

APOLLO INVESTMENT CORP

Form 10-K

May 31, 2011

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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**  
**FOR THE FISCAL YEAR ENDED MARCH 31, 2011**

**OR**

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

**COMMISSION FILE NUMBER: 814-00646**

**APOLLO INVESTMENT CORPORATION**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State of Incorporation)

**52-2439556**  
(I.R.S. Employer Identification Number)

**9 West 57th Street**

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

**10019**  
(Zip Code)

**Registrant's telephone number, including area code: (212) 515-3450**

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of Each Class**  
**Common Stock, par value**

**Name of Each Exchange on Which Registered**  
**The NASDAQ Global Select Market**

**\$0.001 per share**

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

The aggregate market value of common stock held by non-affiliates of the Registrant on September 30, 2010 based on the closing price on that date of \$10.23 on the NASDAQ Global Select Market was approximately \$2.0 billion. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 195,914,060 shares of the Registrant's common stock outstanding as of May 31, 2011.

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Portions of the registrant's Proxy Statement for its 2011 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

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**APOLLO INVESTMENT CORPORATION**

**FORM 10-K**

**FOR THE FISCAL YEAR ENDED MARCH 31, 2011**

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### **PART I**

#### **Item 1. Business**

##### **Apollo Investment Corporation**

Apollo Investment Corporation ( Apollo Investment , the Company , AIC , we , us , or our ), a Maryland corporation organized on February 2, 2004, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940 (the 1940 Act ). In addition, for tax purposes we have elected to be treated as a regulated investment company ( RIC ), under the Internal Revenue Code of 1986, as amended (the Code ).

Our primary investment objective is to generate current income and capital appreciation. We invest primarily in the form of subordinated debt, as well as by making investments in certain senior secured loans and/or equity in private middle market companies. From time to time, we may also invest in the securities of public companies.

Our portfolio is comprised primarily of investments in subordinated debt, sometimes referred to as mezzanine debt, and senior secured loans of private middle-market companies that, in the case of senior secured loans, generally are not broadly syndicated and whose aggregate tranche size is typically less than \$200 million. From time to time our portfolio also includes equity interests such as common stock, preferred stock, warrants or options. In this Form 10-K, we use the term middle-market to refer to companies with annual revenues between \$50 million and \$2 billion. While our primary investment objective is to generate current income and capital appreciation through investments in U.S. senior and subordinated loans, other debt securities and equity, we may also invest a portion of the portfolio in opportunistic investments, including foreign securities. Most of the debt instruments we invest in are unrated or rated below investment grade, which is an indication of having predominately speculative characteristics with respect to the capacity to pay interest and principal.

Apollo Investment Management, L.P. ( AIM ) is our investment adviser and an affiliate of Apollo Global Management, LLC, and its consolidated subsidiaries ( AGM ). AGM and other affiliates manage other funds that may have investment mandates that are similar, in whole or in part, with ours. AIM and its affiliates may determine that an investment is appropriate both for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, AIM may determine that we should invest on a side-by-side basis with one or more other funds. We may make all such investments subject to compliance with applicable regulations and interpretations, and our allocation procedures. In certain circumstances negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

During our fiscal year ended March 31, 2011, we invested \$1.1 billion across 21 new and 18 existing portfolio companies through a combination of primary and secondary market purchases. This compares to investing \$716 million in 5 new and 24 existing portfolio companies for the previous fiscal year ended March 31, 2010. Investments sold or prepaid during the fiscal year ended March 31, 2011 totaled \$977 million versus \$452 million for the fiscal year ended March 31, 2010. The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio as of March 31, 2011 at our current cost basis were 9.0%, 13.1% and 11.6%, respectively. At March 31, 2010, the yields were 8.5%, 13.5%, and 11.8%, respectively.

Our targeted investment size typically ranges between \$20 million and \$250 million, although this investment size may vary proportionately as the size of our available capital base changes. At March 31, 2011, our net portfolio consisted of 69 portfolio companies and was invested 33% in senior secured loans, 58% in subordinated debt, 1% in preferred equity and 8% in common equity and warrants measured at fair value versus 67 portfolio companies invested 30% in senior secured loans, 59% in subordinated debt, 1% in preferred equity and 10% in common equity and warrants at March 31, 2010.

Since the initial public offering of Apollo Investment in April 2004 and through March 31, 2011, invested capital totaled over \$7.3 billion in 147 portfolio companies. Over the same period, Apollo Investment completed transactions with more than 90 different financial sponsors.

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At March 31, 2011, 59% or \$1.7 billion of our income-bearing investment portfolio is fixed rate debt and 41% or \$1.2 billion is floating rate debt, measured at fair value. On a cost basis, 60% or \$1.7 billion of our income-bearing investment portfolio is fixed rate debt and 40% or \$1.1 billion is floating rate debt. At March 31, 2010, 64% or \$1.6 billion of our income-bearing investment portfolio was fixed rate debt and 36% or \$0.9 billion was floating rate debt. On a cost basis, 65% or \$1.8 billion of our income-bearing investment portfolio is fixed rate debt and 35% or \$1.0 billion is floating rate debt.

### **Apollo Investment Management, L.P.**

AIM, our investment adviser, is led by a dedicated team of investment professionals. The investment committee of AIM currently consists of James C. Zelter, our Chief Executive Officer and a Vice President of the general partner of AIM; Patrick J. Dalton, our President and Chief Operating Officer and a Vice President of the general partner of AIM; Rajay Bagaria, a Partner of AIM; and Justin Sendak, a Partner of AIM. Mr. Dalton is also the Chief Investment Officer of AIM. The composition of the investment committee of AIM may change from time to time. AIM draws upon AGM's more than 20 year history and benefits from the broader firm's significant capital markets, trading and research expertise developed through investments in many core sectors in over 150 companies since inception.

### **Apollo Investment Administration**

In addition to furnishing us with office facilities, equipment, and clerical, bookkeeping and record keeping services, Apollo Investment Administration, LLC ( "AIA" or "Apollo Administration" ) also oversees our financial records as well as prepares our reports to stockholders and reports filed with the SEC. AIA also performs the calculation and publication of our net asset value, the payment of our expenses and oversees the performance of various third-party service providers and the preparation and filing of our tax returns. Furthermore, AIA provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance.

### **Operating and Regulatory Structure**

Our investment activities are managed by AIM and supervised by our board of directors, a majority of whom are independent of AGM and its affiliates. AIM is an investment adviser that is registered under the Investment Advisers Act of 1940. Under our investment advisory and management agreement, we pay AIM an annual base management fee based on our average gross assets as well as an incentive fee.

As a business development company, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects (see Item 1A Risk Factors). We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code.

### **Investments**

Apollo Investment seeks to create a portfolio that includes primarily debt investments in mezzanine and senior secured loans and, to a lesser extent, private equity investments by generally investing, on an individual portfolio company basis, approximately \$20 million to \$250 million of capital, on average, in these securities of middle-market companies. The average investment size will vary as the size of our capital base varies. Our target portfolio will generally be long-term subordinated debt, referred to as mezzanine debt, and senior secured loans of private middle-market companies. Structurally, mezzanine loans usually rank subordinate in priority of payment to senior debt, such as senior bank debt, and are often unsecured. As such, other creditors may rank senior to us in the event of an insolvency. However, mezzanine loans rank senior to common and preferred equity in a borrower's capital structure. Mezzanine loans may have a fixed or floating interest rate. Additional upside can be generated from upfront fees, call protection including call premiums, equity co-investments or

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warrants. We believe that mezzanine loans offer an attractive investment opportunity based upon their historic returns. Additionally, we may acquire investments in the secondary market if we believe the risk-adjusted returns are attractive.

Our principal focus is to provide capital to middle-market companies in a variety of industries. We generally seek to target companies that generate positive free cash flows.

The following is a representative list of the industries in which we have invested:

Building materials	Education	Lodging/Leisure/Resorts
Business services	Energy/Utilities	Manufacturing/Basic industry
Cable television	Environmental services	Media
Chemicals	Financial services	Packaging
Communications	Food	Printing and publishing
Consumer products	Government services	Restaurants
Distribution	Healthcare	Transportation

We may also invest in other industries if we are presented with attractive opportunities.

In an effort to increase our returns and the number of loans that we can make, we may in the future seek to securitize our loans. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. We may sell debt of or interests in the subsidiary on a non-recourse basis to purchasers whom we would expect to be willing to accept a lower interest rate to invest in investment-grade securities. We may use the proceeds of such sales to pay down bank debt or to fund additional investments. We may also invest through special purpose entities or other arrangements, including total return swaps and repurchase agreements, in order to obtain non-recourse financing or for other purposes.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds. We may also co-invest on a concurrent basis with affiliates of ours, subject to compliance with applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

At March 31, 2011, our net portfolio consisted of 69 portfolio companies and was invested 33% in senior secured loans, 58% in subordinated debt, 1% in preferred equity and 8% in common equity and warrants measured at fair value. We expect that our portfolio will continue to include primarily mezzanine and senior secured loans as well as, to a lesser extent, equity-related securities. In addition, we also expect to invest a portion of our portfolio in opportunistic investments, which are not our primary focus, but are intended to enhance our risk-adjusted returns to stockholders. These investments may include, but are not limited to, securities of public companies and debt and equity securities of companies located outside of the United States.

While our primary investment objective is to generate current income and capital appreciation through investments in U.S. senior and subordinated loans, other debt securities and equity, we may also invest a portion of the portfolio in opportunistic investments, including foreign securities.

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Listed below are our top ten portfolio companies and industries based on their fair value and represented as a percentage of total assets for the years ended March 31, 2011 and 2010:

**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF MARCH 31, 2011**

<b>PORTFOLIO COMPANY</b>	<b>% of Total Assets</b>	<b>INDUSTRY</b>	<b>% of Total Assets</b>
Altegrity, Inc.	5.3%	Diversified Service	10.1%
Ranpak Corporation	5.1%	Education	9.6%
Asurion Corporation	3.6%	Healthcare	7.2%
TL Acquisitions, Inc. (Cengage Learning)	3.5%	Retail	6.4%
AB Acquisitions (Alliance Boots)	3.2%	Packaging	5.1%
Intelsat Bermuda Ltd.	3.1%	Distribution	5.1%
AIC Credit Opportunity Fund LLC	3.0%	Insurance	4.8%
Ceridian Corporation	3.0%	Grocery	4.5%
Univar Inc.	2.9%	Broadcasting & Entertainment	4.0%
Fleetpride Corporation	2.8%	Asset Management	3.9%

**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF MARCH 31, 2010**

<b>PORTFOLIO COMPANY</b>	<b>% of Total Assets</b>	<b>INDUSTRY</b>	<b>% of Total Assets</b>
Asurion Corporation	4.3%	Education	8.3%
Ranpak Corporation	4.2%	Healthcare	5.6%
BNY ConvergeEx Group, LLC	3.7%	Insurance	5.2%
First Data Corporation	3.0%	Business Services	5.0%
TL Acquisitions, Inc. (Cengage Learning)	2.6%	Diversified Service	4.9%
MEG Energy Corp.	2.5%	Retail	4.6%
Ceridian Corp.	2.5%	Oil & Gas	4.3%
US Foodservice	2.4%	Packaging	4.2%
Playpower Holdings Inc.	2.4%	Financial Services	4.0%
Fleetpride Corporation	2.4%	Broadcasting & Entertainment	3.1%

Listed below is the geographic breakdown of the portfolio based on fair value as of March 31, 2011 and 2010:

<b>Geographic Region</b>	<b>% of Portfolio at March 31, 2011</b>	<b>Geographic Region</b>	<b>% of Portfolio at March 31, 2010</b>
United States	93.8%	United States	91.6%
Canada	0.0%	Canada	3.1%
Western Europe	6.2%	Western Europe	5.3%
	100.0%		100.0%

**Investment selection & due diligence**

We are committed to a value oriented philosophy and will commit resources to managing risk to our capital. Our investment adviser conducts due diligence on prospective portfolio companies. In conducting its due diligence, our adviser uses information provided by the company and its management team, publicly available information, as well as information from their extensive relationships with former and current management teams, consultants, competitors and investment bankers and the direct experience of the senior partners of our affiliates.

Our investment adviser's due diligence will typically include:



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review of historical and prospective financial information;

on-site visits;

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interviews with management, employees, customers and vendors of the potential portfolio company;

review of loan documents;

background checks; and

research relating to the company's management, industry, markets, products and services, and competitors.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the professionals leading the investment present the investment opportunity to our investment adviser's investment committee, which determines whether to pursue the potential investment. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

### **Investment structure**

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment.

We seek to structure our mezzanine investments primarily as unsecured, subordinated loans that provide for relatively high interest rates that provide us with significant current interest income. These loans typically have interest-only payments. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt securities or defer payments of interest after our investment. Also, in some cases our mezzanine loans may be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, our mezzanine loans have maturities of five to ten years.

We also seek to invest in portfolio companies in the form of senior secured loans. We expect these senior secured loans to have terms of three to ten years and may provide for deferred interest payments over the term of the loan. We generally seek to obtain security interests in the assets of our portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

In the case of our mezzanine and senior secured loan investments, we seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we seek to limit the downside potential of our investments by:

requiring an expected total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;

generally incorporating call protection into the investment structure where possible; and

negotiating covenants and information rights in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with our goal of preserving our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Any warrants we receive with our debt securities generally require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-



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interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

We expect to hold most of our investments to maturity or repayment, but we may sell certain of our investments sooner if a liquidity event takes place such as a sale or recapitalization or worsening of credit quality of a portfolio company, among other reasons.

### **Managerial assistance**

As a business development company, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services. AIA provides such managerial assistance on our behalf to portfolio companies that request this assistance.

### **Ongoing relationships with portfolio companies**

#### ***Monitoring***

AIM monitors our portfolio companies on an ongoing basis as well as monitors the financial trends of each portfolio company to determine if each is meeting its respective business plans and to assess the appropriate course of action for each company.

AIM has several methods of evaluating and monitoring the performance and fair value of our investments, which can include, but are not limited to, the following:

Assessment of success in adhering to portfolio company's business plan and compliance with covenants;

Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

Comparisons to other portfolio companies in the industry;

Attendance at and participation in board meetings; and

Review of monthly and quarterly financial statements and financial projections for portfolio companies.

In addition to various risk management and monitoring tools, AIM also uses an investment rating system to characterize and monitor our expected level of returns on each investment in our portfolio. These ratings are just one of several factors that AIM uses to monitor AIC's portfolio, are not in and of themselves determinative of fair value or revenue recognition and are presented for indicative purposes.

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We use an investment rating scale of 1 to 5. The following is a description of the conditions associated with each investment rating:

<b>Investment Rating</b>	<b>Summary Description</b>
1	Capital gain expected
2	Full return of principal and interest or dividend expected, with the portfolio company performing in accordance with our analysis of its business
3	Full return of principal and interest or dividend expected, but the portfolio company requires closer monitoring
4	Some loss of interest, dividend or capital appreciation expected, but still expecting an overall positive internal rate of return on the investment
5	Loss of interest or dividend and some loss of principal investment expected, which would result in an overall negative internal rate of return on the investment

AIM monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, AIM reviews these investment ratings on a quarterly basis, and our audit committee monitors such ratings.

### ***Valuation Process***

The following is a description of the steps we take each quarter to determine the value of our portfolio. Many of our portfolio investments are recorded at fair value as determined in good faith by or under the direction of our board of directors pursuant to a written valuation policy and a consistently applied valuation process utilizing the input of our investment adviser, independent valuation firms and the audit committee. Since this process necessarily involves the use of judgment and the engagement of independent valuation firms, there is no certainty as to the value of our portfolio investments. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations if they are deemed to represent fair value. Market quotations may be deemed not to represent fair value where AIM believes that facts and circumstances applicable to an issuer, a seller or purchaser or the market for a particular security causes current market quotes not to reflect the fair value of the security, among other reasons. Examples of these events could include cases in which material events are announced after the close of the market on which a security is primarily traded, when a security trades infrequently causing a quoted purchase or sale price to become stale or in the event of a fire sale by a distressed seller.

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

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

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In addition, some of our investments provide for payment-in-kind ( PIK ) interest or dividends. Such amounts of accrued PIK interest or dividends are added to the cost of the investment on the respective capitalization dates and generally become due at maturity of the investment or upon the investment being called by the issuer.

## **Competition**

Our primary competitors in providing financing to middle-market companies include public and private funds, commercial and investment banks, commercial financing companies or hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Some of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than we. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We also expect to use the industry information of AGM's investment professionals to which we have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of the senior managers of AIM and those of our affiliates enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest.

## **Staffing**

The Company has a chief financial officer and a chief compliance officer and, to the extent necessary, they have hired and may hire additional personnel. These individuals perform their respective functions under the terms of the administration agreement. Certain of our other executive officers are managing partners of our investment adviser. Our day-to-day investment operations are managed by our investment adviser. AIM has hired and may hire additional investment professionals in the future. In addition, we generally reimburse AIA for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer, chief compliance officer and corporate secretary and their respective staffs.

## **Sarbanes-Oxley Act of 2002**

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 ( the 1934 Act ), our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;

Pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;

Pursuant to Rule 13a-15 of the 1934 Act, our management must prepare a report regarding its assessment of our internal control over financial reporting; and

Pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the 1934 Act, our periodic reports must disclose whether there were significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

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You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the hours of 10:00 am to 3:00 pm. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is (<http://www.sec.gov>).

Our internet address is [www.apolloic.com](http://www.apolloic.com). We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not incorporated by reference into this annual report on Form 10-K, and you should not consider information contained on our website to be part of this annual report on Form 10-K.

### **Item 1A. Risk Factors**

*Investing in Apollo Investment involves a number of significant risks related to our business, structure, investments and investment in our common stock. As a result, there can be no assurance that we will achieve our investment objective.*

### **CERTAIN RISKS IN THE CURRENT ENVIRONMENT**

**Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected debt and equity capital markets in the United States and abroad, which have had, and may in the future have, a negative impact on our business and operations.**

The global capital markets have been in a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. These conditions could continue for a prolonged period of time or worsen in the future. While these conditions persist, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. Equity capital may be difficult to raise because subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without general approval by our shareholders and approval of the specific issuance by our Board. In addition, our ability to incur indebtedness (including by issued preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

Moreover, market conditions have made, and may in the future make, it difficult to extend the maturity of or refinance our existing indebtedness and any failure to do so could have a material adverse effect on our business. The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments.

Given the extreme volatility and dislocation that the capital markets have experienced, many BDCs have faced, and may in the future face, a challenging environment in which to raise capital. Recent significant changes in the capital markets affecting our ability to raise capital have affected the pace of our investment activity. In addition, significant changes in the capital markets, including the extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

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**The recent instability in the financial markets has led the U.S. Government to take a number of unprecedented actions and pass legislation designed to regulate and support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity.**

On July 21, 2010, the President signed into law major financial services reform legislation in the form of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). The Dodd-Frank Act, among other things, grants regulatory authorities such as the Commodity Futures Trading Commission and SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the over-the-counter derivatives market. It is unclear how these regulators will exercise these revised and expanded powers and whether they will undertake rulemaking, supervisory or enforcement actions that would adversely affect us or our investments. Possible regulatory actions taken under these revised and expanded powers may include actions related to financial consumer protection, proprietary trading and derivatives. There can be no assurance that future regulatory actions authorized by the Dodd-Frank Act will not significantly reduce our profitability. The implementation of the Dodd-Frank Act could adversely affect us by increasing transaction and/or regulatory compliance costs. In addition, greater regulatory scrutiny may increase our exposure to potential liabilities. Increased regulatory oversight can also impose administrative burdens on us and on AIM, including, without limitation, responding to examinations or investigations and implementing new policies and procedures.

Additionally, federal, state, and other governments, their regulatory agencies or self regulatory organizations may take actions that affect the regulation of the securities in which we invest, or the issuers of such securities, in ways that are unforeseeable. Governments or their agencies may also acquire distressed assets from financial institutions and acquire ownership interests in those institutions. The implications of government ownership and disposition of these assets are unclear, and such a program may have positive or negative effects on the liquidity, valuation and performance of our portfolio companies. Furthermore, volatile financial markets can expose us to greater market and liquidity risk and potential difficulty in valuing securities.

At any time after the date hereof, legislation may be enacted that could negatively affect our portfolio companies. Changing approaches to regulation may have a negative impact on the entities in which we invest. Legislation or regulation may also change the way in which we are regulated. There can be no assurance that the Dodd-Frank Act or any future legislation, regulation or deregulation will not have a material adverse effect on us or will not impair our ability to achieve our investment objective.

## **RISKS RELATING TO OUR BUSINESS AND STRUCTURE**

### **We may suffer credit losses.**

Investment in small and middle-market companies is highly speculative and involves a high degree of risk of credit loss. These risks are likely to increase during volatile economic periods, as the US and many other economies have experienced.

### **We are dependent upon Apollo Investment Management's key personnel for our future success and upon their access to Apollo's investment professionals and partners.**

We depend on the diligence, skill and network of business contacts of the senior management of AIM. Members of our senior management may depart at any time. We also depend, to a significant extent, on AIM's access to the investment professionals and partners of Apollo and the information and deal flow generated by the Apollo investment professionals in the course of their investment and portfolio management activities. The senior management of AIM evaluates, negotiates, structures, closes and monitors our investments. Our future success depends on the continued service of the senior management team of AIM. The departure of any senior managers of AIM, or of a significant number of the investment professionals or partners of Apollo, could have a material adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that AIM will remain our investment adviser or that we will continue to have access to Apollo's partners and investment professionals or its information and deal flow.



