Apollo Global Management LLC
Form 10-Q
August 10, 2011
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# Form 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011**

**OR**

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

**Commission File Number: 001-35107**

# APOLLO GLOBAL MANAGEMENT, LLC

**(Exact name of Registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-8880053** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**9 West 57th Street, 43rd Floor**

**New York, New York 10019**

**(Address of principal executive offices) (Zip Code)**

**(212) 515-3200**

**(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 x 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 x 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 , accelerate filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | x (Do not check if a smaller reporting company) | 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 x

As of August 9, 2011 there were 121,798,795 Class A shares and 1 Class B share outstanding.

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**Forward-Looking Statements**

This quarterly report may contain forward looking statements that are within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, but are not limited to, discussions related to Apollo s expectations regarding the performance of its business, its liquidity and capital resources and the other non-historical statements in the discussion and analysis. These forward-looking statements are based on management s beliefs, as well as assumptions made by, and information currently available to, management. When used in this quarterly report, the words believe, anticipate, estimate, expect, intend and similar expressions intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions, including risks relating to our dependence on certain key personnel, our ability to raise new private equity, capital markets or real estate funds, market conditions, generally; our ability to manage our growth, fund performance, changes in our regulatory environment and tax status, the variability of our revenues, net income and cash flow, our use of leverage to finance our businesses and investments by our funds and litigation risks, among others. We believe these factors include but are not limited to those described under the section entitled Risk Factors. In the Company s prospectus filed with the Securities and Exchange Commission ( SEC ) pursuant to Rule 424(b) of the Securities Act of 1933 on March 30, 2011, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC s website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this release and in other filings. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

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In this quarterly report, references to Apollo, we, us, our and the company refer collectively to Apollo Global Management, LLC and its subsidiaries, including the Apollo Operating Group and all of its subsidiaries.

Apollo funds and our funds refer to the funds, alternative asset companies and other entities that are managed by the Apollo Operating Group. Apollo Operating Group refers to:

(i) the limited partnerships through which our managing partners currently operate our businesses and;

(ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our principal investments

AMH refers to Apollo Management Holdings, L.P., a Delaware limited partnership owned by APO Corp. and Holdings. APO Corp. refers to APO Corp., a Delaware corporation and a wholly-owned subsidiary of Apollo Global Management, LLC. Holdings means AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership through which our managing partners and our contributing partners hold their Apollo Operating Group units; managing partners refers to Messrs. Leon Black, Joshua Harris and Marc Rowan collectively and, when used in reference to holdings of interests in Apollo or Holdings, includes certain related parties of such individuals; our manager means AGM Management, LLC, a Delaware limited liability company that is controlled by our managing partners.

AAA refers to AP Alternative Assets, L.P., a Guernsey limited partnership that generally invests alongside certain of our private equity funds and directly in certain of our capital markets funds and in other transactions that we sponsor and manage; the common units of AAA are listed on NYSE Euronext in Amsterdam, which we refer to as Euronext Amsterdam ; AAA Investments refers to AAA Investments, L.P., a Guernsey limited partnership through which AAA s investments are made.

Assets Under Management, or AUM, refers to the assets we manage or with respect to which we have control, including capital we have the right to call from our investors pursuant to their capital commitments to various funds. Our AUM equals the sum of:

(i) the fair value of our private equity investments plus the capital that we are entitled to call from our investors pursuant to the terms of their capital commitments plus non-recallable capital to the extent a fund is within the commitment period in which management fees are calculated based on total commitments to the fund;

(ii) the net asset value, or NAV, of our capital markets funds, other than certain senior credit funds, which are structured as collateralized loan obligations (such as Artus, which we measure by using the mark-to-market value of the aggregate principal amount of the underlying collateralized loan obligations), plus used or available leverage and/or capital commitments;

(iii) the gross asset values of our real estate entities and the structured portfolio vehicle investments included within the funds we manage, which includes the leverage used by such structured portfolio vehicles;

(iv) the incremental value associated with the reinsurance investments of the funds we manage; and

(v) the fair value of any other assets that we manage plus unused credit facilities, including capital commitments for investments that may require pre-qualification before investment plus any other capital commitments available for investment that are not otherwise included in the clauses above.

