

APOLLO INVESTMENT CORP
Form N-2/A
June 20, 2005
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As filed with the Securities and Exchange Commission on June 20, 2005

Registration No. 333-124007

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM N-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

x PRE-EFFECTIVE AMENDMENT NO. 1

.. POST-EFFECTIVE AMENDMENT NO.

APOLLO INVESTMENT CORPORATION

(Exact Name of Registrant as Specified in Charter)

9 West 57th Street

New York, NY 10019

(Address of Principal Executive Offices)

Registrant's Telephone Number, including Area Code: (212) 515-3200

Gordon E. Swartz

c/o Apollo Investment Corporation

9 West 57th Street

New York, NY 10019

(212) 515-3200

(Name and Address of Agent for Service)

Copies of information to:

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Margery K. Neale

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Shearman & Sterling LLP

599 Lexington Avenue

New York, NY 10022-6069

(212) 848-4000

Approximate Date of Proposed Public Offering: From time to time after the effective date of this Registration Statement. If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a distribution reinvestment plan, check the following box. x

It is proposed that this filing will become effective (check appropriate box):

x when declared effective pursuant to section 8(c).

If appropriate, check the following box:

- .. This [post-effective amendment] designates a new effective date for a previously filed [post-effective amendment] [registration statement].
- .. This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, \$0.001 par value per share(2)				
Preferred Stock, \$0.001 par value per share(2)				
Warrants(3)				
Debt Securities(4)				
Total			\$ 900,000,000(5)	\$ 105,930(1)

- (1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement. \$23,540 previously paid.
- (2) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time.
- (3) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.
- (4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$900,000,000.
- (5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed \$900,000,000.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

Subject to Completion

PRELIMINARY PROSPECTUS

June 20, 2005

\$900,000,000

Common Stock

Preferred Stock

Warrants

Debt Securities

Apollo Investment Corporation is a closed-end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940. 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, as well as by making direct equity investments in such companies. We can offer no assurances that we will continue to achieve our objective.

We are managed by Apollo Investment Management, L.P., an affiliate of Apollo Management, L.P., a leading private equity investor. Apollo Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to \$900,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, which we refer to, collectively, as the securities. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

Our common stock is quoted on The Nasdaq National Market under the symbol AINV.

This prospectus, and the accompanying prospectus supplement, if any, contains important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. The Securities and Exchange Commission maintains a website at www.sec.gov where other information about us is available.

Investing in our securities involves a high degree of risk. Before buying any securities, you should read the discussion of the material risks of investing in our securities in Risk Factors beginning on page 6 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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You should rely only on the information contained in this prospectus and the accompanying prospectus supplement, if any. We have not authorized anyone to provide you with additional information, or information different from that contained in this prospectus and the accompanying prospectus supplement, if any. If anyone provides you with different or additional information, you should not rely on it. We are offering to sell, and seeking offers to buy, securities only in jurisdictions where offers and sales are permitted. The information contained in or incorporated by reference in this prospectus and the accompanying prospectus supplement, if any, is accurate only as of the date of this prospectus or such prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since then.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to \$900,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the headings "Available Information" and "Risk Factors"

before you make an investment decision.

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PROSPECTUS SUMMARY

*This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under **Risk Factors** and the other information included in this prospectus. In this prospectus and any accompanying prospectus supplement, except where the context suggests otherwise, the terms **we**, **us**, **our** and **Apollo Investment** refer to Apollo Investment Corporation; **Apollo Investment Management** or **investment adviser** refers to Apollo Investment Management, L.P.; **Apollo Administration** refers to Apollo Investment Administration, LLC; and **Apollo** refers to the affiliated companies of Apollo Investment Management, L.P.*

Apollo Investment

Apollo Investment is a closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We intend to invest primarily in middle-market companies in the form of mezzanine and senior secured loans, as well as by making direct equity investments in such companies. From time to time, we may invest in public companies that are thinly traded.

Our portfolio is comprised primarily of investments in long-term subordinated loans, referred to as mezzanine loans, and senior secured loans of private middle-market companies, and from time to time include equity interests such as common stock, warrants or options. Our targeted investment typically ranges between \$10 million and \$100 million, although this investment size may vary proportionately as the size of our capital base changes. In this prospectus, we use the term **middle-market** to refer to companies with annual revenues between \$50 million and \$1 billion.

At March 31, 2005, our portfolio consisted of approximately 51% in subordinated loans and corporate notes, 3% in common stock or warrants, 42% in senior secured loans and 4% in cash equivalents. At March 31, 2005, the weighted average yield on our invested capital was 10.9%, the weighted average yield on our invested capital including cash equivalents and after expenses was 7.6%, the weighted average yield on our subordinated debt was 13.7% and on our senior secured debt was 8.2%. Our first lien and second lien senior secured debt investments yielded 6.4% and 9.8%, respectively. Yields are computed using interest rates as of the balance sheet date and include amortization of loan origination fees, original issue discount and market premium or discount, weighted by their respective costs when averaged.

While our primary focus is to generate both current income and capital appreciation through investments in loans, we may invest a portion of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in high-yield bonds, distressed debt, foreign securities, private equity or securities of public companies that are not thinly traded. We expect that these public companies generally will have debt securities that are not investment grade.

About Apollo

Founded in 1990 by Leon Black, Michael Gross, John Hannan and three other co-founders, Apollo is a recognized leader in private equity investing, having invested more than \$12 billion in over 150 companies since its founding. Apollo traditionally has focused on companies that it believes are undervalued yet have successful business models, strong cash flows and prospects for value creation. The Apollo investment professionals' disciplined, value-oriented strategy has sought to identify opportunities in all investment environments, selecting from a range of

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approaches, such as traditional or corporate partner buyouts, distressed debt buyouts or more liquid, non-control distressed debt investments. The Apollo investment professionals have sought through this strategy to provide investors with attractive returns while minimizing the risk of capital loss throughout economic cycles.

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Apollo's active private investment funds focus on making either control-oriented equity investments or distressed debt investments of \$100 million or more, either for control or non-control positions. In contrast, Apollo Investment seeks to capitalize on the significant investment opportunities emerging in the mezzanine segment of the lending market for middle-market companies, which it believes offers the potential for attractive risk-adjusted returns. Apollo Investment is currently the only Apollo-related investment vehicle focused primarily on investing in mezzanine and senior secured loans of middle-market companies, and currently the only publicly traded investment vehicle managed by an affiliate of Apollo.

