

APOLLO INVESTMENT CORP
Form 10-Q
August 08, 2007
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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, 2007
- .. **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
(State or other jurisdiction of
incorporation or organization)

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

9 West 57th Street

14th Floor

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

10019
(Zip Code)

(212) 515-3450

(Registrant's telephone number, including area code)

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of August 6, 2007 was 103,900,254.

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APOLLO INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2007

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Table of Contents**PART I. FINANCIAL INFORMATION**

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

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

(in thousands, except per share amounts)

	June 30, 2007 (unaudited)	March 31, 2007
Assets		
Non-controlled/non-affiliated investments, at value (cost - \$2,426,379 and \$2,244,400, respectively)	\$ 2,680,884	\$ 2,348,981
Controlled investments, at value (cost - \$208,000 and \$0, respectively)	208,000	
Cash equivalents, at value (cost - \$741,518 and \$1,089,792, respectively)	741,517	1,089,792
Cash	36,089	7,326
Foreign currency (cost - \$1,799 and \$832, respectively)	1,800	834
Interest receivable	37,703	35,217
Receivable for investments sold		28,248
Dividends receivable	9,412	6,987
Prepaid expenses and other assets	6,150	5,833
Total assets	\$ 3,721,555	\$ 3,523,218
Liabilities		
Payable for investments and cash equivalents purchased	\$ 897,828	\$ 1,134,561
Credit facility payable (see note 7)	791,384	492,312
Management and performance-based incentive fees payable (see note 3)	45,097	43,579
Interest payable	2,392	1,848
Interest purchased payable	356	
Accrued administrative expenses	53	200
Other accrued expenses	1,130	970
Total liabilities	\$ 1,738,240	\$ 1,673,470
Net Assets		
Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 103,900 and 103,508 issued and outstanding, respectively	\$ 104	\$ 104
Paid-in capital in excess of par (see note 2g)	1,681,825	1,673,191
Distributions in excess of net investment income (see note 2g)	(14,313)	(16,283)
Accumulated net realized gain (see note 2g)	79,750	100,494
Net unrealized appreciation	235,949	92,242
Total Net Assets	\$ 1,983,315	\$ 1,849,748
Total liabilities and net assets	\$ 3,721,555	\$ 3,523,218
Net Asset Value Per Share	\$ 19.09	\$ 17.87

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,	June 30,
	2007	2006
INVESTMENT INCOME:		
From non-controlled/non-affiliated investments:		
Interest	\$ 74,550	\$ 49,023
Dividends	4,026	6,356
Other income	320	482
From controlled investments:		
Dividends	50	
Other income	10,000	
Total investment income	88,946	55,861
EXPENSES:		
Management fees	\$ 12,996	\$ 8,476
Performance-based incentive fees (see note 3)	10,835	7,936
Interest and other credit facility expenses	7,607	5,631
Administrative services expense	1,461	968
Other general and administrative expenses	1,350	1,118
Total expenses	34,249	24,129
Expense offset arrangement (see note 8)	(61)	(12)
Net expenses	34,188	24,117
Net investment income	\$ 54,758	\$ 31,744
REALIZED AND UNREALIZED GAIN (LOSS) ON		
INVESTMENTS, CASH EQUIVALENTS AND		
FOREIGN CURRENCIES:		
Net realized gain (loss):		
Investments and cash equivalents	(17,000)	195
Foreign currencies	(3,743)	(3,203)
Net realized gain (loss)	(20,743)	(3,008)
Net change in unrealized gain (loss):		
Investments and cash equivalents	149,922	55,490
Foreign currencies	(6,215)	(13,070)
Net change in unrealized gain (loss)	143,707	42,420
Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currencies	122,964	39,412

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 177,722	\$ 71,156
EARNINGS PER COMMON SHARE (see note 5)	\$ 1.72	\$ 0.88

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, 2007 (unaudited)	Year ended March 31, 2007
Increase in net assets from operations:		
Net investment income	\$ 54,758	\$ 125,318
Net realized gains	(20,743)	132,882
Net change in unrealized gain	143,707	53,966
Net increase in net assets resulting from operations	177,722	312,166
Dividends and distributions to shareholders:	(52,789)	(168,449)
Capital share transactions:		
Net proceeds from shares sold		443,605
Less offering costs		(986)
Reinvestment of dividends	8,634	33,557
Net increase in net assets from capital share transactions	8,634	476,176
Total increase in net assets:	133,567	619,893
Net assets at beginning of period	\$ 1,849,748	\$ 1,229,855
Net assets at end of period	\$ 1,983,315	\$ 1,849,748
Capital share activity:		
Shares sold		20,700,000
Shares issued from reinvestment of dividends	392,488	1,615,812
Net increase in capital share activity	392,488	22,315,812