Fee-generating AUM consists of assets that we manage and on which we earn management fees or monitoring fees pursuant to management agreements on a basis that varies among the Apollo funds. Management fees are normally based on net asset value, gross assets, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets, stockholders equity, invested capital or capital contributions, e defined in the applicable management agreement. Monitoring fees for AUM purposes are based on the total value of certain structured portfolio vehicle investments, which normally include leverage, less any portion of such total value that is already considered in fee-generating AUM.

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Non-fee generating AUM consists of assets that do not produce management fees or monitoring fees. These assets generally consist of the following: (a) fair value above invested capital for those funds that earn management fees based on invested capital, (b) net asset values related to general partner and co-investment ownership, (c) unused credit facilities, (d) available commitments on those funds that generate management fees on invested capital, (e) structured portfolio vehicle investments that do not generate monitoring fees and (f) the difference between gross assets and net asset value for those funds that earn management fees based on net asset value. We use non-fee generating AUM combined with fee generating AUM as a performance measurement of our investment activities, as well as to monitor fund size in relation to professional resource and infrastructure needs. Non-fee generating AUM includes assets on which we could earn carried interest income.

Our AUM measure includes assets under management for which we charge either no or nominal fees. Our definition of AUM is not based on any definition of assets under management contained in our operating agreement or in any of our Apollo fund management agreements.

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**APOLLO GLOBAL MANAGEMENT, LLC**

**CONDENSED CONSOLIDATED**

**STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**

**(dollars in thousands, except share data)**

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 837,040 | $ 382,269 |
| Cash and cash equivalents held at Consolidated Funds | 46 | |
| Restricted cash | 7,218 | 6,563 |
| Investments | 2,181,439 | 1,920,553 |
| Assets of consolidated variable interest entities | | |
| Cash and cash equivalents | 194,972 | 87,556 |
| Investments, at fair value | 1,070,125 | 1,342,611 |
| Other assets | 17,877 | 36,754 |
| Carried interest receivable | 2,201,009 | 1,867,073 |
| Due from affiliates | 133,569 | 144,363 |
| Fixed assets, net | 50,500 | 44,696 |
| Deferred tax assets | 566,843 | 571,325 |
| Other assets | 23,258 | 35,141 |
| Goodwill | 48,894 | 48,894 |
| Intangible assets, net | 56,937 | 64,574 |
| **Total Assets** | **$ 7,389,727** | **$ 6,552,372** |
| **Liabilities and Shareholders Equity** | | |
| **Liabilities:** | | |
| Accounts payable and accrued expenses | $ 28,036 | $ 31,706 |
| Accrued compensation and benefits | 71,955 | 54,057 |
| Deferred revenue | 241,603 | 251,475 |
| Due to affiliates | 468,388 | 517,645 |
| Profit sharing payable | 836,543 | 678,125 |
| Debt | 738,784 | 751,525 |
| Liabilities of consolidated variable interest entities | | |
| Debt, at fair value | 1,174,568 | 1,127,180 |
| Other liabilities | 98,410 | 33,545 |
| Other liabilities | 26,396 | 25,695 |
| **Total Liabilities** | **3,684,683** | **3,470,953** |
| **Commitments and Contingencies (see note 12)** | | |
| **Shareholders Equity:** | | |
| Apollo Global Management, LLC shareholders equity: | | |
| Class A shares, no par value, unlimited shares authorized, 121,721,490 shares and 97,921,232 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively | | |
| Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at June 30, 2011 and December 31, 2010 | | |
| Additional paid-in-capital | 2,757,158 | 2,078,890 |

