

APOLLO INVESTMENT CORP

Form 10-K

May 29, 2008

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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, 2008**

**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)  
**9 West 57th Street, 14th floor**  
**New York, N.Y.**  
(Address of principal executive offices)  
**52-2439556**  
(I.R.S. Employer Identification Number)  
**10019**  
(Zip Code)  
**Registrant's telephone number, including area code: (212) 515-3450**

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
<b>Common Stock, par value</b>	<b>The NASDAQ Global Select Market</b>

**\$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 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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of common stock held by non-affiliates of the Registrant on September 28, 2007 based on the closing price on that date of \$20.80 on the NASDAQ Global Select Market was approximately \$2.5 billion. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 142,221,335 shares of the Registrant's common stock outstanding as of May 19, 2008.

Documents Incorporated by Reference: Portions of the Registrant's Proxy Statement relating to the Registrant's 2008 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 Report.



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**APOLLO INVESTMENT CORPORATION**

**FORM 10-K**

**FOR THE FISCAL YEAR ENDED MARCH 31, 2008**

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**PART I**

**Item 1. Business**

**Apollo Investment**

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

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in middle-market companies in the form of mezzanine and senior secured loans, as well as by making direct equity investments in companies. From time to time, we may also invest in the securities of public companies as well as public companies whose securities are thinly traded.

We believe that our investment adviser, Apollo Investment Management, is able to leverage the overall Apollo Global Management investment platform, resources and existing relationships with financial sponsors, financial institutions and other investment firms to provide us with attractive investments. In addition to deal flow, the Apollo investment platform assists our investment adviser in analyzing, structuring and monitoring investments. Apollo's senior partners have worked together for over 18 years and have substantial experience investing in senior loans, high yield bonds, mezzanine debt and private equity. The Company has access to the Apollo staff of approximately 175 professionals employed by Apollo who provide assistance in accounting, legal, compliance, technology and investor relations.

Our portfolio is comprised primarily of investments in long-term subordinated debt, referred to as mezzanine debt, and senior secured loans of private middle-market companies, and from time to time 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 focus is to generate both current income and capital appreciation through investments in loans and other debt securities both senior and subordinated, and private equity, we may invest a portion of the portfolio in opportunistic investments, such as foreign securities.

During our fiscal year ended March 31, 2008, we invested \$1.8 billion across 27 new and numerous existing portfolio companies. This compares to investing \$1.4 billion in 24 new and several existing portfolio companies for the previous fiscal year ended March 31, 2007. Investments sold or prepaid during the fiscal year ended March 31, 2008 totaled \$714 million versus \$845 million for the fiscal year ended March 31, 2007. Total invested capital since our initial public offering in April 2004 through March 31, 2008 is \$5.2 billion. The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio at our current cost basis were 10.0%, 12.8% and 12.0%, respectively, at March 31, 2008. At March 31, 2007, the yields were 12.3%, 13.5%, and 13.1%, 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 capital base changes. At March 31, 2008, our net portfolio consisted of 71 portfolio companies and was invested 22% in senior secured loans, 57% in subordinated debt, 6% in preferred equity and 15% in common equity and warrants versus 57 portfolio companies invested 26% in senior secured loans, 61% in subordinated debt, 4% in preferred equity and 9% in common equity and warrants at March 31, 2007.

Since the initial public offering of Apollo Investment in April 2004 and through March 31, 2008, total invested capital exceeds \$5.2 billion in 112 portfolio companies. Over the same period, Apollo Investment has also completed transactions with 80 different financial sponsors.

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Senior secured loans and European mezzanine loans typically accrue interest at variable rates determined on the basis of a benchmark: LIBOR, EURIBOR, GBP LIBOR, or the prime rate, with stated maturities at origination that typically range from 5 to 10 years. While subordinated debt issued within the United States will typically accrue interest at fixed rates, some of these investments may include zero-coupon, PIK and/or step bonds that accrue income on a constant yield to call or maturity basis. At March 31, 2008, 62% or \$1.6 billion of our interest-bearing investment portfolio is fixed rate debt and 38% or \$1.0 billion is floating rate debt. At March 31, 2007, 64% or \$1.4 billion of our interest-bearing investment portfolio was fixed rate debt and 36% or \$0.8 billion was floating rate debt.

### *About Apollo*

Founded in 1990, Apollo is a leading global alternative asset manager with a proven track record of successful private equity, distressed debt and mezzanine investing. Apollo raises, invests and manages private equity and capital markets funds on behalf of some of the world's most prominent pension and endowment funds as well as other institutional and individual investors.

Apollo's investment approach is value-oriented, focusing on industries in which it has considerable knowledge, and emphasizing downside protection and the preservation of capital. Apollo has successfully applied its investment philosophy in flexible and creative ways over its 18 year history, allowing it to consistently find attractive investment opportunities, deploy capital up and down the balance sheet of industry leading, or franchise businesses and create value throughout economic cycles.

### *About Apollo Investment Management*

Apollo Investment Management (AIM), our investment adviser, is led by a dedicated and growing team of investment professionals and is further supported by Apollo's team of more than 175 professionals as of March 31, 2008. AIM's investment committee currently consists of John J. Hannan, the Chairman of our board of directors, our Chief Executive Officer and Chairman of AIM's investment committee; James C. Zelter, our President and Chief Operating Officer and a Vice President of the general partner of AIM; Patrick J. Dalton, an Executive Vice President of Apollo Investment and a Vice President and the Chief Investment Officer of the general partner of AIM; and José Briones, a Vice President of the general partner of AIM. The composition of the investment committee of AIM may change from time to time. AIM draws upon Apollo's 18 year history and benefits from the Apollo investment professionals' significant capital markets, trading and research expertise developed through investments in many core industry sectors in over 150 companies since inception.

### *About Apollo Investment Administration*

In addition to furnishing us with office facilities, equipment, and clerical, bookkeeping and record keeping services, Apollo Investment Administration (AIA or Apollo Administration) also oversees our financial records as well as the preparation of our reports to stockholders as well as reports filed with the SEC. AIA oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Furthermore, AIA would provide 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 Apollo 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 gross assets as well as an incentive fee based on our performance.

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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. We have elected to be treated for federal income tax purposes as a regulated investment company ( RIC ) under Subchapter M of the Code.

### **Investments**

Apollo Investment seeks to create a portfolio that includes primarily debt investments in mezzanine, senior secured loans and, to a lesser extent, private equity by generally investing approximately \$20 million to \$250 million of capital, on average, in the securities of middle-market companies. The average investment size will vary as our capital base varies. Our target portfolio will generally be more heavily weighted toward mezzanine loans. 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 non-call periods or call premiums, equity co-investments or warrants. We believe that mezzanine loans offer an attractive investment opportunity based upon their historic returns and resilience during economic downturns. 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. We also generally seek to invest in companies from the broad variety of industries in which Apollo's investment professionals have direct expertise.

The following is a representative list of the industries in which Apollo has invested:

Building materials	Education	Manufacturing/Basic industry
Business services	Energy/Utilities	Media
Cable television	Environmental services	Packaging
Chemicals	Financial services	Printing and publishing
Communications	Food	Restaurants
Consumer products	Healthcare	Retail
Distribution	Lodging/Leisure/Resorts	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 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 loan pools. We may use the proceeds of such sales to pay down bank debt or to fund additional investment.

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 Apollo Investment, 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, 2008, our net portfolio consisted of 71 portfolio companies and was invested 57% in subordinated debt, 6% in preferred equity, 15% in common equity and warrants and 22% in senior secured loans. We expect

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that our portfolio will continue to include primarily mezzanine loans, and to a lesser extent, senior secured loans, and 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.

Listed below are our top ten portfolio companies and industries represented as a percentage of total assets for the years ended March 31, 2008 and 2007:

**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF MARCH 31, 2008**

<b>PORTFOLIO COMPANY</b>	<b>% of Total Assets</b>	<b>INDUSTRY</b>	<b>% of Total Assets</b>
Grand Prix Holdings, LLC (Innkeepers USA)	6.6%	Hotels, Motels, Inns and Gaming	6.6%
First Data Corporation	4.9%	Financial Services	6.1%
Asurion Corporation	3.1%	Oil & Gas	5.5%
TL Acquisitions, Inc. (Thomson Learning)	2.5%	Education	4.9%
GS Prysmian Co-Invest L.P. (Prysmian Cables and Systems)	2.5%	Business Services	4.3%
Gray Wireline Service, Inc.	2.2%	Industrial	4.0%
Associated Materials, Inc.	2.1%	Retail	3.8%
Fleetpride Corporation	2.1%	Insurance	3.5%
Quality Home Brands Holdings	2.0%	Diversified Service	3.4%
Ranpak Corporation	2.0%	Environmental	3.3%

**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF MARCH 31, 2007**

<b>PORTFOLIO COMPANY</b>	<b>% of Total Assets</b>	<b>INDUSTRY</b>	<b>% of Total Assets</b>
Gray Wireline Service, Inc.	3.2%	Oil & Gas	8.5%
Sorenson Communications, Inc.	2.8%	Business Services	5.4%
Varel Holdings, Inc.	2.5%	Consumer Services	4.8%
ALM Media Holdings, Inc.	2.4%	Publishing	4.7%
Associated Materials, Inc.	2.3%	Direct Marketing	4.2%
Quality Home Brands Holdings	2.2%	Manufacturing	3.4%
Fleetpride Corporation	2.2%	Consumer Products	3.4%
N.E.W. Customer Service Cos.	2.0%	Leisure Equipment	2.9%
SigmaKalon Holdco B.V.	2.0%	Building Products	2.7%
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems)	1.9%	Chemicals	2.6%

Listed below is the geographic breakdown of the portfolio as of March 31, 2008 and 2007:

<b>% of Portfolio</b>		<b>% of Portfolio</b>	
<b>Geographic Region</b>	<b>at March 31, 2008</b>	<b>Geographic Region</b>	<b>at March 31, 2007</b>
United States	86.8%	United States	83.1%
Canada	2.1%	Canada	2.9%
Western Europe	11.1%	Western Europe	14.0%
	100.0%		100.0%





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### **Investment selection**

We are committed to the same value oriented philosophy used by the investment professionals who manage Apollo's private investment funds and will commit resources to managing downside exposure.

### **Due diligence**

Our investment adviser conducts diligence on prospective portfolio companies consistent with the approach adopted by the investment professionals of Apollo. We believe that Apollo's investment professionals have a reputation for conducting extensive due diligence investigations in their investment activities. In conducting their due diligence, Apollo's investment professionals use 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 Apollo.

Our due diligence will typically include:

review of historical and prospective financial information;

on-site visits;

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

review of senior 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 independent 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 the early years, with amortization of principal deferred to the later years of the mezzanine loans. 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 stated maturities of five to ten years.

We may 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.

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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

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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 a 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; and

negotiating covenants 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 with provisions protecting our rights as a minority-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 earlier, including, if a liquidity event takes place such as the sale or recapitalization or worsening of credit quality of a portfolio company.

### **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. Apollo Administration provides such managerial assistance on our behalf to portfolio companies that request this assistance.

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

#### ***Monitoring***

Apollo Investment Management monitors our portfolio companies on an ongoing basis. AIM 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.

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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.

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

Apollo Investment Management 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 board of directors affirms 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 our board of directors. As a result, there is uncertainty 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. With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

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

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

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

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

When we make investments that involve deferrals of interest payable to us, any increase in the value of the investment due to the accrual or receipt of payment of interest is allocated to the increase in the cost basis of the investment, rather than to capital appreciation or gain.

## **Competition**

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Our primary competitors in providing financing to middle-market companies include public and private funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an

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alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified. 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 expect to use the industry information of Apollo'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 of the senior partners of Apollo, 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, has hired and will continue to hire additional personnel. These individuals are employees of Apollo Administration and perform their respective functions under the terms of the administration agreement. Certain of our executive officers are also managing partners of our investment adviser. Our day-to-day investment operations are managed by our investment adviser. AIM has hired and will continue to hire additional investment professionals in the future. In addition, we reimburse Apollo Administration 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 and chief compliance officer 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 of 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, which must be audited by our independent registered public accounting firm; 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 significant deficiencies and 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.

