

APOLLO INVESTMENT CORP

Form 10-Q

November 08, 2016

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 quarterly period ended September 30, 2016

OR

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

52-2439556

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

9 West 57th Street

37th Floor

10019

New York, New York

(Address of principal executive offices)

(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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock Outstanding at November 7, 2016

\$0.001 par value 219,779,154

APOLLO INVESTMENT CORPORATION

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PART I. FINANCIAL INFORMATION

In this report, the terms the “Company,” “Apollo Investment,” “AIC,” “we,” “us,” and “our” refer to Apollo Investment Corporation unless the context specifically states otherwise.

Item 1. Financial Statements

APOLLO INVESTMENT CORPORATION

STATEMENTS OF ASSETS AND LIABILITIES

(In thousands, except share and per share data)

	September 30, 2016 (Unaudited)	March 31, 2016
Assets		
Investments at fair value:		
Non-controlled/non-affiliated investments (cost — \$1,605,296 and \$2,052,896, respectively)	\$1,410,698	\$1,790,294
Non-controlled/affiliated investments (cost — \$363,985 and \$216,202, respectively)	287,569	272,558
Controlled investments (cost — \$859,936 and \$829,029, respectively)	850,301	853,977
Total investments at fair value (cost — \$2,829,217 and \$3,098,127, respectively)	2,548,568	2,916,829
Cash	65,744	16,521
Foreign currencies (cost — \$4,369 and \$2,354, respectively)	4,368	2,384
Receivable for investments sold	71	79,625
Interest receivable	15,323	29,749
Dividends receivable	6,992	9,509
Deferred financing costs	12,447	14,497
Prepaid expenses and other assets	1,051	9,523
Total Assets	\$2,654,564	\$3,078,637
Liabilities		
Debt	\$1,014,794	\$1,312,960
Payable for investments purchased	24,126	25,091
Distributions payable	33,314	45,231
Management and performance-based incentive fees payable	22,350	31,124
Interest payable	7,034	7,444
Accrued administrative services expense	1,412	2,015
Other liabilities and accrued expenses	9,596	9,191
Total Liabilities	\$1,112,626	\$1,433,056
Commitments and contingencies (Note 8)		
Net Assets	\$1,541,938	\$1,645,581
Net Assets		
Common stock, \$0.001 par value (400,000,000 shares authorized; 221,994,770 and 226,156,496 shares issued and outstanding, respectively)	\$222	\$226
Paid-in capital in excess of par	3,002,583	3,026,922
Accumulated underdistributed net investment income	68,504	71,231
Accumulated net realized loss	(1,282,620)	(1,288,141)
Net unrealized loss	(246,751)	(164,657)
Net Assets	\$1,541,938	\$1,645,581
Net Asset Value Per Share	\$6.95	\$7.28

