APOLLO INVESTMENT CORP
Form 10-Q
August 07, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarter Ended June 30, 2006

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

APOLLO INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**52-2439556**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
9 West 57th Street, 41st Floor, New York, N.Y.	**10019**
(Address of principal executive office)	**(Zip Code)**

(212) 515-3450

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 x

The number of shares of the registrant s Common Stock, $.001 par value, outstanding as of August 3, 2006 was 81,605,018.

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APOLLO INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2006

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PART I. FINANCIAL INFORMATION

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

Item 1. Financial Statements

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except per share amounts)

	June 30, 2006 (unaudited)	March 31, 2006
Assets		
Investments, at fair value (cost - $1,699,287 and $1,520,025, respectively) (1)	**$ 1,791,450**	**$ 1,556,698**
Cash equivalents, at fair value (cost - $711,561 and $898,374, respectively)	**711,561**	**898,374**
Cash	**3,635**	**5,506**
Foreign currency	**444**	**1,079**
Interest receivable*	**26,399**	**24,827**
Receivable for investments sold		**17,261**
Receivable for commitment fee		**812**
Dividends receivable	**1,662**	**173**
Unrealized appreciation on forward foreign currency contract (see note 7)	**144**	
Prepaid expenses and other assets	**5,887**	**6,344**
Total assets	**$ 2,541,182**	**$ 2,511,074**
Liabilities		
Payable for investments and cash equivalents purchased	**$ 712,561**	**$ 940,874**
Credit facility payable* (see note 7)	**535,795**	**323,852**
Management and performance-based incentive fees payable (see note 3)	**16,412**	**12,850**
Interest payable	**3,158**	**1,300**
Accrued administrative expenses	**176**	**453**
Unrealized depreciation on forward foreign currency contract		**363**
Other accrued expenses	**798**	**1,527**
Total liabilities	**$ 1,268,900**	**$ 1,281,219**
Net Assets		
Common stock, par value $.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 81,605 and 81,192 issued and outstanding, respectively	**$ 82**	**$ 81**
Paid-in capital in excess of par	**1,205,943**	**1,198,137**
Distributions in excess of net investment income (see note 2f)	**(12,445)**	**(7,653)**
Accumulated net realized gain (loss)	**(1,994)**	**1,014**
Net unrealized appreciation	**80,696**	**38,276**
Total Net Assets	**$ 1,272,282**	**$ 1,229,855**
Total liabilities and net assets	**$ 2,541,182**	**$ 2,511,074**
Net Asset Value Per Share	**$ 15.59**	**$ 15.15**

(1) None of our portfolio companies are controlled by or affiliated to the Company as defined by the Investment Company Act of 1940.
*

Interest receivable includes net unrealized appreciation at June 30, 2006 and March 31, 2006 of $112 and $17 (in 000 s), respectively. Credit facility payable includes net unrealized depreciation totaling $11,731 at June 30, 2006 and net unrealized appreciation totaling $1,949 at March 31, 2006 (in 000 s) (see note 7).

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share amounts)

	Three months ended	
	June 30, 2006	**June 30, 2005***
INVESTMENT INCOME:		
Interest	**$ 49,023**	**$ 26,734**
Dividends	**6,356**	**3,484**
Other income	**482**	**7,575**
Total investment income	**55,861**	**37,793**
EXPENSES:		
Management fees	**$ 8,476**	**$ 4,490**
Performance-based incentive fees	**7,936**	**6,311**
Interest and other credit facility expenses	**5,631**	**498**
Administrative services expense	**968**	**312**
Other general and administrative expenses	**1,118**	**938**
Total expenses	**24,129**	**12,549**
Expense offset arrangement (see note 8)	**(12)**	
Net expenses	**24,117**	**12,549**
Net investment income	**$ 31,744**	**$ 25,244**
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:		
Net realized gain (loss):		
Investments and cash equivalents	**195**	**3,351**
Foreign currencies	**(3,203)**	**3,439**
Net realized gain (loss)	**(3,008)**	**6,790**
Net change in unrealized gain (loss):		
Investments and cash equivalents	**55,490**	**(18,045)**
Foreign currency translations	**(13,070)**	**(429)**
Net change in unrealized gain (loss)	**42,420**	**(18,474)**
Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currency	**39,412**	**(11,684)**
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	**$ 71,156**	**$ 13,560**

EARNINGS PER COMMON SHARE (see note 5)	**$ 0.88**	**$ 0.22**

* Certain amounts have been reclassified to conform to the current period s presentation.

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except shares)

	Three months ended June 30, 2006 (unaudited)	Year ended March 31, 2006
Increase in net assets from operations:		
Net investment income	$ 31,744	$ 89,143
Net realized gains (losses)	(3,008)	11,165
Net change in unrealized gain	42,420	20,079
Net increase in net assets resulting from operations	71,156	120,387
Dividends and distributions to shareholders:	(36,536)	(102,735)
Capital share transactions:		
Net proceeds from shares sold		294,056
Less offering costs of public share offerings		(396)
Reinvestment of dividends	7,807	25,657
Net increase in net assets resulting from capital share transactions	7,807	319,317
Total increase in net assets:	42,427	336,969
Net assets at beginning of period	1,229,855	892,886
Net assets at end of period	$ 1,272,282	$ 1,229,855
Capital share activity		
Shares sold		17,250,000
Shares issued from reinvestment of dividends	413,064	1,386,978
Net increase in capital share activity	413,064	18,636,978

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Three months ended	
	June 30, 2006	**June 30, 2005**
Cash Flows from Operating Activities:		
Net Increase in Net Assets Resulting from Operations	**$ 71,156**	**$ 13,560**
Adjustments to reconcile net increase:		
Purchase of investment securities	**(300,995)**	**(264,509)**
Proceeds from disposition of investment securities	**121,947**	**24,395**
Increase (decrease) from foreign currency transactions	**(3,203)**	**3,439**
Increase in interest and dividends receivable	**(2,966)**	**(8,363)**
Decrease (increase) in prepaid expenses and other assets	**1,269**	**(3,338)**
Increase in management and performance-based incentive fee payable	**3,562**	**6,309**
Increase in interest payable	**1,858**	
Decrease in accrued expenses	**(1,006)**	**(154)**
Increase (decrease) in payable for investments and cash equivalents purchased	**(228,332)**	**132,233**
Decrease (increase) in receivables for securities sold	**17,261**	**(34,949)**
Net change in unrealized (appreciation)/depreciation on investments, cash equivalents, foreign currency translations and other assets and liabilities	**(42,420)**	**18,480**
Net realized loss (gain) on investments and cash equivalents	**3,008**	**(6,790)**
Net Cash Used by Operating Activities	**(358,861)**	**(119,687)**
Cash Flows from Financing Activities:		
Net proceeds from the issuance of common stock		
Offering costs from the issuance of common stock		
Dividends paid in cash	**(28,729)**	**(15,464)**
Borrowings under credit facility	**407,763**	
Repayments under credit facility	**(209,500)**	
Net Cash Provided (Used) by Financing Activities	**$ 169,534**	**$ (15,464)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**$ (189,327)**	**$ (135,151)**
Effect of exchange rates on cash balances	**8**	
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**904,959**	**878,264**
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 715,640**	**$ 743,113**

Non-cash financing activities consist of the reinvestment of dividends totaling $7,807 and $3,928, respectively (in thousands).