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION
STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	Three months ended	
	June 30, 2007	June 30, 2006
Cash Flows from Operating Activities:		
Net Increase in Net Assets Resulting from Operations	\$ 177,722	\$ 71,156
Adjustments to reconcile net increase:		
Purchase of investment securities	(763,189)	(300,995)
Proceeds from disposition of investment securities	356,253	121,947
Decrease from foreign currency transactions	(3,743)	(3,203)
Increase in interest and dividends receivable	(4,957)	(2,966)
Decrease (increase) in prepaid expenses and other assets	(317)	1,269
Increase in management and performance-based incentive fee payable	1,517	3,562
Increase in interest payable	543	1,858
Increase (decrease) in accrued expenses	14	(1,006)
Decrease in payable for investments and cash equivalents purchased	(236,353)	(228,332)
Decrease in receivables for securities sold	28,248	17,261
Net change in unrealized appreciation on investments, cash equivalents, foreign currencies and other assets and liabilities	(143,707)	(42,420)
Net realized loss on investments and cash equivalents	20,744	3,008
Net Cash Used by Operating Activities	(567,225)	(358,861)
Cash Flows from Financing Activities:		
Dividends paid in cash	(44,154)	(28,729)
Borrowings under credit facility	829,192	407,763
Repayments under credit facility	(536,357)	(209,500)
Net Cash Provided by Financing Activities	\$ 248,681	\$ 169,534
NET DECREASE IN CASH AND CASH EQUIVALENTS	(\$ 318,544)	(\$ 189,327)
Effect of exchange rates on cash balances	(1)	8
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,097,952	904,959
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 779,407	\$ 715,640

Non-cash financing activities consist of the reinvestment of dividends totaling \$8,634 and \$7,807, respectively (in thousands).

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited)****June 30, 2007****(in thousands)**

Investments in Non-Controlled/Non-Affiliated Portfolio Companies	Industry	Par Amount*	Cost	Fair Value (1)
Subordinated Debt/Corporate Notes 80.8%				
Advanstar, Inc., L+700, 11/30/15	Media	\$ 20,198	\$ 20,199	\$ 20,299
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	30,773	30,233	30,773
ALM Media Holdings, Inc., 13.00%, 3/15/13 ♦	Publishing	21,319	21,190	21,319
ALM Media Group Holdings, Inc., 13.00%, 3/2/15 ♦	Publishing	65,343	65,343	65,343
AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14 ♦	Building Products	48,539	47,673	48,539
API Heat Transfer, Inc., 13.75%, 12/31/12	Manufacturing	26,953	26,560	26,953
Applied Systems, Inc., 13.50%, 6/19/14	Business Services	22,000	21,896	22,055
Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14	Direct Marketing	63,023	62,837	63,023
Associated Materials, Inc., 0% / 11.25%, 3/1/14	Building Products	43,415	28,386	32,290
BNY ConvergEx Group, LLC, 14.00%, 10/2/14	Business Services	15,075	15,075	15,075
Brenntag Holding GmbH & Co. KG, E+900, 1/25/16	Chemicals	15,616	18,546	21,339
Collect America, Ltd., 13.50%, 8/5/12 ♦	Consumer Finance	\$ 36,320	35,728	36,320
Delta Educational Systems, Inc., 14.00%, 5/12/13	Education	18,619	17,993	18,619
DSI Renal Inc., 14.00%, 4/7/14	Healthcare	10,249	10,249	10,249
Dura-Line Merger Sub, Inc., 13.25%, 9/22/14	Telecommunications	39,814	39,034	39,813
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ♦	Agriculture	26,504	19,060	18,619
Eurofresh, Inc., 11.50%, 1/15/13 ♦	Agriculture	50,000	50,000	50,125
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	2,349	2,875	3,188
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	15,489	18,993	21,024
FleetPride Corporation, 11.50%, 10/1/14 ♦	Transportation	\$ 47,500	47,500	48,687
FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 ♦	Transportation	37,846	29,355	29,803
General Nutrition Centers, Inc., L+450, 3/15/14 ♦	Retail	23,000	22,654	22,569
Hub International Holdings, 10.25%, 6/15/15 ♦	Insurance	20,000	20,000	19,483
Infor Lux Bond Company (Infor Global), L+800, 9/2/14	Business Services	7,799	7,799	8,072
KAR Holdings, Inc., 10.00%, 5/1/15	Transportation	10,000	10,000	9,800
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	21,995	22,973
Language Line Inc., 11.125%, 6/15/12	Business Services	27,081	26,829	28,926
Latham Manufacturing Corp., 14.00%, 12/30/12	Leisure Equipment	34,210	33,671	34,210
Lexicon Marketing (USA), Inc., 13.25%, 5/11/13	Direct Marketing	28,482	28,482	28,482

