note 10. Repurchase Agreements**

The Company enters into repurchase agreements as part of its investment program. The Company's custodian takes possession of collateral pledged by the counterparty. The collateral is marked-to-market daily to ensure that the value, plus accrued interest, is at least equal to the repurchase price. In the event of default of the obligor to repurchase, the Company has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the counterparty to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings. There were no repurchase agreements outstanding at September 30, 2008 or March 31, 2008.



**Table of Contents**

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

**Note 11. Financial Highlights**

The following is a schedule of financial highlights for the six months ended September 30, 2008 and the year ended March 31, 2008:

|   | Six months ended<br>September 30, 2008<br>(unaudited) | Year ended<br>March 31,<br>2008 |
|---|---|---------------------------------|
| <b>Per Share Data:</b>  |   |                                 |
| Net asset value, beginning of period                            | \$ 15.83  | \$ 17.87                        |
| Net investment income   | 0.75  | 1.82                            |
| Net realized and unrealized gain (loss)                         | (1.88)  | (1.90)                          |
| Net increase (decrease) in net assets resulting from operations | (1.13)  | (0.08)                          |
| Dividends to stockholders (1)                                   | (1.08)  | (2.06)                          |
| Effect of anti-dilution   | 0.11  | 0.10                            |
| Offering costs  |   |                                 |
| Net asset value at end of period                                | \$ 13.73  | \$ 15.83                        |
| Per share market price at end of period                         | \$ 17.05  | \$ 15.83                        |
| Total return (2)  | 14.9%   | (17.50%)                        |
| Shares outstanding at end of period                             | 142,221,335   | 119,893,835                     |
| <b>Ratio/Supplemental Data:</b>                                 |   |                                 |
| Net assets at end of period (in millions)                       | \$ 1,953.0  | \$ 1,897.9                      |
| Ratio of net investment income to average net assets            | 4.73%   | 9.85%                           |
| Ratio of operating expenses to average net assets*              | 2.92%   | 4.92%                           |
| Ratio of credit facility related expenses to average net assets | 1.30%   | 2.73%                           |
| Ratio of total expenses to average net assets*                  | 4.22%   | 7.65%                           |
| Average debt outstanding  | \$ 1,162,341  | \$ 882,775                      |
| Average debt per share  | \$ 8.50   | \$ 7.88                         |
| Portfolio turnover ratio  | 3.4%  | 24.2%                           |

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- (1) Dividends and distributions are determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.
- (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. Total return is not annualized.
- \* The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets is 2.92% and 4.22%, respectively, at September 30, 2008, inclusive of the expense offset arrangement (see Note 8). At March 31, 2008, the ratios were 4.91% and 7.64%, respectively.

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

(in thousands except share and per share amounts)

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

| Class and Year                           | Total Amount<br>Outstanding (1) | Asset<br>Coverage<br>Per Unit (2) | Involuntary<br>Liquidating<br>Preference<br>Per<br>Unit (3) | Average<br>Market Value<br>Per Unit (4) |
|--|---------------------------------|-----------------------------------|---|---|
| <b>Revolving Credit Facility</b>         |                                 |                                   |   |   |
| Fiscal 2009 (through September 30, 2008) | \$ 1,657,227                    | \$ 2,178                          | \$  | 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                              | 0                               | 0                                 |   | 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.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, as senior securities are not registered for public trading.

**Note 12. Credit Agreement and Borrowings**

Under the terms of the amended and restated Credit Agreement dated March 31, 2006 (the Facility), the lenders agreed to extend credit to Apollo Investment in an aggregate principal or face amount not exceeding \$1,250,000 at any one time outstanding. The amended Facility also permits Apollo Investment to seek additional commitments from new and existing lenders in the future, up to an aggregate amount not to exceed \$2,000,000. In February 2007, we increased total commitments to \$1,700,000. The Facility is a five-year revolving facility (with a stated maturity date of April 13, 2011) and is secured by substantially all of the assets in Apollo Investment's portfolio, including cash and cash equivalents. Pricing is set at 100 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 subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$400,000 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 subsidiaries, of not less than 2.0:1.0, (d) maintaining minimum liquidity, (e) limitations on the incurrence of additional indebtedness, (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) and (i) limitations on the creation or existence of agreements that permit liens on properties of Apollo Investment's subsidiaries. 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 Facility currently provides for the ability of Apollo Investment to seek additional commitments from lenders in an aggregate amount of up to \$300,000. The Facility is used to supplement Apollo Investment's equity capital to make additional portfolio investments and for other general corporate purposes.