About Apollo Investment Management

Apollo Investment Management, our investment adviser, is led by two managing partners, Michael S. Gross (our Chairman and CEO) and Arthur H. Penn (our Chief Operating Officer), who have a combined 37 years of experience, and is supported by Apollo's team of approximately 37 investment professionals. In addition, Apollo Investment Management has hired nine additional investment professionals since its initial public offering in April 2004 and expects to add additional professionals in the future. Apollo Investment Management draws upon Apollo's 15-year history and benefits from the Apollo investment professionals' significant capital markets, trading and research expertise developed through investments in 23 different industries and over 150 companies in the United States and Western Europe.

Operating and Regulatory Structure

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

As a business development company, we are required to comply with certain regulatory requirements. For example, we cannot invest in any portfolio company in which Apollo or any of its affiliates has a pre-existing investment (although we may co-invest on a concurrent basis with other affiliates of Apollo Investment, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See Regulation. We have elected to be treated for federal income tax purposes as a regulated investment company, or a RIC, under Subchapter M of the Internal Revenue Code of 1986, or the Code. For more information, see Material U.S. Federal Income Tax Considerations.

Determination of Net Asset Value

The net asset value per share of our outstanding shares of common stock is determined quarterly by dividing the value of our total assets minus our liabilities by the total number of our shares outstanding.

In calculating the value of our total assets, we value investments for which market quotations are readily available at such market quotations. Debt and equity securities that are not publicly traded or whose market price is not readily available are valued at fair value as determined in good faith by our board of directors under a valuation policy and a consistently applied valuation process. Because there is no readily available market value for a significant portion of the investments in our portfolio, we value these portfolio investments at fair value.

Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for such investments, and the differences could be material. Determination of fair values involves subjective judgments and estimates not susceptible to substantiation by auditing

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procedures. Accordingly, under current auditing standards, the notes to our financial statements refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements. For more information, see [Determination of Net Asset Value](#).

Use of Proceeds

We intend to use the net proceeds from the sale of our securities for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and repaying indebtedness, if any, incurred under our senior credit facility. Pending such investments, we will invest in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. For more information, see [Use of Proceeds](#).

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. For more information, see [Dividends](#).

Dividend Reinvestment Plan

We have adopted an [opt-out](#) dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not [opted out](#) of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. A registered stockholder must notify our transfer agent in writing if they wish to [opt-out](#) of the dividend reinvestment plan. For more information, see [Dividend Reinvestment Plan](#).

Plan of Distribution

We may offer, from time to time, up to \$900,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, on terms to be determined at the time of the offering.

Securities may be offered at prices and on terms described in one or more supplements to this prospectus directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The supplement to this prospectus relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee and commission or discount arrangement or the basis upon which such amount may be calculated. In compliance with the guidelines of the National Association of Securities Dealers, Inc. ([NASD](#)), the maximum compensation to the underwriters or dealers in connection with the sale of our securities pursuant to this prospectus and the accompanying supplement to this prospectus may not exceed 8% of the aggregate offering price of the securities as set forth on the cover page of the supplement to this prospectus.

We may not sell securities pursuant to this prospectus without delivering a prospectus supplement describing the method and terms of the offering of such securities. For more information, see Plan of Distribution.

Our Corporate Information

Our administrative and executive offices are located at 9 West 57th Street, New York, NY 10019, telephone number (212) 515-3200. Our common stock is quoted on The Nasdaq National Market under the symbol AINV . Although we currently do not maintain a website, we may establish a website in the future.

Table of Contents**FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that an investor in shares of our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you, us or Apollo Investment, or that we will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Apollo Investment.

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)	%(1)
Offering expenses borne by us (as a percentage of offering price)	%(2)
<hr/>	
Total stockholder transaction expenses (as a percentage of offering price)	%(3)
Estimated annual expenses (as % of net assets):	
Management fees	2.01%(4)
Incentive fees payable under investment advisory and management agreement (20% of net realized capital gains and 20% of pre-incentive fee net investment income)	0.00%(5)
Interest payments on borrowed funds	None(6)
Other expenses	0.58%(7)
<hr/>	
Total annual expenses (estimated)	2.59%(4)(5)(7)

- (1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.
- (3) The related prospectus supplement will disclose the offering price and the total stockholder transaction expenses as a percentage of the offering price.
- (4) Under the Investment Advisory and Management Agreement, the management fee is calculated at an annual rate of 2.00% of our gross assets. In the table above, estimated annual expenses are based on annualized actual amounts for the period ended March 31, 2005 and are calculated as a percentage of net assets, which results in a slightly higher percentage than the percentage attributable to gross assets. See Management Investment Advisory and Management Agreement and footnote 5 below.
- (5) We expect to invest all of the net proceeds from securities registered under the registration statement of which this prospectus is a part within two years or less of the date of the initial registration and may have capital gains and interest income that could result in the payment of an incentive fee to our investment adviser in the first year after completion of this offering. However, the incentive fee payable to our investment adviser is based on our performance and will not be paid unless we achieve certain goals. As we cannot predict whether we will meet the necessary performance targets, we have assumed a base incentive fee of 0% in this chart as there have been no incentive fees paid through March 31, 2005. The incentive fee consists of two parts. The first part, which is payable quarterly in arrears, is based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% quarterly (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 (see footnote 4 above). Accordingly, we pay Apollo Investment Management an incentive fee as follows: (1) no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of our 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 our 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. You should be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to 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 of the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income. The second part of the incentive fee will equal 20% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital

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depreciation (and incorporating unrealized depreciation on a gross investment-by-investment basis) and is payable in arrears at the end of each calendar year. For a more detailed discussion of the calculation of this fee, see *Management Investment Advisory and Management Agreement*.

- (6) We currently do not have any borrowings outstanding; however, we plan to incur indebtedness and may therefore pay interest in respect thereof in the future under a senior secured credit facility. For more information, see *Risk Factors We intend to borrow money, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us and Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources*.

Assuming we borrow for investment purposes an amount equal to 40% of our net assets and that the annual interest rate on the amount borrowed is 4%, our total annual expenses (estimated) would be as follows:

	<u>Total Assets</u>	<u>Net Assets</u>
Management fees	2.00%	2.80%
Incentive fees payable under investment advisory and management agreement (20% of net realized capital gains and 20% of pre-incentive fee net investment income)*	0.71%	0.99%
Interest payments on borrowed funds	1.14%	1.60%
Other expenses	0.45%	0.63%
Total annual expenses (estimated)	4.30%	6.02%

* To compute the incentive fees, we have assumed a portfolio yield of 9.3%, which reflects the weighted average yield on our entire portfolio at March 31, 2005.