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited)

June 30, 2006

(in thousands, except shares)

Portfolio Company (1)	Industry	Par Amount*	Cost	Fair Value (2)
Subordinated Debt/Corporate Notes 88.2%				
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	$ 30,157	$ 29,568	$ 30,157
ALM Media Holdings, Inc., 13.00%, 3/15/13 ♦	Publishing	18,796	18,653	18,796
AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14 ♦	Building Products	46,826	45,896	45,655
Anthony, Inc., 13.50%, 9/1/12 ♦	Manufacturing	9,743	9,623	9,743
API Heat Transfer, Inc., 13.75%, 12/31/12	Manufacturing	19,302	18,997	19,302
Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14	Direct Marketing	50,206	50,082	50,206
Associated Materials, Inc., 0% / 11.25%, 3/1/14	Building Products	58,415	32,730	34,173
Audatex Holdings III, B.V., E+900, 10/13/14	Business Services	15,000	18,466	19,659
Brenntag Holding GmbH & Co. KG, E+900, 1/25/16	Chemicals	15,070	17,850	19,896
Collect America, Ltd., 13.50%, 8/5/12 ♦	Financial Services	$ 36,320	35,653	36,320
Delta Educational Systems, Inc., 13.00%, 5/12/13	Education	13,800	13,302	13,570
DSI Renal Inc., 14.00%, 3/31/14	Healthcare	10,047	10,047	10,047
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ♦	Agriculture	26,504	16,290	15,041
Eurofresh, Inc., 11.50%, 1/15/13 ♦	Agriculture	50,000	50,000	49,500
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	2,015	2,430	2,641
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	14,773	18,036	19,361
FCI International S.A.S., E+875, 11/3/15 (3)	Electronics	22,500	27,206	30,016
Fidji Luxembourg (BC2) S.A.R.L. (FCI International S.A.S.), E+1125, 8/3/16 (4)	Electronics	17,500	20,999	22,992
FleetPride Corporation, L+575, 6/6/14	Transportation	$ 25,000	24,876	24,969
FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 ♦	Transportation	37,846	24,903	25,031
Hanley Wood LLC, 12.25%, 8/1/2013 ♦	Media	60,000	59,443	60,000
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	19,104	17,022
Language Line Inc., 11.125%, 6/15/12	Business Services	27,081	26,786	26,641
Latham Manufacturing Corp., 14.00%, 6/30/11	Leisure Equipment	33,870	33,297	33,870
Lexicon Marketing (USA), Inc., 13.25%, 5/11/13	Direct Marketing	28,128	28,128	28,128
LVI Services, Inc., 13.25%, 11/16/12	Environmental	43,000	42,188	43,000
N.E.W. Customer Service Companies Inc., 14.00%, Convertible, 8/17/13	Consumer Services	8,320	8,320	13,681
Playpower Holdings Inc., 15.50%, 11/30/12 ♦	Leisure Equipment	76,029	76,029	76,029

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2006

(in thousands, except shares)

	Industry	Par Amount*	Cost	Fair Value (2)
Subordinated Debt/Corporate Notes (continued)				
Pro Mach Merger Sub, Inc., 13.75%, 6/15/12	Machinery	$ 14,471	$ 14,228	$ 14,471
QHB Holdings LLC (Quality Home Brands), 13.50%, 12/20/13	Consumer Products	35,000	33,952	35,000
Safety Products Holdings LLC, 11.75%, 1/1/12 ♦	Manufacturing	27,093	26,603	27,499
SCI Holdings, Inc. (Sorenson Communications, Inc.), 13.00%, 11/15/13	Consumer Services	30,356	30,356	30,356
Sigmakalon Holdco B.V., E+1000, 12/31/15	Chemicals	47,162	57,296	61,208
Sirona Dental Systems GmbH, E+950, 6/30/15	Healthcare	22,395	26,854	29,567
Source Media Holdings Inc., 13.00%, 11/30/12 ♦	Publishing	$ 18,240	17,909	18,240
Travelex Global, Ltd., GBP L+950, 10/30/15	Financial Services	£ 13,511	24,840	25,802
Tumi Holdings, Inc., L+1100, 12/31/14	Consumer Products	$ 13,342	13,342	13,608
T/Y Merger Corp. (TDS Logistics), 14.75%, 2/26/10	Logistics	19,102	18,875	19,102
WDAC Intermediate Corp., 13.75%, 6/1/15	Publishing	40,199	53,138	52,353
Total Subordinated Debt/Corporate Notes			**$ 1,096,295**	**$ 1,122,652**
		Shares		
Preferred Equity 3.8%				
Delta Educational Systems, Inc., 13.50%, 5/12/14	Education	9,500	$ 8,376	$ 8,548
DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 9/30/14	Healthcare	32,500	31,710	32,500
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Conv.)	Education	3,325	3,325	3,325
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	1,875
Sorenson Communications Holdings, LLC, Class B, 10.00%	Consumer Services	1,943	1,943	1,943
Total Preferred Equity			**$ 47,229**	**$ 48,191**
Common Equity/Partnership Interests 12.4%				
CA Holding, Inc. (Collect America, LTD)	Financial Services	25,000	$ 2,500	$ 3,026
DTPI Holdings, Inc. (American Asphalt & Grading)	Infrastructure	200,000	2,000	1,272
FSC Holdings Inc. (Hanley Wood LLC)	Media	10,000	10,000	12,411
Garden Fresh Restaurant Holding, LLC	Retail	50,000	5,000	6,130
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)	Education	175	175	175
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (5,6)	Industrial		24,928	84,083

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2006

(in thousands, except shares/warrants)