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2007****(in thousands)**

	Industry	Par Amount*	Cost	Fair Value (1)
Subordinated Debt/Corporate Notes (continued)				
LVI Services, Inc., 15.25%, 11/16/12	Environmental	\$ 43,647	\$ 43,647	\$ 43,647
MW Industries, Inc., 13.00%, 5/1/14	Manufacturing	60,000	58,865	60,000
Neff Corp., 10.00%, 6/1/15 ♦	Rental Equipment	10,000	10,000	10,008
Nielsen Finance LLC, 0% / 12.50%, 8/1/16 ♦	Market Research	61,000	35,209	43,043
OTC Investors Corporation (Oriental Trading Company), 13.50%, 1/31/15	Direct Marketing	21,380	21,380	21,380
PBM Holdings, Inc., 13.50%, 9/29/13	Beverage, Food & Tobacco	17,723	17,723	17,767
Playpower Holdings Inc., 15.50%, 12/31/12 ♦	Leisure Equipment	66,913	66,913	66,913
Plinius Investments II B.V. (Casema), E+925, 9/13/16	Cable TV	16,879	21,881	22,955
Pro Mach Merger Sub, Inc., 12.50%, 6/15/12	Machinery	\$ 14,489	14,276	14,489
QHB Holdings LLC (Quality Home Brands), 13.50%, 12/20/13	Consumer Products	40,129	39,167	40,129
RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 7/31/15	Consumer Products	39,592	39,592	39,592
Safety Products Holdings LLC, 11.75%, 1/1/12 ♦	Manufacturing	30,370	29,942	31,964
Serpering Investments B.V. (Casema), E+925, 9/13/16	Cable TV	15,639	19,629	21,379
Sigmakalon Holdco B.V., E+1000, 12/31/15	Chemicals	50,321	61,402	70,340
TL Acquisitions, Inc. (Thomson Learning), 0% / 13.25%, 7/15/15 ♦	Education	\$ 52,000	40,088	39,152
TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 ♦	Education	40,000	39,490	38,817
TP Financing 2, Ltd. (Travelex), GBP L+725, 4/1/15	Financial Services	£ 9,268	17,876	18,930
Varel Distribution Canada, Inc., 11.50%, 3/2/12	Oil & Gas	CAD\$ 22,299	18,860	20,963
Varel Holdings, Inc., 14.00%, 4/30/12	Oil & Gas	\$ 19,197	17,584	19,197
Varel International Ind., L.P., 11.50%, 10/31/11	Oil & Gas	47,000	46,163	47,000
Varietal Distribution, 10.25%, 7/15/15	Distribution	15,000	15,000	15,006
Varietal Distribution, 10.75%, 6/30/17	Distribution	21,875	21,219	21,602
WDAC Intermediate Corp., E+600, 11/29/15	Publishing	33,000	44,337	44,818
Yankee Acquisition Corp., 9.75%, 2/15/17	Retail	\$ 17,000	16,970	16,469
Total Subordinated Debt/Corporate Notes			\$ 1,557,368	\$ 1,603,530

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2007****(in thousands, except shares)**

	Industry	Shares	Cost	Fair Value (1)
Preferred Equity 5.5%				
DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14	Healthcare	32,500	\$ 31,804	\$ 32,500
Exco Resources, Inc., 7.00%/9.00% (Convertible)	Oil & Gas	975	9,750	11,603
Exco Resources, Inc., 11.00%, 4/15/11	Oil & Gas	4,025	40,250	47,897
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	11,041	12,360
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	3,325	3,325	2,841
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	112
Varietal Distribution Holdings, LLC, 8.00%	Distribution	3,097	3,097	3,097
Total Preferred Equity			\$ 101,142	\$ 110,410
Common Equity/Partnership Interests 16.1%				
A-D Conduit Holdings, LLC (Duraline)	Telecommunications	2,778	\$ 2,778	\$ 2,778
AHC Mezzanine LLC (Advanstar)	Media	10,000	10,000	10,315
CA Holding, Inc. (Collect America, Ltd.)	Consumer Finance	25,000	2,500	3,127
DTPI Holdings, Inc. (American Asphalt & Grading)**	Infrastructure	200,000	2,000	
FSC Holdings Inc. (Hanley Wood LLC) **	Media	10,000	10,000	15,009
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	7,754
Gray Energy Services, LLC Class H (Gray Wireline)	Oil & Gas	1,081	2,000	2,270
Gryphon Colleges Corporation (Delta Educational Systems, Inc.) **	Education	175	175	
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3)	Industrial		1,934	165,310
Latham International, Inc. (fka Latham Acquisition Corp.) **	Leisure Equipment	33,091	3,309	3,925
LM Acquisition Ltd. (Lexicon Marketing Inc.) **	Direct Marketing	10,000	10,000	14,198
LVI Acquisition Corp. (LVI Services, Inc.) **	Environmental	6,250	625	
MEG Energy Corp. (4) **	Oil & Gas	1,718,388	44,718	66,232
Prism Business Media Holdings, LLC	Media	68	14,947	22,645
Pro Mach Co-Investment, LLC **	Machinery	150,000	1,500	2,505
Sorenson Communications Holdings, LLC Class A	Consumer Services	454,828	45	2,926
Varietal Distribution Holdings, LLC Class A	Distribution	28,028	28	28
Total Common Equity and Partnership Interests			\$ 111,559	\$ 319,022

See notes to financial statements.