- (7) Includes our estimated overhead expenses, including payments under the administration agreement based on our projected allocable portion of overhead and other expenses incurred by Apollo Administration in performing its obligations under the administration agreement. See *Management Administration agreement*. Such expenses are based on actual amounts for the period ended March 31, 2005.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no leverage and that our annual operating expenses would remain at the levels set forth in the table above.

	<u>1 year</u>	<u>3 years</u>	<u>5 years</u>	<u>10 years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 26	\$ 81	\$ 138	\$ 292

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. This illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all

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dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See [Dividend Reinvestment Plan](#) for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

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RISK FACTORS

Before you invest in our shares, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline or the value of our preferred stock, debt securities or warrants may decline, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND STRUCTURE

We are a new company with limited operating history.

We were incorporated in February 2004 and have conducted limited operations to date. We are subject to all of the business risks and uncertainties associated with any new business, including the risk that we may not achieve our investment objective and that the value of your investment could decline substantially. We anticipated that it would take us up to two years to invest the majority of the net proceeds of our initial public offering in April 2004 in mezzanine debt and senior secured loans. Immediately following our initial public offering, we invested a portion of the proceeds largely in temporary investments, such as cash equivalents, which earn yields substantially lower than the interest income that we anticipated receiving in respect of investments in mezzanine and senior secured loans. We have recently begun to make investments in mezzanine and senior secured loans. Dividends that we pay prior to being fully invested may be substantially lower than the dividends that we expect to pay when our portfolio is fully invested in mezzanine and senior secured loans.

Our investment adviser and its senior management have limited experience managing a business development company.

The 1940 Act imposes numerous constraints on the operations of business development companies. For example, business development companies are required to invest at least 70% of their total assets primarily in securities of private or thinly traded U.S. public companies, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Our investment adviser's and its senior management's limited experience in managing a portfolio of assets under such constraints may hinder their ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. In addition, even though Apollo Investment Management 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 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, among other things, independent board member approvals, the receipt of which cannot be assured, and compliance with existing regulatory guidance and applicable allocation procedures. 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.

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.

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We depend on the diligence, skill and network of business contacts of the senior management of Apollo Investment Management. For a description of the senior management team, see Management. We also depend, to a significant extent, on Apollo Investment Management'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 Apollo Investment Management evaluates, negotiates, structures, closes and monitors our investments. Our future success depends

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on the continued service of the senior management team of Apollo Investment Management. The departure of any of the senior managers of Apollo Investment Management, 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 Apollo Investment Management 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 Apollo Investment Management's ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of Apollo Investment Management'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 Apollo Investment Management 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 Apollo Investment Management 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 in middle-market companies. 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, including investments in middle-market companies. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified and we expect that trend to continue. Many of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. 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.

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

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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. Because we expect to use debt financing in the future, 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 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 income tax, the resulting corporate 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. See [Material U.S. Federal Income Tax Considerations](#) Taxation as a RIC.

Regulations governing our operation as a business development company 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 business development company, 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, we may be required 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.

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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 Apollo Investment and its stockholders, and our stockholders approve Apollo Investment's policy and practice of making such sales. In any

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such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount).

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 subsidiary and contribute a pool of loans to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans. 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 as the residual loans in which we do not sell interests may tend to be those that are riskier and more apt to generate losses.

If we issue debt securities, we will be exposed to additional risks, including the typical risks associated with leverage.

We will be exposed to increased risk of loss if we incur debt to make investments. If we do incur debt, a decrease in the value of our investments would have a greater negative impact on the value of our common stock than if we did not use debt.

Our ability to pay dividends would be restricted if our asset coverage ratio were not at least 200% and any amounts that we use to service our indebtedness would not be available for dividends to our common stockholders.

It is likely that such securities will be governed by an indenture or other instrument containing covenants restricting our operating flexibility.

We, and indirectly our stockholders, will 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 intend to borrow money, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings, also known as leverage, would magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We intend to borrow from institutional banks and other lenders and entered into a credit agreement in April 2005 to facilitate such borrowing. In the event that we incur such borrowings, our lenders would have fixed dollar claims on our consolidated assets that are superior to the claims of our common shareholders. If the value of our consolidated 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 consolidated 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 consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our 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.

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

Because we intend to borrow money to make investments, our net investment income would depend upon the difference between the rate at which we borrow funds 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, which could

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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 affected our net income by less than 1% over a one-year horizon. Although management believes that this measure 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 applicable to 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 of 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 plan to borrow 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 shareholders 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. In addition, as a business development company, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings, which may restrict our ability to borrow in certain circumstances.

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

A large percentage of our portfolio investments are in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these securities quarterly at fair value as determined in good faith by our board of directors. However, we may be required to value our securities at fair value as determined in good faith by our board of directors to the extent necessary to reflect significant events affecting the value of our securities. Our board of directors utilizes the services of two independent valuation firms to aid it in determining the fair value of these securities. The types of factors that may be considered in fair value pricing of our 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 ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

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

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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 quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, 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 impact our investment returns.

Our executive officers and directors, and the partners of our investment adviser, Apollo Investment Management, 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. For example, Mr. Gross, our president, chief executive officer, chairman of the board of directors and a managing partner of Apollo Investment Management, is a founding partner of Apollo with management responsibilities for other Apollo investment funds. In addition, Mr. Penn, our chief operating officer, is also a managing partner of Apollo Investment Management and a senior partner of Apollo DIF Management, an affiliated investment manager to Apollo Distressed Investment Fund, an affiliated private investment fund. Moreover, we note that, notwithstanding the difference in principal investment objectives between Apollo Investment 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 those of Apollo Investment and accordingly invest in, whether principally or secondarily, asset classes similar to those targeted by Apollo Investment. As a result, the partners of Apollo Investment Management face conflicts in the allocation of investment opportunities to other Apollo funds. Although Apollo Investment Management 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 Apollo Investment Management. When the partners of Apollo Investment Management identify an investment, they will be forced to choose which investment fund should make the investment.

We do not invest in any portfolio company in which Apollo or any affiliates has a pre-existing investment. We have in the past and expect in the future to co-invest on a concurrent basis with other affiliates of Apollo Investment, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures.