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION
 STATEMENTS OF OPERATIONS (Unaudited)
 (In thousands, except per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2016	2015	2016	2015
Investment Income				
Non-controlled/non-affiliated investments:				
Interest income	\$42,406	\$70,255	\$90,750	\$143,829
Dividend income	1,069	911	2,173	1,787
Other income	349	2,828	2,047	6,145
Non-controlled/affiliated investments:				
Interest income	369	224	630	451
Dividend income	4,656	9,503	7,703	18,670
Other income	—	70	70	227
Controlled investments:				
Interest income	17,427	10,629	34,672	21,183
Dividend income	2,750	4,000	7,450	7,731
Other income	—	—	—	63
Total Investment Income	\$69,026	\$98,420	\$145,495	\$200,086
Expenses				
Management fees	\$13,302	\$16,727	\$27,700	\$34,079
Performance-based incentive fees	1,943	10,774	10,393	22,641
Interest and other debt expenses	14,438	21,764	31,231	44,200
Administrative services expense	2,642	1,650	4,168	3,083
Other general and administrative expenses	2,550	2,725	7,589	4,889
Total expenses	34,875	53,640	81,081	108,892
Management and performance-based incentive fees waived	(5,302)	(4,722)	(11,019)	(9,237)
Expense reimbursements	(84)	(59)	(168)	(117)
Net Expenses	\$29,489	\$48,859	\$69,894	\$99,538
Net Investment Income	\$39,537	\$49,561	\$75,601	\$100,548
Net Realized and Change in Unrealized Gains (Losses)				
Net realized gains (losses):				
Non-controlled/non-affiliated investments	\$17,348	\$(34,124)	\$(40,127)	\$(76,785)
Non-controlled/affiliated investments	(21,257)	—	44,574	(67)
Controlled investments	—	3,148	(191)	(39,714)
Foreign currency transactions	905	819	1,265	5,483
Net realized gains (losses)	(3,004)	(30,157)	5,521	(111,083)
Net change in unrealized losses:				
Non-controlled/non-affiliated investments	46,305	(48,094)	65,026	(43,863)
Non-controlled/affiliated investments	(36,007)	12,916	(129,794)	28,733
Controlled investments	(10,284)	7,980	(34,583)	34,753
Foreign currency translations	4,567	6,047	17,257	(4,444)
Net change in unrealized losses	4,581	(21,151)	(82,094)	15,179
Net Realized and Change in Unrealized Gains (Losses)	\$1,577	\$(51,308)	\$(76,573)	\$(95,904)
Net Increase (Decrease) in Net Assets Resulting from Operations	\$41,114	\$(1,747)	\$(972)	\$4,644
Earnings (Loss) Per Share — Basic	\$0.18	\$(0.01)	\$0.00	\$0.02
Earnings (Loss) Per Share — Diluted	N/A	\$(0.01)	N/A	\$0.02

See notes to financial statements.

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STATEMENTS OF CHANGES IN NET ASSETS

(In thousands, except share data)

	Six Months Ended September 30, 2016 (Unaudited)	Year Ended March 31, 2016
Operations		
Net investment income	\$75,601	\$193,257
Net realized gains (losses)	5,521	(195,364)
Net change in unrealized losses	(82,094)	(42,419)
Net Decrease in Net Assets Resulting from Operations	\$(972)	\$(44,526)
Distributions to Shareholders		
Distribution of net investment income	\$(78,328)	\$(111,853)
Distribution of return of capital	—	(73,211)
Net Decrease in Net Assets Resulting from Distributions to Shareholders	\$(78,328)	\$(185,064)
Capital Share Transactions		
Repurchase of common stock	\$(24,343)	\$(62,437)
Net Decrease in Net Assets Resulting from Capital Share Transactions	\$(24,343)	\$(62,437)
Net Assets		
Net decrease in net assets during the period	\$(103,643)	\$(292,027)
Net assets at beginning of period	1,645,581	1,937,608
Net Assets at End of Period	\$1,541,938	\$1,645,581
Capital Share Activity		
Shares repurchased during the period	(4,161,726)	(10,584,855)
Shares issued and outstanding at beginning of period	226,156,496	236,741,351
Shares Issued and Outstanding at End of Period	221,994,770	226,156,496

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION
 STATEMENTS OF CASH FLOWS (Unaudited)
 (In thousands)