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

June 30, 2007

(in thousands, except warrants)

	Industry	Warrants	Cost	Fair Value (1)
Warrants 0.6%				
DSI Holdings Company, Inc. (DSI Renal Inc.), Common **	Healthcare	5,011,327		\$ 2,927
Fidji Luxco (BC) S.C.A., Common (FCI) (2) **	Electronics	48,769	\$ 491	4,214
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	98	98	
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	459	459	528
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	1,043	1,043	891
Varel Holdings, Inc.	Oil & Gas	40,060	1,423	2,875
Total Warrants			\$ 3,514	\$ 11,435

		Par Amount*		
2nd Lien Bank Debt/Senior Secured Loans (5) 32.1%				
Advanstar Communications, Inc.	Media	\$ 20,000	\$ 20,000	\$ 20,050
American Asphalt & Grading Co., 7/10/09	Infrastructure	28,490	28,490	9,971
BNY Convergenx Group, LLC, 4/2/14	Business Services	50,000	49,766	50,469
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	15,000	15,027	15,075
Clean Earth, Inc., 10/14/11	Environmental	25,000	24,976	25,297
Dr. Leonard s Healthcare Corp., 7/31/12	Direct Marketing	22,000	22,000	21,890
Dresser, Inc., 5/4/15	Industrial	60,000	60,000	60,412
Educate, Inc., 6/14/14	Education	10,000	10,000	10,038
Garden Fresh Restaurant Corp., 12/22/11	Retail	26,000	25,795	26,000
Generac Acquisition Corp., 5/10/14	Durable Consumer Products	10,000	10,121	9,513
Gray Wireline Service, Inc., 12.25%, 2/28/13	Oil & Gas	77,500	76,798	77,500
Infor Enterprise Solutions Holdings, Inc., Tranche B-1, 3/2/14	Business Services	5,000	5,000	5,050
Infor Enterprise Solutions Holdings, Inc., 3/2/14	Business Services	10,000	10,000	10,137
Infor Global Solutions European Finance S.á.R.L., 3/2/14	Business Services	6,210	8,263	8,534
IPC Systems, Inc., 6/1/15	Telecommunications	25,000	25,000	24,812
Kronos, Inc., 6/11/15	Electronics	60,000	60,000	59,700
Quality Home Brands Holdings LLC, 6/20/13	Consumer Products	40,000	39,457	39,950
Sheridan Holdings, Inc., 6/15/15	Healthcare	60,000	60,000	59,550
Sorenson Communications, Inc., 2/18/14	Consumer Services	62,103	62,103	62,433

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2007****(in thousands, except shares)**

	Industry	Par Amount*	Cost	Fair Value (1)
2nd Lien Bank Debt/Senior Secured Loans (5) (continued)				
Summit Business Media Intermediate Holding Company, Inc., 11/4/13	Media	\$ 15,000	\$ 15,000	\$ 15,169
TransFirst Holdings, Inc., 6/15/15	Financial Services	25,000	25,000	24,937
Total 2nd Lien Bank Debt/Senior Secured Loans			\$ 652,796	\$ 636,487
Total Investments in Non-Controlled/Non-Affiliated Portfolio Companies 135.1%			\$ 2,426,379	\$ 2,680,884
Investments in Controlled Portfolio Companies				
		Shares		
Preferred Equity 3.8%				
Grand Prix Holdings, LLC Series A, 12.00% (Innkeepers USA)	Hotels, Motels, Inns & Gaming	2,989,431	74,736	74,736
Common Equity 6.7%				
Grand Prix Holdings, LLC (Innkeepers USA)	Hotels, Motels, Inns & Gaming	13,326,423	133,264	133,264
Total Investments in Controlled Portfolio Companies 10.5%			\$ 208,000	\$ 208,000
Total Investments			\$ 2,634,379	\$ 2,888,884
Cash Equivalents 37.4%				
U.S. Treasury Bill, 4.68%, 9/27/07	Government	\$ 750,000	\$ 741,518	\$ 741,517
Total Investments & Cash Equivalents 183.0% (6)			\$ 3,375,897	\$ 3,630,401
Liabilities in Excess of Other Assets (83.0%)				(1,647,086)
Net Assets 100.0%				\$ 1,983,315

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

(2) Denominated in Euro ().

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

(4) Denominated in Canadian dollars.

(5) Includes floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At June 30, 2007, the range of interest rates on floating rate bank debt was 10.36% - 14.11%.

(6)

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Aggregate gross unrealized appreciation for federal income tax purposes is \$273,082; aggregate gross unrealized depreciation for federal income tax purposes is \$28,975. Net unrealized appreciation is \$244,107 based on a tax cost of \$3,386,294.

- ◆ These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- * Denominated in USD unless otherwise noted.
- ** Non-income producing security

See notes to financial statements.

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

Industry Classification	Percentage at June 30, 2007
Oil & Gas	10.2%
Industrial	7.8%
Hotels, Motels, Inns and Gaming	7.2%
Business Services	5.9%
Publishing	5.4%
Direct Marketing	5.2%
Education	4.3%
Consumer Products	4.1%
Manufacturing	4.1%
Healthcare	3.6%
Leisure Equipment	3.6%
Media	3.6%
Building Products	3.3%
Chemicals	3.2%
Transportation	3.1%
Retail	2.5%
Environmental	2.4%
Agriculture	2.4%
Telecommunications	2.3%
Consumer Services	2.3%
Electronics	2.2%
Cable TV	1.5%
Financial Services	1.5%
Market Research	1.5%
Distribution	1.4%
Consumer Finance	1.4%
Grocery	1.1%
Insurance	0.7%
Beverage, Food, & Tobacco	0.6%
Machinery	0.6%
Rental Equipment	0.4%
Infrastructure	0.3%
Durable Consumer Products	0.3%
Total Investments	100.0%

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****March 31, 2007****(in thousands)**