**Table of Contents**

**APOLLO INVESTMENT CORPORATION**

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

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

The average debt outstanding on the credit facility was \$1,162,341 and \$694,629 for the six months ended September 30, 2008 and 2007, respectively. The weighted average annual interest cost for the six months ended September 30, 2008 was 4.64%, exclusive of 0.22% for commitment fees and for other prepaid expenses related to establishing the credit facility. The weighted average annual interest cost for the six months ended September 30, 2007 was 6.01%, exclusive of 0.51% for commitment fees and for other prepaid expenses related to establishing the Facility. This weighted average annual interest cost reflects the average interest cost for all borrowings, including EURIBOR, CAD LIBOR, GBP LIBOR and USD LIBOR. The maximum amount borrowed during the six months ended September 30, 2008 and 2007 was \$1,685,285 and \$1,075,565, respectively, at value. The remaining capacity under the facility was \$42,773 at September 30, 2008. At September 30, 2008, the Company was in compliance with all financial and operational covenants required by the Facility.

**Note 13. Commitments and Contingencies**

The Company has the ability to issue standby letters of credit through its revolving credit facility. At September 30, 2008 and September 30, 2007, the Company had issued standby letters of credit through JPMorgan Chase Bank, N.A. totaling \$3,768 and \$0, respectively.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Apollo Investment Corporation

We have reviewed the accompanying statement of assets and liabilities of Apollo Investment Corporation (the Company) as of September 30, 2008, including the schedule of investments, and the related statements of operations for the three and six-month periods ended September 30, 2008 and September 30, 2007 and the statement of cash flows for the six month periods ended September 30, 2008 and September 30, 2007 and the statement of changes in net assets for the six month period ended September 30, 2008. 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 as of March 31, 2008, including the schedule of investments, and the related statement of operations, of cash flows, and of the statement of changes in net assets for the year then ended, and in our report dated May 28, 2008, 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, 2008, 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

PricewaterhouseCoopers LLP

New York, New York

November 5, 2008

## **Table of Contents**

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

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

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

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

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

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

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

We generally use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including the 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 Internal Revenue Code of 1986, as amended. 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

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62 million shares of its common stock at a price of \$15.00 per share. Since then, and through September 30, 2008, we have raised approximately \$1.4 billion in net proceeds from additional offerings of common stock.



## **Table of Contents**

### ***Investments***

Our level of investment activity can and does vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make.

As a business development company, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). 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 recently adopted an additional new 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. This new rule became effective July 21, 2008.

### ***Revenue***

We generate revenue primarily in the form of interest and dividend income from the debt and preferred 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. While U.S. subordinated debt and corporate notes typically accrue interest at fixed rates, some of these investments may include zero coupon, payment-in-kind (PIK) and/or step-up bonds that accrue income on a constant yield to call or maturity basis. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or PIK. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of dividends paid to us on common equity investments as well as 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 auditor and legal costs;

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

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

offerings of our common stock and other securities;

registration and listing fees;

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

## **Table of Contents**

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;

organization and offering; 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, but decline slightly as a percentage of our total assets in future periods if our assets grow. Incentive fees, interest expense and costs relating to future offerings of securities, among others, would be additive.

## **Portfolio and Investment Activity**

During the three months ended September 30, 2008, we invested \$225.8 million, across 5 new and 6 existing portfolio companies. This compares to investing \$454.1 million in 7 new and 5 existing portfolio companies for the three months ended September 30, 2007. Investments sold or prepaid during the three months ended September 30, 2008 totaled \$21.3 million versus \$141.9 million for the three months ended September 30, 2007.

At September 30, 2008, our net portfolio consisted of 78 portfolio companies and was invested 23% in senior secured loans, 57% in subordinated debt, 4% in preferred equity and 16% in common equity and warrants versus 67 portfolio companies invested 24% in senior secured loans, 53% in subordinated debt, 6% in preferred equity and 17% in common equity and warrants at September 30, 2007.

The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio at our current cost basis were 10.2%, 13.4% and 12.5%, respectively, at September 30, 2008. At September 30, 2007, the yields were 11.9%, 13.1%, and 12.7%, respectively.

Since the initial public offering of Apollo Investment Corporation in April 2004 and through September 30, 2008, total invested capital exceeds \$5.5 billion in 123 portfolio companies. Over the same period, Apollo Investment has also completed transactions with 85 different financial sponsors.