	Six Months Ended September 30,	
	2016	2015
Operating Activities		
Net increase (decrease) in net assets resulting from operations	\$ (972)	\$ 4,644
Net realized (gains) losses	(5,521)	111,083
Net change in unrealized losses	82,094	(15,179)
Net amortization of premiums and accretion of discounts on investments	(2,620)	(3,521)
Accretion of discount on notes	298	300
Amortization of deferred financing costs	2,985	3,788
Increase from foreign currency transactions	1,265	6,129
Changes in operating assets and liabilities:		
Payment-in-kind interest and dividends capitalized	(21,147)	(21,732)
Purchases of investments	(251,591)	(726,206)
Proceeds from sales and repayments of investments	627,113	895,793
Decrease in interest receivable	14,540	14,181
Decrease (increase) in dividends receivable	2,517	(7,215)
Decrease in prepaid expenses and other assets	8,472	5,340
Decrease in management and performance-based incentive fees payable	(8,774)	(7,804)
Decrease in interest payable	(410)	(106)
Decrease in accrued administrative services expense	(603)	(369)
Increase in other liabilities and accrued expenses	405	424
Net Cash Provided by Operating Activities	\$448,051	\$259,550
Financing Activities		
Issuances of debt	\$506,747	\$1,011,973
Payments of debt	(788,487)	(1,146,162)
Financing costs paid and deferred	(485)	(5,576)
Repurchase of common stock	(24,343)	(21,193)
Distributions paid	(90,245)	(94,697)
Net Cash Used in Financing Activities	\$(396,813)	\$(255,655)
Cash and Foreign Currencies		
Net increase in cash and foreign currencies during the period	\$51,238	\$3,895
Effect of foreign exchange rate changes	(31)	204
Cash and foreign currencies at beginning of period	18,905	8,417
Cash and Foreign Currencies at End of Period	\$70,112	\$12,516
Supplemental Disclosure of Cash Flow Information		
Cash interest paid	\$27,120	\$38,480
Non-Cash Activity		
Payment-in-kind income	\$12,544	\$16,328

See notes to financial statements.

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SCHEDULE OF INVESTMENTS (Unaudited)

September 30, 2016

(In thousands, except share data)

Investment	Industry	Interest Rate (20)	Maturity Date	Par (12)	Cost	Fair Value (1)
Non-Controlled/Non-Affiliated Investments						
Corporate Debt						
Secured Debt						
First Lien Secured Debt						
First Lien Secured Debt (excluding Revolvers and Letters of Credit)						
American Media, Inc. (16)	Advertising, Printing & Publishing	8.50% (1M L+750, 1.00% Floor)	8/24/20	\$ 270	\$ 262	\$ 262
American Media, Inc. (16)	Advertising, Printing & Publishing	8.50% (1M L+750, 1.00% Floor)	8/24/20	10,396	10,092	10,085
Aptevo Therapeutics Inc. (9)(16)(23)	Healthcare & Pharmaceuticals	8.10% (3M L+760, 0.50% Floor)	2/1/21	8,571	8,547	8,529
Aptevo Therapeutics Inc., Unfunded Delayed Draw (8)(9)(16)(21)(23)	Healthcare & Pharmaceuticals	0.00% Unfunded	2/1/21	6,429	(31)	(32)
Aventine Renewable Energy Holdings, Inc.	Chemicals, Plastics & Rubber	10.50% Cash (15.00% PIK Toggle)	9/24/17	7,399	7,648	6,842
ChyronHego Corporation (18)	High Tech Industries	6.93% (3M L+593, 1.00% Floor)	3/9/20	36,786	36,192	36,050
Delta Educational Systems, Inc. (14)(16)	Education	16.00% (3M L+1400 PIK, 2.00% Floor)	12/11/16	7,334	7,049	—
Dodge Data & Analytics LLC	Business Services	9.75% (3M L+875, 1.00% Floor)	10/31/19	52,368	51,667	50,928
ECN Holding Company (Emergency Communications Network) (16)(18)	High Tech Industries	9.50% (3M L+850, 1.00% Floor)	6/12/21	11,128	10,992	10,961
ECN Holding Company (Emergency Communications Network) (16)(18)	High Tech Industries	9.50% (6M L+850, 1.00% Floor)	6/12/21	11,128	10,992	10,961
Garden Fresh Restaurant Corp. (16)	Hotel, Gaming, Leisure, Restaurants	10.50% (1M L+900, 1.50% Floor)	7/3/18	2,500	2,500	2,500
LabVantage Solutions Inc.	High Tech Industries	9.00% (3M L+800, 1.00% Floor)	12/29/20	14,719	14,311	14,424
LabVantage Solutions Limited (16)(17)	High Tech Industries	9.00% (3M E+800, 1.00% Floor)	12/29/20	€ 13,484	14,082	14,850
Magnetation, LLC (14)	Metals & Mining	12.00% PIK	10/14/16	14,296	12,427	43
Maxus Capital Carbon SPE I, LLC	Chemicals, Plastics & Rubber	13.00%	12/31/18	59,305	59,305	53,668
My Alarm Center, LLC, Term Loan A (16)	Business Services	9.00% (1M L+800, 1.00% Floor)	1/9/19	28,035	28,035	27,755