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





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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 and state the address of that site (<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.*

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

**We can offer no assurance that we will be able to replicate our own success or the success of Apollo's private funds and our investment returns could be substantially lower than the returns achieved by those private funds.**

Even though AIM is led by senior investment professionals of Apollo who apply the value-oriented philosophy and techniques used by the Apollo investment professionals in their private fund investing, our investment strategies and objective differ from those of other private funds that are or have been managed by the Apollo investment professionals. Further, investors in Apollo Investment are not acquiring an interest in other Apollo funds. Further, while Apollo Investment may consider potential co-investment participation in portfolio investments with other Apollo funds, any such investment activity is subject to a number of limitations, including applicable allocation policies and regulatory limitations on certain types of co-investment activity. 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. Accordingly, we can offer no assurance that Apollo Investment will replicate Apollo's historical success, and we caution you that our investment returns could be substantially lower than the returns achieved by those private funds. Finally, we can offer no assurance that AIM will be able to continue to implement our investment objective with the same degree of success as it has in the past or that shares of our common stock will continue to trade at the current level.

**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 directors or 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.

**Our financial condition and results of operation 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

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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, as well as 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 as principals of our administrator. 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. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in. As a result of these new entrants, competition for investment opportunities has intensified and we expect that trend to continue. 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 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 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 under the 1940 Act and financial covenants under loan and credit agreements that could, under certain 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.

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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.

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

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to Apollo Investment's overall investment activities, or increases in loan balances as a result of payment-in-kind arrangements are included in income before we receive any corresponding cash payments. 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. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

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 to meet these distribution 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 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 senior 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.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock at a price below the current net asset value of the stock, if our board of directors determines that such sale is in the best interests of ourselves and our stockholders, and our stockholders approve our policy and practice of making such sales. Subject to certain exceptions, the price at which our common stock is to be issued and sold if at less than net asset value, may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such shares (less any distributing commission or discount) at the time such shares, warrants, options or rights are sold.

In addition to issuing securities to raise capital as described above, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly-owned

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subsidiary and contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. We would retain all or a portion of the equity in the securitized pool of loans. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We would not treat the debt issued by such a subsidiary as senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings, if any. Moreover, the successful securitization of our loan portfolio might expose us to losses because the residual loans in which we do not sell interests may tend to be those that are riskier and more apt to generate losses.

### **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 our asset coverage ratio falls below at least 200% and any amounts that we use to service our indebtedness are not available for dividends to our common stockholders.

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.

### **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, 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 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 consolidated 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

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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. 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 have adversely affected our net income over a one-year horizon. 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 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 rise in the general level of interest rates can be expected to lead to higher interest rates we receive on many of our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate 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.

### **We 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, such earnings are not 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.

### **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 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 as determined in good faith by or under the direction of our board of directors pursuant to a 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 several 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 publicly traded companies, discounted cash flow 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.

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### **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.

### **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 dividends 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.**

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, 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, the 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 ourselves and other investment vehicles 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 investment managers affiliated with AIM.

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 in investing in such company.

AIM and its affiliates 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.

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

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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.

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 is subject to a quarterly hurdle rate before providing an incentive fee return to the investment adviser. 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 accelerate or defer interest or other obligations owed to us from one calendar quarter to another.

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.

**We are currently analyzing the effect on our financial position, including our net asset value and results of operations, of the adoption of Statement of Financial Accounting Standards No. 157, Fair Value Measurements, issued by the Financial Accounting Standards Board.**

We will adopt this statement on a prospective basis for the quarter ending June 30, 2008. Adoption of this statement could have a material effect on our financial statements, including our net asset value. The actual impact, however, on our financial statements in the period of adoption and subsequent to the period of adoption cannot be determined at this time because it will be influenced by the estimates of fair value for that period and the number and amount of investments we originate, acquire or exit.

**In the past following periods of volatility in the market price of a company's securities, securities class action litigation has often 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



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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 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.

## **RISKS RELATED TO OUR INVESTMENTS**

### **We may not realize gains from our equity investments.**

When we invest in mezzanine or 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.

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

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

### **Our portfolio is concentrated in a limited number of portfolio companies, which subject us to a 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 a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

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

Investment in middle-market companies involves a number of significant risks. 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 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

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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.

### **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 are likely to increase and the value of our portfolio is likely to decrease during these periods. 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, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur 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 managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

### **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 or otherwise 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

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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.

**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 as a percentage of the return 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 pursuant to this prospectus. 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 income, there is no hurdle rate 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.

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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. Under these investments, we would accrue the interest over the life of the investment but would not receive the cash income from the investment until the end of the term. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash.

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 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.

### **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.

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 transaction 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 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

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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 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 one or more 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 its 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.

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

**Investing in our securities may involve an above average degree of risk.**

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

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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 BDC, we may be limited in our ability to make distributions. 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 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 the shares offered hereby will trade at, above, or below net asset value.

**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 allocate the net proceeds from this offering in ways with which you may not agree.**

We have significant flexibility in investing the net proceeds of this offering and may use the net proceeds from this offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

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**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.

**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.

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

None

### **Item 2. Properties**

As of March 31, 2008, 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 9 West 57<sup>th</sup> Street, New York, NY 10019. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

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

As of March 31, 2008, we were not subject to any material pending legal proceedings.

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

No matters were submitted to a vote of security holders during our fourth fiscal quarter ended March 31, 2008.



**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.

	Closing Sales Price			Premium of High Sales Price to NAV(2)	Premium or Discount of Low Sales Price to NAV(2)	Declared Dividends
	NAV(1)	High	Low			
<b>Fiscal Year Ending March 31, 2008</b>						
Fourth Fiscal Quarter	\$ 15.83	\$ 16.70	\$ 14.21	105%	90%	\$ 0.52
Third Fiscal Quarter	\$ 17.71	\$ 21.81	\$ 16.32	123%	92%	\$ 0.52
Second Fiscal Quarter	\$ 18.44	\$ 22.90	\$ 19.50	124%	106%	\$ 0.52
First Fiscal Quarter	\$ 19.09	\$ 24.13	\$ 21.37	126%	112%	\$ 0.51
<b>Fiscal Year Ending March 31, 2007</b>						
Fourth Fiscal Quarter	\$ 17.87	\$ 24.12	\$ 20.30	135%	114%	\$ 0.51
Third Fiscal Quarter	\$ 16.36	\$ 23.27	\$ 20.56	142%	126%	\$ 0.50
Second Fiscal Quarter	\$ 16.14	\$ 20.81	\$ 17.96	129%	111%	\$ 0.47
First Fiscal Quarter	\$ 15.59	\$ 19.39	\$ 17.74	124%	114%	\$ 0.45

(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 19, 2008 was \$18.04 per share. As of May 19, 2008, we had 101 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 have elected to be taxed as a RIC under Subchapter M of the Internal Revenue Code of 1986. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

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

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

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

	<b>Declared Dividends</b>
<b>Fiscal Year Ending March 31, 2008</b>	
Fourth Fiscal Quarter	\$ 0.52
Third Fiscal Quarter	\$ 0.52
Second Fiscal Quarter	\$ 0.52
First Fiscal Quarter	\$ 0.51
<b>Fiscal Year Ending March 31, 2007</b>	
Fourth Fiscal Quarter	\$ 0.51
Third Fiscal Quarter	\$ 0.50
Second Fiscal Quarter	\$ 0.47
First Fiscal Quarter	\$ 0.45
<b>Recent Sale of Unregistered Securities</b>	

We did not engage in any sales of unregistered securities during the fiscal year ended March 31, 2008.

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**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 April 8, 2004 (inception of Apollo Investment Corporation) through March 31, 2008. The graph assumes that, on April 8, 2004, a person invested \$100 in each of 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, 2008, 2007, 2006 and the period ended March 31, 2005 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.

	For the Year Ended March 31, (dollar amounts in thousands, except per share data)			For the Period April 8, 2004* through March 31, 2005
Statement of Operations Data:	2008	2007	2006	
Total Investment Income	\$ 357,878	\$ 266,101	\$ 152,827	\$ 47,833
Net Expenses (including taxes)	\$ 156,272	\$ 140,783	\$ 63,684	\$ 22,380
Net Investment Income	\$ 201,606	\$ 125,318	\$ 89,143	\$ 25,453
Net Realized and Unrealized Gains (Losses)	\$ (235,044)	\$ 186,848	\$ 31,244	\$ 18,692
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (33,438)	\$ 312,166	\$ 120,387	\$ 44,145
<b>Per Share Data:</b>				
Net Asset Value	\$ 15.83	\$ 17.87	\$ 15.15	\$ 14.27
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (0.30)	\$ 3.64	\$ 1.90	\$ 0.71
Distributions Declared	\$ 2.070	\$ 1.930	\$ 1.630	\$ 0.485
<b>Balance Sheet Data:</b>				
Total Assets	\$ 3,724,324	\$ 3,523,218	\$ 2,511,074	\$ 1,733,384
Borrowings Outstanding	\$ 1,639,122	\$ 492,312	\$ 323,852	\$ 0
Total Net Assets	\$ 1,897,908	\$ 1,849,748	\$ 1,229,855	\$ 892,886
<b>Other Data:</b>				
Total Return(1)	(17.5)%	31.7%	12.9%	15.3%
Number of Portfolio Companies at Period End	71	57	46	35
Total Portfolio Investments for the Period	\$ 1,755,913	\$ 1,446,730	\$ 1,110,371	\$ 894,335
Investment Sales and Prepayments for the Period	\$ 714,225	\$ 845,485	\$ 452,325	\$ 71,730
Weighted Average Yield on Debt Portfolio at Period End	12.0%	13.1%	13.1%	10.5%

\* Commencement of operations

- (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. Total return is not annualized.

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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 the factors set forth in Risk Factors and elsewhere in this report.

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

## **OVERVIEW**

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended. Pursuant to this election and assuming we qualify as a RIC, we generally do not have to pay corporate-level federal income taxes on any income we distribute to our stockholders. Apollo

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Investment commenced operations on April 8, 2004 upon completion of its initial public offering that raised \$870 million in net proceeds selling 62 million shares of its common stock at a price of \$15.00 per share. Since then, and through March 31, 2008, we have raised an additional \$1 billion in net proceeds from additional offerings of common stock.

### ***Investments***

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

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

### ***Revenue***

We generate revenue primarily in the form of interest and dividend income from the debt and preferred securities we hold and capital gains, if any, on investment securities that we may acquire in portfolio companies. Our debt investments, whether in the form of mezzanine or senior secured loans, generally have a stated term of five to ten years and bear interest at a fixed rate or a floating rate usually determined on the basis of a benchmark: LIBOR, EURIBOR, GBP LIBOR, or the prime rate. While U.S. subordinated debt and corporate notes typically accrue interest at fixed rates, some of these investments may include zero coupon, payment-in-kind (PIK) and/or step-up bonds that accrue income on a constant yield to call or maturity basis. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or PIK. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of dividends paid to us on common equity investments as well as revenue in the form of commitment, origination, structuring fees, fees for providing managerial assistance and, if applicable, consulting fees, etc.

### ***Expenses***

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

investment advisory and management fees;

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

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

direct costs and expenses of administration, including auditor and legal costs;

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

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

offerings of our common stock and other securities;

registration and listing fees;

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

transfer agent and custodial fees;

taxes;

independent directors' fees and expenses;

marketing and distribution-related expenses;



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

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

organization and offering; and

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

We expect our general and administrative operating expenses related to our ongoing operations to increase moderately in dollar terms, but decline slightly as a percentage of our total assets in future periods if our assets grow. Incentive fees, interest expense and costs relating to future offerings of securities, among others, would be additive.

## **Portfolio and Investment Activity**

During our fiscal year ended March 31, 2008, we invested \$1.8 billion, across 27 new and numerous existing portfolio companies. This compares to investing \$1.4 billion in 24 new and several existing portfolio companies for the previous fiscal year ended March 31, 2007. Investments sold or prepaid during the fiscal year ended March 31, 2008 totaled \$714 million versus \$845 million for the fiscal year ended March 31, 2007.