Senior secured loans and European mezzanine loans typically accrue interest at variable rates determined on the basis of a benchmark: LIBOR, EURIBOR, GBP LIBOR, or the prime rate, with stated maturities at origination that typically range from 5 to 10 years. While subordinated debt issued within the United States will typically accrue interest at fixed rates, some of these investments may include zero-coupon, PIK and/or step bonds that accrue income on a constant yield to call or maturity basis. At September 30, 2008, 66% or \$1.8 billion of our interest-bearing investment portfolio is fixed rate debt and 34% or \$0.9 billion is floating rate debt at value. At September 30, 2007, 58% or \$1.5 billion of our interest-bearing investment portfolio was fixed rate debt and 42% or \$1.1 billion was floating rate debt at value.



## **Table of Contents**

### **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 subordinated debt, senior secured 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 typically 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. From time to time, we may also utilize independent third party valuation firms to assist us in determining fair value if and when such market quotations are deemed not to represent fair value. Investments maturing in 60 days or less are valued at cost plus accreted discount, or minus amortized premium, which approximates value. Debt and equity securities 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, AIM, 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 the Investment Adviser's preliminary valuations and make their own independent assessment;
- 4) the audit committee of our Board of Directors reviews and discusses the preliminary valuation of our Investment Adviser and that of the independent valuation firms; 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 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

## **Table of Contents**

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, the principal market and enterprise values, among other factors.

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. This statement was effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. We adopted this statement for our first fiscal quarter ended June 30, 2008.

SFAS No. 157 classifies the inputs used to measure these fair values into the following hierarchy:

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

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

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

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

## **Revenue Recognition**

We record interest and dividend income on an accrual basis to the extent that we expect to collect such amounts. For loans and securities with contractual PIK interest or dividends, which represents contractual interest or dividends accrued and added to the balance that generally becomes due at maturity, we may not accrue PIK income if the portfolio company valuation indicates that the PIK income is not collectible. We do not accrue as a receivable interest or dividends on loans and securities if we have reason to doubt our ability to collect such income. Loan origination fees, original issue discount, and market discount are capitalized and then we amortize such amounts as interest income. Upon the prepayment of a loan or security, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and securities as interest income when we receive such amounts.

## **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, when gains or losses are realized.

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

## **Table of Contents**

### **RESULTS OF OPERATIONS**

Results comparisons are for the three and six months ended September 30, 2008 and September 30, 2007.

#### **Investment Income**

For the three and six months ended September 30, 2008, gross investment income totaled \$103.5 million and \$194.5 million, respectively. For the three and six months ended September 30, 2007, gross investment income totaled \$86.1 million and \$175.0 million, respectively. The increase in gross investment income for the three and six months ended September 30, 2008 was primarily due to the growth of our investment portfolio as compared to the previous period. Origination and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans.

#### **Expenses**

Net expenses totaled \$47.1 million and \$91.7 million, respectively, for the three and six months ended September 30, 2008, of which \$30.5 million and \$58.1 million, respectively, were base management fees and performance-based incentive fees and \$14.4 million and \$28.3 million, respectively, were interest and other credit facility expenses. Of these expenses, general and administrative expenses totaled \$2.2 million and \$5.3 million, respectively, for the three and six months ended September 30, 2008. Net expenses totaled \$24.4 million and \$58.6 million, respectively, for the three and six months ended September 30, 2007, of which \$7.5 million and \$31.3 million, respectively, were base management fees and performance-based incentive fees and \$15.1 million and \$22.7 million, respectively, were interest and other credit facility expenses. Of these expenses, general and administrative expenses totaled \$1.8 million and \$4.6 million, respectively, for the three and six months ended September 30, 2007. Expenses consist of base investment advisory and management fees, insurance expenses, administrative services fees, professional fees, directors' fees, audit and tax services expenses, and other general and administrative expenses. The increases in net expenses from the three and six month period ended September 30, 2007 to the three and six month period ended September 30, 2008 were primarily related to increases in base management and incentive fees and other general and administrative expenses from the growth of our investment portfolio as compared to the previous periods.

#### **Net Investment Income**

The Company's net investment income totaled \$56.5 million and \$102.8 million or \$0.40 per share and \$0.75 per share, respectively, for the three and six months ended September 30, 2008. For the three and six months ended September 30, 2007, net investment income totaled \$61.6 million and \$116.4 million or \$0.58 per share and \$1.11 per share, respectively.

#### **Net Realized Gains (Losses)**

The Company had investment sales and prepayments totaling \$21.3 million and \$110.4 million, respectively, for the three and six months ended September 30, 2008. For the three and six months ended September 30, 2007, investment sales and prepayments totaled \$141.9 million and \$488.8 million, respectively. Net realized losses for the three and six months ended September 30, 2008 were \$30.0 million and \$59.8 million, respectively. For the three and six months ended September 30, 2007, net realized losses totaled \$0.9 million and \$21.6 million, respectively. During the three and six months ended September 30, 2008, we exited from our investment in Lexicon Marketing, realizing a loss of \$38.5 million, reversing an unrealized loss of \$38.5 million as of June 30, 2008.