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My Alarm Center, LLC, Term Loan B (16)(23)	Business Services	9.00% (1M L+800, 1.00% Floor)	1/9/19	7,972	7,972	7,892
My Alarm Center, LLC, Unfunded Term Loan B (8)(16)(21)(23)	Business Services	0.35% Unfunded	1/9/19	789	—	(8)
My Alarm Center, LLC, Term Loan C (16)(23)	Business Services	9.00% (1M L+800, 1.00% Floor)	1/9/19	3,115	3,115	3,084
My Alarm Center, LLC, Unfunded Term Loan C (8)(16)(21)(23)	Business Services	0.35% Unfunded	1/9/19	997	—	(10)
Nextech Systems, LLC (18)	High Tech Industries	8.25% (3M L+725, 1.00% Floor)	6/22/21	22,500	21,968	22,050
Saba Software, Inc. (18)	High Tech Industries	9.75% (1M L+875, 1.00% Floor)	3/30/21	9,875	9,875	9,727
SCM Insurance Services, Inc. (17)	Business Services	9.25%	8/22/19	C\$39,480	33,205	25,228
Spotted Hawk Development, LLC (14)	Energy – Oil & Gas	19.00% (13.00% Cash plus 6.00% PIK)	12/31/19	88,292	84,380	63,661
Telestream Holdings Corporation (18)	High Tech Industries	7.77% (3M L+677, 1.00% Floor)	1/15/20	30,699	30,699	30,085

See notes to financial statements.

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SCHEDULE OF INVESTMENTS (Unaudited)

September 30, 2016

(In thousands, except share data)

Investment	Industry	Interest Rate (20)	Maturity Date	Par (12)	Cost	Fair Value (1)
UniTek Global Services Inc. (16)	Telecommunications	9.50% (3M L+750 Cash plus 1.00% PIK, 1.00% Floor)	1/13/19	\$11,650	\$11,651	\$11,651
UniTek Global Services Inc. (16)	Telecommunications	8.50% (3M L+750, 1.00% Floor)	1/13/19	32,367	32,367	31,881
Total First Lien Secured Debt (excluding Revolvers and Letters of Credit)—29.4% (10)					\$509,302	\$453,067
Alliant Holdings Intermediate, LLC, Unfunded Revolver (8)(16)(21)(23)	Insurance	0.50% Unfunded	8/14/20	\$14,794	\$(1,322)	\$(1,272)
Alliant Holdings Intermediate, LLC, Letter of Credit (8)(16)(23)	Insurance	3.375%	10/3/16	8	—	(1)
Alliant Holdings Intermediate, LLC, Letter of Credit (8)(16)(23)	Insurance	3.375%	11/30/16	56	—	(5)
Alliant Holdings Intermediate, LLC, Letter of Credit (8)(16)(23)	Insurance	3.375%	4/24/17	37	—	(3)
Alliant Holdings Intermediate, LLC, Letter of Credit (8)(16)(23)	Insurance	3.375%	5/4/17	8	—	(1)
Alliant Holdings Intermediate, LLC, Letter of Credit (8)(16)(23)	Insurance	3.375%	6/30/17	17	—	(2)
Alliant Holdings Intermediate, LLC, Letter of Credit (8)(16)(23)	Insurance	3.375%	7/29/17	80	—	(7)
American Media, Inc., Revolver (16)(23)	Advertising, Printing & Publishing	8.50% (1M L+750, 1.00% Floor)	8/24/20	296	296	296
American Media, Inc., Revolver (16)(23)	Advertising, Printing & Publishing	8.50% (1M L+750, 1.00% Floor)	8/24/20	711	711	711
American Media, Inc., Unfunded Revolver (16)(21)(23)	Advertising, Printing & Publishing	0.50% Unfunded	8/24/20	565	(52)	—
American Media, Inc., Letter of Credit (16)(23)	Advertising, Printing & Publishing	7.50%	8/24/20	206	—	—
Avaya, Inc., Revolver	Telecommunications Insurance	5.25% (P+175) 7.00% (P+350)	10/26/16 11/9/17	3,303 615	3,303 615	3,303 606