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### **Our financial condition and results of operations depend on our ability to manage future growth effectively.**

Our ability to achieve our investment objective depends, in part, on our ability to grow, which depends, in turn, on AIM's ability to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of AIM's structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The senior management team of AIM has substantial responsibilities under the investment advisory and management agreement, and with respect to certain members, in connection with their roles as officers of other Apollo funds.

They may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time may distract them or slow the rate of investment. In order to grow, we and AIM need to hire, train, supervise and manage new employees. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

### **We operate in a highly competitive market for investment opportunities.**

A number of entities compete with us to make the types of investments that we make. We compete with public and private funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, private equity funds. Competition for investment opportunities intensifies from time to time and may intensify further in the future. Some of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions and valuation requirements that the 1940 Act imposes on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this existing and potentially increasing competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors make loans with interest rates that are comparable to or lower than the rates we offer.

We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. If we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

### **Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.**

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

### **We will be subject to corporate-level income tax if we are unable to qualify as a RIC.**

To qualify as a RIC under the Code, we must meet certain source-of-income, asset diversification and annual distribution requirements. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. To the extent we use debt financing, we are subject to certain asset coverage ratio requirements and other financial covenants under loan and credit agreements, and could in some circumstances also become subject to such requirements under the 1940 Act, that could, under certain

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circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to qualify as a RIC for any reason and become subject to corporate-level income tax, the resulting corporate-level taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders.

To qualify again to be taxed as a RIC in a subsequent year, we would be required to distribute to our stockholders our earnings and profits attributable to non-RIC years reduced by an interest charge on 50% of such earnings and profits payable by us to the IRS. In addition, if we failed to qualify as a RIC for a period greater than two taxable years, then we would be required to elect to recognize and pay tax on any net built-in gain (the excess of aggregate gain, including items of income, over aggregate loss that would have been realized if we had been liquidated) or, alternatively, be subject to taxation on such built-in gain recognized for a period of ten years, in order to qualify as a RIC in a subsequent year.

### **We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.**

We include in income certain amounts that we have not yet received in cash, such as PIK interest, which represents contractual interest added to the loan balance and typically due at the end of the loan term or, original issue discount, which may be a feature of the loan or may arise if we receive warrants in connection with the making of a loan, among other circumstances. Such increases in loan balances as a result of PIK arrangements or original issue discount are included in income before we receive any corresponding cash payments and could be significant relative to our overall investment activities. Loans structured with these features may represent a higher level of credit risk than loans the interest on which must be paid in cash at regular intervals. We also may be required to include in income certain other amounts that we do not receive in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash, including for investments with PIK provisions. If a portfolio company defaults on a loan, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible. Consequently, while we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a formal clawback right against our investment adviser per se, the amount of accrued income written off in any period will reduce the income in the period in which such write-off was taken and thereby reduce such period's incentive fee payment.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to maintain our status as a RIC. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations in order to meet distribution and/or leverage requirements.

### **Regulations governing our operation as a BDC affect our ability to, and the way in which we raise, additional capital.**

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities only in amounts such

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that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, the contractual arrangements governing these securities may require us to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

BDCs may issue and sell common stock at a price below net asset value per share only in limited circumstances, one of which is during the one-year period after stockholder approval. In the past, our stockholders have approved a plan so that during the subsequent 12 month period we could, in one or more public or private offerings of our common stock, sell or otherwise issue shares of our common stock at a price below the then current net asset value per share, subject to certain conditions including parameters on the level of permissible dilution, approval of the sale by a majority of our independent directors and a requirement that the sale price be not less than approximately the market price of the shares of our common stock at specified times, less the expenses of the sale. We may in the future seek to renew such authority on terms and conditions set forth in the corresponding proxy statement. There is no assurance such approvals will be obtained.

In the event we sell, or otherwise issue, shares of our common stock at a price below net asset value per share, existing stockholders will experience net asset value dilution and the investors who acquire shares in such offering may thereafter experience the same type of dilution from subsequent offerings at a discount. For example, if we sell an additional 10% of our common shares at a 5% discount from net asset value, a stockholder who does not participate in that offering for its proportionate interest will suffer net asset value dilution of up to 0.5% or \$5 per \$1000 of net asset value.

### **We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.**

We are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the value of our common stock than if we did not use debt. Our ability to pay dividends will be restricted if we fail to satisfy certain of our asset coverage ratios and other financial covenants and any amounts that we use to service our indebtedness are not available for dividends to our common stockholders.

The agreements governing our debt facilities require us to comply with certain financial and operational covenants. These covenants require us to, among other things, maintain certain financial ratios, including asset coverage, minimum shareholder equity and liquidity. As of March 31, 2011, we were in compliance with these covenants. However, our continued compliance with these covenants depends on many factors, some of which are beyond our control. In the event of deterioration in the capital markets and pricing levels subsequent to this period, net unrealized depreciation in our portfolio may increase in the future. Absent an amendment to our revolving credit facility, continued unrealized depreciation in our investment portfolio could result in non-compliance with certain covenants.

Accordingly, there are no assurances that we will continue to comply with these covenants. Failure to comply with these covenants would result in a default which, if we were unable to obtain a waiver from the lenders, could accelerate repayment under the facilities and thereby have a material adverse impact on our liquidity, financial condition, results of operations and ability to pay dividends.

Our current and future debt securities are and may be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing such securities. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.

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**We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.**

Borrowings and other types of financing, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

**We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.**

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

**Changes in interest rates may affect our cost of capital and net investment income.**

Because we borrow money, and may issue preferred stock to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds or pay dividends on preferred stock and the rate at which we invest these funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase except to the extent we issue fixed rate debt or preferred stock, which could reduce our net investment income. Our long-term fixed-rate investments are financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. Interest rate hedging activities do not protect against credit risk. We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that the balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would not materially affect our investment income over a one-year horizon. In addition, we believe that our interest rate matching strategy and our ability to hedge mitigates the effects any changes in interest rates may have on our investment income. Although management believes that this is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase or decrease in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate.

You should also be aware that a change in the general level of interest rates can be expected to lead to a change in the interest rates we receive on many of our debt investments. Accordingly, a change in interest rates could make it easier for us to meet or exceed the performance threshold and may result in a substantial increase in the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income.

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### **We may need to raise additional capital to grow because we must distribute most of our income.**

We may need additional capital to fund growth in our investments. We have issued equity securities and have borrowed from financial institutions. A reduction in the availability of new capital could limit our ability to grow. We must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our regulated investment company status. As a result, any such cash earnings may not be available to fund investment originations. We expect to continue to borrow from financial institutions and issue additional debt and equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, it could limit our ability to grow, which may have an adverse effect on the value of our securities. In addition, as a BDC, our ability to borrow or issue additional preferred stock may be restricted if our total assets are less than 200% of our total borrowings and preferred stock.

### **Many of our portfolio investments are recorded at fair value as determined in good faith by our board of directors and, as a result, there is uncertainty as to the value of our portfolio investments.**

A large percentage of our portfolio investments are not publicly traded. The fair value of these investments may not be readily determinable. We value these investments quarterly at fair value (based on ASC 820, its corresponding guidance and the principal markets in which these investments trade) as determined in good faith by our board of directors pursuant to a written valuation policy and a consistently applied valuation process utilizing the input of our investment adviser, independent valuation firms and the audit committee. Our board of directors utilizes the services of independent valuation firms to aid it in determining the fair value of these investments. The types of factors that may be considered in fair value pricing of these investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to more liquid securities, indices and other market-related inputs, discounted cash flow, our principal market and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a readily available market for these investments existed and may differ materially from the amounts we realize on any disposition of such investments. Our net asset value could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon the disposal of such investments.

In addition, decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Unprecedented declines in prices and liquidity in the corporate debt markets have resulted in significant net unrealized depreciation in our portfolio in the past. The effect of all of these factors on our portfolio has reduced our NAV by increasing net unrealized depreciation in our portfolio. Depending on market conditions, we could incur substantial realized losses and may continue to suffer additional unrealized losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

### **The lack of liquidity in our investments may adversely affect our business.**

We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or an affiliated manager of Apollo has material non-public information regarding such portfolio company.

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### **We may experience fluctuations in our periodic results.**

We could experience fluctuations in our periodic operating results due to a number of factors, including the interest rates payable on the debt securities we acquire, the default rate on such securities, the level of our expenses (including the interest rates payable on our borrowings), the dividend rates on preferred stock we issue, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

### **There are significant potential conflicts of interest which could adversely affect our investment returns.**

#### *Allocation of Personnel*

Our executive officers and directors, and the partners of our investment adviser, AIM, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Moreover, we note that, notwithstanding the difference in principal investment objectives between us and other Apollo funds, such other Apollo sponsored funds, including new affiliated potential pooled investment vehicles or managed accounts not yet established (whether managed or sponsored by those Apollo affiliates or AIM itself), have and may from time to time have overlapping investment objectives with us and, accordingly, invest in, whether principally or secondarily, asset classes similar to those targeted by us. To the extent such other investment vehicles have overlapping investment objectives, the scope of opportunities otherwise available to us may be adversely affected and/or reduced. As a result, certain partners of AIM may face conflicts in their time management and commitments as well as in the allocation of investment opportunities to other Apollo funds. In addition, in the event such investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, AIM our desired investment portfolio may be adversely affected. Although AIM endeavors to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by AIM or investment managers affiliated with AIM.

#### *No Information Barriers*

There are no information barriers amongst Apollo and certain of its affiliates. If AIM were to receive material non-public information about a particular company, or have an interest in investing in a particular company, Apollo or certain of its affiliates may be prevented from investing in such company. Conversely, if Apollo or certain of its affiliates were to receive material non-public information about a particular company, or have an interest in investing in a particular company, we may be prevented from investing in such company.

This risk may affect us more than it does other investment vehicles, as AIM generally does not use information barriers that many firms implement to separate persons who make investment decisions from others who might possess material, non-public information that could influence such decisions. AIM's decision not to implement these barriers could prevent its investment professionals from undertaking certain transactions such as advantageous investments or dispositions that would be permissible for them otherwise. In addition, AIM could in the future decide to establish information barriers, particularly as its business expands and diversifies.

#### *Co-Investment Activity and Allocation of Investment Opportunities*

AIM and/or its affiliates ( Apollo-affiliate ) and investment managers may determine that an investment is appropriate both for us and for one or more other funds. In such event, depending on the availability of such investment and other appropriate factors, AIM may determine that we should invest on a side-by-side basis with one or more other funds. We may make all such investments subject to compliance with applicable regulations and interpretations, and our allocation procedures. In certain circumstances negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

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Apollo-affiliate has adopted allocation procedures that are intended to ensure that each fund or account managed by Apollo-affiliate ( Apollo-advised funds ) is treated in a manner that, over time, is fair and equitable. These allocation procedures have been developed taking into account the fact that (i) the Apollo-advised funds tend to have broad investment mandates, but each Apollo-advised fund has one or more primary investment mandates, and (ii) the Apollo-advised funds may have overlapping primary investment mandates. In operating under these procedures, Apollo-affiliate generally allocates investment opportunities first to the Apollo-advised funds whose primary investment mandates are consistent with the investment being allocated. When more than one Apollo-advised fund has a primary investment mandate that is consistent with an investment being allocated, the allocation generally is made on a pro rata basis. As a result, in situations where a security is appropriate for us but is limited in availability, we may receive a lower allocation than may be desired by our portfolio managers or no allocation if Apollo-affiliate believes the investment is more appropriate for a different Apollo-advised fund because of its investment mandate. Investment opportunities may be allocated on a basis other than pro rata to the extent it is done in good faith and does not, or is not reasonably expected to, result in an improper disadvantage or advantage to one participating Apollo-advised fund as compared to another participating Apollo-advised fund.

In the event investment opportunities are allocated among us and the other Apollo-advised funds, we may not be able to structure our investment portfolio in the manner desired. Although Apollo-affiliate endeavors to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in certain investments made by the other Apollo-advised funds or portfolio managers affiliated with AIM. Furthermore, we and the other Apollo-advised funds may make investments in securities where the prevailing trading activity may make impossible the receipt of the same price or execution on the entire volume of securities purchased or sold by us and the other Apollo-advised funds. When this occurs, the various prices may be averaged, and we will be charged or credited with the average price. Thus, the effect of the aggregation may operate on some occasions to our disadvantage. In addition, under certain circumstances, we may not be charged the same commission or commission equivalent rates in connection with a bunched or aggregated order.

It is possible that the other Apollo-advised funds may make investments in the same or similar securities at different times and on different terms than we do. From time to time, we and the other Apollo-advised funds may make investments at different levels of an issuer's capital structure or otherwise in different classes of an issuer's securities. Such investments may inherently give rise to conflicts of interest or perceived conflicts of interest between or among the various classes of securities that may be held by such entities. Conflicts may also arise because portfolio decisions regarding us may benefit the other Apollo-advised funds. For example, the sale of a long position or establishment of a short position by us may impair the price of the same security sold short by (and therefore benefit) one or more Apollo-advised funds, and the purchase of a security or covering of a short position in a security by us may increase the price of the same security held by (and therefore benefit) one or more Apollo-advised funds.

AIM, its affiliates and their clients may pursue or enforce rights with respect to an issuer in which we have invested, and those activities may have an adverse effect on us. As a result, prices, availability, liquidity and terms of our investments may be negatively impacted by the activities of AIM and its affiliates or their clients, and transactions for us may be impaired or effected at prices or terms that may be less favorable than would otherwise have been the case.

### *Fees and Expenses*

In the course of our investing activities, we pay management and incentive fees to AIM, and reimburse AIM for certain expenses it incurs. As a result, investors in our common stock invest on a gross basis and receive distributions on a net basis after expenses, resulting in, among other things, a lower rate of return than one might achieve through direct investments. As a result of this arrangement, there may be times when the management team of AIM has interests that differ from those of our common stockholders, giving rise to a conflict.

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AIM receives a quarterly incentive fee based, in part, on our pre-incentive fee income, if any, for the immediately preceding calendar quarter. This incentive fee will not be payable to AIM unless the pre-incentive net investment income exceeds the performance threshold. To the extent we or AIM are able to exert influence over our portfolio companies, the quarterly pre-incentive fee may provide AIM with an incentive to induce our portfolio companies to prepay interest or other obligations in certain circumstances.

### *Allocation of Expenses*

We have entered into a royalty-free license agreement with Apollo, pursuant to which Apollo has agreed to grant us a non-exclusive license to use the name Apollo. Under the license agreement, we have the right to use the Apollo name for so long as AIM or one of its affiliates remains our investment adviser. In addition, we rent office space from AIA, an affiliate of AIM, and pay Apollo Administration our allocable portion of overhead and other expenses incurred by AIA in performing its obligations under the administration agreement, including our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs, which can create conflicts of interest that our board of directors must monitor.

**In the past following periods of volatility in the market price of a company's securities, securities class action litigation has, from time to time, been brought against that company.**

If our stock price fluctuates significantly, we may be the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

**Changes in laws or regulations governing our operations may adversely affect our business.**

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations could have a material adverse affect on our business.

**Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.**

The Maryland General Corporation Law, our charter and our bylaws contain provisions that may discourage, delay or make more difficult a change in control of Apollo Investment or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board of directors, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board of directors does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our common stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such an offer. We intend to give the SEC prior notice should our board of directors elect to amend our bylaws to repeal the exemption from the Control Share Acquisition Act.

We have also adopted other measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.



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**We may choose to pay dividends in our own common stock, in which case you may be required to pay federal income taxes in excess of the cash dividends you receive.**

We may distribute taxable dividends that are payable in cash and shares of our common stock at the election of each stockholder. Under IRS Revenue Procedure 2010-12, up to 90% of any such taxable dividend for a RIC's taxable years ending on or before December 31, 2011 could be payable in our common stock with the 10% or greater balance paid in cash. The Internal Revenue Service has also issued (and where Revenue Procedure 2010-12 is not currently applicable, the Internal Revenue Service continues to issue) private letter rulings on cash/stock dividends paid by regulated investment companies and real estate investment trusts using a 20% cash standard (instead of the 10% cash standard of Revenue Procedure 2010-12) if certain requirements are satisfied. Stockholders receiving such dividends will be required to include the full amount of the dividend as ordinary income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, stockholders may be required to pay income taxes with respect to such dividends in excess of the cash dividends received. If a U.S. stockholder sells the common stock that it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our common stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in common stock. In addition, if a significant number of our stockholders determine to sell shares of our common stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our common stock. It is unclear whether and to what extent we will be able to pay taxable dividends in cash and common stock (whether pursuant to Revenue Procedure 2010-12, a private letter ruling or otherwise).

## **Climate Change**

There is evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increased energy use due to weather changes may require additional investments by our portfolio companies engaged in the energy business in more pipelines and other infrastructure to serve increased demand. Increases in the cost of energy also could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions. Energy companies could also be affected by the potential for lawsuits against or taxes or other regulatory costs imposed on greenhouse gas emitters, based on links drawn between greenhouse gas emissions and climate change.

## **RISKS RELATED TO OUR INVESTMENTS**

**Our investments in prospective portfolio companies are risky, and you could lose all or part of your investment.**

Investment in middle-market companies is speculative and involves a number of significant risks including a high degree of risk of credit loss. Middle-market companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment. In addition, they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Middle-market companies are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material

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adverse impact on our portfolio company and, in turn, on us. Middle-market companies also generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

### **We invest primarily in long-term subordinated debt, referred to as mezzanine debt and senior secured loans of middle-market companies and we may not realize gains from our equity investments.**

Mezzanine loans are generally unsecured and junior to other indebtedness of the issuer. As a consequence, the holder of a mezzanine loan may lack adequate protection in the event the issuer becomes distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event the issuer defaults on its indebtedness. In addition, mezzanine loans of middle market companies are often highly illiquid and in adverse market conditions may experience steep declines in valuation even if they are fully performing.

Senior secured loans are the most senior form of indebtedness of an issuer and, due to the ability of the lender to sell the collateral to repay its loan in the event of default, the lender will likely experience more favorable recovery than more junior creditors in the event of the issuer defaults on its indebtedness.

When we invest in mezzanine and senior secured loans, we have and may continue to acquire warrants or other equity securities as well. In addition, we may invest directly in the equity securities of portfolio companies. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

### **Economic recessions or downturns could impair our portfolio companies and harm our operating results.**

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets may increase and the value of our portfolio may decrease during these periods if we are required to write down the values of our investments. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the debt that we hold. We may incur additional expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we or one of our affiliates may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

### **Our ability to invest in public companies may be limited in certain circumstances.**

As a BDC, 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

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exceptions). Subject to certain exceptions for follow-on investments and distressed companies, an investment in an issuer that has outstanding securities listed on a national securities exchange may be treated as qualifying assets only if such issuer has a market capitalization that is less than \$250 million at the time of such investment.

**Our portfolio contains a limited number of portfolio companies, which subjects us to a greater risk of significant loss if any of these companies defaults on its obligations under any of its debt securities.**

A consequence of the limited number of investments in our portfolio is that the aggregate returns we realize may be significantly adversely affected if one or more of our significant portfolio company investments perform poorly or if we need to write down the value of any one significant investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our portfolio could contain relatively few portfolio companies.

**Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.**

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in order to: (1) increase or maintain in whole or in part our equity ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing or (3) attempt to preserve or enhance the value of our investment.

We may elect not to make follow-on investments, may be constrained in our ability to employ available funds, or otherwise may lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our tax status.

**When we do not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.**

We do not generally take controlling equity positions in our portfolio companies. To the extent that we do not hold a controlling equity interest in a portfolio company, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and may therefore suffer a decrease in the value of our investments.

**An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.**

We have invested and will continue to invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of AIM's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies.

If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately-held companies frequently have less diverse product lines and smaller market presence than public company competitors, which often are larger. These factors could affect our investment returns.

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### **Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.**

We have invested and intend to invest primarily in mezzanine and senior debt securities issued by our portfolio companies. The portfolio companies usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. In addition, we may not be in a position to control any portfolio company by investing in its debt securities. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors.

### **Our incentive fee may induce AIM to make certain investments, including speculative investments.**

The incentive fee payable by us to AIM may create an incentive for AIM to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to AIM is determined, which is calculated separately in two components as a percentage of the net investment income (subject to a performance threshold) and as a percentage of the realized gain on invested capital, may encourage our investment adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock, including investors in offerings of common stock, securities convertible into our common stock or warrants representing rights to purchase our common stock or securities convertible into our common stock. In addition, AIM receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on net investment income, there is no performance threshold applicable to the portion of the incentive fee based on net capital gains. As a result, AIM may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to AIM also may create an incentive for AIM to invest on our behalf in instruments that have a deferred interest feature such as investments with PIK provisions. Under these investments, we would accrue the interest over the life of the investment but would typically not receive the cash income from the investment until the end of the term or upon the investment being called by the issuer. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, while a portion of this incentive fee would be based on income that we have not yet received in cash and with respect to which we do not have a formal claw-back right against our investment adviser per se, the amount of accrued income to the extent written off in any period will reduce the income in the period in which such write-off was taken and thereby reduce such period's incentive fee payment.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to AIM with respect to the assets invested in the securities and instruments of

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other investment companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of AIM as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

### **We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.**

Our investment adviser is entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our pre-incentive fee net investment income for that quarter (before deducting incentive compensation) above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay AIM incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

### **Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.**

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. These risks are likely to be more pronounced for investments in companies located in emerging markets and particularly for middle-market companies in these economies.