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

For the three and six months ended September 30, 2008 net unrealized depreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$264.5 million and

**Table of Contents**

\$209.1 million, respectively. For the three and six months ended September 30, 2007, net unrealized appreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities decreased \$83.9 million and increased \$59.8 million, respectively. At September 30, 2008, net unrealized depreciation totaled \$406.2 million versus net unrealized appreciation of \$152.1 million at September 30, 2007.

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

For the three and six months ended September 30, 2008, the Company had a net decrease in net assets resulting from operations of \$238.0 million and \$166.1 million, respectively. For the three and six months ended September 30, 2007 the Company had a net decrease in net assets resulting from operations of \$23.2 million and a net increase in net assets resulting from operations of \$154.5 million, respectively. The loss per share was \$1.67 and \$1.21 for the three and six months ended September 30, 2008. For the three and six months ended September 30, 2007, there was a loss per share of \$0.22 and earnings per share of \$1.47, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and available through periodic follow-on equity offerings, through its senior secured, multi-currency \$1.7 billion, five-year, revolving credit facility maturing in April 2011, through 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 and cash equivalents. At September 30, 2008, the Company has \$1.66 billion in borrowings outstanding and \$0.04 billion remaining unused. In the future, the Company may raise additional equity or debt capital off its shelf registration or may securitize a portion of its investments among other considerations. The primary use of funds will be investments in portfolio companies, cash distributions to our stockholders and for other general corporate purposes. On May 16, 2008, the Company closed on its most recent follow-on public equity offering of 22.3 million shares of common stock at \$17.11 per share raising approximately \$369.6 million in net proceeds. Cash and cash equivalents at September 30, 2008 totaled \$411.2 million.

|  | Total    | Payments due by Period (dollars in millions) |           |           |                      |
|--|----------|--|-----------|-----------|----------------------|
|  |          | Less than<br>1 year                          | 1-3 years | 3-5 years | More than<br>5 years |
| Senior Secured Revolving Credit Facility (1) | \$ 1,657 | \$   | \$ 1,657  | \$        | \$                   |

- (1) At September 30, 2008, \$43 million remained unused under our senior secured revolving credit facility. Pricing of our credit facility is 100 basis points over LIBOR.

**Contractual Obligations**

We have entered into two contracts under which we have future commitments: the investment advisory and management 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 and management 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 and management 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.



## **Table of Contents**

### **Off-Balance Sheet Arrangements**

The Company has the ability to issue standby letters of credit through its revolving credit facility. At September 30, 2008 and September 30, 2007, the Company had issued through JPMorgan Chase Bank, N.A. standby letters of credit totaling \$3,768 and \$0, respectively.

***AIC Credit Opportunities Fund LLC*** We own all of the common member interests in AIC Credit Opportunity Fund LLC ( AIC Holdco ), which was formed for the purpose of holding various financed investments. Effective in June 2008, we invested \$39,500 in a special purpose entity wholly owned by AIC Holdco, AIC (FDC) Holdings LLC ( Apollo FDC ), which was used to purchase a Junior Profit-Participating Note due 2013 in principal amount of \$39,500 (the Junior Note ) from 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 interim loan of First Data Corporation (the FDC Reference Obligation ) due 2016 and paying interest at 11.25% per year. The Junior Note generally entitles Apollo FDC to the net interest and other proceeds due under the FDC Reference Obligation after payment of interest due under the Senior Notes, as described above. In addition, Apollo FDC is entitled to 100% of any realized appreciation in the FDC Reference Obligation and, since the Senior Note is a non-recourse obligation, is exposed up to the amount of equity used by AIC Holdco to fund the purchase of the Junior Note plus any additional margin Apollo decides to post, if any, during the term of the financing.

Through AIC Holdco, effective in June 2008, we invested \$11,375 in a special purpose entity wholly owned by AIC Holdco, AIC (TXU) Holdings LLC ( Apollo TXU ), which 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 with an unaffiliated third party expiring on October 10, 2013 and pursuant to which Apollo TXU pays interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Reference Obligation ). Like Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Reference Obligation and, since the total return swap is a non-recourse obligation, is exposed up to the amount of equity used by AIC Holdco to fund the investment in the total return swap, plus any additional margin we decide to post, if any, during the term of the financing.