Portfolio Company (1)	Industry	Par Amount*	Cost	Fair Value (2)
Subordinated Debt/Corporate Notes 77.5%				
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	\$ 30,618	\$ 30,066	\$ 30,618
ALM Media Holdings, Inc., 13.00%, 3/15/13 ♦	Publishing	20,018	19,885	20,018
ALM Media Group Holdings, Inc., 13.00%, 3/2/15 ♦	Publishing	63,000	63,000	63,000
AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14 ♦	Building Products	48,539	47,656	48,539
API Heat Transfer, Inc., 13.75%, 12/31/12	Manufacturing	26,835	26,430	26,835
Applied Systems, Inc., 13.50%, 6/19/14	Business Services	22,000	21,894	22,220
Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14	Direct Marketing	58,812	58,621	58,812
Associated Materials, Inc., 0% / 11.25%, 3/1/14	Building Products	43,415	27,318	30,825
Audatex Holdings III, B.V., E+900, 10/13/14	Business Services	16,408	20,244	22,497
BNY ConvergEx Group, LLC, 14.00%, 10/2/14	Business Services	\$ 15,000	15,000	15,000
Brenntag Holding GmbH & Co. KG, E+900, 1/25/16	Chemicals	15,616	18,546	21,398
Collect America, Ltd., 13.50%, 8/5/12 ♦	Consumer Finance	\$ 36,320	35,709	36,320
Delta Educational Systems, Inc., 14.00%, 5/12/13	Education	18,573	17,931	18,573
DSI Renal Inc., 14.00%, 4/7/14	Healthcare	10,198	10,198	10,198
Dura-Line Merger Sub, Inc., 13.25%, 9/22/14	Telecommunications	39,814	39,019	39,814
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ♦	Agriculture	26,504	18,337	16,366
Eurofresh, Inc., 11.50%, 1/15/13 ♦	Agriculture	50,000	50,000	49,750
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	2,176	2,641	2,969
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	15,126	18,503	20,638
FleetPride Corporation, 11.50%, 10/1/14 ♦	Transportation	\$ 47,500	47,500	48,213
FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 ♦	Transportation	37,846	28,212	28,384
General Nutrition Centers, Inc., L+450, 3/15/14 ♦	Retail	15,000	14,719	14,709
Infor Lux Bond Company (Infor Global), L+800, 9/2/14	Business Services	7,539	7,539	7,628
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	21,244	23,388
Language Line Inc., 11.125%, 6/15/12	Business Services	27,081	26,818	28,909
Latham Manufacturing Corp., 14.00%, 12/30/12	Leisure Equipment	34,124	33,570	34,124
Lexicon Marketing (USA), Inc., 13.25%, 5/11/13	Direct Marketing	28,393	28,393	28,393
LVI Services, Inc., 15.25%, 11/16/12	Environmental	43,082	43,082	43,082
MW Industries, Inc., 13.00%, 5/1/14	Manufacturing	60,000	58,840	60,000

See notes to financial statements.

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

March 31, 2007

(in thousands)

	Industry	Par Amount*	Cost	Fair Value (2)
Subordinated Debt/Corporate Notes (continued)				
Nielsen Finance LLC, 0% / 12.50%, 8/1/16 ♦	Market Research	\$ 61,000	\$ 34,678	42,776
OTC Investors Corporation (Oriental Trading Company), 13.50%, 1/31/15	Direct Marketing	21,380	21,380	21,380
PBM Holdings, Inc., 13.50%, 9/29/13	Beverage, Food & Tobacco	17,723	17,723	17,723
Playpower Holdings Inc., 15.50%, 12/31/12 ♦	Leisure Equipment	62,100	62,100	62,100
Plinius Investments II B.V. (Casema), E+925, 9/13/16	Cable TV	16,879	21,880	23,006
Pro Mach Merger Sub, Inc., 12.50%, 6/15/12	Machinery	14,471	14,251	14,471
QHB Holdings LLC (Quality Home Brands), 13.50%, 12/20/13	Consumer Products	38,819	37,835	38,819
RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 7/31/15	Consumer Products	38,286	38,286	38,286
Safety Products Holdings LLC, 11.75%, 1/1/12 ♦	Manufacturing	30,370	29,927	32,514
SCI Holdings, Inc. (Sorenson Communications), L+900, 8/18/14	Consumer Services	18,572	18,161	18,804
Serpering Investments B.V. (Casema), E+925, 9/13/16	Cable TV	15,639	19,629	21,427
Sigmakalon Holdco B.V., E+1000, 12/31/15	Chemicals	50,321	61,402	69,330
TP Financing 2, Ltd. (Travelex), GBP L+725, 4/1/15	Financial Services	£ 9,250	17,837	18,222
Varel Distribution Canada, Inc., 11.50%, 3/2/12	Oil & Gas	CAD\$ 22,299	18,845	19,329
Varel Holdings, Inc., 14.00%, 4/30/12	Oil & Gas	\$ 19,197	17,524	19,197
Varel International Ind., L.P., 11.50%, 10/31/11	Oil & Gas	47,000	46,126	47,000
WDAC Intermediate Corp., 13.75%, 6/1/15	Publishing	42,962	56,824	57,999
Total Subordinated Debt/Corporate Notes			\$ 1,385,323	\$ 1,433,603