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

Apollo Investment Management 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 Apollo Investment Management are able to exert influence over our portfolio companies, the quarterly pre-incentive fee may

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provide Apollo Investment Management 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 Apollo Investment Management or one of its affiliates remains our investment adviser. In addition, we rent office space from Apollo Administration, an affiliate of Apollo Investment Management, and pay Apollo Administration our allocable portion of overhead and other expenses incurred by Apollo Administration 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.

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.

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 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.

As of March 31, 2005, we had invested in 37 companies. A consequence of this limited number of investments 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.

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Investment in middle-market companies involves a number of significant risks, including:

these 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;

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;

they 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; and

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

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 recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

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 the members of Apollo Investment Management'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 larger competitors. 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

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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 Apollo Investment Management to make certain investments, including speculative investments.

The incentive fee payable by us to Apollo Investment Management may create an incentive for Apollo Investment Management 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 our investment adviser 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, the investment adviser 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, the investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to Apollo Investment Management also may create an incentive for Apollo Investment Management 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 Apollo Investment Management with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each stockholder of Apollo Investment will bear his or her share of the management and incentive fee of Apollo Investment Management as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which Apollo Investment invests.

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.

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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.

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 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.

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

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

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

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RISKS RELATING TO THIS OFFERING

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 highly speculative and aggressive, therefore, an investment in our securities may not be suitable for someone with a low risk tolerance.

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

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

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:

significant 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 Apollo Investment Management'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.

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.

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USE OF PROCEEDS

We intend to use the net proceeds from selling securities pursuant to this prospectus for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and, pending such investments, investing in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering.

We anticipate that substantially all of the net proceeds of an offering of securities pursuant to this prospectus will be used for the above purposes within two years, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. Our portfolio currently consists primarily of senior loans and mezzanine loans. Pending our investments in new debt investments, we plan to invest a portion of net proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment and other general corporate purposes. The management fee payable by us will not be reduced while our assets are invested in such securities. See Regulation Temporary investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

Table of Contents**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 order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31st and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. 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. In such event, the consequences of our retention of net capital gains are as described under Material U.S. Federal Income Tax Considerations.

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. See Dividend Reinvestment Plan.

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 shareholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies was treated as taxable income and accordingly, distributed to shareholders. For the period from April 8, 2004 (commencement of operations) through March 31, 2005, these fees totaled \$4.5 million.

The following table lists the quarterly dividends per share since shares of our common stock began being regularly quoted on The Nasdaq National Market.

<u>Year Ending March 31, 2005</u>	<u>Declared Dividends</u>
First Fiscal Quarter (period from April 8, 2004* to June 30, 2004)	
Second Fiscal Quarter	\$ 0.045
Third Fiscal Quarter	\$ 0.180
Fourth Fiscal Quarter	\$ 0.260

* Commencement of operations

Table of Contents**SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA**

The Statement of Operations, Per Share and Balance Sheet data for 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 in this prospectus.

	For the Period	
	April 8, 2004* through	
	March 31, 2005	
	(dollar amounts in thousands, except per share data)	
Statement of Operations Data:		
Total Investment Income	\$	47,833
Total Expenses	\$	22,380
Net Investment Income	\$	25,453
Net Realized and Unrealized Gains	\$	18,692
Net Increase in Stockholders' Equity Resulting from Operations	\$	44,145
Per Share Data:		
Net Asset Value	\$	14.27
Net Investment Income	\$	0.410
Net Increase in Stockholders' Equity Resulting from Operations	\$	0.711
Distributions Declared	\$	0.485
Balance Sheet Data:		
Total Assets	\$	1,733,384
Total Stockholders' Equity	\$	892,886
Other Data:		
Total Return (1)		15.3%
Number of Portfolio Companies at Period End		35
Amount of Loan Originations and Equity Investments	\$	894,335
Principal Amount of Loan Repayments and Exits	\$	71,730
Weighted Average Yield on Invested Capital at Period End		10.9%
Weighted Average Yield on Invested Capital and Cash Equivalents at Period End		10.2%

* Commencement of operations

(1) Total return is based on the change in market price per share, assuming an investment at the initial offering price of \$15.00 per share. Total return also 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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FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus 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 prospectus.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, 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 annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

OVERVIEW

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a business development company under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended. Pursuant to this election and assuming we qualify as a RIC, we generally do not have to pay corporate-level federal income taxes on any income we distribute to our stockholders. On April 8, 2004, we completed our initial public offering as an externally managed, non-diversified, closed-end investment company that elected to be treated as a business development company under the 1940 Act. We commenced operations on April 8, 2004 upon receipt of \$870.2 million in net proceeds from our initial public offering 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. Over the last twelve months, we believe that the availability of senior debt capital from banks for middle market companies has generally increased and has put downward pressure on interest rate spreads at the same time that base interest rates have risen. We do not expect this increased availability of capital to impair our ability to make longer-term investment allocations with our capital. We remain steadfast with our investment discipline in selectively investing in appropriate risk-reward opportunities within the middle market.

As a business development company, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). If we invest in an issuer that, at the time we make the investment, has outstanding securities as to which a broker or dealer may extend or maintain margin credit or marginable securities, these acquired assets cannot normally be treated as qualifying assets. This treatment results from the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding securities that are eligible for margin credit. Amendments promulgated in 1998 by the Board of Governors of the Federal Reserve System to Regulation T under the Securities Exchange Act of 1934, as amended, or the Exchange Act, expanded the definition of marginable security to include any non-equity security. These amendments have raised questions as to whether a private company that has outstanding debt securities would qualify as an eligible portfolio company. We note that under applicable self-regulatory organization rules that govern the ability of brokers and dealers to extend margin credit, many non-equity securities issued by private companies may not be effectively marginable.

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

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

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Revenue

We generate revenue primarily in the form of interest income from the debt securities we hold and capital gains, if any, on investment securities that we may acquire in portfolio companies. Our 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 or prime rate. While subordinated debt and corporate notes typically accrue interest at fixed rates, some of these investments may include zero coupon, payment-in-kind (PIK) and/or step bonds that accrue income on a constant yield to call or maturity basis. Interest on debt securities is generally payable quarterly or semiannually. In some cases, some of our investments provide for deferred interest payments or PIK. The principal amount of the debt securities and any accrued but unpaid interest generally becomes due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance and, if applicable, consulting fees, etc.