	Industry	Shares	Cost	Fair Value (2)
Common Equity/Partnership Interests (continued)				
Latham Acquisition Corp.**	Leisure Equipment	33,091	$ 3,309	$ 3,582
LM Acquisition Ltd. (Lexicon Marketing Inc.)	Direct Marketing	10,000	10,000	13,965
LVI Acquisition Corp. (LVI Services, Inc.)	Environmental	6,250	625	215
MEG Energy Corp. (7)	Oil & Gas	836,000	19,676	20,673
N.E.W. Customer Service Companies, Inc.	Consumer Services	1,105,961	3,415	7,392
Pro Mach Co-Investment, LLC**	Machinery	150,000	1,500	2,177
Sorenson Communications Holdings, LLC Class A	Consumer Services	570,120	57	1,221
T/Y Merger Corp.(TDS Logistics)**	Logistics	250,000	2,500	1,440
Total Common Equity and Partnership Interests			**$ 85,685**	**$ 157,762**
		Warrants		
Warrants 0.3%				
DSI Holdings Company, Inc. (DSI Renal Inc.)	Healthcare	5,011,327		$ 2,829
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common	Education	75	$ 59	59
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred	Education	355	343	343
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred	Education	807	780	780
Total Warrants			**$ 1,182**	**$ 4,011**
		Par Amount*		
Bank Debt/Senior Secured Loans (8) 36.1%				
1st Lien Bank Debt/Senior Secured Loans 2.9 %				
Alliance Mortgage Investments, Inc., 6/1/10	Consumer Finance	$ 35,938	$ 35,939	$ 35,938
2nd Lien Bank Debt/Senior Secured Loans 33.2%				
American Asphalt & Grading Co., 7/1/11	Infrastructure	26,500	26,500	26,368
American Safety Razor, 9/21/12	Consumer Products	11,500	11,500	11,557
Anthony International, 9/1/11	Manufacturing	13,000	12,897	13,000
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	15,000	15,032	15,225
Clean Earth, Inc., 10/14/11	Environmental	25,000	24,971	25,297

Cygnus Business Media, Inc., 1/13/10	Media	10,000	9,932	9,950
Diam International, 7/1/12***	Consumer Products	20,231	20,203	3,035

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2006

(in thousands, except shares)

	Industry	Par Amount*	Cost	Fair Value (2)
2nd Lien Bank Debt/Senior Secured Loans (continued)				
Diam International, Jr. Revolving Credit, 6/30/11***	Consumer Products	$ 1,308	$ 1,308	$ 1,138
Dr. Leonard s Healthcare Corp., 7/31/12	Direct Marketing	22,000	22,000	22,055
DX III Holdings Corp. (Deluxe Entertainment Services Group Inc.), 7/28/11	Broadcasting & Entertainment	55,000	53,985	57,200
Garden Fresh Restaurant Corp., 12/22/11	Retail	26,000	25,764	26,000
Healthy Directions, LLC, 8/31/11	Vitamins, Supplements	14,888	14,888	14,962
Natural Products Group LLC, 12/19/13	Direct Marketing	25,000	25,000	25,156
NES Rentals Holdings Inc., 8/17/10	Equipment Rental	19,575	19,575	19,746
N.E.W. Customer Service Companies, 7/1/12	Consumer Services	50,000	50,000	50,625
PGT Industries, Inc., 8/14/12	Buildings & Real Estate	40,000	40,000	40,800
Quality Home Brands Holdings LLC, 6/20/13	Consumer Products	40,000	39,402	40,400
Sorenson Communications, Inc., 5/15/13	Consumer Services	17,000	17,000	17,356
Tumi Holdings, Inc., 6/30/14	Consumer Products	3,000	3,000	3,026
Total 2nd Lien Bank Debt/Senior Secured Loans			**$ 432,957**	**$ 422,896**
Total Bank Debt/Senior Secured Loans			**$ 468,896**	**$ 458,834**
Total Investments			**$ 1,699,287**	**$ 1,791,450**
Cash Equivalents 55.9%				
U.S. Cash Management Bill, 4.85%, 9/28/06	Government	$ 720,000	$ 711,561	$ 711,561
Total Investments & Cash Equivalents - 196.7% (9)			**$ 2,410,848**	**$ 2,503,011**
Liabilities in excess of other assets (96.7%)				**(1,230,729)**
Net Assets 100.0%				**$ 1,272,282**

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2006

(in thousands, except warrants)

(1) None of our portfolio companies is controlled or affiliated as defined by the Investment Company Act of 1940.

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

(3) Includes 27,433 attached warrants.

(4) Includes 21,336 attached warrants.

(5) Denominated in Euro ( ).

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

(7) Denominated in Canadian dollars.

(8) Represent 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 Interbank Offered Rate for British Pounds), or the Prime Rate. At June 30, 2006, the range of interest rates on floating rate bank debt was 11.06% - 14.75%.

(9) Aggregate gross unrealized appreciation for federal income tax purposes is $108,245; aggregate gross unrealized depreciation for federal income tax purposes is $25,910. Net unrealized appreciation is $82,335 based on a tax cost of $1,709,115.

♦ 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.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2006

Industry Classification	Percentage at June 30, 2006
Direct Marketing	7.8%
Consumer Services	6.8%
Leisure Equipment	6.3%
Publishing	6.2%
Consumer Products	6.0%
Building Products	5.3%
Industrial	4.7%
Media	4.6%
Chemicals	4.5%
Healthcare	4.2%
Environmental	3.9%
Manufacturing	3.9%
Financial Services	3.6%
Agriculture	3.6%
Business Services	3.5%
Broadcasting & Entertainment	3.2%
Electronics	3.0%
Transportation	2.8%
Buildings & Real Estate	2.3%
Consumer Finance	2.0%
Retail	1.8%
Grocery	1.7%
Infrastructure	1.6%
Education	1.5%
Oil & Gas	1.2%
Logistics	1.2%
Equipment Rental	1.1%
Machinery	0.9%
Vitamins, Supplements	0.8%
Total Investments	100.0%

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

March 31, 2006

(in thousands, except shares)

Portfolio Company (1)	Industry	Par Amount*	Cost	Fair Value (2)
Subordinated Debt/Corporate Notes 76.2%				
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	$ 30,000	$ 29,400	$ 30,000
ALM Media Holdings, Inc., 13.00%, 3/15/13 ♦	Publishing	17,649	17,502	17,649
AMH Holdings II, Inc., 13.625%, 12/1/14 ♦	Building Products	46,826	45,882	45,655
Anthony, Inc., 13.50%, 9/1/12 ♦	Manufacturing	9,707	9,584	9,707
API Heat Transfer, Inc., 13.75%, 12/31/12	Manufacturing	19,218	18,906	19,218
Associated Materials, Inc., 0% / 11.25%, 3/1/14	Building Products	58,415	31,496	34,027
Brenntag Holding GmbH & Co. KG, E+900, 1/25/16	Chemicals	15,070	17,850	18,875
Collect America, Ltd., 13.50%, 8/5/12 ♦	Financial Services	36,320	35,636	36,320
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ♦	Agriculture	26,504	15,678	15,020
Eurofresh, Inc., 11.50%, 1/15/13 ♦	Agriculture	50,000	50,000	50,375
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	1,857	2,228	2,315
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	14,424	17,590	17,979
FCI International S.A.S., E+875, 11/3/15 (3)	Electronics	22,500	27,206	28,249
Fidji Luxembourg (BC2) S.A.R.L., E+1125, 8/3/16 (4)	Electronics	17,500	20,999	21,284
Hanley Wood LLC, 12.25%, 8/1/2013 ♦	Media	60,000	59,431	60,000
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	18,452	14,116
Language Line Inc., 11.125%, 6/15/12	Business Services	27,081	26,776	25,253
Latham Manufacturing Corp., 14.00%, 6/30/11	Leisure Equipment	43,760	42,991	43,760
Lexicon Marketing (USA), Inc., 13.75%, 1/2/12	Direct Marketing	27,647	27,170	27,647
LVI Services, Inc., 13.25%, 11/16/12	Environmental	43,000	42,168	43,000
National Renal Institutes, Inc., 14.00%, 3/31/14	Healthcare	10,000	10,000	10,000
N.E.W. Customer Service Companies Inc., 14.00%, Convertible, 8/17/13	Consumer Services	8,320	8,320	12,316
Playpower Holdings Inc., 15.50%, 11/30/12 ♦	Leisure Equipment	70,560	70,560	70,560
Pro Mach Merger Sub, Inc., 12.50%, 6/15/12	Machinery	19,359	19,021	19,359
Safety Products Holdings LLC, 11.75%, 1/1/12 ♦	Manufacturing	27,093	26,588	27,923
SCI Holdings, Inc., 13.00%, 11/15/13	Consumer Services	29,390	29,390	29,390