		Shares		
Preferred Equity 5.3%				
DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14	Healthcare	32,500	\$ 31,781	\$ 32,500
Exco Resources, Inc., 7.00%/9.00% (Convertible)	Oil & Gas	975	9,750	9,750
Exco Resources, Inc., 11.00%, 4/15/11	Oil & Gas	4,025	40,250	40,250
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	10,995	12,360
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	3,325	3,325	3,325
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	112
Total Preferred Equity			\$ 97,976	\$ 98,297

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2007****(in thousands, except shares/warrants)**

	Industry	Shares	Cost	Fair Value (2)
Common Equity/Partnership Interests 10.3%				
A-D Conduit Holdings, LLC (Duraline)	Telecommunications	2,778	\$ 2,778	\$ 2,778
CA Holding, Inc. (Collect America, Ltd.)	Consumer Finance	25,000	2,500	3,306
DTPI Holdings, Inc. (American Asphalt & Grading)**	Infrastructure	200,000	2,000	
FSC Holdings Inc. (Hanley Wood LLC)**	Media	10,000	10,000	14,868
Garden Fresh Restaurant Holding, LLC**	Retail	50,000	5,000	7,654
Gray Energy Services, LLC Class H (Gray Wireline)	Oil & Gas	1,081	2,000	2,000
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)	Education	175	175	33
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (3,4)	Industrial		20,434	66,312
Latham International, Inc. (fka Latham Acquisition Corp.) **	Leisure Equipment	33,091	3,309	4,479
LM Acquisition Ltd. (Lexicon Marketing Inc.)	Direct Marketing	10,000	10,000	17,874
LVI Acquisition Corp. (LVI Services, Inc.)**	Environmental	6,250	625	
MEG Energy Corp. (5) **	Oil & Gas	1,718,388	44,718	49,899
Prism Business Media Holdings, LLC	Media	68	15,050	15,050
Pro Mach Co-Investment, LLC**	Machinery	150,000	1,500	2,751
Sorenson Communications Holdings, LLC Class A	Consumer Services	454,828	45	2,764
Total Common Equity and Partnership Interests			\$ 120,134	\$ 189,768

Warrants				
Warrants 0.6%				
DSI Holdings Company, Inc. (DSI Renal Inc.), Common	Healthcare	5,011,327		\$ 2,235
Fidji Luxco (BC) S.C.A., Common (FCI) (3)	Electronics	48,769	\$ 491	4,193
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common	Education	98	98	18
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred	Education	459	459	513
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred	Education	1,043	1,043	1,163
Varel Holdings, Inc.	Oil & Gas	40,060	1,423	3,294
Total Warrants			\$ 3,514	\$ 11,416

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2007****(in thousands)**

	Industry	Par Amount*	Cost	Fair Value (2)
Bank Debt/Senior Secured Loans (6) 33.3%				
1st Lien Bank Debt/Senior Secured Loans 2.2 %				
Gray Wireline Service, Inc., 2/28/13	Oil & Gas	\$ 40,000	\$ 39,631	\$ 40,000
2nd Lien Bank Debt/Senior Secured Loans 31.1%				
American Asphalt & Grading Co., 7/10/09	Infrastructure	27,499	27,499	16,499
BNY Convergenx Group, LLC, 4/2/14	Business Services	50,000	49,761	50,625
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	15,000	15,029	15,075
Clean Earth, Inc., 10/14/11	Environmental	25,000	24,974	25,297
Cygnus Business Media, Inc., 1/13/10	Media	10,000	9,945	9,950
Diam International, 7/1/12***	Consumer Products	20,231	20,203	1,011
Diam International, Jr. Revolving Credit, 6/30/11***	Consumer Products	1,308	1,308	360
Dr. Leonard s Healthcare Corp., 7/31/12	Direct Marketing	22,000	22,000	21,890
DX III Holdings Corp. (Deluxe Entertainment Services Group Inc.), 7/28/11	Broadcasting & Entertainment	55,000	54,134	58,025
Garden Fresh Restaurant Corp., 12/22/11	Retail	26,000	25,787	26,000
Generac Acquisition Corp., 5/10/14	Durable Consumer Products	10,000	10,123	10,000
Gray Wireline Service, Inc., 2/28/13	Oil & Gas	70,000	69,354	70,000
Infor Enterprise Solutions Holdings, Inc., 3/2/14	Business Services	10,000	10,000	10,212
Infor Global Solutions European Finance S.á.R.L., 3/2/14	Business Services	6,210	8,263	8,432
N.E.W. Customer Service Companies, 2/8/14	Consumer Services	70,000	70,000	71,138
Oceania Cruises, Inc., 11/13/13	Hotels, Motels, Inns & Gaming	20,000	20,000	20,262
Quality Home Brands Holdings LLC, 6/20/13	Consumer Products	40,000	39,442	40,000
Sheridan Healthcare, Inc., 11/9/12	Healthcare	30,000	30,000	30,319
Sorenson Communications, Inc., 2/18/14	Consumer Services	75,000	75,000	75,633
Summit Business Media Intermediate Holding Company, Inc., 11/4/13	Media	15,000	15,000	15,169
Total 2nd Lien Bank Debt/Senior Secured Loans			\$ 597,822	\$ 575,897
Total Bank Debt/Senior Secured Loans			\$ 637,453	\$ 615,897
Total Investments			\$ 2,244,400	\$ 2,348,981