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Confie Seguros Holding II Co., Revolver (16)(23)								
Confie Seguros Holding II Co., Unfunded Revolver (8)(16)(21)(23)	Insurance	0.50% Unfunded	11/9/17	3,724	(131)	(56)
Confie Seguros Holding II Co., Letter of Credit (8)(16)(23)	Insurance	4.50%	1/13/17	161	—		(2)
Endologix, Inc., Revolver (9)(16)(17)(23)	Healthcare & Pharmaceuticals	4.60% (1M L+410, 0.50% Floor)	7/29/20	56	56		55	
Endologix, Inc., Unfunded Revolver (8)(9)(16)(17)(21)(23)	Healthcare & Pharmaceuticals	0.50% Unfunded	7/29/20	4,944	(24)	(24)
LabVantage Solutions Limited, Unfunded Revolver (8)(16)(17)(21)(23)	High Tech Industries	0.50% Unfunded	12/29/20	€3,435	(102)	(77)
My Alarm Center, LLC, Revolver (16)(23)	Business Services	11.00% (P+700)	1/9/19	750	750		750	
My Alarm Center, LLC, Unfunded Revolver (16)(21)(23)	Business Services	0.35% Unfunded	1/9/19	5,500	—		—	
Tibco Software Inc., Unfunded Revolver (8)(21)(23)	High Tech Industries	0.50% Unfunded	12/5/19	6,000	(38)	(1,200)
UniTek Global Services Inc., Unfunded Revolver (16)(21)(23)	Telecommunications	0.50% Unfunded	1/13/19	5,000	—		—	
UniTek Global Services Inc., Letter of Credit (16)(23)	Telecommunications	7.50%	1/13/19	8,812	—		—	
UniTek Global Services Inc., Letter of Credit (16)(23)	Telecommunications	7.50%	1/13/19	1,850	—		—	
Total Revolvers and Letters of Credit—0.2% (10)					\$4,062		\$3,071	
Total First Lien Secured Debt—29.6% (10)					\$513,364		\$456,138	

See notes to financial statements.

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SCHEDULE OF INVESTMENTS (Unaudited)

September 30, 2016

(In thousands, except share data)

Investment	Industry	Interest Rate (20)	Maturity Date	Par (12)	Cost	Fair Value (1)
Second Lien Secured Debt						
1A Smart Start LLC	Consumer Services	9.50% (3M L+850, 1.00% Floor)	8/22/22	\$ 35,000	\$34,384	\$34,370
Access CIG, LLC (16)	Business Services	9.75% (3M L+875, 1.00% Floor)	10/17/22	35,755	34,268	34,878
Access CIG, LLC (16)	Business Services	9.75% (3M L+875, 1.00% Floor)	10/17/22	15,215	14,659	14,841
Active Network, Inc. (16)	Business Services	9.50% (3M L+850, 1.00% Floor)	11/15/21	19,672	19,601	19,475
Active Network, Inc. (16)	Business Services	10.50% (3M L+950, 1.00% Floor)	11/15/21	6,006	5,886	5,931
Appriss Holdings, Inc.	Business Services	10.25% (3M L+925, 1.00% Floor)	5/21/21	23,309	23,032	23,309
Armor Holding II LLC	Diversified Investment Vehicles, Banking, Finance, Real Estate	10.25% (3M L+900, 1.25% Floor)	12/26/20	8,000	7,895	7,830
Asurion Corporation	Insurance	8.50% (3M L+750, 1.00% Floor)	3/3/21	39,590	39,385	39,458
Confie Seguros Holding II Co. (16)	Insurance	10.25% (1M L+900, 1.25% Floor)	5/8/19	22,344	22,262	22,567
Delta Educational Systems, Inc. (14)(16)	Education	16.00% PIK	5/12/17	7,759	7,460	—
Delta Educational Systems, Inc. (14)(16)	Education	35.00% PIK	6/10/18	1,538	1,328	—
Deltek, Inc.	Business Services	9.50% (3M L+850, 1.00% Floor)	6/26/23	15,086	14,906	15,303
Elements Behavioral Health, Inc.	Healthcare & Pharmaceuticals	13.00% (3M L+1200 PIK, 1.00% Floor)	2/11/20	10,477	10,418	8,591
Garden Fresh Restaurant Corp. (14)(16)	Hotel, Gaming, Leisure, Restaurants	7.75% (3M L+625 PIK, 1.50% Floor)	1/1/19	9,282	7,746	—
Garden Fresh Restaurant Corp. (14)(16)	Hotel, Gaming, Leisure, Restaurants	15.00% (3M L+1350 PIK, 1.50% Floor)	1/1/19	49,986	45,904	—
GCA Services Group, Inc.	Business Services	10.00% (3M L+900, 1.00% Floor)	3/1/24	10,000	9,761	9,975
Grocery Outlet, Inc.	Food & Grocery		10/21/22	25,000	24,693	25,000