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (continued)

March 31, 2006

(in thousands, except shares)

	Industry	Par Amount*	Cost	Fair Value (2)
Subordinated Debt/Corporate Notes (continued)				
Sigmakalon Holdco B.V., E+1000, 12/31/15	Chemicals	47,162	$ 57,296	$ 58,000
Sirona Dental Systems GmbH, E+950, 6/30/15	Healthcare	22,096	26,479	27,676
Source Media Holdings Inc., 13.00%, 11/30/12 ♦	Publishing	$ 18,240	17,901	18,240
Travelex Global, GBP L+950, 10/30/15	Financial Services	£ 13,172	24,223	23,248
Tumi Holdings, Inc., L+1100, 12/31/14	Consumer Products	13,175	13,175	13,439
T/Y Merger Corp., 14.75%, 2/26/10	Logistics	18,826	18,588	18,826
WDAC Intermediate Corp., 13.75%, 6/1/15	Publishing	37,613	49,992	47,527
Total Subordinated Debt/Corporate Notes			**$ 928,478**	**$ 936,953**

	Industry	Shares	Cost	Fair Value (2)
Preferred Equity 3.0%				
DSI Holdings Company, Inc., 15.00% (5)	Healthcare	32,500	$ 31,687	$ 32,500
LVI Acquisition Corp, 14.00%	Environmental	1,875	1,875	1,875
Sorenson Communications Holdings, LLC Class B, 10.00%	Consumer Services	1,943	1,943	1,943
Total Preferred Equity			**$ 35,505**	**$ 36,318**

	Industry	Shares	Cost	Fair Value (2)
Common Equity/Partnership Interests 8.8%				
CA Holding, Inc.	Financial Services	25,000	$ 2,500	$ 2,969
DTPI Holdings, Inc.	Infrastructure	200,000	2,000	723
FSC Holdings Inc.	Media	10,000	10,000	10,658
Garden Fresh Restaurant Holding, LLC	Retail	50,000	5,000	5,000
GS Prysmian Co-Invest L.P. (6,7)	Industrial		24,928	39,354
Latham Acquisition Corp.**	Leisure Equipment	33,091	3,309	3,518
LM Acquisition Ltd. **	Direct Marketing	10,000	10,000	15,408
LVI Acquisition Corp.	Environmental	6,250	625	812
MEG Energy Corp.	Oil & Gas	836,000	19,676	19,707
N.E.W. Customer Service Companies, Inc.	Consumer Services	1,105,961	3,415	6,620

Pro Mach Co-investment, LLC**	Machinery	150,000	1,500	1,826
Sorenson Communications Holdings, LLC Class A	Consumer Services	570,120	57	852

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (continued)

March 31, 2006

(in thousands, except shares)

	Industry	Shares	Cost	Fair Value (2)
Common Equity/Partnership Interests (continued)				
T/Y Merger Corp.**	Logistics	250,000	$ 2,500	$ 1,398
Total Common Equity and Partnership Interests			**$ 85,510**	**$ 108,845**
		Par Amount*		
Bank Debt/Senior Secured Loans (8) 38.6%				
1st Lien Bank Debt/Senior Secured Loans 3.0 %				
Alliance Mortgage Investments, Inc., 6/1/10	Consumer Finance	$ 36,250	$ 36,252	$ 36,250
2nd Lien Bank Debt/Senior Secured Loans 35.6%				
ALM Media Holdings, Inc., 3/7/11	Publishing	$ 27,750	$ 27,750	$ 27,750
American Asphalt & Grading Co., 7/1/11	Infrastructure	26,500	26,500	26,367
American Safety Razor, 9/21/12	Consumer Products	11,500	11,500	11,586
Anthony International, 9/1/11	Manufacturing	13,000	12,894	13,000
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	10,000	9,957	10,112
Clean Earth, Inc., 10/14/11	Environmental	25,000	24,970	25,312
Cygnus Business Media, Inc., 1/13/10	Media	10,000	9,928	9,950
Diam International, 7/1/12	Consumer Products	20,000	20,000	17,300
Dr. Leonard s Healthcare Corp., 7/31/12	Direct Marketing	22,000	22,000	22,055
DX III Holdings Corp., 7/28/11	Broadcasting & Entertainment	55,000	53,936	56,650
Garden Fresh Restaurant Corp., 12/22/11	Retail	25,000	24,757	25,000
Healthy Directions, LLC, 8/31/11	Vitamins, Supplements	14,925	14,925	15,000
Natural Products Group LLC, 8/16/12	Direct Marketing	25,000	24,744	25,063
NES Rentals Holdings Inc., 8/17/10	Equipment Rental	19,638	19,638	19,908
N.E.W. Customer Service Companies, 7/1/12	Consumer Services	50,000	50,000	50,875
PGT Industries, Inc., 8/14/12	Buildings & Real Estate	40,000	40,000	40,900
Sorenson Communications, Inc., 5/15/13	Consumer Services	17,000	17,000	17,432
Survey Sampling International, LLC, 5/7/12	Market Research	7,500	7,483	7,580
Tumi Holdings, Inc., 6/30/14	Consumer Products	3,000	3,000	3,030

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (continued)

March 31, 2006

(in thousands, except shares)

