

APOLLO INVESTMENT CORP
Form 10-Q
November 03, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarter Ended September 30, 2011

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 814-00646

APOLLO INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

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

9 West 57th Street

37th Floor

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

10019
(Zip Code)

(212) 515-3450

(Registrant's telephone number, including area code)

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

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

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

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

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of November 3, 2011 was 197,043,398.

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FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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

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

(in thousands, except per share amounts)

	September 30, 2011 (unaudited)	March 31, 2011
Assets		
Non-controlled/non-affiliated investments, at value (cost \$2,888,177 and \$2,900,378, respectively)	\$ 2,633,950	\$ 2,901,295
Non-controlled/affiliated investments, at value (cost \$85 and \$22,407, respectively)	79	37,295
Controlled investments, at value (cost \$493,261 and \$376,051, respectively)	193,276	111,568
Cash	6,320	5,471
Foreign currency (cost \$1,431 and \$881, respectively)	1,378	883
Receivable for investments sold	24,577	13,461
Interest receivable	50,185	45,686
Dividends receivable	5,118	5,131
Miscellaneous income receivable	600	
Receivable from investment adviser		576
Prepaid expenses and other assets	22,564	27,447
Total assets	\$ 2,938,047	\$ 3,148,813
Liabilities		
Debt (see note 7 & 12)	\$ 1,223,473	\$ 1,053,443
Payable for investments and cash equivalents purchased	24,699	37,382
Dividends payable	54,990	54,740
Management and performance-based incentive fees payable (see note 3)	26,932	27,553
Interest payable	10,723	9,703
Accrued administrative expenses	1,582	1,738
Other liabilities and accrued expenses	1,672	3,223
Total liabilities	\$ 1,344,071	\$ 1,187,782
Net Assets		
Common stock, par value \$.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 196,393 and 195,502 issued and outstanding, respectively	\$ 196	\$ 196
Paid-in capital in excess of par (see note 2f)	2,881,544	2,871,559
Undistributed net investment income (see note 2f)	39,905	56,557
Accumulated net realized loss (see note 2f)	(780,006)	(713,873)
Net unrealized depreciation	(547,663)	(253,408)
Total net assets	\$ 1,593,976	\$ 1,961,031
Total liabilities and net assets	\$ 2,938,047	\$ 3,148,813

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Net Asset Value Per Share	\$	8.12	\$	10.03
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See notes to financial statements.

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(in thousands, except per share amounts)

	Three months ended		Six months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
INVESTMENT INCOME:				
From non-controlled/non-affiliated investments:				
Interest	\$ 79,473	\$ 76,841	\$ 161,092	\$ 149,346
Dividends	1,090	1,800	4,285	2,720
Other income	5,965	3,639	13,240	5,308
From non-controlled/affiliated investments:				
Interest	494	3,188	899	6,342
From controlled investments:				
Interest	1,206		1,220	
Dividends	5,753	6,031	7,837	6,031
Total Investment Income	\$ 93,981	\$ 91,499	\$ 188,573	\$ 169,747
EXPENSES:				
Management fees (see note 3)	\$ 15,549	\$ 15,030	\$ 31,478	\$ 29,584
Performance-based incentive fees (see note 3)	11,383	12,545	19,764	22,752
Interest and other debt expenses	17,345	10,752	33,296	20,646
Administrative services expense	1,500	1,412	2,387	2,808
Other general and administrative expenses	2,672	1,578	8,454	2,948
Total expenses	48,449	41,317	95,379	78,738
Net investment income	\$ 45,532	\$ 50,182	\$ 93,194	\$ 91,009
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:				
Net realized gain (loss):				
Investments and cash equivalents	\$ (20,393)	\$ (87,907)	\$ (64,590)	\$ (87,127)
Foreign currencies	208	(1,471)	(1,543)	1,616
Net realized loss	(20,185)	(89,378)	(66,133)	(85,511)
Net change in unrealized gain (loss):				
Investments and cash equivalents	(302,925)	120,011	(305,469)	(17,948)
Foreign currencies	10,328	(12,649)	11,214	(3,694)
Net change in unrealized gain (loss)	(292,597)	107,362	(294,255)	(21,642)
Net realized and unrealized gain (loss) from investments, cash equivalents and foreign currencies	(312,782)	17,984	(360,388)	(107,153)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ (267,250)	\$ 68,166	\$ (267,194)	\$ (16,144)

EARNINGS (LOSS) PER SHARE BASIC AND DILUTED (see note 5)	\$ (1.36)	\$ 0.35	\$ (1.36)	\$ (0.08)
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See notes to financial statements.