At March 31, 2008, our net portfolio consisted of 71 portfolio companies and was invested 22% in senior secured loans, 57% in subordinated debt, 6% in preferred equity and 15% in common equity and warrants versus 57 portfolio companies invested 26% in senior secured loans, 61% in subordinated debt, 4% in preferred equity and 9% in common equity and warrants at March 31, 2007.

The weighted average yields on our senior secured loan portfolio, subordinated debt portfolio and total debt portfolio at our current cost basis were 10.0%, 12.8% and 12.0%, respectively, at March 31, 2008. At March 31, 2007, the yields were 12.3%, 13.5%, and 13.1%, respectively.

Since the initial public offering of Apollo Investment Corporation in April 2004 and through March 31, 2008, total invested capital exceeds \$5.2 billion in 112 portfolio companies. Over the same period, Apollo Investment has also completed transactions with 80 different financial sponsors.

Senior secured loans and European mezzanine loans typically accrue interest at variable rates determined on the basis of a benchmark: LIBOR, EURIBOR, GBP LIBOR, or the prime rate, with stated maturities at origination that typically range from 5 to 10 years. While subordinated debt issued within the United States will typically accrue interest at fixed rates, some of these investments may include zero-coupon, PIK and/or step bonds that accrue income on a constant yield to call or maturity basis. At March 31, 2008, 62% or \$1.6 billion of our interest-bearing investment portfolio is fixed rate debt and 38% or \$1.0 billion is floating rate debt. At March 31, 2007, 64% or \$1.4 billion of our interest-bearing investment portfolio was fixed rate debt and 36% or \$0.8 billion was 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 estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes

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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**

As a business development company, we generally invest in illiquid or thinly traded securities including debt and equity securities of middle market companies. Under procedures established by our Board of Directors, we value investments, including certain subordinated debt, senior secured debt and other debt securities with maturities greater than 60 days, for which market quotations are readily available, at such market quotations unless they are deemed not to represent fair value. We obtain market quotations from independent pricing services or use the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). From time to time, we may also utilize independent third party valuation firms to determine fair value if and when such market quotations are deemed not to represent fair value. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by or under the direction of our Board of Directors. Such determination of fair values may involve subjective judgments and estimates. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent valuation advisers value each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our board, together with our independent valuation advisers consider the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because we expect that there will not be a readily available market for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as determined in good faith by or under the direction of our Board of Directors pursuant to a valuation policy and a consistently applied valuation process utilizing the input of the investment adviser, independent valuation firms and the audit committee. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available fair market value, the value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

preliminary valuation conclusions are then documented and discussed with our senior management;

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

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

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

In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, which assists in clarifying the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in

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interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 generally requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We continue to analyze the effect of adoption of this statement on our financial position, including our net asset value and results of operations, but currently believe that it will not have a significant impact on our financial position, including our net asset value and results of operations. We will adopt this statement on a prospective basis beginning in the quarter ending June 30, 2008. The actual impact on our financial statements in the period of adoption and subsequent to the period of adoption cannot be determined at this time as it will be influenced by the estimates of fair value for that period and the number and amount of investments we originate, acquire or exit.

### **Revenue Recognition**

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

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

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

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

## **RESULTS OF OPERATIONS**

Results comparisons are for the fiscal years ended March 31, 2008, March 31, 2007 and March 31, 2006.

### **Investment Income**

For the fiscal years ended March 31, 2008, March 31, 2007 and March 31, 2006, gross investment income totaled \$357.9 million, \$266.1 million and \$152.8 million, respectively. The continued increase in gross investment income for fiscal years 2007 and 2008 was primarily due to the growth of our investment portfolio as compared to previous fiscal periods. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans.

### **Expenses**

Net expenses totaled \$154.4 million, \$139.7 million and \$63.7 million, respectively, for the fiscal years ended March 31, 2008, March 31, 2007 and March 31, 2006, of which \$30.4 million, \$57.9 million and \$22.3 million, respectively, were performance-based incentive fees and \$55.8 million, \$34.4 million and \$13.0 million,

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respectively, were interest and other credit facility expenses. Net expenses exclusive of performance-based incentive fees and interest and other credit facility expenses for the years ended March 31, 2008, March 31, 2007 and March 31, 2006 were \$68.2 million, \$47.4 million and \$28.4 million, respectively. Of these expenses, general and administrative expenses totaled \$8.3 million, \$6.8 million and \$5.0 million, respectively, for the fiscal years ended March 31, 2008, 2007 and 2006. In addition, excise tax expense totaled \$1.9 million, \$1.1 million, and \$0 for the fiscal years ended March 31, 2008, 2007 and 2006. Expenses consist of base investment advisory and management fees, insurance expenses, administrative services fees, professional fees, directors' fees, audit and tax services expenses, and other general and administrative expenses. The increases in net expenses from fiscal 2006 to 2007 and fiscal 2007 to 2008 were primarily related to increases in base management fees and other general and administrative expenses related to the growth of our investment portfolio as compared to the previous periods.

### **Net Investment Income**

The Company's net investment income totaled \$201.6 million, \$125.3 million and \$89.1 million, respectively, for the fiscal years ended March 31, 2008, 2007 and 2006.

### **Net Realized Gains**

The Company had investment sales and prepayments totaling \$714 million, \$845 million and \$452 million, respectively, for the fiscal years ended March 31, 2008, 2007 and 2006. Net realized gains for the fiscal years ended March 31, 2008, 2007 and 2006 were \$54.3 million, \$132.9 million and \$11.2 million, respectively. The significant increase in net realized gains from fiscal year 2006 to fiscal year 2007 was primarily due to a gain of \$107.6 million realized from GS Prysmian Co-Invest LP (pursuant to a sale and purchase agreement dated as of January 24, 2007, along with the GS Funds, GS Prysmian Co-Invest LP agreed to sell its remaining equity securities it owned in Prysmian (Lux) Sarl to a newly created entity for cash and equity securities consideration totaling \$85.6 million).

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

For the fiscal year ended March 31, 2008 net unrealized appreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities decreased \$289.3 million. For the fiscal years ended March 31, 2007 and 2006, net unrealized appreciation on the Company's investments, cash equivalents, foreign currencies and other assets and liabilities increased \$54.0 million and \$20.1 million, respectively. At March 31, 2008, net unrealized depreciation totaled \$197.1 million versus net unrealized appreciation of \$92.2 million at March 31, 2007.

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

For the fiscal year ended March 31, 2008, the Company had a net decrease in net assets resulting from operations of \$33.4 million. For the fiscal years ended March 31, 2007 and 2006, the Company had a net increase in net assets resulting from operations of \$312.2 million and \$120.4 million, respectively. The net decrease in net assets from operations per share was \$0.30 for the year ended March 31, 2008. For the years ended March 31, 2007 and 2006, the net increase in net assets from operations per share was \$3.64 and \$1.90, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

On September 18, 2007, the Company closed on a public offering of 14.95 million shares of common stock at \$20.00 per share raising approximately \$285.5 million in net proceeds. The Company's liquidity and capital resources are also generated and available through its senior secured, multi-currency \$1.7 billion, five-year, revolving credit facility maturing in April 2011 as well as from cash flows from operations, investment sales and prepayments of senior and subordinated loans and income earned from investments and cash equivalents. At March 31, 2008, the Company has \$1.6 billion in borrowings outstanding and \$0.1 billion remaining unused. In

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In addition, the Company held cash and cash equivalents on its balance sheet totaling \$415.0 million. In the future, the Company may raise additional equity or debt capital off its shelf registration or may securitize a portion of its investments among other considerations. The primary use of funds will be investments in portfolio companies, cash distributions to our stockholders and for other general corporate purposes. In addition, on May 16, 2008, the Company closed on a public offering of 22.3 million shares of common stock at \$17.11 per share raising approximately \$369.6 million in net proceeds.

	Payments due by Period (dollars in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Secured Revolving Credit Facility(1)	\$ 1,639	\$	\$	\$ 1,639	\$

(1) At March 31, 2008, \$61 million remained unused under our senior secured revolving credit facility.

**Contractual Obligations**

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

**Off-Balance Sheet Arrangements**

On February 28, 2007, the Company entered into Senior Secured Term Loan agreements with Gray Wireline Service Inc., resulting in investments of \$40 million in a First Out Term Loan and \$70 million in a Second Out Term Loan. In connection with the transaction, the Company also committed to \$27.5 million of additional delay draw commitments under the term loans subject to various contingencies and draw down tests. As of March 31, 2008, the Company had \$20.0 million of delay draw commitments remaining. Effective April 9, 2008, the remaining commitments were terminated by Gray Wireline Service Inc.

The Company has the ability to issue standby letters of credit through its revolving credit facility. As of March 31, 2008 and March 31, 2007, the Company had issued through JPMorgan Chase Bank, N.A. standby letters of credit totaling \$14,435 and \$0, respectively.

At March 31, 2008, we did not have any additional off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than the investment advisory and management agreement and the administration agreement described above.

**Table of Contents****Dividends**

Dividends paid to stockholders for the fiscal years ended March 31, 2008, 2007 and 2006 totaled \$230.9 million or \$2.07 per share, \$168.4 million or \$1.93 per share, and \$102.7 million or \$1.63 per share, respectively. The following table summarizes our quarterly dividends paid to stockholders for the fiscal years ended March 31, 2007, 2006 and 2005, respectively:

	<b>Declared Dividends</b>
<b>Fiscal Year Ending March 31, 2008</b>	
Fourth Fiscal Quarter	\$ 0.52
Third Fiscal Quarter	\$ 0.52
Second Fiscal Quarter	\$ 0.52
First Fiscal Quarter	\$ 0.51
<b>Fiscal Year Ending March 31, 2007</b>	
Fourth Fiscal Quarter	\$ 0.51
Third Fiscal Quarter	\$ 0.50
Second Fiscal Quarter	\$ 0.47
First Fiscal Quarter	\$ 0.45
<b>Fiscal Year Ending March 31, 2006</b>	
Fourth Fiscal Quarter	\$ 0.45
Third Fiscal Quarter	\$ 0.44
Second Fiscal Quarter	\$ 0.43
First Fiscal Quarter	\$ 0.31

Tax characteristics of all dividends will be reported to stockholders on Form 1099 after the end of the calendar year.

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

We have elected to be taxed as a RIC under Subchapter M of the Internal Revenue Code of 1986. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

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

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

With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to stockholders. For the fiscal years ended March 31, 2008, 2007 and 2006 upfront fees

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totaling \$0.1 million, \$8.3 million and \$5.8 million, respectively, are being amortized into income over the lives of their respective loans to the extent such loans remain outstanding.

**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, 2008, many of the loans in our portfolio had floating interest rates. These loans are usually based on a floating LIBO rate and typically have durations of one to six months after which they reset to current market interest rates. As the percentage of our mezzanine and other subordinated loans increase as a percentage of our total investments, we expect that more of the loans in our portfolio will have fixed rates. Accordingly, we may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options, swaps 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, 2008, we did not engage in interest rate hedging activities.

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**Item 8. Financial Statements and Supplementary Data**

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\* Commencement of operations



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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, 2008. 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, 2008 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, 2008 based on the criteria on Internal Control – Integrated Framework issued by COSO.