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		9.25% (3M L+825, 1.00% Floor)					
Infiltrator Systems Integrated, LLC	Manufacturing, Capital Equipment	9.75% (3M L+875, 1.00% Floor)	5/26/23	13,889	13,645	13,958	
Institutional Shareholder Services, Inc.	Business Services	8.50% (3M L+750, 1.00% Floor)	4/30/22	6,640	6,589	6,375	
Kronos, Inc.	Business Services	9.75% (3M L+850, 1.25% Floor)	4/30/20	9,981	10,094	10,187	
Lanai Holdings III, Inc.	Healthcare & Pharmaceuticals	9.50% (3M L+850, 1.00% Floor)	8/28/23	17,391	16,878	16,956	
Landslide Holdings, Inc.	Business Services	9.50% (3M L+850, 1.00% Floor)	9/21/23	18,510	18,140	18,441	
MSC Software Corp. (17)	High Tech Industries	8.50% (3M L+750, 1.00% Floor)	5/31/21	13,448	13,350	13,179	
MW Industries, Inc.	Manufacturing, Capital Equipment	10.25% (3M L+925, 1.00% Floor)	12/28/20	20,000	19,522	19,900	
Poseidon Merger Sub, Inc.	Business Services	9.50% (3M L+850, 1.00% Floor)	8/15/23	18,000	17,535	17,640	
River Cree Enterprises LP (11)(17)	Hotel, Gaming, Leisure, Restaurants	11.00%	1/20/21	C\$ 19,000	17,913	14,005	
Sequential Brands Group, Inc. (17)	Consumer Goods – Durable	9.52% (1M L+900)	7/1/22	17,600	17,388	17,389	

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION
SCHEDULE OF INVESTMENTS (Unaudited)

September 30, 2016

(In thousands, except share data)