Expenses

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

investment advisory and management fees;

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

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

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

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

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

offerings of our common stock and other securities;

registration and listing fees;

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

transfer agent and custodial fees;

taxes;

independent directors' fees and expenses;

marketing and distribution-related expenses;

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

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

organization and offering; and

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

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We expect our general and administrative operating expenses related to our ongoing operations to remain generally stable or decline slightly as a percentage of our assets in future periods. Incentive fees, interest expense and costs relating to future offerings of securities would be additive.

Portfolio and Investment Activity

The total portfolio at fair value at March 31, 2005, was as follows:

Schedule of Investments

(in thousands, except warrants/shares)

<u>Portfolio Company(1)</u>	<u>Industry</u>	<u>Par Amount</u>	<u>Cost</u>	<u>Fair Value(2)</u>
Subordinated Debt/Corporate Notes 50.3%				
ALM Media Holdings, Inc., 13.00%, 3/15/13 ♦	Publishing	\$ 16,000	\$ 15,841	\$ 16,000
AMH Holdings II, Inc., 13.625%, 12/01/14 ♦	Building Products	45,000	44,002	45,000
Anthony Inc., 13.50%, due 09/01/12 ♦	Manufacturing	9,561	9,427	9,561
Invista, 9.25%, due 05/01/12 ♦	Chemicals	35,000	35,000	38,238
Language Line Holdings, Inc., 0% / 14.125%, 06/15/13	Business Services	27,678	15,993	15,846
Language Line Inc., 11.125%, 06/15/12	Business Services	20,646	20,683	21,678
Latham Manufacturing Corp., 14.00%, 06/30/11	Leisure Equipment	31,179	30,570	31,179
Lexicon Marketing (USA), Inc., 13.75%, 01/02/12	Direct Marketing	27,168	26,641	27,168
National Waterworks Holdings, Inc., 12.50%, 01/01/14 ♦	Distribution	37,000	36,285	37,000
N.E.W. Holdings I, LLC, 12.50%, 08/17/11	Consumer Services	26,680	23,454	26,680
N.E.W. Customer Service Companies Inc., 14.00% Convertible, 08/17/13	Consumer Services	8,320	8,320	12,218
Playpower Holdings Inc. 15.50%, 11/30/12 ♦	Leisure Equipment	60,775	60,775	60,775
Pro Mach Merger Sub Inc., 13.75%, 06/15/12	Machinery	19,000	18,630	19,000
Source Media Holdings Inc., 13.00%, 11/30/12 ♦	Publishing	17,000	16,632	17,000
T/Y Merger Corp., 14.75%, 02/26/10	Logistics	17,916	17,635	17,916
Tumi Holdings, Inc., 13.67%, 12/31/14	Consumer Products	12,528	12,528	12,528
WDAC Intermediate Corp., 13.75%, 06/01/15*	Advertising	33,000	44,326	41,235
Total subordinated debt/corporate notes			\$ 436,742	\$ 449,022
Shares/Warrants				
Common Stock/Warrants 2.4%				
Latham Acquisition Corp.	Leisure Equipment	30,000 shs.	\$ 3,000	\$ 3,000
LM Acquisition Ltd.	Direct Marketing	10,000 shs.	10,000	10,000
N.E.W. Customer Service Companies, Inc.	Consumer Services	1,105,961 wts.	3,404	6,031
Pro Mach Coinvestment, LLC	Machinery	150,000 shs.	1,500	1,500
T/Y Merger Corp.	Logistics	250,000 shs.	2,500	900

Total common stock/warrants			\$ 20,404	\$ 21,431
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Bank Debt/Senior Secured Debt (3) 41.2%

ALM Media Holdings, Inc., 03/05/10	Publishing	\$ 5,000	\$ 5,000	\$ 5,038
ALM Media Holdings, Inc., 03/07/11	Publishing	19,000	19,000	19,380
Amerco Corp., 02/27/09	Transportation	14,850	15,069	15,221
American Safety Razor, 03/12/12	Consumer Products	2,000	2,000	2,040

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Portfolio Company(1)	Industry	Par Amount	Cost	Fair Value(2)
American Safety Razor, 09/21/12	Consumer Products	13,500	13,500	13,736
Anthony International, 09/01/11	Manufacturing	13,000	12,880	13,000
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	10,000	9,952	10,163
Charter Communications, 04/21/11	Cable TV	24,812	24,812	24,946
Cygnus Business Media, Inc., 07/13/09	Media	14,963	14,895	15,037
Cygnus Business Media, Inc., 01/12/10	Media	10,000	9,913	9,975
Directed Electronics, 06/17/10	Electronics	4,859	4,859	4,932
EuroFresh, 05/14/10	Agriculture	25,000	24,692	25,438
Goodyear Tire & rubber Co., 04/30/10	Tires	10,000	10,000	10,000
Grand Vehicle Works Holding Corp., 07/23/11	Manufacturing	10,000	10,000	9,000
Language Line Inc., 06/11/11	Business Services	6,453	6,437	6,528
MGM/LOC Acquisition Corp., 04/08/12	Leisure	25,000	25,000	25,000
Mueller Group Inc., 11/01/11	Industrial	17,000	17,000	17,255
NES Rentals Holdings Inc., 08/17/10	Equipment Rental	24,875	24,875	25,528
Phillips Health, LLC, 08/23/10	Vitamins, Supplements	12,353	12,293	12,415
Phillips Health, LLC, 08/20/11	Vitamins, Supplements	14,963	14,817	15,037
Ranpak Corp., 05/26/10	Packaging	5,739	5,739	5,747
Ranpak Corp., 03/17/11	Packaging	10,000	10,000	10,150
Rayovac Corp., 02/06/12	Electronics	10,000	10,000	10,162
Sealy Mattress Co., 04/08/13	Consumer Products	10,000	10,000	10,188
Source Media Inc., 11/30/12	Publishing	10,000	10,000	10,131
Supresta Holdings, Inc., 07/20/11	Chemicals	6,948	6,948	7,086
Trout Coal Holdings, Inc., 03/23/11	Mining	4,000	4,000	4,060
Trout Coal Holdings, Inc., 03/23/12	Mining	4,000	4,000	4,080
Tumi Holdings, Inc., 12/31/13	Consumer Products	3,500	3,500	3,526
Tumi Holdings, Inc., 06/30/14	Consumer Products	3,000	3,000	3,030
United Site Services, Inc. 06/30/10	Environmental	10,000	9,905	10,000
Wyle Laboratories, Inc., 07/28/11	Aerospace	10,000	10,000	10,200
Total Bank Debt/Senior Secured Debt			\$ 364,086	\$ 368,029
Total Investments			\$ 821,232	\$ 838,482
Cash Equivalents 97.8%				
U.S. Cash Management Bill, 2.70%, 04/15/05	Government	\$ 800,000	\$ 799,171	\$ 799,171
U.S. Treasury Bill, 2.70%, 04/21/05	Government	74,000	73,890	73,885
Total Cash Equivalents			\$ 873,061	\$ 873,056
Total Investments & Cash Equivalents 191.7% (4)			\$ 1,694,293	\$ 1,711,538
Liabilities in excess of other assets (91.7%)				(818,652)
Net Assets 100.0%				\$ 892,886