Although most of our investments are denominated in U.S. dollars, our investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency may change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

### **Hedging transactions may expose us to additional risks.**

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

While we may enter into transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation

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between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

## **RISKS RELATED TO ISSUANCE OF OUR PREFERRED STOCK**

*An investment in our preferred stock should not constitute a complete investment program.*

### **If we issue preferred stock, the net asset value and market value of our common stock may become more volatile.**

We cannot assure you that the issuance of preferred stock would result in a higher yield or return to the holders of the common stock. The issuance of preferred stock would likely cause the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of common stock than if we had not issued preferred stock. Any decline in the net asset value of our investments would be borne entirely by the holders of common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of common stock than if we were not leveraged through the issuance of preferred stock. This greater net asset value decrease would also tend to cause a greater decline in the market price for the common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing our ratings on the preferred stock or, in an extreme case, our current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock. In addition, we would pay (and the holders of common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher advisory fees if our total return exceeds the dividend rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

### **Holders of any preferred stock we might issue would have the right to elect members of the board of directors and class voting rights on certain matters.**

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of the board of directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies or the terms of our credit facilities, might impair our ability to maintain our qualification as a RIC for federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

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### **RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK**

#### **Investing in our securities involves a high degree of risk and is highly speculative.**

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, therefore, an investment in our securities may not be suitable for someone with a low risk tolerance.

#### **There is a risk that investors in our equity securities may not receive dividends or that our dividends may not grow over time and that investors in our debt securities may not receive all of the interest income to which they are entitled.**

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may in the future be limited in our ability to make distributions. Also, our revolving credit facility may limit our ability to declare dividends if we default under certain provisions. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of the tax benefits available to us as a RIC. In addition, in accordance with U.S. generally accepted accounting principles and tax regulations, we include in income certain amounts that we have not yet received in cash, such as contractual payment-in-kind interest, which represents contractual interest added to the loan balance that becomes due at the end of the loan term, or the accrual of original issue or market discount. Since we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our investment company taxable income in cash to obtain tax benefits as a RIC.

We will be subject to a 4% nondeductible federal excise tax on certain undistributed income of RICs unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years. We will not be subject to excise taxes on amounts on which we are required to pay corporate income taxes (such as retained net capital gains).

Finally, if more stockholders opt to receive cash dividends rather than participate in our dividend reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make cash dividend payments.

#### **Our shares may trade at discounts from net asset value or at premiums that are unsustainable over the long term.**

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether shares will trade at, above, or below net asset value.

#### **Investigations and Reviews of Affiliate Use of Placement Agents Could Harm Our Reputation; Depress Our Stock Price or Have Other Negative Consequences.**

While AIC has not, to date, raised any funds through the use of placement agents (other than through the ordinary course engagement of underwriters, from time to time, in connection with the public offering of AIC's securities), affiliates of AIM sometimes use placement agents to assist in marketing certain of the investment

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funds that they manage. Various state attorneys general and regulatory agencies have initiated industry-wide investigations into the use of placement agents in connection with the solicitation of investments, particularly with respect to investments by public pension funds. Certain affiliates of AGM have received subpoenas and other requests for information from various government regulatory agencies and investors in AGM's funds, seeking information regarding the use of placement agents. California Public Employees' Retirement System (CalPERS), one of AGM's strategic investors, announced on October 14, 2009, that it had initiated a special review of placement agents and related issues. AGM is cooperating with all such investigations and other reviews. In addition, on May 6, 2010, the California Attorney General filed a civil complaint against Alfred Villalobos and his company, Arvco Capital Research, LLC (a placement agent that AGM has used), and Federico Buenrostro Jr., the former CEO of CalPERS, alleging conduct in violation of certain California laws in connection with CalPERS' purchase of securities in various funds managed by AGM and another asset manager. No AGM entity is a party to the civil lawsuit, and the lawsuit does not allege any misconduct on the part of AIC, AIM or AGM. AGM has informed us that it believes it has handled its use of placement agents in an appropriate manner. AGM has received requests for information in connection with certain of these investigations and is cooperating with such requests. Any unanticipated developments from these or future investigations or changes in industry practice may adversely affect AGM's business (including with respect to AIM) or indirectly thereby, AIC's business. Even if these investigations or changes in industry practice do not directly or indirectly affect AGM's or AIC's respective businesses, adverse publicity could harm our reputation and may cause us to lose existing investors, fail to gain new investors, depress our stock price or have other negative consequences.

### **The market price of our securities may fluctuate significantly.**

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

- loss of RIC status;

- changes in earnings or variations in operating results;

- changes in the value of our portfolio of investments;

- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

- departure of AIM's key personnel;

- operating performance of companies comparable to us;

- general economic trends and other external factors; and

- loss of a major funding source.



**We may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm our financial condition and operating results.**

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in interest-bearing deposits or other short-term instruments or use the net proceeds from such offerings to reduce then-outstanding obligations under our credit facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.

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### **Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.**

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

### **Stockholders may experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.**

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are generally automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan may experience dilution over time. Stockholders who do not elect to receive dividends in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend payable to a stockholder.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

As of March 31, 2011, we do not own any real estate or other physical properties materially important to our operation. Our administrative and principal executive offices are located at 730 Fifth Avenue, New York, NY 10019 and 9 West 57<sup>th</sup> Street, New York, NY 10019, respectively. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

### **Item 3. Legal Proceedings**

On April 13, 2010, InnKeepers USA Trust (InnKeepers), a subsidiary of Grand Prix Holdings, LLC, a portfolio company of the Company, disclosed that it had not made certain scheduled monthly interest payments on certain of its debt obligations, and had retained financial and legal advisors to assist it in an evaluation of financial alternatives, including a potential restructuring of its balance sheet.

On May 21, 2010, the special servicer with respect to certain of InnKeepers' indebtedness, Midland Loan Services, Inc., filed a complaint against the Company in New York State Supreme Court, New York County (the New York Court). The Complaint alleges that the Company guaranteed certain property improvement projects which InnKeepers has failed to timely complete. The Complaint asserts a single claim for specific performance of the Company's guaranty. On June 30, 2010, the Company filed a motion to dismiss with the New York Court. Oral argument on the motion to dismiss was heard on November 4, 2010 wherein the judge dismissed Midland's complaint without prejudice.

On July 19, 2010, Innkeepers disclosed that it had filed a voluntary petition in the United States Bankruptcy Court for the Southern District of New York under Chapter 11 of the United States Bankruptcy Code in order to effectuate a pre-arranged plan of reorganization.

**Table of Contents****PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Global Select Market under the symbol AINV. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV and quarterly dividends per share since shares of our common stock began being regularly quoted on NASDAQ.

	NAV(1)	Closing Sales Price		Premium or Discount of High Sales Price to NAV(2)	Premium or Discount of Low Sales Price to NAV(2)	Declared Dividends
		High	Low			
<b>Fiscal Year Ending March 31, 2011</b>						
Fourth Fiscal Quarter	\$ 10.03	\$ 12.40	\$ 11.17	124%	111%	\$ 0.28
Third Fiscal Quarter	\$ 9.73	\$ 11.56	\$ 10.20	119%	105%	\$ 0.28
Second Fiscal Quarter	\$ 9.58	\$ 10.65	\$ 9.18	111%	96%	\$ 0.28
First Fiscal Quarter	\$ 9.51	\$ 13.57	\$ 9.33	143%	98%	\$ 0.28
<b>Fiscal Year Ending March 31, 2010</b>						
Fourth Fiscal Quarter	\$ 10.06	\$ 12.73	\$ 9.82	127%	98%	\$ 0.28
Third Fiscal Quarter	\$ 10.40	\$ 10.12	\$ 8.81	97%	85%	\$ 0.28
Second Fiscal Quarter	\$ 10.29	\$ 10.31	\$ 5.18	100%	50%	\$ 0.28
First Fiscal Quarter	\$ 10.15	\$ 7.02	\$ 3.97	69%	39%	\$ 0.26

- (1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.
- (2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

While our common stock has from time to time traded in excess of our net asset value, there can be no assurance, however, that it will trade at such a premium (to net asset value) in the future. The last reported closing market price of our common stock on May 10, 2011 was \$11.62 per share. As of May 10, 2011, we had 103 stockholders of record.

**DIVIDENDS**

We intend to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors. We expect that our distributions to shareholders generally will be from accumulated net investment income and from net realized capital gains, as applicable.

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

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

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we



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may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a business development company under the 1940 Act and due to provisions in current and future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our RIC status. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are generally automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan may experience dilution over time. Stockholders who do not elect to receive dividends in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend payable to a stockholder.

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

The following table lists the quarterly dividends per share from our common stock for the past two fiscal years.

	Declared Dividends
<b>Fiscal Year Ending March 31, 2011</b>	
Fourth Fiscal Quarter	\$ 0.28
Third Fiscal Quarter	\$ 0.28
Second Fiscal Quarter	\$ 0.28
First Fiscal Quarter	\$ 0.28
<b>Fiscal Year Ending March 31, 2010</b>	
Fourth Fiscal Quarter	\$ 0.28
Third Fiscal Quarter	\$ 0.28
Second Fiscal Quarter	\$ 0.28
First Fiscal Quarter	\$ 0.26
<b>Recent Sale of Unregistered Securities</b>	

On January 25, 2011, we closed a private offering of \$200 million aggregate principal amount of senior unsecured convertible notes (the "Convertible Notes"). The Convertible Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The Convertible Notes bear interest at an annual rate of 5.75%, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2011. The Convertible Notes will mature on January 15, 2016 unless earlier converted or repurchased at the holder's option. Prior to December 15, 2015, the Convertible Notes will be convertible only upon certain corporate reorganizations, dilutive recapitalizations or dividends, or if, during specified periods our shares trade at more than 130% of the then applicable conversion price or the Convertible Notes trade at less than 97% of their conversion value and, thereafter, at any time. The Convertible Notes will be convertible by the holders into shares of common stock, initially at a conversion rate of 72.7405 shares of the

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Company's common stock per \$1,000 principal amount of Convertible Notes (14,548,100 common shares) corresponding to an initial conversion price of approximately \$13.75, which represents a premium of 17.5% to the \$11.70 per share closing price of the Company's common stock on The NASDAQ Global Select Market on January 19, 2011. The conversion rate will be subject to adjustment upon certain events, such as stock splits and combinations, mergers, spin-offs, increases in dividends in excess of \$0.28 per share per quarter and certain changes in control. Certain of these adjustments, including adjustments for increases in dividends, are subject to a conversion price floor of \$11.70 per share. The Convertible Notes are senior unsecured obligations and rank senior in right of payment to our existing and future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; equal in right of payment to our existing and future unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness (including existing unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness; and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.

## **STOCK PERFORMANCE GRAPH**

This graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the Russell 2000 Financial Services Index, for the period March 31, 2006 through March 31, 2011. The graph assumes that, on March 31, 2006, a person invested \$100 in each of the following: our common stock, the S&P 500 Index, and the Russell 2000 Financial Services Index. The graph measures total stockholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are invested in like securities.

The graph and other information furnished under this Part II Item 5 of this Form 10-K shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the 1934 Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

**Table of Contents****Item 6. Selected Financial Data**

The Statement of Operations, Per Share and Balance Sheet data for the fiscal years ended March 31, 2011, 2010, 2009, 2008 and 2007 are derived from our financial statements which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. This selected financial data should be read in conjunction with our financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report.

	<b>For the Year Ended March 31,</b> <b>(dollar amounts in thousands,</b> <b>except per share data)</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Statement of Operations Data:</b>					
Total Investment Income	\$ 358,779	\$ 340,238	\$ 377,304	\$ 357,878	\$ 266,101
Net Expenses (including excise taxes)	\$ 167,607	\$ 140,828	\$ 170,973	\$ 156,272	\$ 140,783
Net Investment Income	\$ 191,172	\$ 199,410	\$ 206,331	\$ 201,606	\$ 125,318
Net Realized and Unrealized Gains (Losses)	\$ (10,760)	\$ 63,880	\$ (818,210)	\$ (235,044)	\$ 186,848
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 180,412	\$ 263,290	\$ (611,879)	\$ (33,438)	\$ 312,166
<b>Per Share Data:</b>					
Net Asset Value	\$ 10.03	\$ 10.06	\$ 9.82	\$ 15.83	\$ 17.87
Net Increase (Decrease) in Net Assets Resulting from Operations (Basic and Diluted)	\$ 0.93	\$ 1.65	\$ (4.39)	\$ (0.30)	\$ 3.64
Distributions Declared	\$ 1.12	\$ 1.10	\$ 1.82	\$ 2.07	\$ 1.93
<b>Balance Sheet Data:</b>					
Total Assets	\$ 3,148,813	\$ 3,465,116	\$ 2,548,639	\$ 3,724,324	\$ 3,523,218
Debt Outstanding	\$ 1,053,443	\$ 1,060,616	\$ 1,057,601	\$ 1,639,122	\$ 492,312
Total Net Assets	\$ 1,961,031	\$ 1,772,806	\$ 1,396,138	\$ 1,897,908	\$ 1,849,748
<b>Other Data:</b>					
Total Return(1)	5.1%	313.0%	(73.9)%	(17.5)%	31.7%
Number of Portfolio Companies at Year End	69	67	72	71	57
Total Portfolio Investments for the Year	\$ 1,085,601	\$ 716,425	\$ 434,995	\$ 1,755,913	\$ 1,446,730
Investment Sales and Prepayments for the Year	\$ 977,493	\$ 451,687	\$ 339,724	\$ 714,225	\$ 845,485
Weighted Average Yield on Debt Portfolio at Year End	11.6%	11.8%	11.7%	12.0%	13.1%
Weighted Average Shares Outstanding at Year End (Basic)(2)	193,192	159,369	139,469	112,050	85,792

- (1) Total return is based on the change in market price per share and takes into account dividends and distributions, if any, reinvested in accordance with Apollo Investment's dividend reinvestment plan.
- (2) Weighted Average Shares Outstanding on a diluted basis for the fiscal year ended March 31, 2011 were 195,823. For the fiscal years ended 2010, 2009, 2008 and 2007, basic and diluted weighted average shares were the same.

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### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

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

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

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

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

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

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

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

## **OVERVIEW**

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of the Code. Pursuant to this election and assuming we qualify as a RIC, we generally do not have to pay corporate-level federal income taxes on any income we distribute to our stockholders. Apollo Investment commenced operations on



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April 8, 2004 upon completion of its initial public offering that raised \$870 million in net proceeds selling 62 million shares of its common stock at a price of \$15.00 per share. Since then, and through March 31, 2011, we have raised approximately \$1.9 billion in net proceeds from additional offerings of common stock.

### ***Investments***

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

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environment for the types of investments we make. As a business development company, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in eligible portfolio companies. Pursuant to rules adopted in 2006, the SEC expanded the definition of eligible portfolio company to include certain public companies that do not have any securities listed on a national securities exchange. The SEC also adopted an additional rule under the 1940 Act to expand the definition of eligible portfolio company to include companies whose securities are listed on a national securities exchange but whose market capitalization is less than \$250 million. This rule became effective on July 21, 2008.

### ***Revenue***

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

### ***Expenses***

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

investment advisory and management fees;

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

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

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

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

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

offerings of our common stock and other securities;

registration and listing fees;

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

transfer agent and custodial fees;

taxes;

independent directors' fees and expenses;

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marketing and distribution-related expenses;

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

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

organizational costs; and

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

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

## **Portfolio and Investment Activity**

During our fiscal year ended March 31, 2011, we invested \$1.1 billion across 21 new and 18 existing portfolio companies through a combination of primary and secondary market purchases. This compares to investing \$716 million in 5 new and 24 existing portfolio companies for the previous fiscal year ended March 31, 2010. Investments sold or prepaid during the fiscal year ended March 31, 2011 totaled \$977 million versus \$452 million for the fiscal year ended March 31, 2010.

At March 31, 2011, our net portfolio consisted of 69 portfolio companies and was invested 33% in senior secured loans, 58% in subordinated debt, 1% in preferred equity and 8% in common equity and warrants measured at fair value versus 67 portfolio companies invested 30% in senior secured loans, 59% in subordinated debt, 1% in preferred equity and 10% in common equity and warrants at March 31, 2010.

The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio as of March 31, 2011 at our current cost basis were 9.0%, 13.1% and 11.6%, respectively. At March 31, 2010, the yields were 8.5%, 13.5% and 11.8%, respectively.

Since the initial public offering of Apollo Investment in April 2004 and through March 31, 2011, invested capital totaled over \$7.3 billion in 147 portfolio companies. Over the same period, Apollo Investment completed transactions with more than 90 different financial sponsors.

At March 31, 2011, 59% or \$1.7 billion of our income-bearing investment portfolio is fixed rate debt and 41% or \$1.2 billion is floating rate debt, measured at fair value. On a cost basis, 60% or \$1.7 billion of our income-bearing investment portfolio is fixed rate debt and 40% or \$1.1 billion is floating rate debt. At March 31, 2010, 64% or \$1.6 billion of our income-bearing investment portfolio was fixed rate debt and 36% or \$0.9 billion was floating rate debt. On a cost basis, 65% or \$1.8 billion of our income-bearing investment portfolio is fixed rate debt and 35% or \$1.0 billion is floating rate debt.

## **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

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

### **Valuation of Portfolio Investments**

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

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

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

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

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

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

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

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

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

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

Accounting Standards Update No. 2010-06, Improving Disclosure about Fair Value Measurements was released in January 2010 and is effective for periods beginning after December 15, 2009, except for separate disclosures for purchases, sales, issuances, and settlements, as applicable, in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This update improves financial statement disclosure around transfers in and out of level 1 and 2 fair value measurements, around valuation techniques and inputs and around other related disclosures. Transfers between levels, if any, are recognized at the end of the reporting period. See certain additional disclosures in note 6 to our financial statements. During the fiscal year ended March 31, 2011, MEG Energy Corp. common stock was transferred from Level 3 to Level 1 due to its initial public offering. There were no other transfers into or out of Level 1, Level 2 or Level 3 during the periods shown.

## **Revenue Recognition**

The Company records interest and dividend income, adjusted for amortization of premium and accretion of discount, on an accrual basis. Some of our loans and other investments, including certain preferred equity investments, may have contractual PIK interest or dividends. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. For the fiscal year ended March 31, 2011, accrued PIK totaled \$32.9 million, on total investment income of \$358.8 million. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Structuring fees are recorded as other income when earned. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on non-accrual designated investments may be recognized as income or applied

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to principal depending upon management's judgment. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through an adjustment to interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends.

### **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 fiscal years ended March 31, 2011, March 31, 2010 and March 31, 2009.

### **Investment Income**

For the fiscal years ended March 31, 2011, 2010 and 2009, gross investment income totaled \$358.8 million, \$340.2 million and \$377.3 million, respectively. The increase in gross investment income from fiscal year 2010 to fiscal year 2011 was primarily due to an increase in the size of the income-producing portfolio as compared to the previous fiscal year. The decrease in gross investment income from fiscal year 2009 to fiscal year 2010 was primarily due to two factors: the reduction in the size of the income-producing portfolio as compared to the previous fiscal year and the reduction in average LIBOR of over 150 basis points year over year.

### **Expenses**

Net expenses totaled \$167.6 million, \$139.6 million and \$170.5 million, respectively, for the fiscal years ended March 31, 2011, 2010 and 2009, of which \$107.6 million, \$103.9 million and \$111.3 million, respectively, were base management fees and performance-based incentive fees and \$48.0 million, \$24.5 million and \$48.9 million, respectively, were interest and other debt expenses. Administrative services and other general and administrative expenses totaled \$12.0 million, \$11.2 million and \$10.3 million, respectively, for the fiscal years ended March 31, 2011, 2010 and 2009. Net expenses consist of base investment advisory and management fees, insurance expenses, administrative services fees, legal fees, directors' fees, audit and tax services expenses, and other general and administrative expenses. The increase in net expenses from fiscal 2010 to fiscal 2011 was primarily due to an increase in interest and other debt expenses as we added new sources of capital that increased our weighted average annual interest cost. The decrease in net expenses from fiscal 2009 to 2010 was primarily related to the decrease in interest and other debt expenses due to the reduction in average LIBOR in the year over year period coupled with the lower average outstanding balance on the revolving credit facility during fiscal year 2010 as compared to fiscal year 2009. Accrued excise tax expenses totaled \$0, \$1.2 million, and \$0.5 million for the fiscal years ended March 31, 2011, 2010 and 2009.

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### **Net Investment Income**

The Company's net investment income totaled \$191.2 million, \$199.4 million and \$206.3 million, or \$0.99, \$1.26, and \$1.48, on a per average share basis, respectively, for the fiscal years ended March 31, 2011, 2010 and 2009.

### **Net Realized Losses**

The Company had investment sales and prepayments totaling \$977 million, \$452 million and \$340 million, respectively, for the fiscal years ended March 31, 2011, 2010 and 2009. Net realized losses for the fiscal years ended March 31, 2011, 2010, and 2009 were \$152.0 million, \$473.0 million and \$83.7 million, respectively. Net realized losses incurred during fiscal years 2011 and 2010 were primarily related to sales and restructurings of certain underperforming portfolio companies such as American Safety Razor, LVI Services and Pacific Crane Maintenance Company, various portfolio optimization measures, and our liquidity management strategy during the financial crisis early in the 2010 fiscal year. Net realized losses incurred in fiscal 2009 were mainly derived from selective exits of underperforming investments.

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

For the fiscal years ended March 31, 2011 and 2010 net change in unrealized appreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$141.3 million and \$536.9 million, respectively. For the fiscal year ended March 31, 2009, net change in unrealized depreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities totaled \$734.5 million. Net unrealized appreciation for fiscal 2011 and 2010 was primarily due to the recognition of realized losses which reversed unrealized depreciation, net changes in specific portfolio company fundamentals, and improving capital market conditions. During fiscal 2009, a material increase in unrealized depreciation was recognized from significantly lower fair value determinations on many of our investments. These lower fair values were driven primarily from the general market dislocation, the illiquid capital markets, and the then current market expectations for pricing increased credit risk and default assumptions.