Investment	Industry	Interest Rate (20)	Maturity Date	Par (12)	Cost	Fair Value (1)
SiTV, Inc. (11)	Broadcasting & Subscription	10.375%	7/1/19	\$2,219	\$2,219	\$1,530
SMG	Hotel, Gaming, Leisure, Restaurants	9.25% (3M L+825, 1.00% Floor)	2/27/21	19,649	19,649	19,453
Sprint Industrial Holdings, LLC	Containers, Packaging & Glass	11.25% (3M L+1000, 1.25% Floor)	11/14/19	16,163	15,586	9,617
Sterling Holdings Ultimate Parent, Inc.	Business Services	9.25% (3M L+825, 1.00% Floor)	6/19/23	20,000	19,814	19,600
STG-Fairway Acquisitions, Inc.	Business Services	10.25% (3M L+925, 1.00% Floor)	6/30/23	15,000	14,666	14,250
TMK Hawk Parent, Corp.	Transportation – Cargo, Distribution	8.50% (3M L+750, 1.00% Floor)	10/1/22	34,000	33,726	33,660
Velocity Technology Solutions, Inc.	Business Services	9.50% (3M L+825, 1.25% Floor)	9/28/20	16,500	16,274	16,088
Wave Holdco Merger Sub, Inc.	Telecommunications	10.25% (3M L+925, 1.00% Floor)	5/27/23	10,000	9,754	9,750
Total Second Lien Secured Debt—34.6% (10)					\$606,330	\$533,506
Total Secured Debt—64.2% (10)					\$1,119,694	\$989,644
Unsecured Debt						
American Tire Distributors, Inc. (11)	Transportation – Cargo, Distribution	10.25%	3/1/22	\$14,741	\$14,814	\$13,580
Canacol Energy Ltd. (17)	Energy – Oil & Gas	9.50% (3M L+850, 1.00% Floor)	12/31/19	75,000	73,602	72,825
Delta Educational Systems, Inc. (14)(16)	Education	16.00% PIK	5/12/17	22,811	20,665	—
Lonestar Intermediate Super Holdings, LLC	Insurance	10.00% Cash (3M L+900 Cash, 1.00% Floor) (3M L+975 PIK Toggle, 1.00% Floor)	8/10/21	4,865	4,817	4,842
Sorenson Holdings, LLC (11)	Consumer Goods – Durable	13.85% Cash (13.85% PIK Toggle)	10/31/21	52	35	46
U.S. Security Associates Holdings, Inc.	Business Services	11.00%	7/28/18	135,000	135,000	135,000
UniTek Global Services Inc. (16)	Telecommunications	15.00% PIK	7/13/19	7,934	7,933	8,013
Total Unsecured Debt—15.2% (10)					\$256,866	\$234,306
Total Corporate Debt—79.4% (10)					\$1,376,560	\$1,223,950
Structured Products and Other						
Asset Repackaging Trust Six B.V.	Utilities – Electric	13.87%	5/18/27	\$58,411	\$25,460	\$32,161

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(11)(17)(19)						
Craft 2013-1,	Diversified Investment					
Credit-Linked Note	Vehicles, Banking, Finance, 9.93% (3M L+925)	4/17/22	25,000	25,049	24,500	
(11)(16)(17)	Real Estate					
Craft 2013-1,	Diversified Investment					
Credit-Linked Note	Vehicles, Banking, Finance, 9.93% (3M L+925)	4/17/22	7,625	7,713	7,472	
(11)(16)(17)	Real Estate					
Craft 2014-1A,	Diversified Investment					
Credit-Linked Note	Vehicles, Banking, Finance, 10.47% (3M L+965)	5/15/21	42,500	42,413	41,650	
(11)(17)	Real Estate					
Craft 2015-2,	Diversified Investment					
Credit-Linked Note	Vehicles, Banking, Finance, 9.93% (3M L+925)	1/16/24	26,000	25,870	24,700	
(11)(17)	Real Estate					
Dark Castle	Media – Diversified &					
Holdings, LLC	Production		12.77%	N/A	24,395	1,189
NXT Capital CLO	Diversified Investment					
2014-1, LLC, Class E	Vehicles, Banking, Finance, 6.21% (3M L+550)	4/23/26	5,000	4,702	4,251	
Notes (11)(17)	Real Estate					
Total Structured Products and Other—8.9% (10)					\$ 132,396	\$ 136,978

See notes to financial statements.

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SCHEDULE OF INVESTMENTS (Unaudited)

September 30, 2016

(In thousands, except share data)

Investment	Industry	Interest Rate (20)	Maturity Date	Par (12)	Cost	Fair Value (1)
Equity						
Preferred Equity						
				Shares		
Crowley Holdings, Inc., Series A Preferred Stock (11)	Transportation – Cargo, Distribution	12.00% (10.00% Cash plus 2.00% PIK)	N/A	32,500	\$34,344	\$34,344
Gryphon Colleges Corp., Preferred Stock (13)(14)	Education	12.50% PIK	N/A	332,500		