Through AIC Holdco, effective in September 2008, we invested \$10,022 equivalent, in a special purpose entity wholly owned by AIC Holdco, AIC (Boots) Holdings, LLC ( Apollo Boots ), which 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 Reference Obligations ), 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 Reference Obligations pay interest at the rate of LIBOR plus 3% per year and mature in June 2015.

Pursuant to applicable investment company accounting, 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 balance sheet. The Senior Note, total return swap 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 Reference Obligation, the TXU Reference Obligation or the Boots Reference Obligation, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty.

## **Table of Contents**

### **Dividends**

Dividends paid to stockholders for the three and six months ended September 30, 2008 totaled \$74.0 million or \$0.52 per share and \$147.9 million or \$1.04 per share, respectively. For the three and six months ended September 30, 2007 dividends totaled \$54.0 million or \$0.52 per share and \$106.8 million or \$1.03 per share, respectively. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year.

We intend to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our Board of Directors.

We have elected to be taxed as a RIC under Subchapter M of the Internal Revenue Code of 1986. 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 dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our RIC status. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

With respect to the dividends paid 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. For the three and six months ended September 30, 2008 we received upfront fees totaling \$0.4 million and \$0.4 million, respectively, which are being amortized into income over the lives of their respective loans to the extent such loans remain outstanding. For the three and six months ended September 30, 2007, we received upfront fees totaling \$0.0 million and \$0.1 million, respectively.

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

We are subject to financial market risks, including changes in interest rates. During the six months ended September 30, 2008, 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. Accordingly, we may hedge against interest rate fluctuations 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 six months ended September 30, 2008, we did not engage in interest rate hedging activities.

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**Table of Contents**

**Item 4. Controls and Procedures**

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

As of September 30, 2008 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

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

Management has not identified any change in the Company's internal control over financial reporting that occurred during the second quarter of fiscal 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We, Apollo Investment Management, L.P. and Apollo Investment Administration, LLC are not currently subject to any material pending legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in our most recent Form 10-K filing.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

On August 5, 2008, Apollo Investment Corporation (the "Corporation") held its 2008 Annual Meeting of Stockholders in New York, N.Y. for the purpose of considering and voting upon the election of Directors, ratifying the selection of an independent registered public accounting firm and authorizing Apollo Investment Corporation to sell shares of common stock below net asset value per share, subject to certain conditions. Votes were cast as follows:

| Nominee   | For         | Withheld  | Abstain   |
|---|-------------|-----------|-----------|
| Claudine B. Malone  | 105,041,276 | 3,240,108 |           |
| Frank C. Puleo  | 105,174,673 | 3,106,711 |           |
| Carl Spielvogel   | 104,991,304 | 3,290,080 |           |
| Ratify the selection of PricewaterhouseCoopers LLP  | 107,233,848 | 546,860   | 500,678   |
| Authorize the sale of shares of common stock below net asset value per share under certain conditions | 73,715,190  | 7,289,286 | 1,043,643 |

**Item 5. Other Information**

None.

## **Table of Contents**

### **Item 6. Exhibits**

#### **(a) Exhibits**

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

|         |  |
|---------|--|
| 3.1     | Articles of Amendment and Restatement, as amended (1)  |
| 3.2     | Amended and Restated Bylaws (5)  |
| 4.1     | Form of Stock Certificate (3)  |
| 10.1    | Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P. (2)                   |
| 10.1(b) | Supplement to the Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P. (5) |
| 10.2    | Administration Agreement between Registrant and Apollo Investment Administration, LLC (2)                                |
| 10.3    | Dividend Reinvestment Plan (3)   |
| 10.4    | Custodian Agreement (3)  |
| 10.5    | License Agreement between the Registrant and Apollo Management, L.P. (2)   |
| 10.6    | Form of Transfer Agency and Service Agreement (2)  |
| 10.7    | Amended and Restated Senior Secured Revolving Credit Agreement (4)   |
| 15.1*   | Awareness Letter of Independent Registered Public Accounting Firm.   |
| 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.           |
| 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 pre-effective Amendment No. 3 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on April 1, 2004.
- (3) Incorporated by reference from the Registrant's pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on March 12, 2004.
- (4) Incorporated by reference from the Registrant's Form 8-K filed on April 4, 2006.
- (5) Incorporated by reference from the Registrant's Form 10-K filed on June 12, 2006.
- (6) Incorporated by reference from the Registrant's 14A filed on July 3, 2007.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 5, 2008.

**APOLLO INVESTMENT CORPORATION**

By: */s/* JOHN J. HANNAN  
**John J. Hannan**  
**Chief Executive Officer and Director**

By: */s/* RICHARD L. PETEKA  
**Richard L. Peteka**  
**Chief Financial Officer and Treasurer**