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

For the fiscal years ended March 31, 2011 and 2010, the Company had a net increase in net assets resulting from operations of \$180.4 million and \$263.3 million, respectively. For the fiscal year ended March 31, 2009, the Company had a net decrease in net assets resulting from operations of \$611.9 million. For the years ended March 31, 2011 and 2010, basic and diluted earnings per average share were \$0.93 and \$1.65, respectively. The loss per average share was \$4.39 for the year ended March 31, 2009.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and generally available through periodic follow-on equity and debt offerings, our senior secured, multi-currency \$1.63 billion revolving credit facility (see note 12 within the Notes to Financial Statements) (the "Facility"), our senior secured notes, investments in special purpose entities in which we hold and finance particular investments on a non-recourse basis, as well as from cash flows from operations, investment sales of liquid assets and prepayments of senior and subordinated loans and income earned from investments. The Company also has investments in its portfolio that contain PIK provisions. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. In order to maintain the Company's status as a RIC, this non-cash source of income must be paid out to stockholders annually in the form of dividends, even though the Company has not yet collected the cash. For the fiscal year ended March 31, 2011, accrued PIK totaled \$32.9 million, on total investment income of \$358.8 million. At March 31, 2011, the Company had \$628 million in borrowings outstanding on its Facility and



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\$1.0 billion of unused capacity. On April 13, 2011, \$380 million of commitments on the Facility matured. As of April 13, 2011, aggregate lender commitments under the Facility total \$1,253,750,000.

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

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

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

## **Cash Equivalents**

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

**Table of Contents****Contractual Obligations**

	Payments due by Period as of March 31, 2011 (dollars in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Secured Revolving Credit Facility(1)	\$ 628	\$ 146	\$ 482	\$	\$
Senior Secured Notes	\$ 225	\$	\$	\$ 225	\$
Unsecured Notes	\$ 200	\$	\$	\$ 200	\$

(1) At March 31, 2011, \$1.0 billion remained unused under our Facility.

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 (dollars in thousands)(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
<b>Revolving Credit Facility</b>				
Fiscal 2011	\$ 628,443	\$ 1,707	\$	N/A
Fiscal 2010	1,060,616	2,671		N/A
Fiscal 2009	1,057,601	2,320		N/A
Fiscal 2008	1,639,122	2,158		N/A
Fiscal 2007	492,312	4,757		N/A
Fiscal 2006	323,852	4,798		N/A
Fiscal 2005				N/A
<b>Senior Secured Notes</b>				
Fiscal 2011	\$ 225,000	\$ 611	\$	N/A
Fiscal 2010				N/A
Fiscal 2009				N/A
Fiscal 2008				N/A
Fiscal 2007				N/A
Fiscal 2006				N/A
Fiscal 2005				N/A
<b>Unsecured Notes</b>				
Fiscal 2011	\$ 200,000	\$ 544	\$	N/A
Fiscal 2010				N/A
Fiscal 2009				N/A
Fiscal 2008				N/A
Fiscal 2007				N/A
Fiscal 2006				N/A
Fiscal 2005				N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by \$1,000 to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each.

(3)

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The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

- (4) Not applicable, as senior securities are not registered for public trading.

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

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

The Company has the ability to issue standby letters of credit through its revolving credit facility. As of March 31, 2011 and March 31, 2010, the Company had issued through JPMorgan Chase Bank, N.A. standby letters of credit totaling \$0 and \$3,708, respectively.

As of March 31, 2011, AIC had two outstanding commitments with two banks to purchase unsecured bridge loans in the aggregate amount of \$117 million. AIC's commitments were subject to the consummation of the underlying corporate transactions and conditional upon receipt of all necessary shareholder, regulatory and other applicable approvals. Post March 31, 2011, such unsecured bridge loan commitments were extinguished with the permanent placement of high yield securities.

### **AIC Credit Opportunity Fund LLC (currencies in thousands)**

We own all of the common member interests in AIC Credit Opportunity Fund LLC (AIC Holdco). AIC Holdco was formed for the purpose of holding various financed investments. AIC Holdco wholly owns the special purpose entity AIC (FDC) Holdings LLC (Apollo FDC). Through AIC Holdco, effective in June 2008 we invested \$39,500 in Apollo FDC. Apollo FDC purchased a Junior Profit-Participating Note due 2013 in principal amount of \$39,500 (the Junior Note) from Apollo I Trust (the Trust). The Trust also issued a Senior Floating Rate Note due 2013 (the Senior Note) to an unaffiliated third party (FDC Counterparty) in principal amount of \$39,500 paying interest at Libor plus 1.50%, increasing over time to Libor plus 2.0%. The Trust used the aggregate \$79,000 proceeds to acquire \$100,000 face value of a senior subordinated loan of First Data Corporation (the FDC Reference Obligation) due 2016 and paying interest at 11.25% per year. Under its Junior Note, Apollo FDC is generally entitled to the net interest and other proceeds due under the FDC Reference Obligation after payment of interest due under the Senior Notes, as described above. In addition, Apollo FDC is entitled to 100% of any realized appreciation in the FDC Reference Obligation and, since the Senior Note is a non-recourse obligation, Apollo FDC is exposed up to the amount of its investment in the Junior Note plus any additional margin we decide to post, if any, during the term of the financing.

AIC (TXU) Holdings LLC (Apollo TXU) is a special purpose entity wholly owned by AIC Holdco. Through AIC Holdco, effective in June 2008, we invested \$11,375 in Apollo TXU, which acquired exposure to \$50,000 notional amount of a Libor plus 3.5% senior secured delayed draw term loan of Texas Competitive Electric Holdings (TXU) due 2014 through a non-recourse total return swap with an unaffiliated third party expiring on October 10, 2013. Pursuant to such delayed drawn term loan, Apollo TXU pays interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Reference Obligation). Like Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Reference Obligation and, since the total return swap is a non-recourse obligation, Apollo TXU is exposed up to the amount of its investment in the total return swap, plus any additional margin we decide to post, if any, during the term of the financing.

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

We do not consolidate AIC Holdco or its wholly owned subsidiaries and accordingly only the value of our investment in AIC Holdco is included on our statement of assets and liabilities. The Senior Note, total return swap and Acquisition Loan are non-recourse to AIC Holdco, its subsidiaries and us and have standard events of default including failure to pay contractual amounts when due and failure by each of the underlying Apollo special purpose entities to provide additional credit support, sell assets or prepay a portion of its obligations if the value of the FDC Reference Obligation, the TXU Reference Obligation or the Boots Reference Obligation, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty. From time to time we may provide additional capital to AIC Holdco for purposes of funding margin calls under one or more of the transactions described above among other reasons. During the fiscal year ended March 31, 2009, we provided \$18,480 in additional capital to AIC Holdco. During the fiscal year ended March 31, 2010, \$9,336 of net capital was returned to us from AIC Holdco. During the fiscal year ended March 31, 2011, \$1,700 of net capital was provided to AIC Holdco.

**Dividends**

Dividends paid to stockholders for the fiscal years ended March 31, 2011, 2010 and 2009 totaled \$218.1 million or \$1.12 per share, \$181.4 million or \$1.10 per share, and \$258.8 million or \$1.82 per share, respectively. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year. Our quarterly dividends, if any, will be determined by our Board of Directors. We expect that our distributions to shareholders generally will be from accumulated net investment income and from net realized capital gains, as applicable.

The following table summarizes our quarterly dividends paid to stockholders for the fiscal years ended March 31, 2011, 2010 and 2009, respectively:

	Declared Dividends
<b>Fiscal Year Ending March 31, 2011</b>	
Fourth Fiscal Quarter	\$ 0.28
Third Fiscal Quarter	\$ 0.28
Second Fiscal Quarter	\$ 0.28
First Fiscal Quarter	\$ 0.28
<b>Fiscal Year Ending March 31, 2010</b>	
Fourth Fiscal Quarter	\$ 0.28
Third Fiscal Quarter	\$ 0.28
Second Fiscal Quarter	\$ 0.28
First Fiscal Quarter	\$ 0.26
<b>Fiscal Year Ending March 31, 2009</b>	
Fourth Fiscal Quarter	\$ 0.26
Third Fiscal Quarter	\$ 0.52
Second Fiscal Quarter	\$ 0.52
First Fiscal Quarter	\$ 0.52

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

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

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

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

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

### **Item 7A. Quantitative and Qualitative Disclosure about Market Risk**

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

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of March 31, 2011. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2011 based upon criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of March 31, 2011 based on the criteria on Internal Control – Integrated Framework issued by COSO.

The effectiveness of the Company's internal control over financial reporting as of March 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.



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### **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Apollo Investment Corporation:

In our opinion, the accompanying statements of assets and liabilities including the schedules of investments, and the related statements of operations, changes in net assets and cash flows present fairly, in all material respects, the financial position of Apollo Investment Corporation ( the Company ) at March 31, 2011 and March 31, 2010, and the results of its operations, the changes in net assets, and its cash flows for each of the three years in the period ended March 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 45 of the annual report to shareholders. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. Our procedures included confirmation of securities at March 31, 2011 by correspondence with the custodian, and where replies were not received, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York

May 31, 2011

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**APOLLO INVESTMENT CORPORATION**  
**STATEMENTS OF ASSETS AND LIABILITIES**

(in thousands, except per share amounts)

	March 31, 2011	March 31, 2010
<b>Assets</b>		
Non-controlled/non-affiliated investments, at value (cost \$2,900,378 and \$2,782,880, respectively)	\$ 2,901,295	\$ 2,677,893
Non-controlled/affiliated investments, at value (cost \$22,407 and \$102,135, respectively)	37,295	83,136
Controlled investments, at value (cost \$376,051 and \$357,590, respectively)	111,568	92,551
Cash equivalents, at value (cost \$0 and \$449,852, respectively)		449,828
Cash	5,471	7,040
Foreign currency (cost \$881 and \$30,705, respectively)	883	30,717
Receivable for investments sold	13,461	49,643
Interest receivable	45,686	43,139
Dividends receivable	5,131	5,700
Miscellaneous income receivable		788
Receivable from investment adviser	576	611
Prepaid expenses and other assets	27,447	24,070
 Total assets	 \$ 3,148,813	 \$ 3,465,116
<b>Liabilities</b>		
Debt (see note 7 & 12)	\$ 1,053,443	\$ 1,060,616
Payable for investments and cash equivalents purchased	37,382	549,009
Dividends payable	54,740	49,340
Management and performance-based incentive fees payable (see note 3)	27,553	26,363
Interest payable	9,703	2,132
Accrued administrative expenses	1,738	1,722
Other liabilities and accrued expenses	3,223	3,128
 Total liabilities	 \$ 1,187,782	 \$ 1,692,310
<b>Net Assets</b>		
Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 195,502 and 176,214 issued and outstanding, respectively	\$ 196	\$ 176
Paid-in capital in excess of par (see note 2f)	2,871,559	2,645,687
Undistributed net investment income (see note 2f)	56,557	104,878
Accumulated net realized loss (see note 2f)	(713,873)	(583,270)
Net unrealized depreciation	(253,408)	(394,665)
 Total net assets	 \$ 1,961,031	 \$ 1,772,806
 Total liabilities and net assets	 \$ 3,148,813	 \$ 3,465,116
 Net Asset Value Per Share	 \$ 10.03	 \$ 10.06

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****STATEMENTS OF OPERATIONS**

(in thousands, except per share amounts)

	Year Ended March 31,		
	2011	2010	2009
<b>INVESTMENT INCOME:</b>			
From non-controlled/non-affiliated investments:			
Interest	\$ 316,183	\$ 297,123	\$ 340,664
Dividends	4,713	11,450	11,940
Other Income	15,143	10,003	5,326
From non-controlled/affiliated investments:			
Interest	10,296	1,002	
From controlled investments:			
Dividends	12,334	20,660	19,374
Other Income	110		
Total Investment Income	358,779	340,238	377,304
<b>EXPENSES:</b>			
Management fees (see note 3)	\$ 59,831	\$ 54,069	\$ 59,686
Performance-based incentive fees (see note 3)	47,793	49,853	51,583
Interest and other debt expenses	48,025	24,480	48,919
Administrative services expense	5,529	4,725	4,794
Insurance expense	927	1,100	948
Other general and administrative expenses	5,502	5,383	4,740
Total expenses	167,607	139,610	170,670
Expense offset arrangement (see note 8)			(217)
Net expenses	167,607	139,610	170,453
Net investment income before excise taxes	191,172	200,628	206,851
Excise tax expense		(1,218)	(520)
Net investment income	\$ 191,172	\$ 199,410	\$ 206,331
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b>			
Net realized gain (loss):			
Investments and cash equivalents	\$ (144,350)	\$ (467,275)	\$ (125,005)
Foreign currencies	(7,667)	(5,752)	41,265
Net realized loss	(152,017)	(473,027)	(83,740)
Net change in unrealized gain (loss):			
Investments and cash equivalents	140,227	548,530	(784,388)
Foreign currencies	1,030	(11,623)	49,918
Net change in unrealized gain (loss)	141,257	536,907	(734,470)

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Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currencies	(10,760)	63,880	(818,210)
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 180,412</b>	<b>\$ 263,290</b>	<b>\$ (611,879)</b>
<b>EARNINGS (LOSS) PER SHARE BASIC AND DILUTED (see note 5)</b>	<b>\$ 0.93</b>	<b>\$ 1.65</b>	<b>\$ (4.39)</b>

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****STATEMENTS OF CHANGES IN NET ASSETS**

(in thousands, except shares)

	2011	Year Ended March 31, 2010	2009
<b>Increase (Decrease) in net assets from operations:</b>			
Net investment income	\$ 191,172	\$ 199,410	\$ 206,331
Net realized loss	(152,017)	(473,027)	(83,740)
Net change in unrealized gain (loss)	141,257	536,907	(734,470)
Net increase (decrease) in net assets resulting from operations	180,412	263,290	(611,879)
<b>Dividends and distributions to stockholders (see note 13):</b>	(218,079)	(181,356)	(258,843)
<b>Capital share transactions:</b>			
Net proceeds from shares sold	204,275	280,823	369,589
Less offering costs	(233)	(618)	(637)
Reinvestment of dividends	21,850	14,529	
Net increase in net assets from capital share transactions	225,892	294,734	368,952
<b>Total increase (decrease) in net assets:</b>	188,225	376,668	(501,770)
Net assets at beginning of period	1,772,806	1,396,138	1,897,908
Net assets at end of period	\$ 1,961,031	\$ 1,772,806	\$ 1,396,138
<b>Capital share activity</b>			
Shares sold	17,250,000	32,200,000	22,327,500
Shares issued from reinvestment of dividends	2,037,631	1,792,583	
Net increase from capital share activity	19,287,631	33,992,583	22,327,500

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****STATEMENTS OF CASH FLOWS**

(in thousands)

	2011	Year Ended March 31, 2010	2009
<b>Cash Flows from Operating Activities:</b>			
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ 180,412	\$ 263,290	\$ (611,879)
<i>Adjustments to reconcile net increase (decrease):</i>			
PIK Interest and Dividends	(39,853)	(89,370)	(116,220)
Net amortization on investments	(41,433)	(26,061)	(31,359)
Increase (decrease) from foreign currency transactions	(7,520)	(5,731)	41,265
Net change in unrealized (gain) loss on investments, cash equivalents and foreign currencies	(141,257)	(536,907)	734,470
Net realized loss on investments, cash equivalents and foreign currencies	152,017	473,027	83,740
<i>Changes in operating assets and liabilities:</i>			
Purchase of investments	(1,070,581)	(716,449)	(355,688)
Proceeds from disposition of investments and cash equivalents	951,168	546,446	340,168
Decrease (increase) in interest and dividends receivable (see note 2)	(1,978)	924	19,904
Decrease in prepaid expenses and other assets	9,026	2,645	749
Increase (decrease) in management and performance-based incentive fees payable	1,190	1,049	(1,655)
Increase (decrease) in interest payable	7,571	1,421	(5,467)
Increase in accrued expenses and other liabilities	111	508	1,902
Increase (decrease) in payable for investments and cash equivalents purchased	(511,627)	521,454	(114,784)
Decrease (increase) in receivables for securities sold	36,182	(49,643)	
Net Cash Provided (Used) by Operating Activities	\$ (476,572)	\$ 386,603	\$ (14,854)
<b>Cash Flows from Financing Activities:</b>			
Net proceeds from the issuance of common stock	\$ 204,275	\$ 280,823	\$ 369,589
Offering costs from the issuance of common stock	(233)	(618)	(637)
Dividends paid in cash	(190,829)	(154,465)	(231,233)
Proceeds from debt	2,260,795	1,285,103	1,739,502
Payments on debt*	(2,278,657)	(1,316,481)	(2,270,751)
Net Cash Provided (Used) by Financing Activities	\$ (4,649)	\$ 94,362	\$ (393,530)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (481,221)</b>	<b>\$ 480,965</b>	<b>\$ (408,384)</b>
Effect of exchange rates on cash balances	(10)	13	8
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>\$ 487,585</b>	<b>\$ 6,607</b>	<b>\$ 414,983</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 6,354</b>	<b>\$ 487,585</b>	<b>\$ 6,607</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>			
Cash interest paid during the year	\$ 29,205	\$ 18,098	\$ 51,859
Non-cash financing activities consist of the reinvestment of dividends totaling \$21,850, \$14,529 and \$0, respectively.			

\* Includes deferred financing costs of \$11,581, \$22,735 and \$0, respectively.  
See notes to financial statements.





**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****March 31, 2011****(in thousands)****INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED****PORTFOLIO COMPANIES 147.9%****CORPORATE DEBT 139.4%****BANK DEBT/SENIOR SECURED LOANS 51.7%****1st Lien Bank Debt/Senior Secured Loans 6.9%**

	Industry	Par Amount*	Cost	Fair Value(1)
Altegrity, Inc., L+600, 2/21/15	Diversified Service	\$ 12,406	\$ 12,187	\$ 12,499
Armored Autogroup Inc., L+425, 11/5/16	Consumer Products	3,491	3,491	3,491
ATI Acquisition Company, L+600, 12/30/14	Education	13,306	12,884	13,839
Brickman Group Holdings, Inc., L+550, 10/14/16	Environmental & Facilities Services	14,963	14,822	15,294
Brock Holdings III, Inc., L+450, 3/16/17	Environmental & Facilities Services	5,000	4,963	5,031
Educate, Inc., L+700, 6/14/14	Education	7,908	7,908	7,868
Insight Pharmaceuticals, LLC., L+500, 2/24/17	Consumer Products	7,500	7,388	7,462
Leslie's Poolmart, Inc., L+300, 11/21/16	Retail	5,985	5,985	6,034
Multiplan, Inc., L+325, 8/26/17	Business Services	4,808	4,808	4,826
Penton Media, Inc., L+400, 8/1/14	Media	34,917	28,590	28,486
Playpower, Inc., L+950, 6/30/12	Leisure Equipment	15,890	14,433	14,380
RBS Holding Company, LLC, L+500, 3/23/17	Business Services	16,000	15,840	15,860

**Total 1st Lien Bank Debt/Senior Secured Loans** **\$ 133,299** **\$ 135,070**

**2nd Lien Bank Debt/Senior Secured Loans 44.8%**

AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+425, 7/9/16	Retail	£ 11,400	\$ 20,193	\$ 17,725
AB Acquisitions UK Topco 2 Limited (Alliance Boots), E+425, 7/9/16	Retail	3,961	5,563	5,537
Advantage Sales & Marketing, Inc., L+775, 6/18/18	Grocery	\$ 60,000	59,494	61,200
Allied Security Holdings, LLC., L+700, 2/2/18	Business Services	51,000	50,527	52,020
Applied Systems, Inc., L+775, 6/8/17	Software	26,500	26,244	26,853
Asurion Corporation, L+650, 7/3/15	Insurance	115,026	114,181	114,307
Brock Holdings III, Inc., L+825, 3/16/18	Environmental & Facilities Services	45,000	44,102	46,350
Clean Earth, Inc., 13.00%, 8/1/14	Environmental & Facilities Services	25,000	25,000	24,875
Datatel, Inc., L+725, 2/19/18	Education	21,000	20,896	21,341
Garden Fresh Restaurant Corp., L+975, 12/11/13	Retail	46,600	46,600	48,091
IPC Systems, Inc., L+525, 6/1/15	Telecommunications	44,250	41,635	42,038
Kronos, Inc., L+575 Cash or L+650 PIK, 6/11/15	Electronics	60,000	60,000	59,600

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands)**

<b>2nd Lien Bank Debt/Senior Secured Loans (continued)</b>	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value(1)</b>
Ozburn-Hessey Holding Company LLC, L+850, 10/8/16	Logistics	\$ 38,000	\$ 37,966	\$ 38,570
Ranpak Corp., 12/27/14 (2)	Packaging	43,550	38,532	43,550
Ranpak Corp., 12/27/14 (3)	Packaging	21,970	27,767	31,178
Sedgwick Holdings, Inc., L+750, 5/26/17	Business Services	\$ 25,000	24,657	25,250
Sheridan Holdings, Inc., L+575, 6/15/15	Healthcare	67,847	67,090	67,847
TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15	Financial Services	37,512	36,714	35,749
Valerus Compression Services, LP, 11.50%, 3/26/18	Industrial	40,000	40,000	40,000
Vertafore, Inc., L+825, 10/29/17	Software	75,000	74,282	76,594

<b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>		<b>\$ 861,443</b>	<b>\$ 878,675</b>
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<b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>		<b>\$ 994,742</b>	<b>\$ 1,013,745</b>
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**Subordinated Debt/Corporate Notes 87.7%**

AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650 (GBP L+300 Cash / 3.50% PIK), 7/9/17

	Retail	£ 49,664	\$ 93,048	\$ 77,618
Altegrity Inc., 0.00%, 8/2/16 "	Diversified Service	\$ 3,545	1,846	1,846
Altegrity Inc., 11.75%, 5/1/16 "	Diversified Service	14,639	10,390	15,737
Altegrity Inc., 12.00%, 11/1/15 "	Diversified Service	100,000	100,000	107,900
Altegrity Inc., 10.50%, 11/1/15 "	Diversified Service	13,475	12,114	14,385
American Tire Distributors, Inc., 11.50%, 6/1/18 "	Distribution	25,000	25,000	27,375
American Tire Distributors, Inc., 9.75%, 6/1/17	Distribution	10,000	9,887	11,000
Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 2/4/14	Healthcare	60,000	60,000	62,940
ATI Acquisition Company, L+1100, 12/30/15	Education	38,500	37,843	39,559
Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15	Telecommunications	7,140	7,176	7,289
Catalina Marketing Corporation, 11.625%, 10/1/17 "	Grocery	42,175	42,404	47,974
Catalina Marketing Corporation, 10.50%, 10/1/15 "	Grocery	5,000	5,108	5,425
Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15	Diversified Service	55,950	55,792	58,608
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	34,300	33,874	35,801
Checkout Holding Corp. (Catalina Marketing), 0.00%, 11/15/15	Grocery	40,000	24,655	26,200
Delta Educational Systems, Inc., 14.20% (13.00% Cash / 1.20% PIK), 5/12/13	Education	19,753	19,464	20,286
Dura-Line Merger Sub, Inc., 14.25% (11.25% Cash / 3.00% PIK), 9/22/14	Telecommunications	42,654	42,179	42,654
Exova Limited, 10.50%, 10/15/18	Market Research	£ 18,000	28,823	30,296
First Data Corporation, 12.625%, 1/15/21	Financial Services	\$ 9,219	7,971	10,053
First Data Corporation, 9.875%, 9/24/15	Financial Services	2,061	1,843	2,112

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands)**

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

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands, except shares)**

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

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

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

AB Capital Holdings LLC (Allied Security)	Business Services	2,000,000	\$ 2,000	\$ 2,650
Accelerate Parent Corp. (American Tire)	Distribution	3,125,000	3,125	4,110
A-D Conduit Holdings, LLC (Duraline) **	Telecommunications	2,778	2,778	5,007
Altegrity Holding Corp.	Diversified Service	353,399	13,797	14,749
CA Holding, Inc. (Collect America, Ltd.) Series A **	Consumer Finance	25,000	2,500	149
CA Holding, Inc. (Collect America, Ltd.) Series AA **	Consumer Finance	4,294	429	859
Clothesline Holdings, Inc. (Angelica) **	Healthcare	6,000	6,000	5,131
Explorer Coinvest LLC (Booz Allen) **	Consulting Services	430	4,300	7,202
FSC Holdings Inc. (Hanley Wood LLC) **	Media	10,000	10,000	0
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	8,734
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)**	Education	17,500	175	573
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (4,5) **	Industrial			247

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands, except shares and warrants)**

<b>Common Equity/Interests (continued)</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(1)</b>
New Omaha Holdings Co-Invest LP (First Data) **	Financial Services	13,000,000	\$ 65,000	\$ 20,024
Penton Business Media Holdings, LLC **	Media	124	4,950	6,049
Pro Mach Co-Investment, LLC **	Machinery	150,000	1,500	4,558
RC Coinvestment, LLC (Ranpak Corp.) **	Packaging	50,000	5,000	6,008
Sorenson Communications Holdings, LLC Class A **	Consumer Services	454,828	46	2,030
Univar Inc.	Distribution	900,000	9,000	9,400
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
<b>Total Common Equity/Interests</b>			<b>\$ 135,628</b>	<b>\$ 97,480</b>

<b>Warrants</b>				
<b>Warrants 0.4%</b>				
CA Holding, Inc. (Collect America, Ltd.), Common **	Consumer Finance	7,961	\$ 8	\$
Fidji Luxco (BC) S.C.A., Common (FCI) (4) **	Electronics	48,769	491	5,351
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	9,820	98	322
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	45,947	459	837
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	104,314	1,043	1,901
<b>Total Warrants</b>			<b>\$ 2,099</b>	<b>\$ 8,411</b>
<b>TOTAL EQUITY</b>			<b>\$ 137,727</b>	<b>\$ 105,891</b>
<b>Total Investments in Non-Controlled/ Non-Affiliated Portfolio Companies</b>			<b>\$ 2,900,378</b>	<b>\$ 2,901,295</b>

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands, except shares and warrants)**

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

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands, except shares)****INVESTMENTS IN CONTROLLED PORTFOLIO****COMPANIES 5.7%(7)****Preferred Equity 0.0%**

	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(1)</b>
Grand Prix Holdings, LLC Series A, 12.00% PIK (Innkeepers USA)(8)***	Hotels, Motels, Inns & Gaming	2,989,431	\$ 102,012	\$

**EQUITY****Common Equity/Interests 5.7%**

AIC Credit Opportunity Fund LLC (9)	Asset Management		\$ 71,740	\$ 95,212
Generation Brands Holdings, Inc. (Quality Home Brands) **	Consumer Products	750		8
Generation Brands Holdings, Inc. Series H (Quality Home Brands) **	Consumer Products	7,500	2,297	77
Generation Brands Holdings, Inc. Series 2L (Quality Home Brands) **	Consumer Products	36,700	11,242	379
Grand Prix Holdings, LLC (Innkeepers USA) (8) **	Hotels, Motels, Inns & Gaming	17,335,834	172,664	
LVI Parent Corp. (LVI Services, Inc.)	Environmental & Facilities Services	14,981	16,096	15,892

<b>Total Common Equity/Interests</b>			<b>\$ 274,039</b>	<b>\$ 111,568</b>
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<b>TOTAL EQUITY</b>			<b>\$ 274,039</b>	<b>\$ 111,568</b>
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<b>Total Investments in Controlled Portfolio Companies</b>			<b>\$ 376,051</b>	<b>\$ 111,568</b>
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<b>Total Investments 155.5%(10)</b>			<b>\$ 3,298,836</b>	<b>\$ 3,050,158</b>
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<b>Liabilities in Excess of Other Assets (55.5%)</b>				<b>(1,089,127)</b>
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<b>Net Assets 100.0%</b>				<b>\$ 1,961,031</b>
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See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2011****(in thousands)**

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

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

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

<b>Name of Issuer</b>	<b>Fair Value at March 31, 2010</b>	<b>Gross Additions</b>	<b>Gross Reductions</b>	<b>Interest/Dividend/ Other Income</b>	<b>Fair Value at March 31, 2011</b>
Grand Prix Holdings, LLC (Innkeepers USA) Series A Preferred(8)	\$ 5,268	\$	\$	\$	\$
AIC Credit Opportunity Fund LLC Common Equity(9)	73,514	1,700		12,334	95,212
Generation Brands Holdings, Inc. (Quality Home Brands) Common Equity	230				8
Generation Brands Holdings, Inc. (Quality Home Brands) Series H Common Equity	2,297				77
Generation Brands Holdings, Inc. (Quality Home Brands) Series 2L Common Equity	11,242				379
Grand Prix Holdings, LLC (Innkeepers USA) Common Equity(8)					

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LVI Parent Corp. Common Equity	16,096	110	15,892
\$ 92,551	\$ 17,796	\$ 12,444	\$ 111,568

See notes to financial statements.

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**APOLLO INVESTMENT CORPORATION**

**SCHEDULE OF INVESTMENTS (continued)**

**March 31, 2011**

**(in thousands)**

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

(8) See note 16.

(9) See note 6.

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

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

\* Denominated in USD unless otherwise noted.

\*\* Non-income producing security

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

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

§ Position reflects a contingent payment agreement.

See notes to financial statements.

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

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

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS****March 31, 2010****(in thousands)**

INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED PORTFOLIO COMPANIES 151.1%		Industry	Par Amount*	Cost	Fair Value(1)
<b>CORPORATE DEBT 137.2%</b>					
<b>BANK DEBT/SENIOR SECURED LOANS(2) 44.2%</b>					
<b>1st Lien Bank Debt/Senior Secured Loans 1.2%</b>					
ATI Acquisition Company, 12/30/14		Education	\$ 18,454	\$ 17,743	\$ 18,038
FoxCo Acquisition Sub LLC, 7/14/15		Broadcasting & Entertainment	3,905	3,493	3,788
<b>Total 1st Lien Bank Debt/Senior Secured Loans</b>				\$ 21,236	\$ 21,826
<b>2nd Lien Bank Debt/Senior Secured Loans 43.0%</b>					
AB Acquisitions UK Topco 2 Limited (Alliance Boots), 7/9/16		Retail	£ 11,400	\$ 19,983	\$ 15,321
AB Acquisitions UK Topco 2 Limited (Alliance Boots), 7/9/16		Retail	3,961	5,499	4,749
American Safety Razor Company, LLC, 1/30/14		Consumer Products	\$ 1,000	774	625
Asurion Corporation, 7/3/15		Insurance	148,300	147,019	147,605
BNY ConvergeX Group, LLC, 4/2/14		Business Services	83,229	80,722	83,229
C.H.I. Overhead Doors, Inc., 13.00%, 10/22/11		Building Products	15,000	15,012	15,000
Clean Earth, Inc., 13.00%, 8/1/14		Environmental	25,000	25,000	24,875
Datatel, Inc., 12/9/16		Education	20,000	19,923	20,350
Dresser, Inc., 5/4/15		Industrial	62,938	62,656	60,289
Educate, Inc., 6/14/14		Education	10,000	10,000	9,400
Garden Fresh Restaurant Corp., 12/22/11		Retail	33,600	32,880	33,600
Generics International, Inc., 4/30/15		Healthcare	20,000	19,931	20,000
Infor Enterprise Solutions Holdings, Inc., Tranche B-1, 3/2/14		Business Services	5,000	5,000	3,925
Infor Enterprise Solutions Holdings, Inc., 3/2/14		Business Services	15,000	14,883	12,581
Infor Global Solutions European Finance S.á.R.L., 3/2/14		Business Services	6,210	8,263	6,722
IPC Systems, Inc., 6/1/15		Telecommunications	\$ 44,250	41,165	37,613
Kronos, Inc., 6/11/15		Electronics	60,000	60,000	56,820
Ozburn-Hessey Holding Company LLC, 10/8/16		Logistics	35,000	35,000	35,000
Ranpak Corp., 12/27/14(3)		Packaging	43,550	37,564	43,165

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands)****INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED  
PORTFOLIO COMPANIES 151.1%**

	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>2nd Lien Bank Debt/Senior Secured Loans (continued)</b>				
Ranpak Corp., 12/27/14(4)	Packaging	21,970	\$ 27,074	\$ 29,464
Sheridan Holdings, Inc., 6/15/15	Healthcare	\$ 67,847	66,948	67,169
TransFirst Holdings, Inc., 6/15/15	Financial Services	36,632	35,687	33,519

<b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 770,983</b>	<b>\$ 761,021</b>
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<b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>			<b>\$ 792,219</b>	<b>\$ 782,847</b>
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**Subordinated Debt/Corporate Notes 93.0%**

AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650, 7/9/17	Retail	£ 40,847	\$ 79,172	\$ 56,817
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	\$ 32,535	32,164	32,860
Allied Security Holdings LLC, 13.75%, 8/21/15	Business Services	20,000	19,661	20,500
Altegrity Inc., 11.75%, 5/1/16 "	Diversified Service	14,639	9,716	13,644
Altegrity Inc., 10.50%, 11/1/15 "	Diversified Service	13,475	11,852	12,693
Angelica Corporation, 15.00%, 2/4/14	Healthcare	60,000	60,000	64,260
ATI Acquisition Company, L+1100, 12/30/15	Education	38,500	37,750	38,115
BNY ConvergeX Group, LLC, 14.00%, 10/2/14	Business Services	42,730	35,913	44,140
Booz Allen Hamilton Inc., 13.00%, 7/31/16	Consulting Services	23,435	23,109	24,197
Catalina Marketing Corporation, 11.625%, 10/1/17 "	Grocery	42,175	40,997	45,549
Catalina Marketing Corporation, 10.50%, 10/1/15 "	Grocery	5,000	5,094	5,300
Ceridian Corp., 13.00%, 11/15/15	Diversified Service	53,250	53,250	52,185
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	36,000	35,246	34,740
Cidron Healthcare C S.á.R.L. (Convatec) E+950, 8/1/17	Healthcare	8,033	12,547	10,923
Delta Educational Systems, Inc., 14.20%, 5/12/13	Education	\$ 19,517	19,120	19,713
Dura-Line Merger Sub, Inc., 14.00%, 9/22/14	Telecommunications	42,363	41,792	42,787
European Directories (DH5) B.V., 15.735%, 7/1/16 ***	Publishing	3,452	4,475	
European Directories (DH7) B.V., E+950, 7/1/15 ***	Publishing	17,454	21,846	5,810
First Data Corporation, 11.25%, 3/31/16	Financial Services	\$ 40,000	33,801	33,500
First Data Corporation, 9.875%, 9/24/15	Financial Services	45,500	40,129	39,244
FleetPride Corporation, 11.50%, 10/1/14 "	Transportation	47,500	47,500	46,075

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands)**

<b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED PORTFOLIO COMPANIES 151.1%</b>	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Subordinated Debt/Corporate Notes (continued)</b>				
FoxCo Acquisition Sub LLC, 13.375%, 7/15/16 "	Broadcasting & Entertainment	\$ 25,250	\$ 25,034	\$ 25,250
FPC Holdings, Inc. (FleetPride Corporation), 14.00%, 6/30/15 "	Transportation	37,846	37,429	35,575
General Nutrition Centers, Inc., L+450, 3/15/14	Retail	12,275	12,149	11,630
General Nutrition Centers, Inc., 10.75%, 3/15/15	Retail	24,500	24,906	25,113
Goodman Global Inc., 13.50%, 2/15/16	Manufacturing	25,000	25,518	28,000
Hub International Holdings, 10.25%, 6/15/15 "	Insurance	33,732	32,498	32,214
Intelsat Bermuda Ltd., 11.25%, 2/4/17	Broadcasting & Entertainment	75,000	77,335	79,469
Laureate Education, Inc., 11.75%, 8/15/17 "	Education	53,540	51,133	56,217
LVI Services, Inc., 17.25%, 11/16/12	Environmental	51,061	51,061	15,000
MW Industries, Inc., 14.50%, 5/1/14	Manufacturing	61,186	60,375	62,471
NCO Group Inc., 11.875%, 11/15/14	Consumer Finance	22,630	18,974	21,758
N.E.W. Holdings I, LLC, L+750, 3/23/17	Consumer Services	40,000	40,000	39,600
Nielsen Finance LLC, 0% / 12.50%, 8/1/16	Market Research	61,000	54,275	58,255
Pacific Crane Maintenance Company, L.P., 15.00%, 2/15/14 ***	Machinery	50,172	36,825	1,505
PBM Holdings, Inc., 13.50%, 9/29/13	Beverage, Food & Tobacco	17,723	17,723	18,210
Playpower Holdings Inc., 15.50%, 12/31/12 "	Leisure Equipment	97,184	97,184	82,325
Ranpak Holdings, Inc., 15.00%, 12/27/15	Packaging	67,643	67,643	68,557
RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 1/30/15 ***	Consumer Products	57,351	55,479	6,882
Sorenson Communications, Inc., 10.50%, 2/1/15 "	Consumer Services	32,500	31,901	31,444
SquareTwo Financial Corp. (Collect America, Ltd.), 11.625%, 4/1/17 "	Consumer Finance	55,000	54,046	54,046
The ServiceMaster Company, 10.75%, 7/15/15 "	Diversified Service	52,173	49,286	55,580
TL Acquisitions, Inc. (Cengage Learning), 13.25%, 7/15/15 "	Education	72,500	72,253	70,748
TL Acquisitions, Inc. (Cengage Learning), 10.50%, 1/15/15 "	Education	22,000	20,681	21,065
US Foodservice, 10.25%, 6/30/15 "	Beverage, Food & Tobacco	81,543	62,034	84,498
Varietal Distribution, 10.75%, 6/30/17	Distribution	22,204	21,664	20,983
<b>Total Subordinated Debt/Corporate Notes</b>			<b>\$ 1,762,540</b>	<b>\$ 1,649,447</b>
<b>TOTAL CORPORATE DEBT</b>			<b>\$ 2,554,759</b>	<b>\$ 2,432,294</b>

See notes to financial statements.



**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands, except shares)****INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED  
PORTFOLIO COMPANIES 151.1%**

	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>COLLATERALIZED LOAN OBLIGATIONS 1.5%</b>				
Babson CLO Ltd., Series 2008-2A Class E, L+975, 7/15/18 "	Asset Management	\$ 11,000	\$ 10,097	\$ 10,690
Babson CLO Ltd., Series 2008-1A Class E, L+550, 7/20/18 "	Asset Management	10,366	7,676	8,420
Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 "	Asset Management	11,000	6,684	6,756
<b>TOTAL COLLATERALIZED LOAN OBLIGATIONS</b>			<b>\$ 24,457</b>	<b>\$ 25,866</b>

	<b>Shares</b>			
<b>PREFERRED EQUITY 1.6%</b>				
AHC Mezzanine LLC (Advanstar) **	Media	1	\$ 1,063	\$ 298
CA Holding, Inc. (Collect America, Ltd.) Series A	Consumer Finance	7,961	788	1,592
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	19,286	19,443
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	332,500	5,364	5,360
Varietal Distribution Holdings, LLC, 8.00%	Distribution	3,097	3,852	1,907
<b>TOTAL PREFERRED EQUITY</b>			<b>\$ 30,353</b>	<b>\$ 28,600</b>

**EQUITY 10.8%**

<b>Common Equity/Interests 10.4%</b>				
AB Capital Holdings LLC (Allied Security) **	Business Services	2,000,000	\$ 2,000	\$ 2,628
A-D Conduit Holdings, LLC (Duraline) **	Telecommunications	2,778	2,778	4,381
CA Holding, Inc. (Collect America, Ltd.) Series A **	Consumer Finance	25,000	2,500	1,771
CA Holding, Inc. (Collect America, Ltd.) Series AA **	Consumer Finance	4,294	429	859
Clothesline Holdings, Inc. (Angelica) **	Healthcare	6,000	6,000	8,901
Explorer Coinvest LLC (Booz Allen)	Consulting Services	430	4,300	8,849
FSC Holdings Inc. (Hanley Wood LLC) **	Media	10,000	10,000	167
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	11,455
Gryphon Colleges Corporation (Delta Educational Systems, Inc.) **	Education	17,500	175	4,014
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems)(5,6)	Industrial	1		385
LVI Acquisition Corp. (LVI Services, Inc.) **	Environmental	6,250	2,500	
MEG Energy Corp.(7)	Oil & Gas	2,176,722	55,006	88,202

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands, except shares and warrants)**

<b>INVESTMENTS IN NON-CONTROLLED/NON-AFFILIATED PORTFOLIO COMPANIES 151.1%</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Common Equity/Interests (continued)</b>				
New Omaha Holdings Co-Invest LP (First Data) **	Financial Services	13,000,000	\$ 65,000	\$ 31,590
PCMC Holdings, LLC (Pacific Crane) **	Machinery	50,000	4,000	
Penton Business Media Holdings, LLC	Media	124	4,950	4,950
Pro Mach Co-Investment, LLC **	Machinery	150,000	1,500	4,200
RC Coinvestment, LLC (Ranpak Corp.) **	Packaging	50,000	5,000	5,088
Sorenson Communications Holdings, LLC Class A	Consumer Services	454,828	45	6,080
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
<b>Total Common Equity/Interests</b>			<b>\$ 171,211</b>	<b>\$ 183,520</b>
<b>Warrants</b>				
<b>Warrants 0.4%</b>				
CA Holding, Inc. (Collect America, Ltd.), Common	Consumer Finance	7,961	\$ 8	
Fidji Luxco (BC) S.C.A., Common (FCI)(5) **	Electronics	48,769	491	\$ 2,939
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	9,820	98	2,252
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	45,947	460	741
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	104,314	1,043	1,681
<b>Total Warrants</b>			<b>\$ 2,100</b>	<b>\$ 7,613</b>
<b>TOTAL EQUITY</b>			<b>\$ 173,311</b>	<b>\$ 191,133</b>
<b>Total Investments in Non-Controlled/ Non-Affiliated Portfolio Companies</b>			<b>\$ 2,782,880</b>	<b>\$ 2,677,893</b>

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands, except shares and warrants)**