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

To the Board of Directors and Stockholders 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, cash flows, and financial highlights present fairly, in all material respects, the financial position of Apollo Investment Corporation (the Company) at March 31, 2008 and March 31, 2007, 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, 2008, and the financial highlights for each of the periods presented 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, 2008, 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 37 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. 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 28, 2008

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

(in thousands, except per share amounts)

	March 31, 2008	March 31, 2007
<b>Assets</b>		
Non-controlled/non-affiliated investments, at value (cost \$3,139,047 and \$2,244,400, respectively)	\$ 2,986,556	\$ 2,348,981
Controlled investments, at value (cost \$247,400 and \$0, respectively)	246,992	
Cash equivalents, at value (cost \$404,063 and \$1,089,792, respectively)	403,898	1,089,792
Cash	8,954	7,326
Foreign currency (cost \$2,140 and \$832, respectively)	2,130	834
Interest receivable	46,643	35,217
Dividends receivable	23,024	6,987
Receivable for investments sold		28,248
Receivable from Investment Adviser	231	
Prepaid expenses and other assets	5,896	5,833
 Total assets	 \$ 3,724,324	 \$ 3,523,218
<b>Liabilities</b>		
Credit facility payable (see note 7)	\$ 1,639,122	\$ 492,312
Payable for investments and cash equivalents purchased	142,339	1,134,561
Management and performance-based incentive fees payable (see note 3)	26,969	43,579
Dividends payable	9,368	
Interest payable	6,178	1,848
Accrued administrative expenses	288	200
Other liabilities and accrued expenses	2,152	970
 Total liabilities	 \$ 1,826,416	 \$ 1,673,470
<b>Net Assets</b>		
Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 119,894 and 103,508 issued and outstanding, respectively	\$ 120	\$ 104
Paid-in capital in excess of par	1,983,795	1,673,191
Undistributed net investment income (see note 2g)	24,959	
Distributions in excess of net investment income (see note 2g)		(16,283)
Accumulated net realized gain (see note 2g)	86,136	100,494
Net unrealized appreciation (depreciation)	(197,102)	92,242
 Total Net Assets	 \$ 1,897,908	 \$ 1,849,748
 Total liabilities and net assets	 \$ 3,724,324	 \$ 3,523,218
 <b>Net Asset Value Per Share</b>	 \$ 15.83	 \$ 17.87

See notes to financial statements.

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

(in thousands, except per share amounts)

	Year Ended March 31,		
	2008	2007	2006
<b>INVESTMENT INCOME:</b>			
From non-controlled/non-affiliated investments:			
Interest	\$ 321,684	\$ 245,348	\$ 139,376
Dividends	14,551	18,021	3,656
Other Income	4,643	2,732	9,795
From controlled investments:			
Dividends	7,000		
Other Income	10,000		
Total Investment Income	357,878	266,101	152,827
<b>EXPENSES:</b>			
Management fees (see note 3)	\$ 59,871	\$ 40,569	\$ 23,408
Performance-based incentive fees (see note 3)	30,449	57,912	22,285
Interest and other credit facility expenses	55,772	34,375	12,950
Administrative services expense	3,450	2,437	1,470
Insurance expense	776	819	844
Other general and administrative expenses	4,360	3,700	2,777
Total expenses	154,678	139,812	63,734
Expense offset arrangement (see note 8)	(273)	(128)	(50)
Net expenses	154,405	139,684	63,684
Net investment income before excise taxes	203,473	126,417	89,143
Excise tax expense	(1,867)	(1,099)	
Net investment income	\$ 201,606	\$ 125,318	\$ 89,143
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b>			
Net realized gain (loss):			
Investments and cash equivalents	93,261	149,653	7,146
Foreign currencies	(38,961)	(16,771)	4,019
Net realized gain	54,300	132,882	11,165
Net change in unrealized gain (loss):			
Investments and cash equivalents	(257,645)	67,908	19,428
Foreign currencies	(31,699)	(13,942)	651
Net change in unrealized gain (loss)	(289,344)	53,966	20,079
Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currencies	(235,044)	186,848	31,244

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<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$ (33,438)	\$ 312,166	\$ 120,387
<b>EARNINGS (LOSS) PER COMMON SHARE (see note 5)</b>	\$ (0.30)	\$ 3.64	\$ 1.90

See notes to financial statements.

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

(in thousands, except shares)

	2008	Year Ended March 31, 2007	2006
<b>Increase (Decrease) in net assets from operations:</b>			
Net investment income	\$ 201,606	\$ 125,318	\$ 89,143
Net realized gains	54,300	132,882	11,165
Net change in unrealized gain (loss)	(289,344)	53,966	20,079
Net increase (decrease) in net assets resulting from operations	(33,438)	312,166	120,387
<b>Dividends and distributions to stockholders (see note 13):</b>	(230,889)	(168,449)	(102,735)
<b>Capital share transactions:</b>			
Net proceeds from shares sold	285,545	443,605	294,056
Less offering costs	(461)	(986)	(396)
Reinvestment of dividends	27,403	33,557	25,657
Net increase in net assets from capital share transactions	312,487	476,176	319,317
<b>Total increase in net assets:</b>	48,160	619,893	336,969
Net assets at beginning of period	1,849,748	1,229,855	892,886
Net assets at end of period	\$ 1,897,908	\$ 1,849,748	\$ 1,229,855
<b>Capital share activity</b>			
Shares sold	14,950,000	20,700,000	17,250,000
Shares issued from reinvestment of dividends	1,436,069	1,615,812	1,386,978
Net increase in capital share activity	16,386,069	22,315,812	18,636,978

See notes to financial statements.

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

(in thousands)

	2008	Year Ended March 31, 2007	2006
<b>Cash Flows from Operating Activities:</b>			
Net Increase (Decrease) in Net Assets Resulting from Operations	\$ (33,438)	\$ 312,166	\$ 120,387
Adjustments to reconcile net increase (decrease):			
Purchase of investment securities	(1,857,850)	(1,578,614)	(1,140,250)
Proceeds from disposition of investment securities	809,223	1,004,012	547,119
Increase (decrease) from foreign currency transactions	(38,961)	(16,771)	4,469
Increase in interest and dividends receivable	(27,463)	(17,141)	(10,151)
Decrease (increase) in prepaid expenses and other assets	(294)	1,323	(6,301)
Increase (decrease) in management and performance-based incentive fees payable	(16,610)	30,730	8,356
Increase in interest payable	4,329	548	1,300
Increase (decrease) in accrued expenses	1,224	(810)	866
Increase (decrease) in payable for investments and cash equivalents purchased	(992,292)	193,498	6,780
Increase (decrease) in receivables for securities sold	28,248	(10,987)	(17,261)
Net change in unrealized depreciation (appreciation) on investments, cash equivalents, foreign currencies and other assets and liabilities	289,344	(53,966)	(20,079)
Net realized gain on investments and cash equivalents	(54,300)	(132,882)	(11,165)
Net Cash Used by Operating Activities	\$ (1,888,840)	\$ (268,894)	\$ (515,930)
<b>Cash Flows from Financing Activities:</b>			
Net proceeds from the issuance of common stock	\$ 285,545	\$ 443,605	\$ 294,056
Offering costs from the issuance of common stock	(461)	(986)	(154)
Dividends paid in cash	(194,118)	(134,892)	(77,078)
Borrowings under credit facility	2,990,313	2,179,863	847,379
Repayments under credit facility	(1,875,396)	(2,025,705)	(521,578)
Net Cash Provided by Financing Activities	\$ 1,205,883	\$ 461,885	\$ 542,625
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	\$ (682,957)	\$ 192,991	\$ 26,695
Effect of exchange rates on cash balances	(12)	2	
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	\$ 1,097,952	\$ 904,959	878,264
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 414,983	\$ 1,097,952	\$ 904,959

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash interest paid during the period	\$ 48,265	\$ 31,252	\$ 9,777
Non-cash financing activities consist of the reinvestment of dividends totaling \$27,403, \$33,557 and \$25,657, respectively (in thousands).			

See notes to financial statements.

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

<b>Investments in Non-Controlled/Non-Affiliated Portfolio Companies</b>	<b>Industry</b>	<b>Par Amount*</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Subordinated Debt/Corporate Notes 97.6%</b>				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650, 7/9/17	Retail	£ 38,156	\$ 74,087	\$ 72,612
Advanstar, Inc., L+700, 11/30/15	Media	\$ 22,115	22,115	22,225
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	31,245	30,746	31,245
AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14 ♦	Building Products	50,314	49,501	50,314
Applied Systems, Inc., 12.50%, 9/26/14	Business Services	22,000	21,903	21,120
Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14	Direct Marketing	67,395	67,221	37,067
Associated Materials, Inc., 0% / 11.25%, 3/1/14	Building Products	43,415	31,846	29,522
BNY ConvergeEx Group, LLC, 14.00%, 10/2/14	Business Services	15,304	15,304	15,304
Brenntag Holding GmbH & Co. KG, E+700, 12/23/15	Chemicals	19,135	23,548	24,221
Catalina Marketing Corporation, L+500, 10/1/17	Grocery	\$ 31,959	30,218	28,124
Ceridian Corp., 12.25%, 11/15/15	Diversified Service	50,000	50,000	41,750
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	31,000	30,539	26,376
Collect America, Ltd., 13.50%, 8/5/12 ♦	Consumer Finance	36,320	35,792	36,320
Delta Educational Systems, Inc., 16.00%, 5/12/13	Education	18,789	18,210	18,789
DSI Renal Inc., 14.00%, 4/7/14	Healthcare	10,404	10,404	10,404
Dura-Line Merger Sub, Inc., 13.25%, 9/22/14	Telecommunications	40,461	39,732	40,461
Energy Future Holdings, 11.25%, 11/1/17	Utilities	25,000	24,466	24,750
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ♦	Agriculture	26,504	21,467	10,602
Eurofresh, Inc., 11.50%, 1/15/13 ♦	Agriculture	50,000	50,000	31,750
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	2,539	3,153	3,439
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	15,867	19,546	22,628
First Data Corporation, L+525, 3/31/16	Financial Services	\$ 100,000	79,000	79,000
First Data Corporation, 9.875%, 9/24/15 ♦	Financial Services	45,500	38,946	37,860
FleetPride Corporation, 11.50%, 10/1/14 ♦	Transportation	47,500	47,500	45,837
FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 ♦	Transportation	37,846	33,179	33,304
General Nutrition Centers, Inc., L+450, 3/15/14 ♦	Retail	29,775	29,296	24,862
Goodman Global Inc., 13.50%, 2/15/16 ♦	Manufacturing	25,000	25,000	24,625
Hub International Holdings, 10.25%, 6/15/15 ♦	Insurance	20,000	20,000	13,900
HydroChem Holding, Inc., 13.50%, 12/8/14	Environmental	20,226	20,226	19,720
Infor Lux Bond Company (Infor Global), L+800, 9/2/14	Business Services	8,611	8,611	6,361
KAR Holdings, Inc., 10.00%, 5/1/15	Transportation	43,225	39,816	38,092
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	24,468	22,641
Language Line Inc., 11.125%, 6/15/12	Business Services	27,081	26,863	27,623
Latham Manufacturing Corp., 14.00%, 12/30/12	Leisure Equipment	34,467	33,980	34,467
Laureate Education, Inc., L+550, 8/15/17	Education	53,540	49,385	47,115
Lexicon Marketing (USA), Inc., 13.25%, 5/11/13***	Direct Marketing	28,482	28,482	
LVI Services, Inc., 14.50%, 11/16/12	Environmental	45,302	45,302	45,302

See notes to financial statements.





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

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

		Shares			
Preferred Equity 5.6%					
DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14		Healthcare	32,500	\$ 31,875	\$ 32,500
Exco Resources, Inc., 7.00%/9.00% (Convertible)		Oil & Gas	975	9,750	10,871
Exco Resources, Inc., 7.00%/9.00% Hybrid (Convertible)		Oil & Gas	4,025	40,250	44,879

See notes to financial statements.