	Industry	Par Amount*	Cost	Fair Value (2)
2nd Lien Bank Debt/Senior Secured Loans (continued)				
United Site Services, Inc., 6/30/10	Environmental	$ 13,462	$ 13,298	$ 13,462
Total 2nd Lien Bank Debt/Senior Secured Loans			**$ 434,280**	**$ 438,332**
Total Bank Debt/Senior Secured Loans			**$ 470,532**	**$ 474,582**
Total Investments			**$ 1,520,025**	**$ 1,556,698**
Cash Equivalents 73.0%				
U.S. Cash Management Bill, 4.60%, 4/17/06	Government	$ 900,000	$ 898,374	$ 898,374
Total Investments & Cash Equivalents - 199.6% (9)			**$ 2,418,399**	**$ 2,455,072**
Liabilities in excess of other assets (99.6%)				**(1,225,217)**
Net Assets 100.0%				**$ 1,229,855**

(1) None of our portfolio companies is controlled or affiliated as defined by the Investment Company Act of 1940.
(2) Fair value is determined by or under the direction of the Board of Directors of the Company (see Note 2).
(3) Includes 27,433 attached warrants
(4) Includes 21,336 attached warrants
(5) Includes 5,011,327 detachable warrants
(6) Denominated in Euro ( )
(7) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
(8) Represent floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offer Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP Libor (London Interbank Offer Rate for British Pounds), or the Prime Rate. A t March 31, 2006, the range of interest rates on floating rate investments was 10.47% - 15.98%.
(9) Aggregate gross unrealized appreciation for federal income tax purposes is $44,670; aggregate gross unrealized depreciation for federal income tax purposes is $16,391. Net unrealized appreciation is $28,279 based on a tax cost of $2,426,793.
♦ 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.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (continued)

Industry Classification	Percentage at March 31, 2006
Publishing	8.5%
Consumer Services	7.7%
Leisure Equipment	7.6%
Direct Marketing	5.8%
Building Products	5.8%
Environmental	5.4%
Media	5.2%
Chemicals	4.9%
Healthcare	4.5%
Manufacturing	4.5%
Agriculture	4.2%
Financial Services	4.0%
Broadcasting & Entertainment	3.6%
Electronics	3.2%
Consumer Products	2.9%
Buildings & Real Estate	2.6%
Business Services	2.5%
Industrial	2.5%
Consumer Finance	2.3%
Retail	1.9%
Grocery	1.9%
Infrastructure	1.7%
Machinery	1.4%
Logistics	1.3%
Equipment Rental	1.3%
Oil & Gas	1.3%
Vitamins, Supplements	1.0%
Market Research	0.5%
Total Investments	100.0%

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited)

(in thousands except share and per share amounts)

Note 1. Organization

Apollo Investment Corporation (Apollo Investment or the Company), 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.

On April 8, 2004, Apollo Investment closed its initial public offering and sold 62,000,000 shares of its common stock at a price of $15.00 per share, less an underwriting discount and commissions totaling $0.9375 per share. We commenced operations on April 8, 2004 as we received $870.15 million in total net proceeds from the offering.

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.

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 accordance with Article 6-09 of Regulation S-X under the Exchange Act, we are providing a Statement of Changes in Net Assets in lieu of a Statement of Changes in Stockholders Equity. In addition, certain prior period amounts have been reclassified to conform with the current period presentation. 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;

Investments for which market quotations are readily available are valued at such market quotations; debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by or under the direction of our Board of Directors. Subordinated debt, senior secured debt and other debt securities with maturities greater than 60 days are valued by an independent pricing service or at the mean between the bid and ask prices from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). With respect to certain private equity securities, each investment will be valued by independent third party valuation firms using methods that may include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public among other measures and as applicable. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we will consider the pricing indicated by the external event to corroborate our private equity valuation. Because we expect that there will not be a readily available market value for many of the investments in our portfolio, we expect to value such investments at fair value as determined in good faith by or under the direction of our Board of Directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

With respect to our investments for which market quotations are not readily available, our Board of Directors undertakes a multi-step valuation process each quarter, as described below:

(1) The Company s quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

(2) Preliminary valuation conclusions are then documented and discussed with our senior management;

(3) Independent valuation firms engaged by our board of directors conduct independent appraisals and review management s preliminary valuations and their own independent assessment;

(4) The audit committee of our board of directors reviews the preliminary valuation of our investment adviser and that of the independent valuation firms and responds and supplements the valuation recommendation of the independent valuation firm to reflect any comments; and

(5) The board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our investment adviser, the respective independent valuation firms and the audit committee.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair values involves subjective judgments and estimates. Accordingly, these notes to our financial statements express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements.

(b) Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value;

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

(d) Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with 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, closing and commitment fees are recorded as interest income;

(e) The Company 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 and excise

taxes;

(f) Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified to paid-in capital. 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 at least annually.

(h) 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 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.

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

(i) 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.

(j) The Company records origination expenses related to its multi-currency credit facility as prepaid assets. These expenses are deferred and amortized using the straight-line method over the stated life of the facility.

(k) 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 Section 8.24 of the AICPA Audit and Accounting Guide for Investment Companies.

(l) Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more 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.

Note 3. Agreements

Apollo Investment has an Investment Advisory and Management Agreement with the Investment Adviser, Apollo Investment Management, L.P., 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 (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 advisor.

For the three months ended June 30, 2006 and June 30, 2005, the Investment Adviser received $8,476 and $4,490, respectively, in base investment advisory and management fees and $7,936 and $6,311, respectively, in performance-based net investment income incentive fees from Apollo Investment.

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

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 Apollo Administration 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 these portfolio companies to which Apollo Investment is required to provide such assistance.

For the three months ended June 30, 2006 and June 30, 2005, the Administrator was reimbursed $293 and $518, respectively, from Apollo Investment on the $469 and $618, respectively, of expenses accrued under the Administration Agreement.

On April 14, 2005, Apollo Investment entered into an $800,000,000 Senior Secured Revolving Credit Agreement (the Credit Agreement), 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 $100,000,000, increasing the total facility size to $900,000,000 on the same terms and conditions as the existing commitments. On March 31, 2006, Apollo Investment Corporation amended and restated its $900,000,000 senior secured, multi-currency, revolving credit facility due April 14, 2010. The amended Facility increased total commitments outstanding to $1,250,000,000 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 $2,000,000,000. Pricing remains at 100 basis points over LIBOR. The Facility will be used to supplement Apollo s equity capital to make additional portfolio investments. 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 June 30, 2006, the Company s total net assets and net asset value per share were $1,272,282 and $15.59, respectively. This compares to total net assets and net asset value per share at March 31, 2006 of $1,229,855 and $15.15, respectively.