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APOLLO INVESTMENT CORPORATION
STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except shares)

	Six months ended September 30, 2011 (unaudited)	Year ended March 31, 2011
Increase (decrease) in net assets from operations:		
Net investment income	\$ 93,194	\$ 191,172
Net realized loss	(66,133)	(152,017)
Net change in unrealized gain (loss)	(294,255)	141,257
Net increase (decrease) in net assets resulting from operations	(267,194)	180,412
Dividends and distributions to stockholders:	(109,846)	(218,079)
Capital share transactions:		
Net proceeds from shares sold		204,275
Less offering costs	(6)	(233)
Reinvestment of dividends	9,991	21,850
Net increase in net assets from capital share transactions	9,985	225,892
Total increase (decrease) in net assets:	(367,055)	188,225
Net assets at beginning of period	1,961,031	1,772,806
Net assets at end of period	\$ 1,593,976	\$ 1,961,031
Capital share activity:		
Shares sold		17,250,000
Shares issued from reinvestment of dividends	891,209	2,037,631
Net increase in capital share activity	891,209	19,287,631

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****STATEMENTS OF CASH FLOWS (unaudited)**

(in thousands)

	Six months ended September 30,	
	2011	2010
Cash Flows from Operating Activities:		
Net Decrease in Net Assets Resulting from Operations	\$ (267,194)	\$ (16,144)
<i>Adjustments to reconcile net decrease:</i>		
PIK interest and dividends	(8,362)	(21,784)
Net amortization on investments	(8,783)	(15,859)
Increase (decrease) from foreign currency transactions	(1,167)	1,690
Net change in unrealized loss on investments, cash equivalents and foreign currencies	294,255	21,642
Net realized loss on investments, cash equivalents and foreign currencies	66,133	85,511
<i>Changes in operating assets and liabilities:</i>		
Purchase of investments	(1,238,668)	(405,442)
Proceeds from disposition of investments and cash equivalents	1,108,661	239,620
Increase in interest and dividends receivable	(4,486)	(5,571)
Decrease in prepaid expenses and other assets	5,390	4,919
Increase (decrease) in management and performance-based incentive fees payable	(621)	1,212
Increase (decrease) in interest payable	1,020	(160)
Decrease in accrued expenses and other liabilities	(1,707)	(2,957)
Decrease in payable for investments and cash equivalents purchased	(12,683)	(535,997)
Decrease (increase) in receivable for investments sold	(11,116)	49,643
Net Cash Used by Operating Activities	\$ (79,328)	\$ (599,677)
Cash Flows from Financing Activities:		
Net proceeds from the issuance of common stock	\$	\$ 204,275
Offering costs from the issuance of common stock	(6)	(427)
Dividends paid in cash	(99,605)	(93,086)
Proceeds from debt	1,698,875	920,799
Payments on debt*	(1,518,537)	(891,757)
Net Cash Provided by Financing Activities	\$ 80,727	\$ 139,804
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 1,399	\$ (459,873)
Effect of exchange rates on cash balances	(55)	(8)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$ 6,354	\$ 487,585
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 7,698	\$ 27,704

Non-cash financing activities consist of the reinvestment of dividends totaling \$9,991 and \$10,530, respectively.

* Includes deferred financing costs of \$531 and \$0, respectively.

See notes to financial statements.

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

September 30, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 165.2%	Industry	Par Amount*	Cost	Fair Value(1)
CORPORATE DEBT 155.6%				
BANK DEBT/SENIOR SECURED LOANS 52.6%				
1st Lien Bank Debt/Senior Secured Loans 2.7%				
ATI Acquisition Company, L+600, 12/30/14 ***	Education	\$ 13,273	\$ 12,875	\$ 4,419
Penton Media, Inc., L+300 Cash / 1.00% PIK, 8/1/14	Media	34,913	29,074	24,657
RBS Holding Company, LLC, L+500, 3/23/17	Business Services	15,920	15,772	14,328
Total 1st Lien Bank Debt/Senior Secured Loans			\$ 57,721	\$ 43,404
2nd Lien Bank Debt/Senior Secured Loans 49.9%				
Advantage Sales & Marketing, Inc., L+775, 6/18/18	Grocery	\$ 58,000	\$ 57,547	\$ 56,006
Allied Security Holdings, LLC, L+700, 2/2/18	Business Services	43,000	42,599	41,710
Applied Systems, Inc., L+775, 6/8/17	Software	22,500	22,296	21,853
Asurion Corporation, L+750, 5/24/19	Insurance	56,000	55,728	53,914
Brock Holdings III, Inc., L+825, 3/16/18	Environmental & Facilities Services	39,000	38,261	36,173
Clean Earth, Inc., 13.00%, 8/1/14	Environmental & Facilities Services	25,000	25,000	24,875
Datatel, Inc., L+725, 2/19/18	Education	21,000	20,902	21,000
Garden Fresh Restaurant Corp., L+975, 12/11/13	Retail	46,600	46,898	46,973
Insight Pharmaceuticals, LLC, L+1175, 8/25/17	Consumer Products	20,000	19,604	19,900
IPC Systems, Inc., L+525, 6/1/15	Telecommunications	44,250	41,889	36,949
Kronos, Inc., L+575 Cash or L+650 PIK, 6/11/15	Electronics	40,000	40,000	38,033
Ozburn-Hessey Holding Company LLC, L+850, 10/8/16	Logistics	38,000	37,968	33,440
Ranpak Corp., L+750, 10/20/17	Packaging	85,000	85,000	79,900
Ranpak Corp., E+775, 10/20/17	Packaging	40,000	58,042	52,863
Sedgwick Holdings, Inc., L+750, 5/26/17	Business Services	\$ 18,100	17,867	17,557

See notes to financial statements.