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

<b>Investments in Non-Controlled/Non-Affiliated Portfolio Companies</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Preferred Equity (continued)</b>				
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	\$ 11,180	\$ 12,360
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	3,325	3,325	1,369
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	529
Varietal Distribution Holdings, LLC, 8.00%	Distribution	3,097	3,097	3,097
<b>Total Preferred Equity</b>			<b>\$ 101,352</b>	<b>\$ 105,605</b>

<b>Common Equity/Partnership Interests 15.5%</b>				
A-D Conduit Holdings, LLC (Duraline) **	Telecommunications	2,778	\$ 2,778	\$ 3,730
AHC Mezzanine LLC (Advanstar)	Media	10,000	10,000	9,000
CA Holding, Inc. (Collect America, Ltd.)	Consumer Finance	25,000	2,500	3,720
DTPI Holdings, Inc. (American Asphalt & Grading) **	Infrastructure	200,000	2,000	
FSC Holdings Inc. (Hanley Wood LLC) **	Media	10,000	10,000	10,000
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	4,832
Gray Energy Services, LLC Class H (Gray Wireline) **	Oil & Gas	1,081	2,000	3,540
Gryphon Colleges Corporation (Delta Educational Systems, Inc.) **	Education	175	175	
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3)	Industrial			93,073
Latham International, Inc. (fka Latham Acquisition Corp.) **	Leisure Equipment	33,091	3,309	1,127
LM Acquisition Ltd. (Lexicon Marketing Inc.) **	Direct Marketing	10,000	10,000	
LVI Acquisition Corp. (LVI Services, Inc.) **	Environmental	6,250	625	
MEG Energy Corp. (4) **	Oil & Gas	1,718,388	44,718	68,665
New Omaha Holdings Co-Invest LP (First Data)	Financial Services	13,000,000	65,000	65,000
PCMC Holdings, LLC (Pacific Crane)	Machinery	40,000	4,000	3,607
Prism Business Media Holdings, LLC	Media	68	14,947	14,810
Pro Mach Co-Investment, LLC **	Machinery	150,000	1,500	3,103
RC Coinvestment, LLC (Ranpak Corp.)	Packaging	50,000	5,000	5,047
Sorenson Communications Holdings, LLC Class A **	Consumer Services	454,828	45	5,436
Varietal Distribution Holdings, LLC Class A	Distribution	28,028	28	88
<b>Total Common Equity and Partnership Interests</b>			<b>\$ 183,625</b>	<b>\$ 294,778</b>

<b>Warrants 0.6%</b>				
<b>Warrants</b>				
DSI Holdings Company, Inc. (DSI Renal Inc.), Common **	Healthcare	5,011,327	\$	2,920
Fidji Luxco (BC) S.C.A., Common (FCI)(2) **	Electronics	48,769	\$ 491	7,604

See notes to financial statements.



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

<b>Investments in Non-Controlled/Non-Affiliated Portfolio Companies</b>	<b>Industry</b>	<b>Warrants</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Warrants (continued)</b>				
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	98	\$ 98	
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	459	460	579
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	1,043	1,043	430
<b>Total Warrants</b>			<b>\$ 2,092</b>	<b>\$ 11,533</b>

		<b>Par Amount*</b>			
<b>2nd Lien Bank Debt/Senior Secured Loans (5) 38.1%</b>					
Advanstar Communications, Inc., 11/30/14	Media	\$ 20,000	\$ 20,000	\$ 14,600	
American Asphalt & Grading Co., 7/10/09	Infrastructure	31,596	31,596	8,200	
Asurion Corporation, 7/3/15	Insurance	135,300	134,876	116,020	
BNY Convergenx Group, LLC, 4/2/14	Business Services	50,000	49,787	43,000	
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	15,000	15,023	14,175	
Clean Earth, Inc., 8/1/14	Environmental	25,000	25,000	24,875	
Dresser, Inc., 5/4/15	Industrial	61,000	60,915	55,663	
Educate, Inc., 6/14/14	Education	10,000	10,000	8,500	
Garden Fresh Restaurant Corp., 12/22/11	Retail	26,000	25,821	25,480	
Generics International, Inc., 4/30/15	Healthcare	20,000	19,903	19,875	
Gray Wireline Service, Inc., 12.25%, 2/28/13	Oil & Gas	77,500	76,866	77,500	
HydroChem Industrial Services, Inc., 12/8/14	Environmental	35,100	35,100	34,223	
Infor Enterprise Solutions Holdings, Inc., Tranche B-1, 3/2/14	Business Services	5,000	5,000	4,125	
Infor Enterprise Solutions Holdings, Inc., 3/2/14	Business Services	15,000	14,836	12,375	
Infor Global Solutions European Finance S.á.R.L., 3/2/14	Business Services	6,210	8,263	8,856	
IPC Systems, Inc., 6/1/15	Telecommunications	\$ 37,250	36,167	26,634	
Kronos, Inc., 6/11/15	Electronics	60,000	60,000	44,100	
Quality Home Brands Holdings LLC, 6/20/13	Consumer Products	40,000	39,504	32,000	
Ranpak Corp.(6), 12/27/14	Packaging	12,500	12,500	12,500	
Ranpak Corp.(7), 12/27/14	Packaging	5,206	7,584	8,249	
Sheridan Holdings, Inc., 6/15/15	Healthcare	\$ 60,000	60,000	46,500	
Sorenson Communications, Inc., 2/18/14	Consumer Services	62,103	62,103	60,705	
TransFirst Holdings, Inc., 6/15/15	Financial Services	30,500	30,413	23,790	
<b>Total 2nd Lien Bank Debt/Senior Secured Loans</b>			<b>\$ 841,257</b>	<b>\$ 721,945</b>	

**Total Investments in Non-Controlled/Non-Affiliated Portfolio Companies 157.4%**

**\$ 3,139,047 \$ 2,986,556**

See notes to financial statements.

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

<b>Investments in Controlled Portfolio Companies</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(1)</b>
<b>Preferred Equity 3.9%</b>				
Grand Prix Holdings, LLC Series A, 12.00% (Innkeepers USA)	Hotels, Motels, Inns & Gaming	2,989,431	\$ 74,736	\$ 74,736
<b>Common Equity 9.1%</b>				
Grand Prix Holdings, LLC (Innkeepers USA)	Hotels, Motels, Inns & Gaming	17,335,834	172,664	172,256
<b>Total Investments in Controlled Portfolio Companies 13.0%</b>			<b>\$ 247,400</b>	<b>\$ 246,992</b>
<b>Total Investments</b>			<b>\$ 3,386,447</b>	<b>\$ 3,233,548</b>
		<b>Par Amount*</b>		
<b>Cash Equivalents 21.3%</b>				
U.S. Treasury Bill, 1.075%, 6/19/08	Government	\$ 405,000	\$ 404,063	\$ 403,898
<b>Total Investments &amp; Cash Equivalents 191.7% (8)</b>			<b>\$ 3,790,510</b>	<b>\$ 3,637,446</b>
<b>Liabilities in Excess of Other Assets (91.7%)</b>				<b>(1,739,538)</b>
<b>Net Assets 100.0%</b>				<b>\$ 1,897,908</b>

- (1) Fair value is determined by or under the direction of the Board of Directors of the Company (see Note 2).
- (2) Denominated in Euro ( ).
- (3) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
- (4) Denominated in Canadian dollars.
- (5) Includes floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At March 31, 2008, the range of interest rates on floating rate bank debt was 7.67% - 12.38%.
- (6) Position is held across five US Dollar-denominated tranches with varying yields.
- (7) Position is held across three Euro-denominated tranches with varying yields.
- (8) Aggregate gross unrealized appreciation for federal income tax purposes is \$160,652; aggregate gross unrealized depreciation for federal income tax purposes is \$321,299. Net unrealized depreciation is \$160,647 based on a tax cost of \$3,798,093.
- ◆ These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- \* Denominated in USD unless otherwise noted.
- \*\* Non-income producing security
- \*\*\* Non-accrual status



See notes to financial statements.

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

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

See notes to financial statements.

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

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

See notes to financial statements.

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

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

**Shares****Preferred Equity 5.3%**

DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14	Healthcare	32,500	\$ 31,781	\$ 32,500
Exco Resources, Inc., 7.00%/9.00% (Convertible)	Oil & Gas	975	9,750	9,750
Exco Resources, Inc., 11.00%, 4/15/11	Oil & Gas	4,025	40,250	40,250

See notes to financial statements.

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

<b>Portfolio Company(1)</b>	<b>Industry</b>	<b>Shares</b>	<b>Cost</b>	<b>Fair Value(2)</b>
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	\$ 10,995	\$ 12,360
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	3,325	3,325	3,325
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	112
<b>Total Preferred Equity</b>			<b>\$ 97,976</b>	<b>\$ 98,297</b>
<b>Common Equity/Partnership Interests 10.3%</b>				
A-D Conduit Holdings, LLC (Duraline)	Telecommunications	2,778	\$ 2,778	\$ 2,778
CA Holding, Inc. (Collect America, Ltd.)	Consumer Finance	25,000	2,500	3,306
DTPI Holdings, Inc. (American Asphalt & Grading)**	Infrastructure	200,000	2,000	
FSC Holdings Inc. (Hanley Wood LLC)**	Media	10,000	10,000	14,868
Garden Fresh Restaurant Holding, LLC**	Retail	50,000	5,000	7,654
Gray Energy Services, LLC Class H (Gray Wireline)	Oil & Gas	1,081	2,000	2,000
Gryphon Colleges Corporation (Delta Educational Systems, Inc.)	Education	175	175	33
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (3,4)	Industrial		20,434	66,312
Latham International, Inc. (fka Latham Acquisition Corp.) **	Leisure Equipment	33,091	3,309	4,479
LM Acquisition Ltd. (Lexicon Marketing Inc.)	Direct Marketing	10,000	10,000	17,874
LVI Acquisition Corp. (LVI Services, Inc.)**	Environmental	6,250	625	
MEG Energy Corp. (5) **	Oil & Gas	1,718,388	44,718	49,899
Prism Business Media Holdings, LLC	Media	68	15,050	15,050
Pro Mach Co-Investment, LLC**	Machinery	150,000	1,500	2,751
Sorenson Communications Holdings, LLC Class A	Consumer Services	454,828	45	2,764
<b>Total Common Equity and Partnership Interests</b>			<b>\$ 120,134</b>	<b>\$ 189,768</b>
<b>Warrants</b>				
<b>Warrants 0.6%</b>				
DSI Holdings Company, Inc. (DSI Renal Inc.), Common	Healthcare	5,011,327		\$ 2,235
Fidji Luxco (BC) S.C.A., Common (FCI)	Electronics	48,769	\$ 491	4,193
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common	Education	98	98	18
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred	Education	459	459	513
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred	Education	1,043	1,043	1,163
Varel Holdings, Inc.	Oil & Gas	40,060	1,423	3,294
<b>Total Warrants</b>			<b>\$ 3,514</b>	<b>\$ 11,416</b>

See notes to financial statements.



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

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

See notes to financial statements.

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

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

- (1) None of our portfolio companies is controlled or affiliated as defined by the Investment Company Act of 1940.
- (2) Fair value is determined by or under the direction of the Board of Directors of the Company (see Note 2).
- (3) Denominated in Euro ( ).
- (4) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
- (5) Denominated in Canadian dollars.
- (6) Represent floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At March 31, 2007, the range of interest rates on floating rate bank debt was 8.61% 14.10%.
- (7) Aggregate gross unrealized appreciation for federal income tax purposes is \$130,991; aggregate gross unrealized depreciation for federal income tax purposes is \$38,383. Net unrealized appreciation is \$92,608 based on a tax cost of \$3,346,165.
- ◆ These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
- \* Denominated in USD unless otherwise noted.
- \*\* Non-income producing security
- \*\*\* Non-accrual status

See notes to financial statements.



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

Industry Classification	Percentage at March 31, 2007
Oil & Gas	12.8%
Business Services	8.0%
Consumer Services	7.2%
Publishing	7.0%
Direct Marketing	6.3%
Manufacturing	5.1%
Consumer Products	5.0%
Leisure Equipment	4.3%
Building Products	4.0%
Chemicals	3.9%
Transportation	3.3%
Healthcare	3.2%
Environmental	2.9%
Industrial	2.8%
Agriculture	2.8%
Broadcasting & Entertainment	2.5%
Media	2.3%
Retail	2.1%
Cable TV	1.9%
Market Research	1.8%
Telecommunications	1.8%
Consumer Finance	1.7%
Education	1.5%
Grocery	1.3%
Hotels, Motels, Inns and Gaming	0.9%
Financial Services	0.8%
Beverage, Food, & Tobacco	0.8%
Machinery	0.7%
Infrastructure	0.7%
Durable Consumer Products	0.4%
Electronics	0.2%
Total Investments	100.0%

See notes to financial statements.

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS**

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

**Note 1. Organization**

Apollo Investment Corporation ( Apollo Investment , the Company , or We ), a Maryland corporation organized on February 2, 2004, is a closed-end, non-diversified management investment company that has filed an election to be treated as a business development company ( BDC ) under the Investment Company Act of 1940. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in middle-market companies in the form of mezzanine and senior secured loans, each of which may include an equity component, and, to a lesser extent, by making direct equity investments in such companies.