Note 5. Earnings Per Share

The following information sets forth the computation of basic and diluted per share net increase in net assets resulting from operations for the three months ended June 30, 2006 and June 30, 2005, respectively:

	Three months ended June 30, 2006	Three months ended June 30, 2005
Numerator for increase in net assets per share:	$ 71,156	$ 13,560
Denominator for basic and diluted weighted average shares:	81,201,032	62,557,317
Basic and diluted net increase in net assets per share resulting from operations:	$ 0.88	$ 0.22

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

Note 6. Investments

Investments and cash equivalents consisted of the following as of June 30, 2006 and June 30, 2005, respectively:

	June 30, 2006		June 30, 2005	
	Cost	Fair Value	Cost	Fair Value
Subordinated Debt/Corporate Notes	$ 1,096,295	$ 1,122,652	$ 478,890	$ 476,326
Preferred Equity	47,229	48,191		
Common Equity/Partnership Interests	85,685	157,762	22,415	21,944
Warrants	1,182	4,011		
Bank Debt/Senior Secured Loans	468,896	458,834	463,371	465,606
Cash Equivalents	711,561	711,561	742,649	742,649
Totals	$ 2,410,848	$ 2,503,011	$ 1,707,325	$ 1,706,525

Note 7. Foreign Currency Transactions and Translations

At June 30, 2006, the Company had an open foreign currency contract to sell euro forward and bears the market risk that arises from changes in foreign currency exchange rates. Unrealized appreciation on the contract is reflected in the accompanying financial statements as follows:

Foreign Currency	Local Currency	Cost	Market Value	Settlement Date	Unrealized Appreciation
To Sell: Euro	41,000	$ 52,796	$ 52,652	9/8/06	$ 144

At June 30, 2006, the Company had outstanding non-US borrowings on its $1.25 billion 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 Currency	Original Borrowing Cost	Current Value	Reset Date	Appreciation (Depreciation)
Euro	17,500	$ 21,178	$ 22,376	7/7/2006	$ (1,198)
Euro	10,090	12,489	12,902	7/11/2006	(413)
Euro	15,000	18,141	19,180	7/20/2006	(1,039)
Euro	25,061	30,246	32,044	7/24/2006	(1,798)
Euro	10,000	12,442	12,786	7/28/2006	(344)
Euro	5,000	6,322	6,393	8/4/2006	(71)
Euro	20,022	24,888	25,601	9/6/2006	(713)
Pounds Sterling	£ 13,000	23,916	24,044	9/7/2006	(128)
Euro	2,500	3,001	3,197	9/16/2006	(196)
Euro	45,525	55,071	58,211	9/20/2006	(3,140)
Canadian Dollar	C$ 23,000	19,684	20,682	9/25/2006	(998)
Euro	22,000	26,437	28,130	9/27/2006	(1,693)
		$ 253,815	$ 265,546		$ (11,731)

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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 months ended June 30, 2006 and June 30, 2005 is $12 and $0, respectively.

Note 9. Cash Equivalents

Pending investment in longer-term portfolio holdings, Apollo Investment makes temporary investments in U.S. Treasury bills (of varying maturities) and repurchase agreements as outlined in our prospectus. These temporary investments are deemed cash equivalents by us and are included in our Schedule of Investments. At the end of each fiscal quarter, the Company typically takes proactive steps to prospectively preserve investment flexibility in the next quarter which is assessed against the Company s total assets at its most recent quarter end. The Company can accomplish this in many ways including its current practice of purchasing U.S. Treasury bills and closing out its position on a net cash basis subsequent to quarter end. The Company may also utilize repurchase agreements or other balance sheet transactions as it deems appropriate for this purpose and these amounts are excluded from total assets for purposes of computing the asset base upon which the management fee is determined. U.S. Treasury bills with maturities of greater than 60 days from the time of purchase are marked-to-market as per our valuation policy. U.S. Treasury bills settle regular way on trade date plus one.

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 June 30, 2006.

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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 three months ended June 30, 2006 and the year ended March 31, 2006:

	Three months ended June 30, 2006 (unaudited)	Year ended March 31, 2006
Per Share Data:		
Net asset value, beginning of period	$ 15.15	$ 14.27
Net investment income	0.39	1.41
Net realized and unrealized gain (loss)	0.49	0.49
Net increase in net assets resulting from operations	0.88	1.90
Dividends to shareholders (1)	(0.45)	(1.62)
Effect of anti-dilution	0.01	0.61
Offering costs		(0.01)
Net asset value at end of period	$ 15.59	$ 15.15
Per share market value at end of period	$ 18.48	$ 17.81
Total return (2)	6.23%	12.94%
Shares outstanding at end of period	81,605,018	81,191,954
Ratio/Supplemental Data:		
Net assets at end of period (in millions)	$ 1,272.3	$ 1,229.9
Ratio of net investment income to average net assets	2.58%	9.89%
Ratio of operating expenses to average net assets*	1.50%	5.64%
Ratio of credit facility related expenses to average net assets	0.46%	1.44%
Ratio of total expenses to average net assets*	1.96%	7.08%
Average debt outstanding	$ 418,020	$ 325,639**
Average debt per share	$ 5.15	$ 5.10
Portfolio turnover ratio	7.5%	39.2%

(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. It also takes into account dividends and distributions, if any, reinvested in accordance with the Company s dividend reinvestment plan. Total return is not annualized.

* For the three months ended June 30, 2006 and the year ended March 31, 2006, incorporating the expense offset arrangement, the ratio of operating expenses to average net assets is 1.50% and 5.63%, respectively, and the ratio of total expenses to average net assets is 1.96% and 7.07%, respectively (see Note 8).

** Average debt outstanding and per share is calculated from July 8, 2005 (the date of the Company s first borrowing from its revolving credit facility) through March 31, 2006, and average debt per share is calculated as average debt outstanding divided by the average shares outstanding during the period (in 000 s).

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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 Outstanding (1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
Revolving Credit Facility				
Fiscal 2007 (as of June 30, 2006)	$ 535,795	$ 3,375	$	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 (in 000 s).

(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 $1,000 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

At March 31, 2006 and under the terms of the amended and restated Credit Agreement, the lenders agreed to extend credit to Apollo Investment in an aggregate principal or face amount not exceeding $1.25 billion at any one time outstanding. The Credit Agreement is a five-year revolving facility (with a stated maturity date of April 14, 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 Credit Agreement contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintaining minimum shareholders 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) $300 million plus (B) 25% of the net proceeds from the sale of equity interests in Apollo Investment after the closing date of the Credit Agreement, (c) maintaining a ratio of total assets (less total liabilities) 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 prohibit 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 Credit Agreement (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 Credit Agreement currently provides for the ability of Apollo Investment to seek additional commitments from lenders in an aggregate amount of up to $750 million. The Credit Agreement is used to supplement Apollo Investment s equity capital to make additional portfolio investments and for other general corporate purposes.

At June 30, 2006, the Company had $535,795 (at value) drawn on its $1,250,000 revolving credit facility. The weighted average annual interest cost for the three months ended June 30, 2006 was 4.75%, exclusive of 0.65% for commitment fees and for other prepaid expenses related to establishing the credit facility. This weighted average annual interest cost reflects the average interest cost for all borrowings, including EURIBOR, GBP LIBOR, CAD LIBOR, and USD LIBOR. No amounts were drawn on the facility at June 30, 2005.