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2007****(in thousands)**

	Industry	Par Amount*	Cost	Fair Value (2)
Cash Equivalents 58.9%				
U.S. Treasury Bill, 5.05%, 5/3/07	Government	\$ 400,000	\$ 398,287	\$ 398,287
U.S. Treasury Bill, 4.905%, 6/28/07	Government	475,000	469,375	469,375
U.S. Treasury Bill, 4.905%, 7/5/07	Government	225,000	222,130	222,130
Total Cash Equivalents			\$ 1,089,792	\$ 1,089,792
Total Investments & Cash Equivalents - 185.9% (7)			\$ 3,334,192	\$ 3,438,773
Liabilities in excess of other assets (85.9%)				(1,589,025)
Net Assets 100.0%				\$ 1,849,748

- (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) Denominated in Euro ().
- (4) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
- (5) Denominated in Canadian dollars.
- (6) 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 Inter-bank Offered Rate for British Pounds), or the prime rate. At March 31, 2007, the range of interest rates on floating rate bank debt was 8.61% - 14.10%.
- (7) Aggregate gross unrealized appreciation for federal income tax purposes is \$130,991; aggregate gross unrealized depreciation for federal income tax purposes is \$38,383. Net unrealized appreciation is \$92,608 based on a tax cost of \$3,346,165.
- ◆ 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 (continued)

Industry Classification	Percentage at March 31, 2007
Oil & Gas	12.8%
Business Services	8.0%
Consumer Services	7.2%
Publishing	7.0%
Direct Marketing	6.3%
Manufacturing	5.1%
Consumer Products	5.0%
Leisure Equipment	4.3%
Building Products	4.0%
Chemicals	3.9%
Transportation	3.3%
Healthcare	3.2%
Environmental	2.9%
Industrial	2.8%
Agriculture	2.8%
Broadcasting & Entertainment	2.5%
Media	2.3%
Retail	2.1%
Cable TV	1.9%
Market Research	1.8%
Telecommunications	1.8%
Consumer Finance	1.7%
Education	1.5%
Grocery	1.3%
Hotels, Motels, Inns and Gaming	0.9%
Financial Services	0.8%
Beverage, Food, & Tobacco	0.8%
Machinery	0.7%
Infrastructure	0.7%
Durable Consumer Products	0.4%
Electronics	0.2%
 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 , the Company , or We), a Maryland corporation organized on February 2, 2004, is a closed-end, non-diversified management investment company that has filed an election to be treated as a business development company (BDC) under the Investment Company Act of 1940. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in middle-market companies in the form of mezzanine and senior secured loans, each of which may include an equity component, and, to a lesser extent, by making direct equity investments in such companies.

Apollo Investment commenced operations on April 8, 2004 receiving net proceeds of \$870.15 million from initial public offering selling 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.

Note 2. Significant Accounting Policies

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

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

The significant accounting policies consistently followed by Apollo Investment are:

- (a) Security transactions are accounted for on the trade date;
- (b) Investments for which market quotations are readily available are valued at such market quotations if they are deemed to represent fair value; 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, 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) or by an independent third party valuation firm. With respect to certain private equity securities, each investment is valued by independent third party valuation firms using methods that may, among other measures and as applicable, include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our private equity valuation. Because we expect that there is no 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 investments for which market quotations are not readily available or when such market quotations are not deemed to represent fair value, our board of directors has approved a multi-step valuation process each quarter, as described below:

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals 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.

- (c) Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value.
- (d) Gains or losses on the sale of investments are calculated by using the specific identification method.
- (e) Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination and/or commitment fees associated with debt investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination and/or commitment fees are recorded as interest income. Structuring fees are recorded as other income when earned.
- (f) 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 taxes. The

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Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on estimated excess taxable income as required.

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

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APOLLO INVESTMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)

(in thousands except share and per share amounts)

- (i) The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. The Company's investments in foreign securities may involve certain risks such as foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.
- (j) The Company may enter into forward exchange contracts in order to hedge against foreign currency risk. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled.
- (k) The Company records origination expenses related to its multi-currency credit facility as prepaid assets. These expenses are deferred and amortized using the straight-line method over the stated life of the facility.
- (l) The Company records registration expenses related to Shelf filings as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with Section 8.24 of the AICPA Audit and Accounting Guide for Investment Companies.
- (m) Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current.
- (n) In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation requires recognition of the impact of a tax position if that position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In addition, FIN 48 provides measurement guidance whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. At this time, we do not believe that FIN 48 has a material impact on the Company's financial condition or results of operations. If the tax law requires interest and/or penalties to be paid on an underpayment of income taxes, interest and penalties will be classified as income taxes on our financial statements, if applicable.
- (o) In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, which assists in clarifying the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

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participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, the Company is in the process of reviewing the Standard against its current valuation policies to determine future applicability.