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

**Note 2. Significant Accounting Policies**

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

Our 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, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements have been included.

The significant accounting policies consistently followed by Apollo Investment are:

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

(b) Investments for which market quotations are readily available are valued at such market quotations unless they are deemed not to represent fair value; debt and equity securities that are not publicly traded or whose market prices are not readily available or whose market quotations are deemed not to represent fair value are valued at fair value as determined in good faith by or under the direction of our Board of Directors. Subordinated debt, senior secured debt and other debt securities with maturities greater than 60 days are valued by an independent pricing service, at the mean between the bid and ask prices from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer) or by an independent third party valuation firm. With respect to certain private equity securities, each investment is valued by independent third party valuation firms using methods that may, among other measures and as applicable, include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we consider the pricing indicated by the external event to corroborate our private equity valuation. Because we expect that there is no readily available market value for many of the investments in our portfolio, we expect to value such investments at fair value as determined in good faith by or under the direction of our Board of Directors pursuant to a valuation policy and a consistently applied valuation process utilizing the input of the investment adviser, independent valuation firms and the audit committee. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

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

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

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

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

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

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

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

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

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

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

(e) Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination and/or commitment fees associated with debt investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination and/or commitment fees are recorded as interest income. Structuring fees are recorded as other income when earned.

(f) Apollo Investment intends to comply with the applicable provisions of the Internal Revenue Code of 1986, as amended, pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it from substantially all Federal income taxes. Apollo Investment, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. Apollo Investment will accrue excise tax on estimated excess taxable income as required.

(g) Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are reclassified among the Company's capital accounts. 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, 2008, \$31,837 was reclassified on our balance sheet between accumulated net realized gain and



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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

undistributed net investment income and \$1,867 was reclassified on our balance sheet between undistributed net investment income and paid-in capital in excess of par. Total earnings and net asset value is not affected;

(h) Dividends and distributions to common stockholders are recorded as of record date. The amount to be paid out as a dividend is determined by the Board of Directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed or deemed distributed at least annually.

(i) The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments. The Company's investments in foreign securities may involve certain risks such as foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.

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

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

(l) The Company records registration expenses related to Shelf filings as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with Section 8.24 of the AICPA Audit and Accounting Guide for Investment Companies.

(m) Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more and/or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and in management's judgment, are likely to remain current.

(n) In June 2006, the Financial Accounting Standards Board issued FASB Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes. FIN 48 is effective for financial statements issued for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation requires recognition of the impact of a tax position if that position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In addition, FIN 48 provides measurement guidance whereby a tax position that meets the more-likely-than-not recognition threshold is calculated to determine the amount of benefit to recognize in the financial statements. We have adopted FIN 48 and believe that it does not have a material impact on the Company's financial condition or results of operations. If the tax law

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

requires interest and/or penalties to be paid on an underpayment of income taxes, interest and penalties will be classified as income taxes on our financial statements, if applicable.

(o) In September, 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ( SFAS ) 157, Fair Value Measurements, which assists in clarifying the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 generally requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We continue to analyze the effect of adoption of this statement on our financial position, including our net asset value and results of operations, but currently believe that it will not have a significant impact on our financial position, including our net asset value and results of operations. We will adopt this statement on a prospective basis beginning in the quarter ending June 30, 2008. The actual impact on our financial statements in the period of adoption and subsequent to the period of adoption cannot be determined at this time as it will be influenced by the estimates of fair value for that period and the number and amount of investments we originate, acquire or exit.

(p) In February 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB No. 115. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. This statement applies to all reporting entities, and contains financial statement presentation and disclosure requirements for assets and liabilities reported at fair value as a consequence of the election. This statement is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not intend to elect fair value measurement for assets or liabilities other than portfolio investments, which are already measured at fair value, therefore, the Company does not believe the adoption of this statement will have a significant effect on the Company's financial position or its results of operations.

**Note 3. Agreements**

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

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

the hurdle rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. Apollo Investment pays the Investment Adviser an incentive fee with respect to Apollo Investment's pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which Apollo Investment's pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of Apollo Investment's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of Apollo Investment's pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as-of the termination date), commencing on December 31, 2004, and will equal 20% of Apollo Investment's cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the advisor.

For the fiscal years ended March 31, 2008, 2007 and 2006, the Investment Adviser received \$59,871, \$40,569 and \$23,408, respectively, in base investment advisory and management fees and \$46,411, \$36,646 and \$22,285, respectively, in performance-based net investment income incentive fees from Apollo Investment. At March 31, 2008, 2007, and 2006 the Company accrued \$0, \$21,266, and \$0, respectively, in net realized capital gains based incentive fees. The amount actually payable by the Company is determined as-of the end of each calendar year. For the periods ended December 31, 2007, 2006 and 2005, the Company has paid \$5,304, \$0, and \$0 in net realized capital gain based incentive fees to the Investment Adviser.

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

At the fiscal years ended March 31, 2008, 2007 and 2006, the Administrator was reimbursed \$3,162, \$2,237 and \$1,017, respectively, from Apollo Investment on the \$3,450, \$2,437 and \$1,470, respectively, of expenses accrued under the Administration Agreement.

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

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

Facility is used to supplement Apollo's equity capital to make additional portfolio investments and for general corporate purposes. From time to time, certain of the lenders provide customary commercial and investment banking services to affiliates of Apollo Investment. JPMorgan also serves as custodian and fund accounting agent for Apollo Investment.

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

At March 31, 2008, the Company's total net assets and net asset value per share were \$1,897,908 and \$15.83, respectively. This compares to total net assets and net asset value per share at March 31, 2007 of \$1,849,748 and \$17.87, respectively.

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

The following information sets forth the computation of basic and diluted per share net increase (decrease) in net assets resulting from operations for the years ended March 31, 2008, 2007 and 2006, respectively:

	<b>Year Ended March 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Numerator for increase (decrease) in net assets per share:	\$ (33,438)	\$ 312,166	\$ 120,387
Denominator for basic and diluted weighted average shares:	112,049,771	85,791,821	63,467,534
Basic and diluted net increase (decrease) in net assets per share resulting from operations:	\$ (0.30)	\$ 3.64	\$ 1.90

**Note 6. Investments**

Investments and cash equivalents consisted of the following as of March 31, 2008 and March 31, 2007.

	<b>March 31, 2008</b>		<b>March 31, 2007</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Subordinated Debt/Corporate Notes	\$ 2,010,721	\$ 1,852,695	\$ 1,385,323	\$ 1,433,603
Preferred Equity	176,088	180,341	97,976	98,297
Common Equity/Partnership Interests	356,289	467,034	120,134	189,768
Warrants	2,092	11,533	3,514	11,416
Bank Debt/Senior Secured Loans	841,257	721,945	637,453	615,897
Cash Equivalents	404,063	403,898	1,089,792	1,089,792
<b>Totals</b>	<b>\$ 3,790,510</b>	<b>\$ 3,637,446</b>	<b>\$ 3,334,192</b>	<b>\$ 3,438,773</b>



**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, 2008, the Company had outstanding non-US borrowings on its \$1,700,000 multicurrency revolving credit facility denominated in euros, pounds sterling, and Canadian dollars. Unrealized appreciation 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	£ 35,700	\$ 72,891	\$ 70,954	4/07/2008	\$ 1,937
British Pound	£ 2,000	3,928	3,975	4/16/2008	(47)
Euro	1,000	1,463	1,584	4/18/2008	(121)
Euro	112,000	150,802	177,469	4/28/2008	(26,667)
Canadian Dollar	C\$ 17,000	16,096	16,568	5/13/2008	(472)
British Pound	£ 2,500	4,957	4,969	5/13/2008	(12)
Canadian Dollar	C\$ 29,700	25,161	28,946	5/20/2008	(3,785)
Euro	42,500	56,599	67,343	5/21/2008	(10,744)
Euro	2,000	2,961	3,169	5/28/2008	(208)
Canadian Dollar	C\$ 22,500	19,189	21,929	6/05/2008	(2,740)
Euro	3,000	4,037	4,754	6/10/2008	(717)
Euro	3,500	5,025	5,546	6/18/2008	(521)
British Pound	£ 6,750	13,266	13,416	6/30/2008	(150)

\$ 376,375      \$ 420,622      \$ (44,247)

At March 31, 2007, the Company had outstanding non-US borrowings on its \$1,700,000 multicurrency revolving credit facility denominated in euros, pounds sterling, and Canadian dollars. Unrealized appreciation or depreciation on these outstanding borrowings is indicated in the table below:

Foreign Currency	Local Currency	Original Borrowing Cost	Current Value	Reset Date	Unrealized Appreciation (Depreciation)
Euro	1,000	\$ 1,330	\$ 1,331	4/23/2007	\$ (1)
Canadian Dollar	C\$ 29,700	25,161	25,744	5/16/2007	(583)
Euro	58,050	74,664	77,273	5/21/2007	(2,609)
Euro	42,500	56,599	56,574	5/21/2007	25
Euro	45,525	55,071	60,601	5/22/2007	(5,530)
Euro	25,061	30,246	33,360	5/29/2007	(3,114)
Canadian Dollar	C\$ 23,000	19,684	19,937	5/29/2007	(253)
Canadian Dollar	C\$ 22,500	19,189	19,503	6/20/2007	(314)
British Pound	£ 6,750	13,265	13,239	6/23/2007	26

\$ 295,209      \$ 307,562      \$ (12,353)

**Note 8. Expense Offset Arrangement**

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The Company benefits from an expense offset arrangement with JPMorgan Chase Bank, N.A. ( custodian bank ) whereby the Company earns credits on any uninvested US dollar cash balances held by the custodian bank. These credits are applied by the custodian bank as a reduction of the monthly custody fees charged to the Company. The total amount of credits earned during the years ended March 31, 2008, 2007, and 2006 are \$273, \$128, and \$50, respectively.

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

**Note 9. Cash Equivalents**

Pending investment in longer-term portfolio holdings, Apollo Investment makes temporary investments in U.S. Treasury bills (of varying maturities) and repurchase agreements as outlined in our prospectus. These temporary investments are deemed cash equivalents by us and are included in our Schedule of Investments. At the end of each fiscal quarter, Apollo Investment typically takes proactive steps with the objective of enhancing flexibility in the next quarter. From time to time, Apollo Investment purchases U.S. Treasury bills and closes out its position on a net cash basis subsequent to quarter end. Apollo Investment may also utilize repurchase agreements or other balance sheet transactions as it deems appropriate for this purpose. The amounts of these transactions are excluded from total assets for purposes of computing the asset base upon which the management fee is determined and do not increase the amount of funds available to make investments. U.S. Treasury bills with maturities of greater than 60 days from the time of purchase are marked-to-market as per our valuation policy.

**Note 10. Repurchase Agreements**

The Company enters into repurchase agreements as part of its investment program. The Company's custodian takes possession of collateral pledged by the counterparty. The collateral is marked-to-market daily to ensure that the value, plus accrued interest, is at least equal to the repurchase price. In the event of default of the obligor to repurchase, the Company has the right to liquidate the collateral and apply the proceeds in satisfaction of the obligation. Under certain circumstances, in the event of default or bankruptcy by the counterparty to the agreement, realization and/or retention of the collateral or proceeds may be subject to legal proceedings. There were no repurchase agreements outstanding at March 31, 2008 or March 31, 2007.