<b>INVESTMENTS IN NON-CONTROLLED/ AFFILIATED PORTFOLIO COMPANIES 4.7%(8)</b>		<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>CORPORATE DEBT 4.0%</b>					
<b>BANK DEBT/SENIOR SECURED LOANS (2) 3.4%</b>					
<b>1st Lien Bank Debt/Senior Secured Loans 0.1%</b>					
Gray Wireline Service, Inc., 10/22/12		Oil & Gas	\$ 1,000	\$ 1,000	\$ 1,000
<b>2nd Lien Bank Debt/Senior Secured Loans 3.3%</b>					
Gray Wireline Service, Inc., 14.00%, 10/22/12		Oil & Gas	\$ 77,554	\$ 77,554	\$ 59,251
<b>TOTAL BANK DEBT/SENIOR SECURED LOANS</b>				<b>\$ 78,554</b>	<b>\$ 60,251</b>
<b>Subordinated Debt/Corporate Notes 0.6%</b>					
DSI Renal Inc., 17.00%, 4/7/14		Healthcare	\$ 9,860	\$ 9,860	\$ 10,057
<b>TOTAL CORPORATE DEBT</b>				<b>\$ 88,414</b>	<b>\$ 70,308</b>
<b>Shares</b>					
<b>EQUITY 0.7%</b>					
<b>Common Equity/Interests 0.6%</b>					
CDSI I Holding Company, Inc. (DSI Renal Inc.)		Healthcare	9,303	\$ 9,300	\$ 10,206
Gray Energy Services, LLC Class H (Gray Wireline) **		Oil & Gas	1,081	2,000	
<b>Total Common Equity/Interests</b>				<b>\$ 11,300</b>	<b>\$ 10,206</b>
<b>Warrants</b>					
<b>Warrants 0.1%</b>					
CDSI I Holding Company, Inc. Series A (DSI Renal Inc.)		Healthcare	2,031	\$ 773	\$ 854
CDSI I Holding Company, Inc. Series B (DSI Renal Inc.)		Healthcare	2,031	645	693
CDSI I Holding Company, Inc. (DSI Renal Inc.) §		Healthcare	6,093,750	1,003	1,075
Gray Holdco, Inc. (Gray Wireline)		Oil & Gas	3,559		
<b>Total Warrants</b>				<b>\$ 2,421</b>	<b>\$ 2,622</b>
<b>TOTAL EQUITY</b>				<b>\$ 13,721</b>	<b>\$ 12,828</b>
<b>Total Investments in Non-Controlled/Affiliated Portfolio Companies</b>				<b>\$ 102,135</b>	<b>\$ 83,136</b>

See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands, except shares)****INVESTMENTS IN CONTROLLED PORTFOLIO**

<b>COMPANIES 5.2%(9)</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Preferred Equity 0.3%</b>				
Grand Prix Holdings, LLC Series A, 12.00% (Innkeepers USA) ***	Hotels, Motels, Inns & Gaming	2,989,431	\$ 101,346	\$ 5,268

**EQUITY**

<b>Common Equity/Interests 4.9%</b>				
AIC Credit Opportunity Fund LLC (10)	Asset Management		\$ 70,041	\$ 73,514
Generation Brands Holdings, Inc. (Quality Home Brands)	Consumer Products	750		230
Generation Brands Holdings, Inc. Series H (Quality Home Brands)	Consumer Products	7,500	2,297	2,297
Generation Brands Holdings, Inc. Series 2L (Quality Home Brands)	Consumer Products	36,700	11,242	11,242
Grand Prix Holdings, LLC (Innkeepers USA) **	Hotels, Motels, Inns & Gaming	17,335,834	172,664	

<b>Total Common Equity/Interests</b>			<b>\$ 256,244</b>	<b>\$ 87,283</b>
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<b>TOTAL EQUITY</b>			<b>\$ 256,244</b>	<b>\$ 87,283</b>
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<b>Total Investments in Controlled Portfolio Companies</b>			<b>\$ 357,590</b>	<b>\$ 92,551</b>
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<b>Total Investments 161.0%(11)</b>			<b>\$ 3,242,605</b>	<b>\$ 2,853,580</b>
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		<b>Par Amount*</b>		
<b>CASH EQUIVALENTS 25.3%</b>				
U.S. Treasury Bill, 0.13%, 7/1/10	Government	\$ 450,000	\$ 449,852	\$ 449,828
<b>Total Investments and Cash Equivalents 186.3%</b>			<b>\$ 3,692,457</b>	<b>\$ 3,303,408</b>
<b>Liabilities in Excess of Other Assets (86.3%)</b>				<b>(1,530,602)</b>

<b>Net Assets 100.0%</b>				<b>\$ 1,772,806</b>
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See notes to financial statements.

**Table of Contents****APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands)**

- (1) Fair value is determined in good faith by or under the direction of the Board of Directors of the Company (see Note 2).
- (2) Includes floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At March 31, 2010, the range of interest rates on floating rate bank debt was 4.59% to 10.50%.
- (3) Position is held across five US Dollar-denominated tranches with varying yields.
- (4) Position is held across three Euro-denominated tranches with varying yields.
- (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) Denotes investments in which we are an Affiliated Person, as defined in the 1940 Act, due to owning, controlling, or holding the power to vote, 5% or more of the outstanding voting securities of the investment. Transactions during the fiscal year ended March 31, 2010 in these Affiliated investments are as follows:

<b>Name of Issuer</b>	<b>Fair Value at March 31, 2009</b>	<b>Gross Additions</b>	<b>Gross Reductions</b>	<b>Interest/Dividend Income</b>	<b>Fair Value at March 31, 2010</b>
Gray Wireline Service, Inc. 1 <sup>st</sup> Out	\$	\$ 1,000	\$	\$ 5	\$ 1,000
Gray Wireline Service, Inc. 2 <sup>nd</sup> Out		77,554		633	59,251
DSI Renal, Inc., 17.00%		9,860		364	10,057
CDSII Holding Company, Inc. Common Equity		9,300			10,206
Gray Energy Services, LLC Class H Common Equity	3,590				
CDSII Holding Company, Inc. Series A Warrant		773			854
CDSII Holding Company, Inc. Series B Warrant		645			693
CDSII Holding Company, Inc. Contingent Payment Agreement		1,003			1,075
Gray Holdco, Inc. Warrant					
	\$ 3,590	\$ 100,135	\$	\$ 1,002	\$ 83,136

- (9) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the fiscal year ended March 31, 2010 in these Controlled investments are as follows:

<b>Name of Issuer</b>	<b>Fair Value at March 31, 2009</b>	<b>Gross Additions</b>	<b>Gross Reductions</b>	<b>Interest/Dividend Income</b>	<b>Fair Value at March 31, 2010</b>
Grand Prix Holdings, LLC Series A Preferred	\$ 76,557	\$ 11,272	\$	\$ 9,351	\$ 5,268
AIC Credit Opportunity Fund LLC Common Equity (10)	57,294	11,854	21,190	11,309	73,514
Generation Brands Holdings, Inc. Common Equity					230
Generation Brands Holdings, Inc. Series H Common Equity		2,297			2,297
Generation Brands Holdings, Inc. Series 2L Common Equity		11,242			11,242

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Grand Prix Holdings, LLC Common Equity	7,570					
	\$ 141,421	\$ 36,665	\$ 21,190	\$ 20,660	\$ 92,551	

See notes to financial statements.

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**APOLLO INVESTMENT CORPORATION**

**SCHEDULE OF INVESTMENTS (continued)**

**March 31, 2010**

**(in thousands)**

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

(10) See Note 6.

(11) Aggregate gross unrealized appreciation for federal income tax purposes is \$164,234; aggregate gross unrealized depreciation for federal income tax purposes is \$524,226. Net unrealized depreciation is \$359,992 based on a tax cost of \$3,663,400.

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

\* Denominated in USD unless otherwise noted.

\*\* Non-income producing security

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

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

§ Position reflects a contingent payment agreement.

See notes to financial statements.



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

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of March 31, 2010</b>
Education	10.1%
Healthcare	6.8%
Insurance	6.3%
Business Services	6.1%
Diversified Service	5.9%
Retail	5.6%
Oil & Gas	5.2%
Packaging	5.1%
Financial Services	4.8%
Broadcasting & Entertainment	3.8%
Beverage, Food & Tobacco	3.6%
Asset Management	3.5%
Manufacturing	3.2%
Telecommunications	3.0%
Grocery	2.9%
Leisure Equipment	2.9%
Transportation	2.9%
Consumer Finance	2.8%
Consumer Services	2.7%
Industrial	2.1%
Electronics	2.1%
Market Research	2.0%
Environmental	1.4%
Logistics	1.2%
Consulting Services	1.2%
Distribution	0.8%
Consumer Products	0.7%
Building Products	0.5%
Publishing	0.2%
Machinery	0.2%
Media	0.2%
Hotels, Motels, Inns & Gaming	0.2%
<b>Total Investments</b>	<b>100.0%</b>

See notes to financial statements.

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

(in thousands except share and per share amounts)

**Note 1. Organization**

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

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

**Note 2. Significant Accounting Policies**

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

Financial statements are prepared in accordance with GAAP and pursuant to the requirements for reporting on Form 10-K and Regulation S-X, as appropriate. In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements have been included. In addition, certain amounts totaling \$40,993 were reclassified on the statement of cash flows for the year ended March 31, 2009 to conform to the current period's presentation.

The significant accounting policies consistently followed by Apollo Investment are:

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

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

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

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

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

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

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

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

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

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

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

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

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

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

(d) The Company records interest and dividend income, adjusted for amortization of premium and accretion of discount, on an accrual basis. Some of our loans and other investments, including certain preferred equity investments, may have contractual payment-in-kind (PIK) interest or dividends. PIK interest and dividends computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. For the fiscal year ended March 31, 2011, accrued PIK totaled \$32.9 million, on total investment income of \$358.8 million. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Structuring fees are recorded as other income when earned.

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

(f) Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified among the Company's capital accounts. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America; accordingly, at March 31, 2011, \$21,414 was reclassified on our statement of assets and liabilities between accumulated net realized loss and undistributed net investment income. Total earnings and net asset value are not affected.

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### **APOLLO INVESTMENT CORPORATION**

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

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

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

(h) In accordance with Regulation S-X and ASC 810 *Consolidation*, the Company generally will not consolidate its interest in any company other than in investment company subsidiaries and controlled operating companies substantially all of whose business consists of providing services to the Company. Consequently, the Company generally will not consolidate special purpose entities through which the special purpose entity acquires and holds investments subject to financing with third parties. At March 31, 2011, the Company did not have any subsidiaries or controlled operating companies that were consolidated. See note 6.

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

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

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

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

(m) Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on non-accrual designated investments may be recognized as income or applied to principal depending upon management's judgment. The Company has investments in its portfolio that contain PIK provisions. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends are reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends.

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

(n) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less from the date of purchase would qualify, with limited exceptions. The Company deems that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

**Note 3. Agreements**

Apollo Investment has an Investment Advisory and Management Agreement (the "Investment Advisory Agreement") with Apollo Investment Management, L.P. (the "Investment Adviser" or "AIM"), under which the Investment Adviser, subject to the overall supervision of Apollo Investment's board of directors, will manage the day-to-day operations of, and provide investment advisory services to, Apollo Investment. For providing these services, the Investment Adviser receives a fee from Apollo Investment, consisting of two components—a base management fee and a performance-based incentive fee. The base management fee is determined by taking the average value of Apollo Investment's gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Apollo Investment's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies accrued during the calendar quarter, minus Apollo Investment's operating expenses for the quarter (including the base management fee, any expenses payable under 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 rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. Apollo Investment pays the Investment Adviser an incentive fee with respect to Apollo Investment's pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which Apollo Investment's pre-incentive fee net investment income does not exceed 1.75%, which we commonly refer to as the performance threshold; (2) 100% of Apollo Investment's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds 1.75% but does not exceed 2.1875% in any calendar quarter; and (3) 20% of the amount of Apollo Investment's pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro rated for any period of less than three months. The effect of the fee calculation described above is that if pre-incentive fee net investment income is equal to or exceeds 2.1875%, the Investment Adviser will receive a fee of 20% of Apollo Investment's pre-incentive fee net investment income for the quarter. The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and will equal 20% of Apollo Investment's cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For accounting purposes only, we are required under GAAP to accrue a theoretical capital gains incentive fee based upon net realized capital gains and unrealized capital appreciation and depreciation on investments held at the end of each period. The accrual of this theoretical capital gains incentive fee assumes all unrealized capital appreciation and depreciation is realized in order to reflect a theoretical capital gains incentive fee that would be

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

payable to the Investment Adviser at each measurement date. There was no such required accrual under GAAP for the fiscal years ended March 31, 2011, 2010 and 2009. It should be noted that a fee so calculated and accrued would not be payable under the Investment Advisers Act of 1940 ( Advisers Act ) or Investment Advisory Agreement, and would not be paid based upon such computation of capital gains incentive fees in subsequent periods. Amounts actually paid to the Investment Adviser will be consistent with the Advisers Act and formula reflected in the Investment Advisory Agreement which specifically excludes consideration of unrealized capital appreciation.

For the fiscal years ended March 31, 2011, 2010 and 2009, the Company recognized \$59,831, \$54,069 and \$59,686, respectively, in base management fees and \$47,793, \$49,853 and \$51,583, respectively, in performance-based incentive fees.

Apollo Investment has also entered into an Administration Agreement with Apollo Investment Administration, LLC (the Administrator ) under which the Administrator provides administrative services for Apollo Investment. For providing these services, facilities and personnel, Apollo Investment reimburses the Administrator for Apollo Investment 's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent and Apollo Investment 's allocable portion of its chief financial officer and chief compliance officer and their respective staffs. The Administrator will also provide, on Apollo Investment 's behalf, managerial assistance to those portfolio companies to which Apollo Investment is required to provide such assistance.

At the fiscal years ended March 31, 2011, 2010 and 2009, the Company recognized expenses under the Administration Agreement of \$5,529, \$4,725 and \$4,794, respectively.

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

At March 31, 2011, the Company 's total net assets and net asset value per share were \$1,961,031 and \$10.03, respectively. This compares to total net assets and net asset value per share at March 31, 2010 of \$1,772,806 and \$10.06, respectively.

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

The following table sets forth the computation of basic and diluted earnings (loss) per share, pursuant to ASC 260-10, for the years ended March 31, 2011, 2010 and 2009, respectively:

	2011	Year Ended March 31, 2010	2009
<b><u>Earnings per share - basic</u></b>			
Numerator for increase (decrease) in net assets per share:	\$ 180,412	\$ 263,290	\$ (611,879)
Denominator for basic weighted average shares:	193,192,475	159,368,701	139,468,630
Basic earnings (loss) per share:	0.93	1.65	(4.39)
<b><u>Earnings per share - diluted</u></b>			
Numerator for increase (decrease) in net assets per share:	\$ 180,412	\$ 263,290	\$ (611,879)
Adjustment for interest on convertible notes and for incentive fees, net	1,883		
Numerator for increase (decrease) in net assets per share, as adjusted	\$ 182,295	\$ 263,290	\$ (611,879)
Denominator for weighted average shares, as adjusted for dilutive effect of convertible notes:	195,823,090	159,368,701	139,468,630
Diluted earnings (loss) per share:	0.93	1.65	(4.39)





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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Note 6. Investments**

**AIC Credit Opportunity Fund LLC** We own all of the common member interests in AIC Credit Opportunity Fund LLC ( AIC Holdco ). AIC Holdco was formed for the purpose of holding various financed investments. AIC Holdco wholly owns the special purpose entity AIC (FDC) Holdings LLC ( Apollo FDC ). Through AIC Holdco, effective in June 2008 we invested \$39,500 in Apollo FDC. Apollo FDC purchased a Junior Profit-Participating Note due 2013 in principal amount of \$39,500 (the Junior Note ) from Apollo I Trust (the Trust ). The Trust also issued a Senior Floating Rate Note due 2013 (the Senior Note ) to an unaffiliated third party ( FDC Counterparty ) in principal amount of \$39,500 paying interest at Libor plus 1.50%, increasing over time to Libor plus 2.0%. The Trust used the aggregate \$79,000 proceeds to acquire \$100,000 face value of a senior subordinated loan of First Data Corporation (the FDC Reference Obligation ) due 2016 and paying interest at 11.25% per year. Under its Junior Note, Apollo FDC is generally entitled to the net interest and other proceeds due under the FDC Reference Obligation after payment of interest due under the Senior Notes, as described above. In addition, Apollo FDC is entitled to 100% of any realized appreciation in the FDC Reference Obligation and, since the Senior Note is a non-recourse obligation, Apollo FDC is exposed up to the amount of its investment in the Junior Note plus any additional margin we decide to post, if any, during the term of the financing.

AIC (TXU) Holdings LLC ( Apollo TXU ) is a special purpose entity wholly owned by AIC Holdco. Through AIC Holdco, effective in June 2008, we invested \$11,375 in Apollo TXU, which acquired exposure to \$50,000 notional amount of a Libor plus 3.5% senior secured delayed draw term loan of Texas Competitive Electric Holdings ( TXU ) due 2014 through a non-recourse total return swap with an unaffiliated third party expiring on October 10, 2013. Pursuant to such delayed drawn term loan, Apollo TXU pays interest at Libor plus 1.5% and generally receives all proceeds due under the delayed draw term loan of TXU (the TXU Reference Obligation ). Like Apollo FDC, Apollo TXU is entitled to 100% of any realized appreciation in the TXU Reference Obligation and, since the total return swap is a non-recourse obligation, Apollo TXU is exposed up to the amount of its investment in the total return swap, plus any additional margin we decide to post, if any, during the term of the financing.

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

We do not consolidate AIC Holdco or its wholly owned subsidiaries and accordingly only the value of our investment in AIC Holdco is included on our statements of assets and liabilities. The Senior Note, total return swap and Acquisition Loan are non-recourse to AIC Holdco, its subsidiaries and us and have standard events of default including failure to pay contractual amounts when due and failure by each of the underlying Apollo special purpose entities to provide additional credit support, sell assets or prepay a portion of its obligations if the value of the FDC Reference Obligation, the TXU Reference Obligation or the Boots Reference Obligation, as applicable, declines below specified levels. We may unwind any of these transactions at any time without penalty. From time to time we may provide additional capital to AIC Holdco for purposes of funding margin calls under one or more of the transactions described above among other reasons. During the fiscal year ended March 31, 2009, we provided \$18,480 in additional capital to AIC Holdco. During the fiscal year ended March 31, 2010, \$9,336 of net capital was returned to us from AIC Holdco. During the fiscal year ended March 31, 2011, \$1,700 of net capital was provided to AIC Holdco.

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

Investments and cash equivalents consisted of the following as of March 31, 2011 and March 31, 2010.

	March 31, 2011		March 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	\$ 994,742	\$ 1,013,745	\$ 870,773	\$ 843,098
Subordinated Debt/Corporate Notes	1,719,439	1,730,656	1,772,400	1,659,504
Collateralized Loan Obligations	24,739	28,770	24,457	25,866
Preferred Equity	136,429	33,132	131,699	33,868
Common Equity/Interests	418,967	227,771	438,755	281,009
Warrants	4,520	16,084	4,521	10,235
<b>Total Investments</b>	<b>\$ 3,298,836</b>	<b>\$ 3,050,158</b>	<b>\$ 3,242,605</b>	<b>\$ 2,853,580</b>
Cash Equivalents			449,852	449,828
<b>Total Investments and Cash Equivalents</b>	<b>\$ 3,298,836</b>	<b>\$ 3,050,158</b>	<b>\$ 3,692,457</b>	<b>\$ 3,303,408</b>

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

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

At March 31, 2010, our investments and cash equivalents were categorized as follows in the fair value hierarchy for ASC 820 purposes:

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Description	March 31, 2010	Fair Value Measurement at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Bank Debt/Senior Secured Loans	\$ 843,098	\$	\$	\$ 843,098
Subordinated Debt/Corporate Notes	1,659,504			1,659,504
Collateralized Loan Obligations	25,866			25,866
Preferred Equity	33,868			33,868
Common Equity/Interests	281,009			281,009
Warrants	10,235			10,235
Total Investments	\$ 2,853,580	\$	\$	\$ 2,853,580
Cash Equivalents	449,828	449,828		
Total Investments and Cash Equivalents	\$ 3,308,408	\$ 449,828	\$	\$ 2,853,580

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

(in thousands except share and per share amounts)

The following chart shows the components of change in our investments categorized as Level 3, for the fiscal year ended March 31, 2011.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*						
	Bank Debt / Senior Secured Loans	Subordinated Debt/Corporate Notes	Collateralized Loan Obligations	Preferred Equity	Common Equity/Interests	Warrants	Total
Beginning Balance, March 31, 2010	\$ 843,098	\$ 1,659,504	\$ 25,866	\$ 33,868	\$ 281,009	\$ 10,235	\$ 2,853,580
Total realized gains or losses included in earnings	(2,564)	(169,042)	56		(7,669)	2,654	(176,565)
Total unrealized gains or losses included in earnings	46,679	123,971	2,621	(5,466)	(33,450)	5,849	140,204
Purchases, including capitalized PIK(1)	601,753	501,249	442	4,730	43,718		1,151,892
Sales	(475,221)	(385,026)	(215)		(831)	(2,654)	(863,947)
Transfer in and/or out of Level 3(2)					(55,006)		(55,006)
Ending Balance, March 31, 2011	\$ 1,013,745	\$ 1,730,656	\$ 28,770	\$ 33,132	\$ 227,771	\$ 16,084	\$ 3,050,158

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

\$ 42,866	\$ 1,757	\$ 2,637	\$ (5,466)	\$ (8,754)	\$ 5,849	\$ 38,889
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(1) Includes accretion of discount and amortization of premiums of approximately \$6,957, \$33,842, \$442, \$192, \$0, \$0 and \$41,433, respectively.

(2) MEG Energy Corp. common stock was transferred from Level 3 to Level 1 due to its initial public offering. There were no other transfers into or out of Level 1, Level 2 or Level 3 during the period shown.

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

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

(in thousands except share and per share amounts)

The following chart shows the components of change in our investments categorized as Level 3, for the fiscal year ended March 31, 2010.