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

September 30, 2011

(in thousands)

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 165.2%	Industry	Par Amount*	Cost	Fair Value(1)
2nd Lien Bank Debt/Senior Secured Loans (continued)				
Sheridan Holdings, Inc., L+575 Cash or L+650 PIK, 6/15/15	Healthcare	\$ 45,847	\$ 45,166	\$ 42,913
TransFirst Holdings, Inc., L+600 Cash or L+675 PIK, 6/15/15	Financial Services	37,512	36,791	34,061
Valerus Compression Services, LP, 11.50%, 3/26/18	Industrial	40,000	40,000	40,000
Vertafore, Inc., L+825, 10/29/17	Software	75,000	74,321	72,562
Wall Street Systems Holdings, Inc., L+750, 6/20/18	Software	25,000	24,757	24,250
Total 2nd Lien Bank Debt/Senior Secured Loans			\$ 830,636	\$ 794,932
TOTAL BANK DEBT/SENIOR SECURED LOANS			\$ 888,357	\$ 838,336
Subordinated Debt/Corporate Notes 103.0%				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650 (GBP L+300 Cash / 3.50% PIK), 7/9/17	Retail	£ 22,180	\$ 43,644	\$ 31,039
Altegrity Inc., 0.00%, 8/2/16 "	Diversified Service	\$ 3,545	1,963	1,886
Altegrity Inc., 11.75%, 5/1/16 "	Diversified Service	14,639	10,744	13,468
Altegrity Inc., 12.00%, 11/1/15 "	Diversified Service	100,000	100,000	103,300
Altegrity Inc., 10.50%, 11/1/15 "	Diversified Service	13,475	12,249	12,532
American Tire Distributors, Inc., 11.50%, 6/1/18 "	Distribution	25,000	25,000	24,450
Angelica Corporation, 15.00% (12.00% Cash / 3.00% PIK), 10/15/16	Healthcare	52,941	52,941	52,941
ATI Acquisition Company, L+1100, 12/30/15***	Education	39,804	37,867	1,990
Avaya Inc., 10.125% Cash or 10.875% PIK, 11/1/15	Telecommunications	31,802	30,558	23,454
BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17	Transportation	£ 22,750	35,887	30,904
BCA Osprey II Limited (British Car Auctions), 12.50% PIK, 8/17/17	Transportation	13,773	19,102	16,114
Burlington Coat Factory, 10.00%, 2/15/19	Retail	\$ 3,750	3,590	3,187
Catalina Marketing Corporation, 11.625%, 10/1/17 "	Grocery	42,175	43,130	40,277
Ceridian Corp., 12.25% Cash or 13.00% PIK, 11/15/15	Diversified Service	55,950	55,817	44,690
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	34,300	33,954	28,212
Clearwire Communications, 12.00%, 12/1/15	Telecommunications	25,843	25,114	22,742
Delta Educational Systems, Inc., 14.20% (13.00% Cash / 1.20% PIK), 5/12/13	Education	19,870	19,642	20,119
Exova Limited, 10.50%, 10/15/18 "	Market Research	£ 18,000	28,823	24,115
Exova Limited, 10.50%, 10/15/18	Market Research	5,000	8,165	6,699
First Data Corporation, 12.625%, 1/15/21	Financial Services	\$ 9,219	8,000	6,903
First Data Corporation, 9.875%, 9/24/15	Financial Services	2,061	1,862	1,744
First Data Corporation, 8.25%, 1/15/21	Financial Services	9,219	8,057	7,369
FleetPride Corporation, 11.50%, 10/1/14 "	Transportation	47,500	47,500	46,550
FoxCo Acquisition Sub LLC, 13.375%, 7/15/16 "	Broadcasting & Entertainment	26,125	26,492	28,084

See notes to financial statements.

Table of Contents**APOLLO INVESTMENT CORPORATION****SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2011****(in thousands)**

INVESTMENTS IN NON-CONTROLLED/NON AFFILIATED PORTFOLIO COMPANIES 165.2%	Industry	Par Amount*	Cost	Fair Value(1)
<u>Subordinated Debt/Corporate Notes (continued)</u>				
FPC Holdings, Inc. (FleetPride Corporation), 14.00%, 6/30/15 "	Transportation	\$ 37,846	\$ 38,206	\$ 37,467
Hub International Holdings, 10.25%, 6/15/15 "	Insurance	36,232	35,105	33,968
Intelsat Bermuda Ltd., 11.25%, 2/4/17	Broadcasting & Entertainment	99,000	101,142	88,110
Intelsat Bermuda Ltd., 11.50% Cash or				