**Table of Contents****APOLLO INVESTMENT CORPORATION****NOTES TO FINANCIAL STATEMENTS (continued)****(in thousands except share and per share amounts)****Note 11. Financial Highlights**

The following is a schedule of financial highlights for the years ended March 31, 2008, 2007, 2006 and the period April 8, 2004 (commencement of operations) through March 31, 2005:

	<b>Fiscal Year Ended March 31,</b>			<b>April 8, 2004* through March 31, 2005</b>
	<b>2008</b>	<b>2007</b>	<b>2006</b>	
<b>Per Share Data:</b>				
Net asset value, beginning of period	\$ 17.87	\$ 15.15	\$ 14.27	\$ 14.06
Net investment income	1.82	1.49	1.41	0.41
Net realized and unrealized gain (loss)	(1.90)	2.11	0.49	0.31
Net increase (decrease) in net assets resulting from operations	(0.08)	3.60	1.90	0.72
Dividends to stockholders(1)	(2.06)	(1.96)	(1.62)	(0.48)
Effect of anti-dilution	0.10	1.09	0.61	
Offering costs		(0.01)	(0.01)	(0.03)
Net asset value at end of period	\$ 15.83	\$ 17.87	\$ 15.15	\$ 14.27
Per share market value at end of period	\$ 15.83	\$ 21.40	\$ 17.81	\$ 16.78
Total return(2)	(17.50%)	31.70%	12.94%	15.32%
Shares outstanding at end of period	119,893,835	103,507,766	81,191,954	62,554,976
<b>Ratio/Supplemental Data:</b>				
Net assets at end of period (in millions)	\$ 1,897.9	\$ 1,849.7	\$ 1,229.9	\$ 892.9
Ratio of net investment income to average net assets	9.85%	9.09%	9.89%	2.96%(3)
Ratio of operating expenses to average net assets**	4.92%	7.73%	5.64%	2.60%(3)
Ratio of credit facility related expenses to average net assets	2.73%	2.49%	1.44%	
Ratio of total expenses to average net assets**	7.65%	10.22%	7.08%	2.60%(3)
Average debt outstanding	\$ 882,775	\$ 580,209	\$ 325,639***	\$ 0

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Average debt per share	\$	7.88	\$	6.76	\$	5.10***	\$	0
Portfolio turnover ratio		24.2%		43.8%		39.2%		14.7%

- (1) Dividends and distributions are determined based on taxable income calculated in accordance with income tax regulations which may differ from amounts determined under accounting principles generally accepted in the United States of America.
  - (2) Total return is based on the change in market price per share during the respective periods. Total return also takes into account dividends and distributions, if any, reinvested in accordance with the Company's dividend reinvestment plan. Total return is not annualized.
  - (3) Annualized for the period April 8, 2004 through March 31, 2005.
- \* Commencement of operations
- \*\* The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets is 4.91% and 7.64%, respectively, at March 31, 2008, inclusive of the expense offset arrangement (see

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

Note 8). At March 31, 2007, the ratios were 7.72% and 10.21%, respectively. At March 31, 2006, the ratios were 5.63% and 7.07%, respectively. At March 31, 2005, there was no expense offset arrangement.

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

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

Class and Year	Total Amount Outstanding(1)	Asset Coverage Per Unit(2)	Involuntary Liquidating Preference Per Unit(3)	Average Market Value Per Unit(4)
<b>Revolving Credit Facility</b>				
Fiscal 2008	\$ 1,639,122	\$ 2,158	\$	N/A
Fiscal 2007	492,312	4,757		N/A
Fiscal 2006	323,852	4,798		N/A
Fiscal 2005	0	0		N/A

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

**Note 12. Credit Agreement and Borrowings**

Under the terms of the amended and restated Credit Agreement dated March 31, 2006 (the Facility), the lenders agreed to extend credit to Apollo Investment in an aggregate principal or face amount not exceeding \$1,250,000 at any one time outstanding. The amended Facility also permits Apollo Investment to seek additional commitments from new and existing lenders in the future, up to an aggregate amount not to exceed \$2,000,000. In February 2007, we increased total commitments to \$1,700,000. The Facility is a five-year revolving facility (with a stated maturity date of April 14, 2011) and is secured by substantially all of the assets in Apollo Investment's portfolio, including cash and cash equivalents. Pricing is set at 100 basis points over LIBOR. The Facility contains affirmative and restrictive covenants, including: (a) periodic financial reporting requirements, (b) maintaining minimum stockholders' equity of the greater of (i) 40% of the total assets of Apollo Investment and its subsidiaries as at the last day of any fiscal quarter and (ii) the sum of (A) \$400,000 plus (B) 25% of the net proceeds from the sale of equity interests in Apollo Investment after the closing date of the Facility, (c) maintaining a ratio of total assets, less total liabilities (other than indebtedness) to total indebtedness, in each case of Apollo Investment and its subsidiaries, of not less than 2.0:1.0, (d) maintaining minimum liquidity, (e) limitations on the incurrence of additional indebtedness, (f) limitations on liens, (g) limitations on investments (other than in the ordinary course of Apollo Investment's business), (h) limitations on mergers and disposition of assets (other than in the normal course of Apollo Investment's business activities) and (i) limitations on the creation or existence of agreements that permit liens on properties of Apollo Investment's subsidiaries. In



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

addition to the asset coverage ratio described in clause (c) of the preceding sentence, borrowings under the Facility (and the incurrence of certain other permitted debt) are subject to compliance with a borrowing base that applies different advance rates to different types of assets in Apollo Investment's portfolio. The Facility currently provides for the ability of Apollo Investment to seek additional commitments from lenders in an aggregate amount of up to \$300,000. The Facility is used to supplement Apollo Investment's equity capital to make additional portfolio investments and for other general corporate purposes.

The average debt outstanding on the credit facility was \$882,775 and \$580,209 for the fiscal years ended March 31, 2008 and 2007, respectively. The weighted average annual interest cost for the fiscal year ended March 31, 2008 was 5.96%, exclusive of 0.36% for commitment fees and for other prepaid expenses related to establishing the credit facility. The weighted average annual interest cost for the fiscal year ended March 31, 2007 was 5.48%, exclusive of 0.44% for commitment fees and for other prepaid expenses related to establishing the Facility. This weighted average annual interest cost reflects the average interest cost for all borrowings, including EURIBOR, CAD LIBOR, GBP LIBOR and USD LIBOR. The maximum amount borrowed during the fiscal year ended March 31, 2008 and 2007 was \$1,655,805 and \$927,758, respectively, at value. The remaining capacity under the facility was \$60,878 at March 31, 2008. At March 31, 2008, the Company was in compliance with all financial and operational covenants required by the Facility.

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

The tax character of dividends paid during the fiscal year ended March 31, 2008 was as follows:

Ordinary income	\$ 130,394
Long-term capital gains	100,495

Total Dividends Paid	\$ 230,889
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As of March 31, 2008, the components of accumulated losses on a tax basis were as follows:

Distributable ordinary income	\$ 137,112
Other book/tax temporary differences	(18,210)
Unrealized depreciation	(204,909) <sup>1</sup>

Total accumulated losses	\$ (86,007)
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As of March 31, 2008, we had a post-October currency loss deferral of \$18,159.

1 The difference between book-basis and tax-basis unrealized depreciation is primarily attributable to the receipt of upfront fees, which are being amortized for US GAAP.

The tax character of dividends paid during the fiscal year ended March 31, 2007 was as follows:

Ordinary income	\$ 136,637
Long-term capital gains	31,812



Total Dividends Paid	\$ 168,449
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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, 2007, the components of accumulated earnings on a tax basis were as follows:

Distributable long-term capital gains	\$ 100,495
Other book/tax temporary differences	(4,357)
Unrealized appreciation	80,315 <sub>2</sub>

Total accumulated gains \$ 176,453

As of March 31, 2007, we had a post-October currency loss deferral of \$4,256.

- 2 The difference between book-basis and tax-basis unrealized appreciation is primarily attributable to the receipt of upfront fees, which are being amortized for US GAAP.

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

The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2008 eligible for qualified dividend income treatment is 5.41%. The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2008 eligible for the 70% dividends received deduction for corporate stockholders is 5.41%.

The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2007 eligible for qualified dividend income treatment is 14.6%. The percentage of ordinary income distributions paid during the fiscal year ended March 31, 2007 eligible for the 70% dividends received deduction for corporate stockholders is 14.6%.

**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, 2008	90,009	0.75	43,725	0.37	(206,102)	(1.73)	(162,377)	(1.36)
December 31, 2007	92,854	0.78	41,500	0.35	(67,107)	(0.56)	(25,607)	(0.21)
September 30, 2007	86,069	0.81	61,623	0.58	(84,799)	(0.80)	(23,176)	(0.22)
June 30, 2007	88,946	0.86	54,758	0.53	122,964	1.19	177,722	1.72
March 31, 2007	75,255	0.76	21,728	0.22	81,039	0.82	102,767	1.04
December 31, 2006	71,071	0.87	38,034	0.46	18,943	0.23	56,977	0.69
September 30, 2006	63,914	0.78	33,812	0.41	47,454	0.58	81,266	1.00
June 30, 2006	55,861	0.69	31,744	0.39	39,412	0.49	71,156	0.88
March 31, 2006	42,453	0.65	22,652	0.35	19,619	0.30	42,271	0.65
December 31, 2005	37,567	0.60	20,554	0.33	12,992	0.20	33,546	0.53
September 30, 2005	35,013	0.56	20,693	0.33	10,316	0.16	31,009	0.49

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June 30, 2005	37,793	0.60	25,244	0.41	(11,684)	(0.19)	13,560	0.22
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### **Note 15. Commitments and Contingencies**

On February 28, 2007, the Company entered into Senior Secured Term Loan agreements with Gray Wireline Service Inc., resulting in investments of \$40,000 in a First Out Term Loan and \$70,000 in a Second Out Term

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**APOLLO INVESTMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Loan. In connection with the transaction, the Company also committed to \$27,500 of additional delay draw commitments under the term loans subject to various contingencies and draw down tests. This commitment remained outstanding at March 31, 2008.

The Company has the ability to issue standby letters of credit through its revolving credit facility. As of March 31, 2008 and March 31, 2007, the Company had issued through JPMorgan Chase Bank, N.A. standby letters of credit totaling \$14,435 and \$0, respectively.

**Note 16. Subsequent Event**

On May 16, 2008, the Company closed a follow-on equity offering and issued 22.3 million shares of common stock, receiving approximately \$369,589 in net proceeds after deducting underwriting discounts and commissions. The Company expects to use the net proceeds from the offering to repay indebtedness owed under its senior credit facility, to make investments in portfolio companies in accordance with its investment objective and for general corporate purposes.

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

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

Management's Report on Internal Control Over Financial Reporting, which appears on page 37 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 management's assessment of 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 financial reporting that occurred during the fourth fiscal quarter of 2008 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 seven 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. However, the initial members of the three classes have initial terms of one, two and three years, respectively. 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	55	Chairman of the Board and Chief Executive Officer	2004	2009
<b>Independent Directors</b>				
Claudine B. Malone	72	Director	2007	2008
Frank C. Puleo	62	Director	2008	2008
Carl Spielvogel	79	Director	2004	2008
Elliot Stein, Jr.	59	Director	2004	2010
Gerald Tsai, Jr.	79	Director	2004	2009
Bradley J. Wechsler	56	Director	2004	2010
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>
James C. Zelter	45	President and Chief Operating Officer
Richard L. Peteka	46	Chief Financial Officer and Treasurer

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Patrick J. Dalton	39	Executive Vice President
Edward Tam	39	Executive Vice President
John J. Suydam	48	Vice President and Chief Legal Officer
Gordon E. Swartz	61	Chief Compliance Officer and Secretary

\* Effective as of April 18, 2008, Edward Tam resigned from the Company.

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

### **Biographical information**

#### ***Directors***

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

#### **Independent directors**

**Claudine B. Malone** (72) Director. Ms. Malone became director of Apollo Investment on April 17, 2007. Ms. Malone is the President and Chief Executive Officer of Financial & Management Consulting Inc. of McLean, Virginia. She also currently serves as a director of Hasbro Inc., Novell, Inc. and Aviva Life Insurance Company (USA). Previously, 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** (62) Director. Mr. Puleo became a director of Apollo Investment on February 4, 2008. Mr. Puleo currently serves as a Director of Commercial Industrial Finance Corp. and SLM Corp. 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** (79) Director. Ambassador Spielvogel became a director of Apollo Investment in March 2004. Amb. Spielvogel has been 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. In 2000-2001, Amb. Spielvogel served as U.S. Ambassador to the Slovak Republic, based in Bratislava, Slovakia. From 1994 to 1997, Amb. Spielvogel was Chairman and Chief Executive Officer of the United Auto Group, Inc., one of the first publicly-owned auto dealership groups. Earlier, Amb. Spielvogel was Chairman and Chief Executive Officer of Backer Spielvogel Bates Worldwide, a global marketing communications company from 1985 to 1994. Amb. Spielvogel currently is a director of the Interactive Data Corporation, Inc. He is also a trustee to 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 Lincoln Center for the Performing Arts; a member of the Council on Foreign Relations, and a member of the board of trustees of the Institute for the Study of Europe, at Columbia University, and a member of the Executive Committee of the Council of American Ambassadors.