The average debt outstanding on the credit facility was $418,020 for the three months ended June 30, 2006. The maximum amount borrowed during this period was $558,998. The remaining amount available under the facility was $714,205 at June 30, 2006.

At June 30, 2006, the Company was in compliance with all financial and operational covenants required by the Credit Agreement.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Apollo Investment Corporation

We have reviewed the accompanying statements of assets and liabilities of Apollo Investment Corporation (the Company) as of June 30, 2006 and March 31, 2006, including the schedules of investments, the related statements of operations and of cash flows for the three-month period ended June 30, 2006 and June 30, 2005 and the statements of changes in net assets for the three-month period ended June 30, 2006 and for the year ended March 31, 2006. 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, 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, 2006, and the related statements of operations, of cash flows and of changes in net assets for the year then ended, management s assessment of the effectiveness of the Company s internal control over financial reporting as of March 31, 2006 and the effectiveness of the Company s internal control over financial reporting as of March 31, 2006; and in our report dated June 9, 2006, we expressed unqualified opinions thereon. The financial statements and management s assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying statement of assets and liabilities as of March 31, 2006, is fairly stated in all material respects in relation to the statement of assets and liabilities from which it has been derived.

/s/ PricewaterhouseCoopers LLP

New York, New York

August 7, 2006

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

Certain statements in this report that relate to estimates or expectations of our future performance or financial condition may constitute forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. The forward-looking statements involve risks and uncertainties, including, but not limited to, 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;

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 may use words such as anticipates, believes, expects, intends , will , should, may and similar expressions to identify forward-lookin statements. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made. Additional information regarding these and other risks and uncertainties is contained in our periodic filings with the Securities and Exchange Commission.

Overview

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a business development company under the Investment Company Act of 1940 (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. On April 8, 2004, we completed our initial public offering as an externally managed, non-diversified, closed-end investment company that elected to be treated as a business development company under the 1940 Act. We commenced operations on April 8, 2004 upon receipt of $870 million in net proceeds from our initial public offering of common stock. On March 22, 2006, the Company closed on its second public offering and sold 17,250,000 shares of its common stock at a price of $17.85 per share, receiving $294 million in total net proceeds from the offering.

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. Over the last twenty-four months, we believe that the availability of senior debt capital from banks for middle market companies has generally increased and has put downward pressure on interest rate spreads at the same time that base interest rates have risen. We do not expect this increased availability of capital to impair our ability to make longer-term investment allocations with our capital. We remain steadfast with our investment discipline in selectively investing in appropriate risk-reward opportunities within the middle market.

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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). If we invest in an issuer that, at the time we make the investment, has outstanding securities as to which a broker or dealer may extend or maintain margin credit or marginable securities, these acquired assets cannot normally be treated as qualifying assets. This treatment results from the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding securities that are eligible for margin credit. Amendments promulgated in 1998 by the Board of Governors of the Federal Reserve System to Regulation T under the Securities Exchange Act of 1934, as amended, or the Exchange Act, expanded the definition of marginable security to include any non-equity security. These amendments have raised questions as to whether a private company that has outstanding debt securities would qualify as an eligible portfolio company. We note that under applicable self-regulatory organization rules that govern the ability of brokers and dealers to extend margin credit, many non-equity securities issued by private companies may not be effectively marginable.

To address these questions, the SEC proposed amendments to the 1940 Act to expand the definition of eligible portfolio company in a manner that would promote the flow of capital to small, developing and financially troubled companies. These amendments would define eligible portfolio company with reference to whether a company has any class of securities listed on an exchange. We continue to monitor this issue closely and intend to adjust our investment focus as needed to comply with and/or take advantage of these amendments if they are adopted or of any other future administrative position, judicial decision or legislative action.

Our board of directors approved an amendment to our investment policy to eliminate the 5% limitation on investments in foreign securities. This change was implemented as of August 14, 2004 and any such investments are included as non-qualifying assets.

Revenue

We generate revenue primarily in the form of interest income from the debt 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 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 equity investments as well as revenue in the form of commitment, origination, structuring and/or diligence 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 Apollo Investment Management. We bear all other costs and expenses of our operations and transactions, including those relating to:

- investment advisory and management fees;
- expenses incurred by Apollo Investment Management 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;

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registration and listing fees;

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

transfer agent and custodial fees;

taxes;

independent directors fees and expenses;

marketing and distribution-related expenses;

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

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 Apollo Administration in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

We expect our general and administrative operating expenses related to our ongoing operations to remain generally stable or decline slightly as a percentage of our total assets in future periods. 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 June 30, 2006, we invested $286.8 million across 4 new and 5 existing portfolio companies. This compares to investing $250.3 million in 7 new and 4 existing portfolio companies for the three months ended June 30, 2005. Investment sales and pre-payments during the three months ended June 30, 2006 totaled $124.1 million versus $124.5 million for the three months ended June 30, 2005. Of the $124.1 million in net proceeds realized during the quarter, $34.0 million were investment sales of senior loans. The remaining $90.1 million were pre-payments by some of our more successful portfolio companies.

At June 30, 2006, our net portfolio consisted of 48 portfolio companies and was invested 63% in subordinated debt, 3% in preferred equity, 9% in common equity and 25% in senior secured loans versus 36 portfolio companies invested 48% in subordinated debt, 2% in common equity, 46% in senior secured loans, and 4% in cash equivalents at June 30, 2005. Our targeted investment size typically ranges between $20 million and $150 million, although this investment size may vary proportionately as the size of our capital base changes.

The weighted average yields on our subordinated debt portfolio, senior secured loan portfolio and total debt portfolio were 13.6%, 12.7% and 13.3%, respectively, at June 30, 2006 versus 13.6%, 10.0% and 11.8%, respectively, at June 30, 2005.

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 June 30, 2006, 55% or $903.8 million of our interest-bearing portfolio is fixed rate debt and 45% or $725.9 million is floating rate debt.

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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. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

Valuation of Portfolio Investments

As a business development company, we generally invest in illiquid securities including debt and equity securities of middle market companies. 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. We obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices 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. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent valuation adviser, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our board will use the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because we expect that there will not be a readily available market for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;
- Preliminary valuation conclusions are then documented and discussed with our senior management;
- Independent valuation firms engaged by our board of directors conduct independent appraisals and review management s preliminary valuations and their own independent assessment;
- The audit committee of our board of directors reviews the preliminary valuation of our investment adviser and that of the independent valuation firms and responds and supplements the valuation recommendation of the independent valuation firm to reflect any comments; and
- 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 firms and the audit committee.

For more information, see Business Investment selection Valuation process.

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Revenue Recognition

We record interest income on an accrual basis to the extent that we expect to collect such amounts. For loans and debt securities with contractual PIK interest, which represents contractual interest accrued and added to the loan balance that generally becomes due at maturity, we will not accrue PIK interest if the portfolio company valuation indicates that the PIK interest is not collectible. We do not accrue as a receivable interest on loans and debt securities if we have reason to doubt our ability to collect such interest. 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 debt security, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and debt 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.