Table of Contents**APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (unaudited) (continued)****(in thousands except share and per share amounts)****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, 2007 and June 30, 2006, the Investment Adviser received \$12,996 and \$8,476, respectively, in base investment advisory and management fees and \$13,119 and \$7,936, respectively, in performance-based net investment income incentive fees from Apollo Investment. At June 30, 2007 and March 31, 2007, the Company had a payable for the net realized capital gains based incentive fee of \$18,982 and \$21,266, respectively. Changes in net realized gains/losses and changes in gross unrealized depreciation impact the amounts accrued quarter to quarter. Accordingly, at June 30, 2007, the Company reduced its accrual for the net realized capital gains based incentive fee by \$2,284. The amount, if any, actually payable by the Company will be determined as of the end of the calendar year.

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

For the three months ended June 30, 2007 and June 30, 2006, the Administrator was reimbursed \$1,408 and \$792, respectively, from Apollo Investment on the \$1,461 and \$968, respectively, of expenses accrued under the Administration Agreement.

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

On April 14, 2005, Apollo Investment entered into an \$800 million Senior Secured Revolving Credit Agreement (the Facility), among Apollo Investment, the lenders party thereto and JPMorgan Chase Bank, N.A. (JPMorgan), as administrative agent for the lenders. Effective December 29, 2005, lenders provided additional commitments in the amount of \$100 million, increasing the total facility size to \$900 million on the same terms and conditions as the existing commitments. On March 31, 2006, Apollo Investment Corporation amended and restated its \$900 million senior secured, multi-currency, revolving credit facility due April 14, 2010. The amended Facility increased total commitments outstanding to \$1.25 billion 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 billion. In February 2007, Apollo Investment increased total commitments to \$1.7 billion under the Facility with the same terms. Pricing remains at 100 basis points over LIBOR. The Facility is used to supplement Apollo's equity capital to make additional portfolio investments and for general corporate purposes. From time to time, certain of the lenders provide customary commercial and investment banking services to affiliates of Apollo Investment. JPMorgan also serves as custodian and fund accounting agent for Apollo Investment.

Note 4. Net Asset Value Per Share

At June 30, 2007, the Company's total net assets and net asset value per share were \$1,983,315 and \$19.09, respectively. This compares to total net assets and net asset value per share at March 31, 2007 of \$1,849,748 and \$17.87, 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, 2007 and June 30, 2006, respectively:

	Three months ended June 30, 2007	Three months ended June 30, 2006
Numerator for increase in net assets per share:	\$ 177,722	\$ 71,156
Denominator for basic and diluted weighted average shares:	103,520,705	81,201,032
Basic and diluted net increase in net assets per share resulting from operations:	\$ 1.72	\$ 0.88

Note 6. Investments

Investments and cash equivalents consisted of the following as of June 30, 2007 and June 30, 2006, respectively:

	June 30, 2007		June 30, 2006	
	Cost	Fair Value	Cost	Fair Value
Subordinated Debt/Corporate Notes	\$ 1,557,368	\$ 1,603,530	\$ 1,096,295	\$ 1,122,652
Preferred Equity	175,878	185,146	47,229	48,191
Common Equity/Partnership Interests	244,823	452,286	85,685	157,762
Warrants	3,514	11,435	1,182	4,011
Bank Debt/Senior Secured Loans	652,796	636,487	468,896	458,834
Cash Equivalents	741,518	741,517	711,561	711,561
Totals	\$ 3,375,897	\$ 3,630,401	\$ 2,410,848	\$ 2,503,011

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

(in thousands except share and per share amounts)

Note 7. Foreign Currency Transactions and Translations

At June 30, 2007, the Company had outstanding non-U.S. borrowings on its \$1.7 billion multicurrency revolving credit facility denominated in euros, pounds sterling, and Canadian dollars. Unrealized appreciation or depreciation on these outstanding borrowings is indicated in the table below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (Depreciation)
Pounds Sterling	£ 2,500	\$ 4,957	\$ 5,016	8/10/2007	\$ (59)
Canadian Dollar	C\$ 29,700	25,161	27,920	8/16/2007	(2,759)
Euro	42,500	56,599	57,398	8/21/2007	(799)
Euro	45,000	60,581	60,775	8/22/2007	(194)
Euro	45,525	55,071	61,484	8/22/2007	(6,413)
Canadian Dollar	C\$ 23,000	19,684	21,622	8/29/2007	(1,938)
Euro	25,061	30,246	33,846	8/29/2007	(3,600)
Canadian Dollar	C\$ 22,500	19,189	21,151	9/5/2007	(1,962)
Euro	3,000	4,037	4,052	9/10/2007	(15)
Euro	140,000	188,503	189,077	9/28/2007	(574)
Pounds Sterling	£ 6,750	13,266	13,543	9/28/2007	(277)
		\$ 477,294	\$ 495,884		\$ (18,590)

At March 31, 2007, the Company had outstanding non-US borrowings on its \$1.7 billion multicurrency revolving credit facility denominated in euros, pounds sterling, and Canadian dollars. Unrealized appreciation or depreciation on these outstanding borrowings is indicated in the table below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (Depreciation)
Euro	1,000	\$ 1,330	\$ 1,331	4/23/2007	(\$ 1)
Canadian Dollar	C\$ 29,700	25,161	25,744	5/16/2007	(583)
Euro	58,050	74,664	77,273	5/21/2007	(2,609)
Euro	42,500				