- (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 Apollo Investment's board. For more information, see Management's discussion and analysis of financial condition and results of operations Critical accounting policies Valuation of portfolio investments.
- (3) Represent floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Interbank Offer Rate) or the Prime Rate.
- (4) Aggregate cost for Federal income tax purposes is \$1,698,651,000.
 - ◆ These securities are exempt from registration under Rule 144A of the Securities Act of 1933, or the Securities Act. These securities may be resold only in transactions that are exempt from registration, normally to qualified institutional buyers.

* Denominated in Euros ()

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During the period from April 8, 2004 (commencement of operations) through March 31, 2005, we invested \$894.3 million in a variety of mezzanine loans, subordinated debt and senior secured debt, some of which included debt or equity co-investment components. At March 31, 2005, our net portfolio consisted of 35 portfolio companies and was invested 51% in subordinated debt and corporate notes, 42% in senior secured loans, 3% in common stock or warrants and 4% in cash equivalents.

At March 31, 2005, the weighted average yield on our invested capital was 10.9% and the weighted average yield on our invested capital including cash equivalents and after expenses was 7.6%. The weighted average yield on our subordinated debt was 13.7% and on our senior secured debt was 8.2% at March 31, 2005. Our first lien and second lien senior secured debt investments yielded 6.4% and 9.8%, respectively. Yields are computed using interest rates as of the balance sheet date and include amortization of loan origination fees, original issue discount and market premium or discount, weighted by their respective costs when averaged.

Investment Ratings and Quality of Investments

In addition to various risk management and monitoring tools, Apollo Investment Management 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:

Investment Rating	Summary Description
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

RESULTS OF OPERATIONS*Operating Income*

For the period April 8, 2004 (commencement of operations) through March 31, 2005, gross investment income totaled \$47.8 million, all of which represented interest income. 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. Our gross income for the fiscal year also reflects income earned from a significant amount of short-term U.S. Government securities and other temporary investments held during the ramp-up period of our portfolio since our initial public offering. Accordingly, our gross income is generally lower than what would normally be earned had we been more fully invested for the entire fiscal year. As we continue investing the net proceeds from the initial offering, we expect to continue generating additional income at rates greater than the rates we receive on cash and cash equivalents. In addition, we may, from time to time, generate

income from other sources other than interest income.

Operating Expenses

For the period from April 8, 2004 (commencement of operations) through March 31, 2005, operating expenses totaled \$22.4 million. This amount consisted of investment advisory and management fees, insurance

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expenses, administrative services fees, professional fees, directors' fees and other general and administrative expenses. It also included a non-recurring charge of \$252,300 in expenses related to the organization of Apollo Investment. For the period from April 8, 2004 (commencement of operations) through March 31, 2005, our investment advisory fees totaled \$17.3 million, and represented the base fee as provided for in the investment advisory and management agreement. In addition, Apollo Investment Administration was reimbursed \$987,500 for expenses incurred under the Administration Agreement. No incentive fees were paid or owed to Apollo Investment management, our investment adviser, for the period from April 8, 2004 (commencement of operations) through March 31, 2004.

Net Operating Income

For the period from April 8, 2004 (commencement of operations) through March 31, 2005, our net operating income was \$25.5 million.

Net Unrealized Appreciation on Investments and Cash Equivalents

At March 31, 2005, net unrealized appreciation totaled \$18.2 million, of which \$3.9 million was attributable to net unrealized appreciation on our bank debt/senior secured loans, \$12.3 million was attributable to our subordinated debt/corporate notes, \$1.0 million was attributable to our equity investments and \$1.0 million was attributable to unrealized appreciation on a forward foreign currency contract used to hedge our foreign exchange rate risk on our investment in WDAC Intermediate Corp.

Net Realized Gains/Losses

For the period from April 8, 2004 (commencement of operations) through March 31, 2005, we had total principal repayments and exits of \$71.7 million and total net realized losses of \$658 on our investments. Furthermore, we realized \$640,200 from the settlement of our forward foreign currency contract in March 2005 and we incurred net realized losses on the sale of our U.S. Treasury Bills totaling \$144,400 during the period from April 8, 2004 (commencement of operations) through March 31, 2005.

Net Increase in Stockholders' Equity From Operations

Our operations generated a total net increase in stockholders' equity resulting from operations of \$44.1 million for the period April 8, 2004 (commencement of operations) through March 31, 2005. Based on our weighted-average shares outstanding, our net change in stockholders' equity from operations was \$0.71 per share for the period from April 8, 2004 (commencement of operations) through March 31, 2005.

Financial Condition, Liquidity and Capital Resources

Prior to this offering, we generated cash primarily from the net proceeds of our initial public offering and cash flows from operations, including interest earned on subordinated notes and senior secured loans as well as from our temporary investment of cash in U.S. government securities

and other high-quality debt investments that mature in one year or less. We plan to generate additional cash from borrowings under our senior secured multi-currency revolving credit facility. In April 2005, we entered into a senior credit facility having the term of five years and providing for borrowings of up to \$800 million. The Credit Agreement will also provide for the ability of Apollo Investment to seek additional commitments from lenders thereunder in an aggregate amount of up to \$400 million. Apollo Investment has not yet borrowed any amounts under the Credit Agreement. The interest rate generally applicable to borrowings under this senior credit facility will be LIBOR plus 100 basis points. This facility will be secured by a security interest in virtually all of our portfolio investments (including cash and hedge transaction value), subject to certain exceptions. The senior credit facility contains covenants and events of default customary for financings of this type. In the future, we may also securitize a portion of our investments in mezzanine or senior secured loans or other assets. Our primary use of funds are expected to be investments in portfolio companies, payment of fees and other operating expenses and cash distributions to holders of our common stock.