**Elliot Stein, Jr.** (59) Director. Mr. Stein became a director of Apollo Investment in March 2004. Mr. Stein has served as chairman of Caribbean International News Corporation since 1985 and Transformation Capital Corporation since 2008. He is also a managing director of Commonwealth Capital Partners as well as various private companies including Cloud Solutions LLC and Cohere Communications. Mr. Stein is a trustee of Claremont Graduate University and the New School University. He is a member of the Council on Foreign Relations.

**Gerald Tsai, Jr.** (79) Director. Mr. Tsai became a director of Apollo Investment in March 2004. Mr. Tsai is a private investor. He also currently serves on other boards of directors including Zenith National Insurance Corp., Triarc Companies, Inc. and United Rentals, Inc., as well as director emeritus of Saks Incorporated. Previously, Mr. Tsai was chairman of the board, president and Chief Executive Officer of Delta Life Corporation from 1993



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to 1997. He also joined Primerica Corporation in 1982 and served in various positions until 1988, the latest as chairman of the board and Chief Executive Officer. Mr. Tsai currently serves as a trustee of NYU Hospitals Center and New York University School of Medicine Foundation.

**Bradley J. Wechsler** (56) Director. Mr. Wechsler became a director of Apollo Investment in April 2004. Mr. Wechsler has been the Co-Chairman and Co-Chief Executive Officer of IMAX Corporation since May, 1996. Previously Mr. Wechsler has had several executive positions in the entertainment industry and was a partner in the entertainment and media practice for a New York-based investment bank. 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 The American Museum of the Moving Image, the Ethical Culture Fieldston Schools and Math for America.

### **Interested directors**

**John J. Hannan** (55) Chairman of the Board, Chief Executive Officer and Director of Apollo Investment. Mr. Hannan became a director of Apollo in March 2004 and was elected our Chief Executive Officer in February 2006 and Chairman of the board of directors in August 2006. Mr. Hannan has served on AIM's investment committee since February 2006. Mr. Hannan, a senior partner of Apollo, co-founded Apollo Management, L.P. in 1990 and Apollo Real Estate Advisors, L.P. (an investment manager affiliated with Apollo's real estate investment funds) in 1993.

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

**James C. Zelter** (45) President and Chief Operating Officer of Apollo Investment. Mr. Zelter joined Apollo in 2006. Prior to joining the firm, he was with Citigroup and its predecessor companies since 1994, and was responsible for the global expansion and strong financial performance of the Special Situations Investment Group, a proprietary investment group that he founded within Citigroup's Fixed Income Division. 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 and leveraged finance business.

**Richard L. Peteka** (46) Chief Financial Officer and Treasurer of Apollo Investment. Mr. Peteka joined Apollo Investment in June 2004 as its Chief Financial Officer and Treasurer. Prior to joining the firm, 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.

**Patrick J. Dalton** (39) Executive Vice President of Apollo Investment. Mr. Dalton joined AIM in June 2004 as a partner and as a member of AIM's investment committee. Mr. Dalton is also the Chief Investment Officer of AIM and a member of the Investment Committee of Apollo Investment Europe. Before joining Apollo, Mr. Dalton was a Vice President with Goldman, Sachs & Co.'s Principal Investment Area with a focus on mezzanine investing since 2000. From 1990 to 2000, Mr. Dalton was a Vice President with the Chase Manhattan Bank where he worked most recently in the Acquisition Finance Department.

**Edward Tam** (39) Executive Vice President of Apollo Investment from June 2004 - April 2008. Mr. Tam joined Apollo in 2004 as a partner and as a member of AIM's investment committee. Before joining Apollo, Mr. Tam joined DLJ Investment Partners, a mezzanine fund, in 1999 and was promoted to Director in 2002. Mr. Tam was in the corporate finance group at Donaldson Lufkin & Jenrette from 1991 to 1999.

**John J. Suydam** (48) Vice President and Chief Legal Officer of Apollo Investment. Mr. Suydam joined Apollo in 2006. From 2002 to 2006, Mr. Suydam was a partner at O Melveny & Myers, where he served as head of Mergers & Acquisitions and co-head of the Corporate Department. Prior to that, Mr. Suydam served as Chairman of the law firm O Sullivan, LLP, which specialized in representing private equity investors. Mr. Suydam serves on the boards of directors of the Big Apple Circus and Quality Distribution. Mr. Suydam received his JD from New York University and graduated magna cum laude with a BA in History from the State University of New York at Albany.

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**Gordon E. Swartz** (61) Chief Compliance Officer and Secretary of Apollo Investment. Mr. Swartz became the Chief Compliance Officer of Apollo Investment in October 2004 and Secretary in June 2006. Prior to joining Apollo Investment, Mr. Swartz was an Associate General Counsel of Citigroup Asset Management.

### **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 five persons: Messrs. Puleo, Spielvogel, Stein, Tsai, and Ms. Malone, all of whom are independent directors and are otherwise considered independent under the listing standards of NASDAQ Marketplace Rule 4200(a)(15). The Company's Board of Directors has determined that each of Mr. Tsai and Ms. Malone 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 (the Exchange Act). The Audit Committee Charter is available on the Company's website ([www.apolloic.com](http://www.apolloic.com)).

### **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, the Company believes that during the fiscal year ended March 31, 2008, 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 4350(n). 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 and does not expect to have any employees in the future. 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

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and administration of our investment portfolio are provided by investment professionals employed by the adviser. In addition, we 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.

**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, 2008. 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>			
Claudine B. Malone	\$130,913	None	\$130,913
Frank C. Puleo	17,527	None	17,527
Carl Spielvogel	132,630	None	132,630
Elliot Stein, Jr.	136,500	None	136,500
Gerald Tsai, Jr.	133,000	None	133,000
Bradley J. Wechsler	117,500	None	117,500
<b>Interested directors</b>			
John J. Hannan	None	None	None
<b>Executive Officers*</b>			
Patrick J. Dalton	None	None	None
Richard L. Peteka(2)	None	None	None
John J. Suydam	None	None	None
Gordon E. Swartz(2)	None	None	None
Edward Tam	None	None	None
James C. Zelter	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) Richard L. Peteka and Gordon E. Swartz are employees of Apollo Investment Administration.

\* Effective as of April 18, 2008, Edward Tam resigned from the Company.

The independent directors' annual fee is \$100,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. 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 their additional services in these capacities. In addition, 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.

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

As of March 31, 2008, 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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The following table sets forth, as of March 31, 2008, each stockholder who owned more than 5% of our outstanding shares of common stock, each director, the chief executive officer, our executive officers and our directors and executive officers as a group. Unless otherwise indicated, we believe that each beneficial owner set forth in the table has sole voting and investment power.

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, 2008, certain ownership information with respect to our common stock for those persons who directly or indirectly own, control or hold with the power to vote, 5% or more of our outstanding common stock 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
AIC Co-Investors LLC(2)	Beneficial	849,930	* %
JP Morgan Chase & Co.(3)	Beneficial	10,917,122	9.1%
All officers and directors as a group (13 persons)(4)	Beneficial	110,184	* %

\* 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) AIC Co-Investors LLC is a special purpose entity related to Apollo Investment Management. The address for AIC Co-Investors LLC is 9 West 57<sup>th</sup> Street, New York, NY 10019.
- (3) JPMorgan Chase & Co. retains (a) shared power to vote or to direct the vote as to 8,205,045 shares and (b) shared power to dispose or to direct the disposition of 10,917,122 shares.
- (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 through interests in Apollo Investment Management by each of our directors as of March 31, 2008. (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)	
<b>Independent Directors</b>		
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
Gerald Tsai, Jr.	\$ 100,001	\$500,000
Bradley J. Wechsler	\$ 100,001	\$500,000
<b>Interested Directors and Executive Officers</b>		
John J. Hannan	\$ 500,000	\$1,000,000(2)

- (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) Reflects pecuniary interests in AIC Co-Investors LLC. Mr. Hannan disclaims beneficial ownership of shares held by AIC Co-Investors LLC.



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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 Apollo Investment Management. Our senior management and our chairman of the board of directors have ownership and financial interests in AIM. Members of our senior management 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 our affiliates. Accordingly, 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 other members of Apollo 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 license agreement with Apollo, pursuant to which Apollo has agreed to grant us a non-exclusive, royalty-free license to use the name Apollo. In addition, pursuant to the terms of the administration agreement, Apollo Investment Administration provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. AIM, our investment adviser, is the sole member of and controls Apollo Investment Administration.

We make all investments subject to compliance with applicable regulations and interpretations and our allocation procedures.

Further information relating to relationships and director independence is hereby incorporated by reference from our 2008 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, 2008. PricewaterhouseCoopers LLP has confirmed that they are independent accountants with respect to the Company within the meaning of the Securities Acts administered by the Securities and Exchange Commission and the requirements of the Independence Standards Board.

**Audit Fees:** Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements and services that are normally provided by PricewaterhouseCoopers LLP in connection with statutory and regulatory filings. Fees incurred during the fiscal years ending March 31, 2008 and March 31, 2007 by Apollo Investment were \$360,000 and \$350,000, 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 incurred by Apollo Investment during the fiscal years ending March 31, 2008 and March 31, 2007 were \$37,975 and \$28,100, 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 incurred by Apollo Investment during the fiscal years ending March 31, 2008 and March 31, 2007 were \$36,200 and \$23,300, 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.

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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 Statement of Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee received and reviewed the written disclosures and the letter from the independent auditors required by Independence Standard No. 1, Independence Discussions with Audit Committees, as amended by the Independence Standards Board, and has discussed with the auditors the auditors' independence.

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, 2008 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, 2009.

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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 Amended and Restated Bylaws(3)

4.1 Form of Stock Certificate(4)

10.1(a) Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P.(2)

10.1(b) Supplement to the Investment Advisory Management Agreement between Registrant and Apollo Investment Management, L.P.(3)

10.2 Administration Agreement between Registrant and Apollo Investment Administration, LLC(2)

10.3 Dividend Reinvestment Plan(4)

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 Amended and Restated Senior Secured Revolving Credit Agreement(5)

11.1 Statement regarding computation of per share earnings\*

14.1 Code of Conduct\*

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).\*

99.1 Underwriting Agreement dated May 13, 2008

\* 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 10-K, filed on June 12, 2006.

(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 8-K filed on April 4, 2006.





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### Signatures

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

APOLLO INVESTMENT CORPORATION

By: /s/ John J. Hannan  
John J. Hannan

Chairman of the Board and Chief Executive Officer

May 28, 2008

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.

SIGNATURE	TITLE	DATE
/s/ John J. Hannan	Chairman of the Board,	May 28, 2008
<b>John J. Hannan</b>	Chief Executive Officer,	
	Director	
	(principal executive officer)	
/s/ Richard L. Peteka	Chief Financial Officer and Treasurer	May 28, 2008
<b>Richard L. Peteka</b>	(principal financial and accounting officer)	
/s/ James C. Zelter	President and Chief Operating Officer	May 28, 2008
<b>James C. Zelter</b>		
/s/ Patrick J. Dalton	Executive Vice President	May 28, 2008
<b>Patrick J. Dalton</b>		
/s/ Claudine B. Malone	Director	May 28, 2008
<b>Claudine B. Malone</b>		
/s/ Carl Spielvogel	Director	May 28, 2008
<b>Carl Spielvogel</b>		
/s/ Elliot Stein, Jr.	Director	May 28, 2008
<b>Elliot Stein, Jr.</b>		
/s/ Gerald Tsai, Jr.	Director	May 28, 2008
<b>Gerald Tsai, Jr.</b>		

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/s/ Bradley J. Wechsler

Director

May 28, 2008

**Bradley J. Wechsler**

/s/ Frank C. Puleo

Director

May 28, 2008

**Frank C. Puleo**