| | | |
|---|---|---|
| Accumulated deficit | (1,959,696) | (1,937,818) |
| Appropriated partners capital | 1,728 | 11,359 |
| Accumulated other comprehensive loss | (1,247) | (1,529) |
| Total Apollo Global Management, LLC shareholders equity | 797,943 | 150,902 |
| Non-Controlling Interests in consolidated entities | 1,774,151 | 1,888,224 |
| Non-Controlling Interests in Apollo Operating Group | 1,132,950 | 1,042,293 |
| **Total Shareholders Equity** | **3,705,044** | **3,081,419** |
| **Total Liabilities and Shareholders Equity** | **$ 7,389,727** | **$ 6,552,372** |

*See accompanying notes to condensed consolidated financial statements.*

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**APOLLO GLOBAL MANAGEMENT, LLC**

**CONDENSED CONSOLIDATED**

**STATEMENTS OF OPERATIONS (UNAUDITED)**

**(dollars in thousands, except share data)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Revenues:** | | | | |
| Advisory and transaction fees from affiliates | $ 23,556 | $ 26,844 | $ 42,972 | $ 37,913 |
| Management fees from affiliates | 121,187 | 106,112 | 239,337 | 209,916 |
| Carried interest income (loss) from affiliates | 164,133 | (53,676) | 722,909 | 55,045 |
| **Total Revenues** | 308,876 | 79,280 | 1,005,218 | 302,874 |
| **Expenses:** | | | | |
| Compensation and benefits: | | | | |
| Equity-based compensation | 287,358 | 279,960 | 570,965 | 553,606 |
| Salary, bonus and benefits | 64,286 | 60,289 | 136,355 | 120,059 |
| Profit sharing expense | 70,733 | (32,566) | 287,818 | 5,950 |
| Incentive fee compensation | (3,594) | 6,314 | 6,565 | 9,259 |
| Total Compensation and Benefits | 418,783 | 313,997 | 1,001,703 | 688,874 |
| Interest expense | 10,327 | 9,502 | 21,209 | 20,324 |
| Professional fees | 12,992 | 9,539 | 30,353 | 22,404 |
| General, administrative and other | 22,502 | 16,990 | 39,109 | 31,503 |
| Placement fees | 575 | 680 | 1,114 | 4,541 |
| Occupancy | 7,925 | 5,361 | 15,151 | 10,808 |
| Depreciation and amortization | 6,902 | 6,041 | 12,948 | 12,146 |
| **Total Expenses** | 480,006 | 362,110 | 1,121,587 | 790,600 |
| **Other Income (Loss):** | | | | |
| Net gains (losses) from investment activities | 63,311 | (11,005) | 221,240 | 100,716 |
| Net (losses) gains from investment activities of consolidated variable interest entities | (12,369) | (19,432) | 4,719 | (265) |
| Income (loss) from equity method investments | 5,370 | (1,712) | 27,196 | 6,168 |
| Interest income | 612 | 300 | 870 | 662 |
| Other income, net | 13,111 | 25,264 | 21,174 | 21,906 |
| **Total Other Income (Loss)** | 70,035 | (6,585) | 275,199 | 129,187 |
| (Loss) income before income tax provision | (101,095) | (289,415) | 158,830 | (358,539) |
| Income tax provision | (3,550) | (12,727) | (12,370) | (16,782) |
| **Net (Loss) Income** | (104,645) | (302,142) | 146,460 | (375,321) |
| Net loss (income) attributable to Non-Controlling Interests | 53,656 | 227,018 | (159,293) | 239,515 |
| **Net Loss Attributable to Apollo Global Management, LLC** | $ (50,989) | $ (75,124) | $ (12,833) | $ (135,806) |

| | | | | |
|---|---|---|---|---|
| Dividends Declared per Class A Share | $ 0.22 | $ 0.07 | $ 0.39 | $ 0.07 |
| **Net Loss Per Class A Share:** | | | | |
| Net Loss Per Class A Share Basic and Diluted | $ (0.46) | $ (0.79) | $ (0.19) | $ (1.42) |
| Weighted Average Number of Class A Shares Basic and Diluted | 120,963,248 | 96,346,032 | 109,652,330 | 96,065,452 |