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From April 8, 2004, when we commenced operations, through March 31, 2005, our net cash provided by financing activities was \$848.7 million, including primarily the net proceeds of our initial public offering of common stock, and our net cash used by operating activities was \$29.5 million. At March 31, 2005, we had cash and cash equivalents of approximately \$43.4 million (as adjusted for unsettled trades at year-end), which we intend to use in our operations. From time to time we expect to raise capital in the form of new debt or equity capital, including by way of offerings of securities pursuant to our shelf registration.

Quantitative and Qualitative Disclosures About Market Risk

We consider our principal business risk to derive from credit risks attributable to our portfolio companies. We also incur market risk due to fluctuations in interest rates and foreign currency rates. Some loans in our portfolio have floating rates. However, we may face potential losses in future earnings, fair values or cash flows for any loans in our portfolio which have fixed rates. We may hedge against interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. During the period from April 8, 2004 (commencement of operations) through March 31, 2005, we did not engage in interest rate hedging activities. See **Risk Factors** Changes in interest rates may affect our cost of capital and net investment income.

We may also face potential losses in future earnings, fair values or cash flows for any investments in our portfolio which are in foreign currencies. For more information, see **Risk Factors** Our investments in foreign debt securities may involve significant risks in addition to the risks inherent in U.S. investments. On December 3, 2004, we entered into a forward foreign currency contract to hedge our exposure to the currency risk associated with our investment in WDAC Intermediate Corp.

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 compliance officer and chief financial 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.

At March 31, 2005, we did not have any off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than the investment advisory and management agreement and the administration agreement.

CRITICAL ACCOUNTING POLICIES

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Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Changes in the economic environment, financial markets and any other parameters used in determining such estimates could cause actual results to differ. In addition to the discussion below, our critical accounting policies are further described in the notes to the financial statements.

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Valuation of Portfolio Investments

As a business development company, we generally invest in illiquid securities including debt and equity securities of middle market companies. Under procedures established by our board of directors, we value investments, including certain subordinated debt, senior secured debt and other debt securities with maturities greater than 60 days, for which market quotations are readily available at such market quotations. We obtain these market values from an independent pricing service or at the mean between the bid and ask prices obtained from at least two brokers or dealers (if available, otherwise by a principal market maker or a primary market dealer). Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by or under the direction of our board of directors. Such determination of fair values may involve subjective judgments and estimates. Investments purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates value. With respect to unquoted securities, our board of directors, together with our independent valuation adviser, values each investment considering, among other measures, discounted cash flow models, comparisons of financial ratios of peer companies that are public and other factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, our board will use the pricing indicated by the external event to corroborate and/or assist us in our valuation. Because we expect that there will not be a readily available market for many of the investments in our portfolio, we expect to value many of our portfolio investments at fair value as determined in good faith by or under the direction of our board of directors using a documented valuation policy and a consistently applied valuation process. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

With respect to investments for which market quotations are not readily available, our board of directors 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 their own independent assessment;

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

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

For more information, see [Business](#) [Investment selection](#) [Valuation process](#).

Revenue Recognition

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

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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.

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Our common stock is quoted on The Nasdaq National Market under the symbol AINV. The following table lists the high and low closing bid price for our common stock, the closing bid 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 The Nasdaq National Market. On June 15, 2005, the last reported closing price of our common stock was \$17.99 per share.

	<u>Closing Sales Price</u>			<u>Premium of High Sales Price to NAV(2)</u>	<u>Discount Premium of Low Sales Price to NAV(2)</u>	<u>Declared Dividends</u>
	<u>NAV(1)</u>	<u>High</u>	<u>Low</u>			
<i>Year Ending March 31, 2005</i>						
First Quarter (period from April 8, 2004* to June 30, 2004)	\$ 14.05	\$ 15.25	\$ 12.83	109%	91%	
Second Quarter	\$ 14.10	\$ 14.57	\$ 13.06	103%	93%	\$ 0.045
Third Quarter	\$ 14.32	\$ 15.13	\$ 13.43	106%	94%	\$ 0.180
Fourth Quarter	\$ 14.27	\$ 17.62	\$ 14.93	123%	105%	\$ 0.260

(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 NAV.

* Commencement of operations.

Our common stock continues to trade in excess of our net asset value. There can be no assurance, however, that our shares will continue to trade at a premium to our net asset value.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the ratio of our earnings to fixed charges for the period ended March 31, 2005. For purposes of computing the ratio of earnings to fixed charges, earnings represent income from continuing operations before fixed charges and taxes. Fixed charges represent interest expense, amortization of capitalized interest and such portion of rental expense that represents an appropriate interest factor.

	<u>Year Ended March 31, 2004</u>
<u>Ratio of earnings to fixed charges</u>	*

* As of March 31, 2005, we had no fixed charges.

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BUSINESS

Apollo Investment

Apollo Investment is a closed-end management investment company that has elected to be treated as a business development company under the 1940 Act. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We intend to invest primarily in middle-market companies in the form of mezzanine and senior secured loans, as well as by making direct equity investments in such companies. From time to time, we may also invest in public companies that are thinly traded.

Our portfolio is comprised primarily of investments in long-term subordinated loans, referred to as mezzanine loans, and senior secured loans of private middle-market companies, and may include equity interests such as common stock, warrants or options. Our targeted investment typically ranges between \$10 million and \$100 million, although this investment size may vary proportionately as the size of our capital base changes.

While our primary focus is to generate current income through investments in loans, we may invest a portion of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in high-yield bonds, distressed debt, foreign securities, private equity or securities of public companies that are not thinly traded. We expect that these public companies generally will have debt securities that are non-investment grade. We may also invest in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less.

About Apollo

Founded in 1990 by Leon Black, Michael Gross, John Hannan and three other co-founders, Apollo is a recognized leader in private equity investing, having invested more than \$12 billion in over 150 companies since its founding. Apollo traditionally has focused on companies that it believes are undervalued yet have successful business models, strong cash flows and prospects for value creation. The Apollo investment professionals' disciplined, value-oriented strategy has sought to identify opportunities in all investment environments, selecting from a range of approaches, such as traditional or corporate partner buyouts, distressed debt buyouts or more liquid, non-control distressed debt investments. The Apollo investment professionals have sought through this strategy to provide investors with attractive returns while minimizing the risk of capital loss throughout economic cycles.

Apollo's active private investment funds focus on making either control-oriented equity investments or distressed debt investments of \$100 million or more, either for control or non-control positions. In contrast, Apollo Investment seeks to capitalize on the significant investment opportunities emerging in the mezzanine segment of the lending market for middle-market companies, which it believes offers the potential for attractive risk-adjusted returns. Apollo Investment is currently the only Apollo-related investment vehicle focused primarily on investing in mezzanine and senior secured loans of middle-market companies, and currently the only publicly traded investment vehicle managed by an affiliate of Apollo.