Results of Operations

Results comparisons are for the three months ended June 2006 and June 2005.

Investment Income

For the three months ended June 30, 2006 and June 30, 2005, gross investment income totaled $55.9 million and $37.8 million, respectively. The increase in investment income for the three months ended June 30, 2006 was primarily due to the continued growth and asset mix of our investment portfolio as compared to the year-ago period. Other notable events impacting investment income include a dividend of $4.9 million from a dividend recapitalization of LM Acquisition, Ltd. and a write-off of $0.6 million of accrued interest income on our senior secured position in Diam International. Diam International is now in non-accrual status. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans.

Expenses

Expenses totaled $24.1 million and $12.5 million, respectively, for the three months ended June 30, 2006 and June 30, 2005. Of these totals, $7.9 million and $6.3 million, respectively, were performance-based incentive fees and $5.6 million and $0.5 million, respectively, were interest and other credit facility expenses. Expenses net of performance-based incentive fees, interest, and other credit facility expenses for the three months ended June 30, 2006 and June 30, 2005 were $10.6 million and $5.7 million, respectively. These net expenses consist of base investment advisory and management fees, insurance expenses, administrative services expenses, professional fees, directors fees, audit and tax services expenses, and other general and administrative expenses. The increase in expenses was primarily due to an increase in base investment advisory and management fees resulting from the growth of our investment portfolio.

Net Investment Income

The Company s net investment income totaled $31.7 million and $25.2 million or $0.39 per share and $0.40 per share, respectively, for the three months ended June 30, 2006 and June 30, 2005.

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Net Realized Gains/Losses

The Company had investment sales totaling $124.1 million and $124.5 million, respectively, for the three months ended June 30, 2006 and June 30, 2005. Total net realized losses for the three months ended June 30, 2006 were $3.0 million versus total net realized gains for the three months ended June 30, 2005 of $6.8 million. Of the $3.0 million net realized loss, $2.9 million of the loss was attributable to a currency hedge loss on the settlement of our forward Euro contract in June.

Net Unrealized Appreciation (Depreciation) on Investments and Foreign Currency Contracts and Translations

For the three months ended June 30, 2006 and June 30, 2005, the Company s investments, foreign currencies and other assets and liabilities had a net increase in appreciation of $42.4 million and a net decrease in appreciation of $18.5 million, respectively. At June 30, 2006, net unrealized appreciation totaled $80.7 million, of which $90.8 million was attributable to net unrealized appreciation on our subordinated debt and private equity (after considering the effects of foreign currency borrowing/hedging for our non-U.S. investments) and $10.1 million was attributable to net unrealized depreciation on our bank debt/senior secured debt .

Net Increase in Net Assets From Operations

For the three months ended June 30, 2006 and June 30, 2005, the Company had a net increase in net assets resulting from operations of $71.2 million and $13.6 million, respectively. The net change in net assets from operations per share was $0.88 and $0.22, respectively, for the three months ended June 30, 2006 and June 30, 2005.

LIQUIDITY AND CAPITAL RESOURCES

The Company s liquidity and capital resources are generated primarily through its senior secured, multi-currency $1.25 billion, five-year credit facility maturing in April 2011 as well as from cash flows from operations, including investment sales and prepayments of senior and subordinated loans and income earned from investments and cash equivalents (which normally comprise of U.S. government securities and other high-quality debt investments that mature in one year or less). At June 30, 2006, the Company has $536 million in borrowings outstanding and $714 million available for its use. In the future, the Company may raise additional equity or debt capital off its shelf registration or may securitize a portion of its investments. It may also further access $750 million of additional credit commitments available under the terms of its current credit facility as the Company s equity capital base grows. The primary use of funds will be investments in portfolio companies, cash distributions to holders of common stock and for other general corporate purposes.

Contractual Obligations

We have entered into two contracts under which we have future commitments: the investment advisory and management agreement, pursuant to which Apollo Investment Management has agreed to serve as our investment adviser, and the administration agreement, pursuant to which Apollo Administration 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 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 Apollo Administration 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.

Off-Balance Sheet Arrangements

At June 30, 2006, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than the investment advisory and management agreement and the administration agreement.

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Dividends

Dividends paid to stockholders for the three months ended June 30, 2006 and June 30, 2005 totaled $36.5 million or $0.45 per share versus $19.4 million or $0.31 per share, respectively. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year.

We have elected to be taxed as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986. In order to maintain our status as a regulated investment company, we are required to (1) distribute at least 90% of our investment company taxable income and (2) distribute at least 98% of our income (both ordinary income and net capital gains) to avoid an excise tax. We intend to make distributions to our stockholders on a quarterly basis of substantially all of our taxable net investment income. We also intend to make distributions of net realized capital gains, if any, at least annually.

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, we may be limited in our ability to make distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the Investment Company Act of 1940 and due to provisions in our 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 status as a regulated investment company. We cannot assure stockholders that they will receive any distributions or distributions at a particular level.

With respect to the dividends paid to shareholders, 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 shareholders. For the three months ended June 30, 2006, upfront fees totaling $2.7 million are being amortized into income over the lives of their respective loans. For the three months ended June 30, 2005, upfront fees totaled $0.4 million.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to financial market risks, including changes in interest rates. During the three months ended June 30, 2006, many of the loans in our portfolio had floating interest rates. These loans are usually based on a floating LIBO rate and typically have durations of one to six months after which they reset to current market interest rates. As the percentage of our 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 months ended June 30, 2006, we did not engage in interest rate hedging activities.

Beginning in December 2004 and concomitant with our investment in WDAC Intermediate Corp., we entered into a three-month forward foreign currency contract to hedge our exposure to the currency risk associated with this investment. Our hedging contract continues to roll forward every three months and remains outstanding at June 30, 2006. Realized and unrealized gains on these contracts are represented on our balance sheet and statement of operations, respectively, as of and for the three months ended June 30, 2006. The open contract is further described in footnote 7 within our financial statements included within this Form 10-Q.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of June 30, 2006 (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 SECs rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting

Management has not identified any change in the Company s internal control over financing reporting that occurred during the first quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We, Apollo Investment Management and Apollo Investment Administration are not currently subject to any legal proceedings.

Item 1A. Risk Factors

There have been no material changes from risk factors as 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

None.

Item 5. Other Information

None.

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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(a)	Articles of Amendment (1)
3.1(b)	Articles of Amendment and Restatement (2)
3.2(a)	Bylaws (2)
3.2(b)	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)
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 pre-effective Amendment No. 1 to the Registration Statement under the Securities Act of 1933, as amended, on Form N-2, filed on June 20, 2005.

(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 June 26, 2006.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on August 7, 2006.

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