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*						
	Bank Debt / Senior Secured Loans	Subordinated Debt/Corporate Notes	Collateralized Loan Obligations	Preferred Equity	Common Equity/Interests	Warrants	Total
Beginning Balance, March 31, 2009	\$ 655,610	\$ 1,417,070	\$ 18,978	\$ 132,526	\$ 258,153	\$ 4,554	\$ 2,486,891
Total realized gains or losses included in earnings	(52,891)	(418,546)	125	(46,392)	50,450	26	(467,228)
Total unrealized gains or losses included in earnings	146,187	434,223	6,153	(63,806)	22,372	3,426	548,555
Purchases, including capitalized PIK(1)	271,974	482,616	1,490	21,051	52,296	2,429	831,856
Sales	(177,782)	(255,859)	(880)	(9,511)	(102,262)	(200)	(546,494)
Transfer in and/or out of Level 3(2)							
Ending Balance, March 31, 2010	\$ 843,098	\$ 1,659,504	\$ 25,866	\$ 33,868	\$ 281,009	\$ 10,235	\$ 2,853,580

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

\$ 115,007	\$ 66,256	\$ 6,153	\$ (81,270)	\$ (4,791)	\$ 3,252	\$ 104,607
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(1) Includes accretion of discount and amortization of premiums of approximately \$2,239, \$23,215, \$394, \$213, \$0, \$0 and \$26,061, respectively.

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

\* Pursuant to fair value measurement and disclosure guidance, the Company currently categories investments by class as shown above. With the adoption of fair value measurement and disclosure guidance, the Company has reclassified the beginning balance, March 31, 2009, to conform to the current period's presentation.

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

(in thousands except share and per share amounts)

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

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

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

At March 31, 2010, the Company had outstanding non-US borrowings on its 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)
British Pound	£ 2,000	\$ 3,565	\$ 3,034	04/13/2010	\$ 531
Euro	7,500	11,131	10,148	04/16/2010	983
Euro	13,000	18,591	17,590	04/16/2010	1,001
Canadian Dollar	C\$ 11,113	10,505	10,954	04/21/2010	(449)
British Pound	£ 37,500	59,395	56,884	04/26/2010	2,511
Euro	45,000	58,921	60,889	04/26/2010	(1,968)
Euro	11,500	15,058	15,561	04/29/2010	(503)
British Pound	£ 13,000	21,471	19,720	04/29/2010	1,751
Canadian Dollar	C\$ 29,700	25,161	29,274	05/25/2010	(4,113)
Canadian Dollar	C\$ 22,500	19,189	22,177	06/08/2010	(2,988)
Canadian Dollar	C\$ 15,000	13,035	14,785	06/29/2010	(1,750)
Canadian Dollar	C\$ 3,000	2,318	2,957	06/30/2010	(639)
		\$ 258,340	\$ 263,973		\$ (5,633)

**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

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the monthly custody fees charged to the Company. The total amount of credits earned during the years ended March 31, 2011, 2010, and 2009 are \$0, \$0, and \$217, respectively.

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (continued)****(in thousands except share and per share amounts)****Note 9. Cash Equivalents**

There were \$0 and \$449,828 of cash equivalents held at March 31, 2011 and March 31, 2010, respectively.

**Note 10. Repurchase Agreements**

The Company may enter 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 March 31, 2011 or March 31, 2010.

**Note 11. Financial Highlights**

The following is a schedule of financial highlights for the years ended March 31, 2011, 2010, 2009, 2008, and 2007:

	Fiscal Year Ended March 31,				
	2011	2010	2009	2008	2007
<b>Per Share Data:</b>					
Net asset value, beginning of period	\$ 10.06	\$ 9.82	\$ 15.83	\$ 17.87	\$ 15.15
Net investment income	0.99	1.26	1.48	1.82	1.49
Net realized and unrealized gain (loss)	(0.05)	0.45	(5.74)	(1.90)	2.11
Net increase (decrease) in net assets resulting from operations	0.94	1.71	(4.26)	(0.08)	3.60
Dividends to stockholders(1)	(1.13)	(1.14)	(1.86)	(2.06)	(1.96)
Effect of anti-dilution (dilution)	0.16	(0.33)	0.11	0.10	1.09
Offering costs	*	*	*	*	(0.01)
Net asset value at end of period	\$ 10.03	\$ 10.06	\$ 9.82	\$ 15.83	\$ 17.87
Per share market value at end of period	\$ 12.07	\$ 12.73	\$ 3.48	\$ 15.83	\$ 21.40
Total return(2)	5.1%	313.0%	(73.90)%	(17.50)%	31.70%
Shares outstanding at end of period	195,501,549	176,213,918	142,221,335	119,893,835	103,507,766

**Ratio/Supplemental Data:**



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Net assets at end of period (in millions)	\$	1,961.0	\$	1,772.8	\$	1,396.1	\$	1,897.9	\$	1,849.7
Ratio of net investment income to average net assets		10.19%		12.36%		10.71%		9.85%		9.09%
Ratio of operating expenses to average net assets**		6.37%		7.21%		6.35%		4.92%		7.73%
Ratio of interest and other debt expenses to average net assets		2.56%		1.52%		2.54%		2.73%		2.49%
Ratio of total expenses to average net assets**		8.93%		8.73%		8.89%		7.65%		10.22%
Average debt outstanding	\$	1,072,646	\$	1,041,084	\$	1,193,809	\$	882,775	\$	580,209
Average debt per share	\$	5.55	\$	6.53	\$	8.56	\$	7.88	\$	6.76
Portfolio turnover ratio		33.6%		17.2%		11.2%		24.2%		43.8%

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

- (1) Dividends and distributions are determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under GAAP. Per share amounts reflect total dividends paid divided by average shares for the respective periods.
  - (2) Total return is based on the change in market price per share during the respective periods. Total return also takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan.
- \* Represents less than one cent per average share.
- \*\* The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets is 6.37% and 8.93%, respectively, at March 31, 2011, inclusive of the expense offset arrangement (see Note 8). At March 31, 2010, the ratios were 7.21% and 8.73%, respectively. At March 31, 2009, the ratios were 6.33% and 8.87%, respectively. At March 31, 2008, the ratios were 4.91% and 7.64%, respectively. At March 31, 2007, the ratios were 7.72% and 10.21%, respectively.

**Note 12. Debt**

*Revolving Credit Facility*

At March 31, 2011, under the terms of the Facility, certain lenders have agreed to extend credit to Apollo Investment in an aggregate principal or face amount not exceeding \$1,633,750 at any one time outstanding. The Facility permits Apollo Investment to seek additional commitments from new and existing lenders in the future, up to an aggregate Facility size not to exceed \$2,000,000. On December 21, 2009, Apollo Investment amended the Facility to extend the maturity date of certain lenders' commitments totaling \$1,178,750 until April 12, 2013. The commitments of certain non-extended lenders totaling \$380,000 would mature on April 13, 2011. As of September 2010, Apollo Investment received a lender commitment of \$50,000 under the Facility with a maturity date of April 12, 2013. As of January 19, 2011, the Company received an additional lender commitment of \$50,000 under the Facility with a maturity date of April 12, 2013. As of January 19, 2011, aggregate lender commitments total \$1,633,750. The Facility is secured by substantially all of the assets in Apollo Investment's portfolio, including cash and cash equivalents. Pricing with respect to the commitments of extended lenders is at 300 basis points over LIBOR while pricing with respect to the non-extended lenders remains at 100 basis points over LIBOR. The Facility contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintaining minimum stockholders' equity of the greater of (i) 40% of the total assets of Apollo Investment and its consolidated subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$725,000 plus (B) 25% of the net proceeds from the sale of equity interests in Apollo Investment after the closing date of the Facility, (c) maintaining a ratio of total assets, less total liabilities (other than indebtedness) to total indebtedness, in each case of Apollo Investment and its consolidated subsidiaries, of not less than 2.0:1.0, (d) maintaining minimum liquidity, (e) limitations on the incurrence of additional indebtedness, including a requirement to meet a certain minimum liquidity threshold before Apollo Investment can incur such additional debt, (f) limitations on liens, (g) limitations on investments (other than in the ordinary course of Apollo Investment's business), (h) limitations on mergers and disposition of assets (other than in the normal course of Apollo Investment's business activities), (i) limitations on the creation or existence of agreements that permit liens on properties of Apollo Investment's consolidated subsidiaries and (j) limitations on the repurchase or redemption of certain unsecured debt and debt securities. In addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under the Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in Apollo Investment's portfolio. The remaining capacity under the Facility was \$1,005,307 at March 31, 2011.

*Senior Secured Notes*

On September 30, 2010, the Company entered into a note purchase agreement with certain institutional accredited investors providing for a private placement issuance of \$225,000 in aggregate principal amount of

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

five-year, senior secured notes with a fixed interest rate of 6.25% and a maturity date of October 4, 2015 (the "Senior Secured Notes"). On October 4, 2010, the Senior Secured Notes issued by Apollo Investment were sold to certain institutional accredited investors pursuant to an exemption from registration under the Securities Act of 1933, as amended. Interest on the Senior Secured Notes will be due semi-annually on April 4 and October 4, commencing on April 4, 2011.

*Senior Unsecured Convertible Notes*

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

The average outstanding debt balance was \$1,072,646 and \$1,041,084 for the fiscal years ended March 31, 2011 and 2010, respectively. The weighted average annual interest cost for the fiscal year ended March 31, 2011 was 3.43%, exclusive of 1.05% for commitment fees and for other prepaid expenses related to establishing debt. The weighted average annual interest cost for the fiscal year ended March 31, 2010 was 1.87%, exclusive of 0.48% for commitment fees and for other prepaid expenses related to establishing debt. This weighted average annual interest cost reflects the average interest cost for all debt. The maximum amount of debt outstanding during the fiscal years ended March 31, 2011 and 2010 was \$1,235,464 and \$1,163,167, respectively, at value. As of March 31, 2011, the Company is in compliance with all debt covenants.

**Note 13(a). Income Tax Information and Distributions to Stockholders**

The tax character of dividends for the fiscal year ended March 31, 2011 was as follows:

Ordinary income	\$ 218,079
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**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (continued)****(in thousands except share and per share amounts)**

As of March 31, 2011, the components of accumulated losses on a tax basis were as follows(1):

Distributable ordinary income	\$ 88,268
Capital loss carryforward	(670,511)(2)
Other book/tax temporary differences	(70,953)
Unrealized depreciation	(257,528)
<b>Total accumulated losses</b>	<b>\$ (910,724)</b>

As of March 31, 2011, we had a post-October capital and foreign currency loss deferral of \$6,492 and \$9,720, respectively.

- 1 Tax information for the fiscal year ended March 31, 2011 is an estimate and will not be finally determined until the Company files its 2011 tax return in December 2011.
- 2 On March 31, 2011, the Company had net capital loss carryforwards of \$59,182, \$199,331 and \$411,998 which expire in 2017, 2018 and 2019, respectively. These amounts will be available to offset like amounts of any future taxable gains. It is unlikely that capital gains distributions will be paid to shareholders of the Company until net gains have been realized in excess of such capital loss carryforward or the carryforward expires.

The tax character of dividends for the fiscal year ended March 31, 2010 was as follows:

<b>Ordinary income</b>	<b>\$ 181,356</b>
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As of March 31, 2010, the components of accumulated losses on a tax basis were as follows:

Distributable ordinary income	\$ 133,801
Capital loss carryforward	(258,513)(1)
Other book/tax temporary differences	(383,536)
Unrealized depreciation	(364,809)
<b>Total accumulated losses</b>	<b>\$ (873,057)</b>

As of March 31, 2010, we had a post-October capital and foreign currency loss deferral of \$324,854 and \$9,342, respectively.

- 1 On March 31, 2010, the Company had net capital loss carryforwards of \$59,182 and \$199,331, which expire in 2017 and 2018, respectively. These amounts will be available to offset like amounts of any future taxable gains. It is unlikely that capital gains distributions will be paid to shareholders of the Company until net gains have been realized in excess of such capital loss carryforward or

the carryforward expires.

**Note 13(b). Other Tax Information**

The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2011 eligible for qualified dividend income treatment is 4.18%. The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2011 eligible for the 70% dividends received deduction for corporate stockholders is 4.18%.

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

The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2010 eligible for qualified dividend income treatment is 5.40%. The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2010 eligible for the 70% dividends received deduction for corporate stockholders is 5.40%.

**Note 14. Selected Quarterly Financial Data (unaudited)**

Quarter Ended	Investment Income		Net Investment Income		Net Realized And Unrealized Gain (Loss) on Assets		Net Increase (Decrease) In Net Assets From Operations	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
March 31, 2011	94,715	0.48	50,037	0.26	62,014	0.32	112,052*	0.57*
December 31, 2010	94,318	0.48	50,126	0.26	34,378	0.18	84,504	0.43
September 30, 2010	91,499	0.47	50,182	0.26	17,984	0.09	68,166	0.35
June 30, 2010	78,248	0.42	40,827	0.22	(125,137)	(0.67)	(84,310)	(0.45)
March 31, 2010	87,657	0.50	48,532	0.28	(58,396)	(0.33)	(9,864)	(0.06)
December 31, 2009	85,617	0.51	50,158	0.30	29,365	0.18	79,523	0.48
September 30, 2009	84,403	0.55	51,391	0.34	57,766	0.38	109,157	0.71
June 30, 2009	82,561	0.58	49,330	0.35	35,144	0.25	84,474	0.59
March 31, 2009	85,274	0.60	50,740	0.36	(20,964)	(0.15)	29,776	0.21
December 31, 2008	97,525	0.69	52,787	0.37	(528,330)	(3.71)	(475,543)	(3.34)
September 30, 2008	103,547	0.73	56,491	0.40	(294,443)	(2.07)	(237,952)	(1.67)
June 30, 2008	90,959	0.69	46,313	0.35	25,527	0.19	71,840	0.55

\* Net Increase (Decrease) in Net Assets from Operations is shown on a basic, non-diluted basis. On a diluted basis, the total and per share amounts would be 113,935 and 0.55, respectively.

**Note 15. Commitments and Contingencies**

The Company has the ability to issue standby letters of credit through our revolving credit facility. As of March 31, 2011 and March 31, 2010, the Company had issued through JPMorgan Chase Bank, N.A. standby letters of credit totaling \$0 and \$3,708, respectively.

As of March 31, 2011, AIC had two outstanding commitments with two banks to purchase unsecured bridge loans in the aggregate amount of \$117 million. AIC's commitments were subject to the consummation of the underlying corporate transactions and conditional upon receipt of all necessary shareholder, regulatory and other applicable approvals. Post March 31, 2011, such unsecured bridge loan commitments were extinguished with the permanent placement of high yield securities.

**Note 16. Grand Prix Holdings, LLC**

On April 13, 2010, InnKeepers USA Trust (Innkeepers), a subsidiary of Grand Prix Holdings, LLC, a portfolio company of the Company, disclosed that it had not made certain scheduled monthly interest payments on certain of its debt obligations, and had retained financial and legal advisors to assist it in an evaluation of financial alternatives, including a potential restructuring of its balance sheet.



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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

On July 19, 2010, Innkeepers and certain of its affiliates, including Grand Prix Holdings, LLC, disclosed that they had filed voluntary petitions in the United States Bankruptcy Court for the Southern District of New York under Chapter 11 of the United States Bankruptcy Code. When Innkeepers and its affiliates filed for bankruptcy, they had announced an intention to pursue a certain pre-arranged plan of reorganization. However, Innkeepers is no longer pursuing that pre-arranged plan. Instead, Innkeepers has embarked upon a comprehensive plan process and is engaged in ongoing discussions with its key stakeholders regarding the terms of a successful reorganization.

On July 28, 2010, the Office of the United States Trustee appointed a five (5) member Official Committee of Unsecured Creditors pursuant to section 1102(a)(1) of the Bankruptcy Code. No trustee, examiner or other statutory committee has been appointed in the Innkeepers chapter 11 cases as of March 31, 2011.

**Note 17. Subsequent Events**

On April 13, 2011, \$380,000 of commitments on the Facility matured. As of April 13, 2011, aggregate lender commitments total \$1,253,750.



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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

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

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

***(b) Management's Report on Internal Control Over Financial Reporting***

Management's Report on Internal Control Over Financial Reporting, which appears on page 45 of this Form 10-K, is incorporated by reference herein.

***(c) Attestation Report of the Independent Registered Public Accounting Firm***

Our independent registered public accounting firm, PricewaterhouseCoopers LLP, has issued an attestation report on the Company's internal control over financial reporting, which is set forth above under the heading "Report of Independent Registered Public Accounting Firm" in Item 8.

***(d) 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 fourth fiscal quarter of 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

None.

**Table of Contents****PART III****Item 10. Directors and Executive Officers of the Registrant****MANAGEMENT**

Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of eight members, six of whom are not interested persons of Apollo Investment as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who serve at the discretion of the board of directors.

**BOARD OF DIRECTORS**

Under our charter, our directors are divided into three classes. Each class of directors holds office for a three year term. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

**Directors**

Information regarding the board of directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Expiration of Term</b>
<b>Interested Directors</b>				
John J. Hannan	58	Chairman of the Board	2004	2012
James C. Zelter	48	Chief Executive Officer & Director	2008	2012
<b>Independent Directors</b>				
Ashok N. Bakhru	69	Director	2008	2012
Claudine B. Malone	75	Director	2007	2011
Frank C. Puleo	65	Director	2008	2011
Carl Spielvogel	82	Director	2004	2011
Elliot Stein, Jr.	62	Director	2004	2013
Bradley J. Wechsler	59	Director	2004	2013

The address for each director is c/o Apollo Investment Corporation, 9 West 57<sup>th</sup> Street, New York, NY 10019.

**Executive officers who are not directors**

Information regarding our executive officers who are not directors is as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Patrick J. Dalton	42	President and Chief Operating Officer
Richard L. Peteka	49	Chief Financial Officer and Treasurer
John J. Suydam	51	Vice President and Chief Legal Officer
Cindy Z. Michel	37	Vice President and Chief Compliance Officer

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Joseph D. Glatt

37 Vice President and Secretary

The address for each executive officer is c/o Apollo Investment Corporation, 9 West 57<sup>th</sup> Street, New York, NY 10019.

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### **Biographical information**

#### ***Directors***

Our directors have been divided into two groups – independent directors and interested directors. Interested directors are interested persons as defined in the 1940 Act.

#### **Independent Directors**

**Ashok N. Bakhru** (69) *Director*. Mr. Bakhru became a Director of Apollo Investment Corporation on October 16, 2008. Mr. Bakhru currently serves as the Chairman of the Board of the Goldman Sachs Group of Mutual Funds. Mr. Bakhru served as the Chairman of GS Hedge Fund Partners Registered Fund LLC from 2004 to 2009 and Chairman of GS Hedge Fund Partners Registered Master Fund LLC from 2005 to 2009. Previously Mr. Bakhru was the Chief Financial Officer and Chief Administrative Officer of Coty Inc. in New York City. Prior to that he served at Scott Paper Company in Philadelphia, where he held several senior management positions including Senior Vice President and Chief Financial Officer roles. Mr. Bakhru also serves on the Board of Governors of the Investment Company Institute, the Governing Council of the Independent Directors Council, Mutual Fund Directors Forum and the Advisory Board of BoardIQ, an investment publication. He has been actively involved with Cornell University, having served on its Council and Administrative Board over the past several years.

**Claudine B. Malone** (75) *Director*. Ms. Malone became a Director of Apollo Investment Corporation on April 17, 2007. Ms. Malone is the President and Chief Executive Officer of Financial & Management Consulting Inc. of McLean, Virginia. Previously, Ms. Malone served as a Director of Aviva Life Insurance Company (USA) from 2001 to December 2010, Novell, Inc. from 2003 to 2010, Hasbro, Inc. from 1992 to 2008, Lowe's Companies Inc. from 1995 to 2005 and Science Applications International Corporation from 1993 to 2006. Ms. Malone was Chairman of the Board of the Federal Reserve Bank of Richmond from 1996 to 1999. She served as a visiting professor at the Colgate-Darden Business School of the University of Virginia from 1984 to 1987, an adjunct professor of the School of Business Administration at Georgetown University from 1982 to 1984 and an assistant and associate professor at the Harvard Graduate School of Business Administration from 1972 to 1981.

**Frank C. Puleo** (65) *Director*. Mr. Puleo became a Director of Apollo Investment Corporation on February 4, 2008. Mr. Puleo currently serves as a Director of CIBC Deerfield Corp., a credit asset manager, CMET Finance Holdings Inc., a company that finances securities inventory for customers and dealers and licenses trade processing software, SLM Corp., a student loan company, and Syncora Capital Assurance, Inc., a monoline financial guaranty and insurance company. Previously Mr. Puleo was a partner at Milbank, Tweed, Hadley & McCloy LLP where he advised clients on structured finance transactions, bank and bank holding company regulatory and securities law matters. Mr. Puleo became a partner of Milbank, Tweed, Hadley & McCloy LLP in 1978 and Co-Chair of the firm's Global Finance Group in 1995 until retiring at the end of 2006. He was a member of the firm's Executive Committee from 1982 to 1991 and from 1996 to 2002. Mr. Puleo served as a Lecturer at Columbia University School of Law from 1997 to 2001.

**Carl Spielvogel** (82) *Director*. Ambassador Spielvogel became a Director of Apollo Investment Corporation in March 2004. Ambassador Spielvogel was and is currently Chairman and Chief Executive Officer of Carl Spielvogel Associates, Inc., an international management and counseling company, from 1997 to 2000, and from 2001 to present. From 2000-2001, Ambassador Spielvogel served as U.S. Ambassador to the Slovak Republic, based in Bratislava, Slovakia. He served as a Director of Interactive Data Corporation, Inc. from 1996 to 2009, and as a member of its Audit Committee and Chairman of the Independent Shareholders Committee. From 1994 to 1997, Ambassador Spielvogel was Chairman and Chief Executive Officer of the United Auto Group, Inc., one of the first publicly-owned auto dealership groups. Earlier, Ambassador Spielvogel was Chairman and Chief Executive Officer of Backer Spielvogel Bates Worldwide, a global marketing communications company from 1985 to 1994. Ambassador Spielvogel is a trustee of the Metropolitan Museum of Art; a member of the Board of Trustees and Chairman of the Business Council of the Asia Society; a member of the Board of Trustees of

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Lincoln Center for the Performing Arts; a member of the Council on Foreign Relations; a member of the Executive Committee of the Council of American Ambassadors ; a Trustee and member of the Executive Committee of the State University of New York, and a former Fellow of the Kennedy School of Government at Harvard University. Before becoming an Ambassador, he was a Governor of the United States Government Board of Broadcasting.