About Apollo Investment Management

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Apollo Investment Management, our investment adviser, is led by two managing partners, Michael S. Gross (our Chairman and CEO) and Arthur H. Penn (our Chief Operating Officer), who have a combined 37 years of experience, and is supported by Apollo's team of approximately 37 investment professionals. In addition, Apollo Investment Management has hired nine additional investment professionals since its initial public offering in April 2004 and expects to hire additional investment professionals in the future. Apollo Investment Management draws upon Apollo's 15-year history and benefits from the Apollo investment professionals' significant capital markets, trading and research expertise developed through investments in 23 different industries and over 150 companies in the United States and Western Europe.

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About Apollo Administration

In addition to furnishing us with office facilities, equipment and clerical, bookkeeping and record keeping services, Apollo Administration also oversees our financial records which we are required to maintain, as well as prepares reports to our stockholders and reports filed with the SEC. Apollo Administration 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, Apollo Administration provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Apollo Administration also benefits from its relationship with Apollo Investment.

Operating and Regulatory Structure

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

As a business development company, we are required to comply with certain regulatory requirements. For example, we cannot invest in any portfolio company in which Apollo or any of its affiliates currently has an investment (although we may co-invest on a concurrent basis with other affiliates of Apollo Investment, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures). Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See Regulation. We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. See Material U.S. Federal Income Tax Considerations.

Investments

Apollo Investment seeks to create a portfolio that includes mezzanine and senior secured loans by generally investing approximately \$10 to \$100 million of capital, on average, in the securities of middle-market companies. Our target portfolio over time will include both mezzanine and senior secured loans. Structurally, mezzanine loans usually rank subordinate in priority of payment to senior debt, such as senior bank debt, and are often unsecured. However, mezzanine loans rank senior to common and preferred equity in a borrower's capital structure. Typically, mezzanine loans have elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior debt, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest typically takes the form of warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine loans generally earn a higher return than senior secured loans. The warrants associated with mezzanine loans are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine loans also may include a put feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula. We believe that mezzanine loans offer an attractive investment opportunity based upon their historic returns and resilience during economic downturns, as compared to investments in equity or senior secured loans which can be subject to more volatility under similar circumstances.

At March 31, 2005, our portfolio was invested 51% in subordinated loans and corporate notes, 3% in common stock or warrants, 42% in senior secured loans and 4% in cash equivalents. We expect that our portfolio will be predominantly invested in mezzanine loans and senior secured loans. In addition to mezzanine and senior secured loans, we invest a portion of our portfolio in opportunistic investments, which are not our

primary focus, but are intended to enhance our returns to stockholders. These investments may include, but are not limited to,

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high-yield bonds, private equity investments, distressed debt investments and securities of public companies that are not thinly traded. We expect that these public companies generally will have debt securities that are non-investment grade. Within this portion, we also may invest in debt securities of middle-market companies located outside of the United States.

Additionally, we may acquire investments in the secondary market and, in analyzing such investments, we will employ the same analytical process as we use for our primary investments.

Our principal focus is to provide mezzanine and senior secured loans to middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows. We 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.

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

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 would create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. We would sell interests in the subsidiary on a non-recourse basis to purchasers who 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 do not invest in any portfolio company in which Apollo or any affiliates has a pre-existing investment. We have in the past and expect in the future to co-invest on a concurrent basis with other affiliates of Apollo Investment, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures.

Investment Selection

We intend to utilize the same, value oriented philosophy used by the investment professionals of Apollo in Apollo's private investment funds and will commit resources to managing downside exposure.

Prospective portfolio company characteristics

We have identified several criteria that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions; however, we caution you that not all of these criteria will be met by each prospective portfolio company in which we choose to invest. Generally, we seek to utilize our access to information generated by Apollo's investment professionals to identify investment candidates and to structure investments quickly and effectively.

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Value orientation/positive cash flow

Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value orientation. We focus on companies in which we can invest at relatively low multiples of operating cash flow and that are profitable at the time of investment on an operating cash flow basis. Typically, we do not expect to invest in start-up companies or companies having speculative business plans.

Experienced management

We generally require that our portfolio companies have an experienced management team. We also require the portfolio companies to have in place proper incentives to induce management to succeed and to act in concert with our interests as investors, including having significant equity interests.

Strong competitive position in industry

We seek to invest in target companies that have developed leading market positions within their respective markets and are well positioned to capitalize on growth opportunities. We seek companies that demonstrate significant competitive advantages versus their competitors, which should help to protect their market position and profitability.

Exit strategy

We seek to invest in companies that we believe will provide a steady stream of cash flow to repay our loans. We expect that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies to be a key means by which we exit from our investments over time. In addition, we also seek to invest in companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock or another capital market transaction.

Liquidation value of assets

The prospective liquidation value of the assets, if any, collateralizing loans in which we invest is an important factor in our credit analysis. We emphasize both tangible assets, such as accounts receivable, inventory, equipment and real estate, and intangible assets, such as intellectual property, customer lists, networks and databases.

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;

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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. The members of the investment committee who have the most significant responsibility for the day-to-day management of our portfolio are Michael Gross and Arthur Penn. None of the other members of the investment committee has more significant responsibility than any other member with respect to Apollo Investment Company. Mr. Gross and Mr. Penn. Have served on Apollo Investment Management's investment committee since Apollo Investment began operations. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent registered public 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 maturities of five to ten years. We generally target a gross return of 12% to 20% for our mezzanine loan investments.

We also seek to invest in portfolio companies in the form of senior secured loans. We expect these senior secured loans to have terms of three to ten years and may provide for deferred interest payments over the term of the loan. We generally seek to obtain security interests in the assets of our portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company. We expect that the interest rate on our senior secured loans generally will range between 2% and 10% over the London Interbank Offer Rate, or LIBOR.

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

requiring 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.

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Our investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Any warrants we receive with our debt securities generally require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-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. With respect to preferred equity and common equity investments, we target an investment return of at least 12% and 20%, respectively. However, we can offer no assurance that we can achieve such a return with respect to any investment or our portfolio as a whole.

We expect to hold most of our investments to maturity or repayment, but we may sell certain of our investments earlier 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. Apollo Investment Management 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.

Apollo Investment Management 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;

Attendanc