*See accompanying notes to condensed consolidated financial statements.*

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**APOLLO GLOBAL MANAGEMENT, LLC**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)**

**(dollars in thousands, except share data)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| **Net (Loss) Income** | **$ (104,645)** | **$ (302,142)** | **$ 146,460** | **$ (375,321)** |
| Other Comprehensive Income, net of tax: | | | | |
| Net unrealized gain on interest rate swaps (net of taxes of $305 and $(1,172) for Apollo Global Management, LLC for the three months ended June 30, 2011 and June 30, 2010, respectively, and $345 and $1,021 for Apollo Global Management, LLC for the six months ended June 30, 2011 and 2010, respectively, and $0 for Non-Controlling Interests in Apollo Operating Group for both the three months and six months ended June 30, 2011 and 2010) | 1,419 | 3,461 | 3,146 | 7,732 |
| Net (loss) income on available-for-sale securities (from equity method investment) | (60) | 123 | (109) | 123 |
| Total Other Comprehensive Income, net of tax | 1,359 | 3,584 | 3,037 | 7,855 |
| **Comprehensive (Loss) Income** | **(103,286)** | **(298,558)** | **149,497** | **(367,466)** |
| Comprehensive Loss (Income) attributable to Non-Controlling Interests | 40,087 | 220,640 | (171,323) | 229,681 |
| **Comprehensive Loss Attributable to Apollo Global Management, LLC** | $ (63,199) | $ (77,918) | $ (21,826) | $ (137,785) |

*See accompanying notes to condensed consolidated financial statements.*

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**APOLLO GLOBAL MANAGEMENT, LLC**