**Elliot Stein, Jr.** (62) *Director*. Mr. Stein became a Director of Apollo Investment Corporation in March 2004 and currently serves as Lead Independent Director. Since 2011 Mr. Stein has also been a director of Global Cornerstone Holdings Limited and Apollo Senior Floating Rate Fund Inc. He is a Managing Director of Commonwealth Capital Partners and has served as Chairman of Caribbean International News Corporation since 1985. Mr. Stein is also a board member of various private companies including Multi-Pak Holdings, Cohere Communications, RHM Global LLC and Assay Healthcare Solutions. Mr. Stein is a Trustee of Claremont Graduate University and the New School University. He is a member of the Council on Foreign Relations. He formerly served as a Director of VTG Holdings, Bargain Shop Holdings, Inc. and various other private companies.

**Bradley J. Wechsler** (59) *Director*. Mr. Wechsler became a Director of Apollo Investment Corporation in April 2004. Mr. Wechsler was the Co-Chairman and Co-Chief Executive Officer of IMAX Corporation from May, 1996 through April, 2009 and is currently Chairman. Previously Mr. Wechsler has had several executive positions in the entertainment and finance industries. Mr. Wechsler is a Vice-Chairman of the board of the NYU Hospital and Medical Center, a member of the Executive Committee and chairs its Finance Committee. In addition, he sits on the boards of Assay Healthcare Solutions, the Ethical Culture Fieldston Schools and Math for America. He is also a member of the Academy of Motion Picture Arts and Sciences.

### **Interested directors**

**John J. Hannan** (58) *Chairman of the Board of Directors*. Mr. Hannan became a Director of Apollo Investment Corporation in March 2004 and was elected as Chairman of the Board of Directors in August 2006. He served as the Chief Executive Officer from February 2006 to November 2008. Mr. Hannan, a senior partner of Apollo Management, L.P., co-founded Apollo Management, L.P. in 1990. He formerly served as a director for Vail Resorts, Inc. and Goodman Global, Inc.

**James C. Zelter** (48) *Chief Executive Officer and Director*. Mr. Zelter joined Apollo in 2006. He became the Chief Executive Officer and a Director of Apollo Investment Corporation in November 2008. He is the Managing Partner of Apollo Capital Management (ACM). The funds in the ACM platform include: Apollo Strategic Value Fund, Apollo Credit Opportunity Fund I and II, Apollo Asia Opportunity Fund and Apollo European Principal Finance Fund. ACM also includes Apollo Investment Management, L.P. the investment manager to Apollo Investment Corporation. Prior to joining Apollo, Mr. Zelter was with Citigroup and its predecessor companies from 1994 to 2006. From 2003 to 2005, Mr. Zelter was Chief Investment Officer of Citigroup Alternative Investments, and prior to that he was responsible for the firm's Global High Yield franchise.

### **Executive officers who are not directors**

**Patrick J. Dalton** (42) *President and Chief Operating Officer*. Mr. Dalton joined Apollo in June 2004 as a partner and a member of Apollo Investment Management, L.P.'s Investment Committee. Mr. Dalton was appointed Chief Investment Officer of Apollo Investment Management, L.P. in November 2006. He was also appointed Executive Vice President of Apollo Investment Corporation in November 2006 and promoted to President and Chief Operating Officer in November 2008. Before joining Apollo, Mr. Dalton was a Vice President with Goldman, Sachs & Co.'s Principal Investment Area as an investment professional in the Goldman Sachs Mezzanine Partners Funds since 2000. Prior to Goldman Sachs, Mr. Dalton spent 10 years with The Chase Manhattan Bank from 1990 to 2000, most recently as Vice President in the Acquisition Finance Department of Chase Securities, Inc.

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**Richard L. Peteka** (49) *Chief Financial Officer and Treasurer.* Mr. Peteka joined Apollo Investment Corporation in June 2004. Prior to that, he was Chief Financial Officer and Treasurer of various closed-end and open-end registered investment companies for Citigroup Asset Management. He joined Citigroup Asset Management as a Director in July 1999.

**John J. Suydam** (51) *Chief Legal Officer and Vice President.* Mr. Suydam joined Apollo Investment Corporation in 2006. Mr. Suydam also serves as the Chief Legal Officer of Apollo Global Management, LLC, a position he has held since 2006. From 2002 to 2006, Mr. Suydam was a partner at O Melveny & Myers LLP, where he served as head of Mergers & Acquisitions and co-head of the Corporate Department. Prior to that time, Mr. Suydam served as chairman of the law firm O Sullivan, LLP which specialized in representing private equity investors. Mr. Suydam serves as a trustee of the New York University School of Law and is a member of the Department of Medicine Advisory Board of The Mount Sinai Medical Center. Mr. Suydam also serves as a member of the board of directors of the Big Apple Circus and Environmental Solutions Worldwide Inc. Mr. Suydam received his JD from New York University School of Law and graduated magna cum laude with a BA in History from the State University of New York at Albany.

**Cindy Z. Michel** (37) *Chief Compliance Officer and Vice President.* Ms. Michel was appointed Chief Compliance Officer and Vice President of Apollo Investment Corporation in 2010. Ms. Michel joined Apollo Global Management, LLC in 2007 as its Director of Compliance and continues to serve in this role. Prior to joining Apollo, Ms. Michel served as the Director of Compliance of the Private Equity Division at Lehman Brothers. Prior to that, she was associated with the investment bank Credit-Suisse Securities as a member of its Compliance Department supporting the Private Equity and Investment Banking businesses. Before joining Credit-Suisse, Ms. Michel was associated with the law firm of DLA Piper.

**Joseph D. Glatt** (37) *Secretary and Vice President.* Mr. Glatt was appointed Secretary of Apollo Investment Corporation in 2010 and Vice President in 2009. Mr. Glatt is also currently General Counsel of Apollo Capital Management L.P., a position he has held since 2007 and since 2011 he has served as the Chief Legal Officer of Apollo Senior Floating Rate Fund Inc. Previously, Mr. Glatt was associated with the law firms of Simpson Thacher & Bartlett LLP from 1998 to 2003 and Schulte Roth & Zabel LLP from 2003 to 2007, in each case, primarily focusing on mergers and acquisitions, leveraged buyouts and capital markets activities.

Additional information required by this item, including for example, director qualifications, is contained in the Registrant's definitive Proxy Statement for its 2011 Annual Stockholders Meeting under the caption, "Information about the Nominees and Directors" to be filed with the Securities and Exchange Commission within 120 days after March 31, 2011 and is incorporated herein by reference.

## **The Audit Committee**

The audit committee operates pursuant to an audit committee charter approved by the board of directors. The charter sets forth the responsibilities of the audit committee, which include selecting or retaining each year an independent registered public accounting firm (the auditors) to audit the accounts and records of the Company; reviewing and discussing with management and the auditors the annual audited financial statements of the Company, including disclosures made in management's discussion and analysis, and recommending to the board of directors whether the audited financial statements should be included in the Company's annual report on Form 10-K; reviewing and discussing with management and the auditors the Company's quarterly financial statements prior to the filings of its quarterly reports on Form 10-Q; pre-approving the auditors' engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the auditors. The audit committee is presently composed of six persons: Messrs. Bakhru, Puleo, Spielvogel, Stein, Wechsler, and Ms. Malone, all of whom are independent directors and are otherwise considered independent under the listing standards of NASDAQ Marketplace Rule 5605(a)(2). The Company's board of directors has determined that Mr. Bakhru and Ms. Malone each is an "audit committee financial expert" as that term is defined under Item 401 of Regulation S-K under the Securities Exchange Act of 1934, as amended, (the Exchange Act). The Audit Committee Charter is available on the Company's website ([www.apolloic.com](http://www.apolloic.com)).

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### **Section 16(a) Beneficial Ownership Reporting Compliance**

Pursuant to Section 16(a) of the Exchange Act, the Company's directors and executive officers, and any persons holding more than 10% of its common stock, are required to report their beneficial ownership and any changes therein to the Securities and Exchange Commission and the Company. Specific due dates for those reports have been established, and the Company is required to report herein any failure to file such reports by those due dates. Based on the Company's review of Forms 3, 4 and 5 filed by such persons and information provided by the Company's directors and officers, the Company believes that during the fiscal year ended March 31, 2011, all Section 16(a) filing requirements applicable to such persons were met in a timely manner.

### **Code of Conduct**

We have adopted a code of conduct for all our directors and employees, including our Chief Executive Officer and Chief Financial Officer, as required under Item 406 of Regulation S-K under the Exchange Act and the listing standards of NASDAQ Marketplace Rule 5610. The code of conduct is available on our website located at [www.apolloic.com](http://www.apolloic.com). You may also read and copy the code of conduct at the SEC's Public Reference Room in Washington, D.C. You may obtain information on operations of the Public Reference Room by calling the SEC at (202) 942-8090. In addition, the code of conduct will be available on the EDGAR Database on the SEC Internet site at <http://www.sec.gov>. You may also obtain copies of the code of conduct, after paying a duplicating fee, by electronic request at the following email address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, 450 5th Street, NW, Washington, D.C. 20549.

### **Item 11. Executive Compensation**

#### **COMPENSATION DISCUSSION AND ANALYSIS**

Apollo Investment Corporation does not currently have any employees. The executive officers of the company are either employees of our investment adviser, Apollo Investment Management ( "adviser" ), or our administrator, Apollo Investment Administration ( "administrator" ). The adviser and administrator provide necessary services to the business, pursuant to the terms of our investment advisory and management agreement and our administration agreement. Our day-to-day investment operations are managed by our investment adviser. Most of the services necessary for the origination and administration of our investment portfolio are provided by investment professionals employed by the adviser. In addition, we generally reimburse the administrator for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including our allocable portion of the cost of our chief financial officer, chief compliance officer and their respective staffs.

**Table of Contents****Summary Compensation Table**

The following table shows information regarding the compensation expected to be received by the independent directors and executive officers for the fiscal year ended March 31, 2011. No compensation is paid to directors who are interested persons.

Name	Aggregate compensation from Apollo Investment	Pension or retirement benefits accrued as part of our expenses(1)	Total compensation from Apollo Investment paid to director/ officer
<b>Independent directors</b>			
Ashok Bakhru	\$ 131,000	None	\$ 131,000
Claudine B. Malone	136,500	None	136,500
Frank C. Puleo	129,000	None	129,000
Carl Spielvogel	131,000	None	131,000
Elliot Stein, Jr.	133,500	None	133,500
Bradley J. Wechsler	127,000	None	127,000
<b>Interested directors</b>			
John J. Hannan	None	None	None
James C. Zelter(2)	None	None	None
<b>Executive Officers</b>			
Patrick J. Dalton	None	None	None
Richard L. Peteka(3)	None	None	None
John J. Suydam	None	None	None
Cindy Michel	None	None	None
Joseph Glatt	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.

(2) James C. Zelter is also an executive officer of Apollo Investment Corporation.

(3) Richard L. Peteka is an employee of Apollo Administration.

The independent directors' annual fee is \$100,000. The independent directors also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting, \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with each committee meeting attended, and \$1,500 for each telephonic committee or board meeting attended. In addition, the Chairman of the Audit Committee receives an annual fee of \$7,500 and each chairman of any other committee receives an annual fee of \$2,500 for additional services in these capacities. Further, we purchase directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

Additional information required by this item, including for example, compensation of officers and directors, is contained in the Registrant's definitive Proxy Statement for its 2011 Annual Stockholders Meeting under the caption, "Compensation of Directors and Executive Officers" to be filed with the Securities and Exchange Commission within 120 days after March 31, 2011 and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

As of March 31, 2011, there were no persons that owned 25% or more of our outstanding voting securities, and no person would be deemed to control us, as such term is defined in the 1940 Act.



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Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the Investment Company Act of 1940.

The following table sets forth, as of March 31, 2011, certain ownership information with respect to our common stock for those persons whom we believe, based on public filings and/or information provided by such persons, directly or indirectly owned, controlled or held with the power to vote, 5% or more of our outstanding common stock as of that date and all officers and directors, as a group. Unless otherwise indicated, we believe that each beneficial owner set forth in the table has sole voting and investment power.

Name and address	Type of ownership(1)	Shares owned	Percentage of common stock outstanding
BlackRock, Inc.(2)	Beneficial	12,294,245	6.30%
Thornburg Investment Management Inc.(3)	Beneficial	9,920,431	5.07%
All officers and directors as a group (13 persons)(4)	Beneficial	382,397	* %

\* Represents less than 1%.

(1) All of our common stock is owned of record by Cede & Co., as nominee of the Depository Trust Company.

(2) The principal address for BlackRock, Inc. is 40 East 52<sup>nd</sup> Street, New York, NY 10022.

(3) The principal address for Thornburg Investment Management Inc. is 2300 North Ridgetop Road, Sante Fe, New Mexico, 87506.

(4) The address for all officers and directors is c/o Apollo Investment Corporation, 9 West 57<sup>th</sup> Street, New York, NY 10019.

The following table sets forth the dollar range of our equity securities beneficially owned by each of our directors as of March 31, 2011. (We are not part of a family of investment companies, as that term is defined in the 1940 Act.)

Name of Director	Dollar Range of Equity Securities in Apollo Investment(1)	
Independent Directors		
Ashok Bakhru	\$ 100,001	\$ 500,000
Claudine B. Malone	\$ 100,001	\$ 500,000
Frank C. Puleo	\$ 100,001	\$ 500,000
Carl Spielvogel	\$ 50,001	\$ 100,000
Elliot Stein, Jr.	\$ 100,001	\$ 500,000
Bradley J. Wechsler	\$ 500,001	\$1,000,000
Interested Directors		
John J. Hannan	\$ 500,001	\$1,000,000(2)
James C. Zelter	Over \$1,000,000	

(1) Dollar ranges are as follows: None, \$1 - \$10,000, \$10,001 - \$50,000, \$50,001 - \$100,000, \$100,001 - \$500,000, \$500,001 - \$1,000,000 or over \$1,000,000.

(2) Dollar range includes 79,082 shares held through indirect beneficial ownership of a family trust.

Additional information required by this item, including for example, security ownership of management, is contained in the Registrant's definitive Proxy Statement for its 2011 Annual Stockholders Meeting under the caption, Security Ownership of Certain Beneficial Owners and Management to be filed with the Securities and Exchange Commission within 120 days after March 31, 2011 and is incorporated herein by reference.



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### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

We have entered into an investment advisory and management agreement with AIM. Certain of our senior officers and our chairman of the board of directors have ownership and financial interests in AIM. Certain of our senior officers also serve as principals of other investment managers affiliated with AIM that may in the future manage investment funds with investment objectives similar to ours. In addition, our executive officers and directors and the partners of our investment adviser, AIM, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do, or of investment funds managed by its affiliates, although we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with AIM. However, our investment adviser and its affiliates intend to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies so that we are not disadvantaged in relation to any other client.

We have entered into a royalty-free license agreement with AIM, pursuant to which AIM has agreed to grant us a non-exclusive license to use the name Apollo. Under the license agreement, we have the right to use the Apollo name for so long as AIM or one of its affiliates remains our investment adviser. In addition, we rent office space from AIA, an affiliate of AIM, and pay Apollo Administration our allocable portion of overhead and other expenses incurred by Apollo Administration in performing its obligations under our administration agreement with AIA, including our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs, which can create conflicts of interest that our board of directors must monitor. We may invest, to the extent permitted by law, on a concurrent basis with affiliates of AIM, subject to compliance with applicable regulations and our allocation procedures.

Further information relating to relationships and director independence is hereby incorporated by reference from our 2011 Proxy Statement under the caption Certain Relationships and Transactions.

### **Item 14. Principal Accountant Fees and Services**

The audit committee of the board of directors selected PricewaterhouseCoopers LLP as independent auditors for the Company for the fiscal year ending March 31, 2011. The audit committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with the independent accountant the independent accountant's independence.

**Audit Fees:** Audit fees consist of fees billed for professional services rendered for the quarterly reviews and audit of our financial statements and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings. Audit fees billed during the fiscal years ending March 31, 2011 and March 31, 2010 were \$698,000 and \$580,000, respectively.

**Audit-Related Fees:** Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards. Audit-related fees billed during the fiscal years ending March 31, 2011 and March 31, 2010 were \$127,000 and \$126,000, respectively.

**Tax Services Fees:** Tax services fees consist of fees billed for professional tax services. These services also include assistance regarding federal, state, and local tax compliance. Tax services and fees billed during the fiscal years ending March 31, 2011 and March 31, 2010 were \$32,000 and \$31,920, respectively, which represented work related to preparation of tax returns, our RIC qualification, excise tax distribution requirements, form extensions, etc.

**All Other Fees:** Other fees would include fees for products and services other than the services reported above, of which there were none in the fiscal years ended March 31, 2011 and March 31, 2010.

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The Audit Committee of the board of directors of Apollo Investment Corporation operates under a written charter adopted by the board of directors. Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an independent audit of the Company's financial statements in accordance with auditing standards generally accepted in the United States and expressing an opinion on the conformity of those audited financial statements in accordance with accounting principles generally accepted in the United States. The Audit Committee's responsibility is to monitor and oversee these processes. The Audit Committee is also directly responsible for the appointment, compensation and oversight of the Company's independent auditors.

The Audit Committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by PricewaterhouseCoopers LLP, the Company's independent auditor. The policy requires that the Audit Committee pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such service does not impair the auditor's independence.

Any requests for audit, audit-related, tax and other services that have not received general pre-approval must be submitted to the Audit Committee for specific pre-approval, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent auditor to management.

The Audit Committee has reviewed the audited financial statements and met and held discussions with management regarding the audited financial statements. Management has represented to the Audit Committee that the Company's financial statements were prepared in accordance with accounting principles generally accepted in the United States.

The Audit Committee has discussed with PricewaterhouseCoopers LLP, the Company's independent auditors, matters required to be discussed by the statement on Auditing Standards No. 114, as amended.

Based on the Audit Committee's discussion with management and the independent auditors, the Audit Committee's review of the audited financial statements, the representations of management and the report of the independent auditors to the Audit Committee, the Audit Committee has recommended that the board of directors include the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2011 for filing with the Securities and Exchange Commission. The Audit Committee has also appointed PricewaterhouseCoopers LLP to serve as independent auditors for the fiscal year ended March 31, 2012 pending ratification by the Company's shareholders.

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### **PART IV**

#### **Item 15. Exhibits and Financial Statement Schedules**

- (a)(1) Financial Statements.  
Refer to Item 8 above.
- (a)(2) Financial Statement Schedules  
None.
- (a)(3) Exhibits
  - 3.1(a) Articles of Amendment(1)
  - 3.1(b) Articles of Amendment and Restatement(2)
  - 3.2 Third Amended and Restated Bylaws(3)
  - 4.1 Form of Stock Certificate(4)
  - 4.2 In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the registrant have been omitted but will be furnished to the Commission upon request.
  - 10.1 Amended and Restated Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P.(5)
  - 10.2 Amended and Restated Administration Agreement between Registrant and Apollo Investment Administration, LLC(5)
  - 10.3 Dividend Reinvestment Plan(6)
  - 10.4 Custodian Agreement(2)
  - 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 Amendment No. 1 to Amended and Restated Senior Secured Revolving Credit Agreement(7)
  - 11.1 Statement regarding computation of per share earnings\*
  - 14.1 Code of Conduct(8)
  - 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 Form 8-K, filed on November 6, 2009.
- (4) 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.
- (5) Incorporated by reference from the Registrant's Form 10-K, filed on May 26, 2010.
- (6) Incorporated by reference from the Registrant's Form 10-K, filed on June 12, 2006.
- (7) Incorporated by reference from the Registrant's Form 8-K filed on December 23, 2009.

(8) Incorporated by reference from the Registrant's Form 10-K, filed on May 29, 2008.

**Table of Contents****Signatures**

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

APOLLO INVESTMENT CORPORATION

By: /s/ James C. Zelter  
James C. Zelter

Chief Executive Officer

May 31, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>SIGNATURE</b>	<b>TITLE</b>	<b>DATE</b>
/s/ James C. Zelter	Chief Executive Officer (principal executive officer)	May 31, 2011
<b>James C. Zelter</b>		
/s/ Richard L. Peteka	Chief Financial Officer and Treasurer	May 31, 2011
<b>Richard L. Peteka</b>	(principal financial and accounting officer)	
/s/ Patrick J. Dalton	President and Chief Operating Officer	May 31, 2011
<b>Patrick J. Dalton</b>		
/s/ John J. Hannan	Chairman of the Board,	May 31, 2011
<b>John J. Hannan</b>	Director	
/s/ Ashok Bakhru	Director	May 31, 2011
<b>Ashok Bakhru</b>		
/s/ Claudine B. Malone	Director	May 31, 2011
<b>Claudine B. Malone</b>		
/s/ Frank C. Puleo	Director	May 31, 2011
<b>Frank C. Puleo</b>		
/s/ Carl Spielvogel	Director	May 31, 2011
<b>Carl Spielvogel</b>		
/s/ Elliot Stein, Jr.	Director	May 31, 2011
<b>Elliot Stein, Jr.</b>		

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/s/ Bradley J. Wechsler

Director

May 31, 2011

**Bradley J. Wechsler**