**CONDENSED CONSOLIDATED**

**STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)**

**SIX MONTHS ENDED JUNE 30, 2011 AND 2010**

**(dollars in thousands, except share data)**

| | Apollo Global Management, LLC Shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Class A Shares | Class B Shares | Additional Paid-In Capital | Accumu-lated Deficit | Approp-riated Partners (Deficit) Capital | Accumu-lated Other Comprehe-nsive Loss | Apollo Global Manage-ment, LLC Total Share-holders (Deficit) Equity | Non-Controlling Interests in Consolidated Entities | Non-Controlling Interests in Apollo Operating Group | Total Shareholders Equity |
| **Balance at January 1, 2010** | **95,624,541** | **1** | **$ 1,729,593** | **$ (2,029,541)** | **$** | **$ (4,088)** | **$ (304,036)** | **$ 1,283,262** | **$ 319,884** | **$ 1,299,110** |
| Transition adjustment relating to consolidation of variable interest entity | | | | | | | | **411,885** | | **411,885** |
| Capital increase related to equity-based compensation | | | **182,898** | | | | **182,898** | | **368,966** | **551,864** |
| Purchase of AAA shares | | | | | | | | **(740)** | | **(740)** |
| Capital contributions | | | | | | | | **15** | | **15** |
| Cash distributions | | | | | | | | **(11,527)** | | **(11,527)** |
| Dividends | | | **(7,704)** | | | | **(7,704)** | **(6,602)** | **(16,800)** | **(31,106)** |
| Distributions related to deliveries of Class A shares for RSUs | **721,491** | | | **(773)** | | | **(773)** | | | **(773)** |
| Non-cash contributions | | | | | | | | **57** | | **57** |
| Non-cash distributions | | | | **(18)** | | | **(18)** | **(575)** | | **(593)** |
| Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities | | | **(4,605)** | | | | **(4,605)** | **4,605** | | |
| Satisfaction of liability related to AAA RDUs | | | **6,099** | | | | **6,099** | | | **6,099** |
| Net (loss) income | | | | **(135,806)** | **(3,584)** | | **(139,390)** | **110,982** | **(346,913)** | **(375,321)** |
| Net income on available-for-sale securities (from equity method investment) | | | | | | **123** | **123** | | | **123** |
| Net unrealized gain on interest rate swaps (net of taxes of $1,021 and $0 for Apollo Global Management, LLC and Non-Controlling Interests in Apollo Operating Group, respectively) | | | | | | **1,482** | **1,482** | | **6,250** | **7,732** |
| | **96,346,032** | **1** | **$ 1,906,281** | **$ (2,166,138)** | **$ (3,584)** | **$ (2,483)** | **$ (265,924)** | **$ 1,791,362** | **$ 331,387** | **$ 1,856,825** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at June 30, 2010** | | | | | | | | | | |
| **Balance at January 1, 2011** | **97,921,232** | **1** | **$ 2,078,890** | **$ (1,937,818)** | **$ 11,359** | **$ (1,529)** | **$ 150,902** | **$ 1,888,224** | **$ 1,042,293** | **$ 3,081,419** |
| Issuance of Class A shares | **21,500,000** | | **382,488** | | | | **382,488** | | | **382,488** |
| Dilution impact of issuance of Class A shares | | | **135,218** | | | **(356)** | **134,862** | | **(127,096)** | **7,766** |
| Capital increase related to equity-based compensation | | | **215,391** | | | | **215,391** | | **354,916** | **570,307** |
| Cash distributions | | | | | | | | **(308,276)** | | **(308,276)** |
| Dividends | | | **(51,390)** | | | | **(51,390)** | **(27,284)** | **(93,600)** | **(172,274)** |
| Distributions related to deliveries of Class A shares for RSUs | **2,300,258** | | **(683)** | **(9,045)** | | | **(9,728)** | | | **(9,728)** |
| Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities | | | **(6,601)** | | | | **(6,601)** | **6,601** | | |
| Satisfaction of liability related to AAA RDUs | | | **3,845** | | | | **3,845** | | | **3,845** |
| Net (loss) income | | | | **(12,833)** | **(9,631)** | | **(22,464)** | **214,886** | **(45,962)** | **146,460** |
| Net loss on available-for-sale securities (from equity method investment) | | | | | | **(109)** | **(109)** | | | **(109)** |
| Net unrealized gain on interest rate swaps (net of taxes of $345 and $0 for Apollo Global Management, LLC and Non-Controlling Interests in Apollo Operating Group, respectively) | | | | | | **747** | **747** | | **2,399** | **3,146** |
| **Balance at June 30, 2011** | **121,721,490** | **1** | **$ 2,757,158** | **$ (1,959,696)** | **$ 1,728** | **$ (1,247)** | **$ 797,943** | **$ 1,774,151** | **$ 1,132,950** | **$ 3,705,044** |

*See accompanying notes to condensed consolidated financial statements.*

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**APOLLO GLOBAL MANAGEMENT, LLC**

**CONDENSED CONSOLIDATED**

**STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(dollars in thousands, except share data)**

| | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income (loss) | $ 146,460 | $ (375,321) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Equity-based compensation | 570,965 | 553,606 |
| Depreciation | 5,311 | 5,795 |
| Amortization of intangible assets | 7,637 | 6,351 |
| Amortization of debt issuance costs | 255 | 28 |
| Gain from investment in HFA | (20,061) | |
| Income from equity awards received for director s fees | (2,437) | |
| Income from equity method investments | (27,196) | (6,168) |
| Waived management fees | (15,432) | (14,631) |
| Non-cash compensation related to waived management fees | 15,432 | 14,631 |
| Deferred taxes, net | 13,146 | 12,550 |
| Loss on sale of assets | 571 | |
| Changes in assets and liabilities: | | |
| Carried interest receivable | (333,936) | 99,159 |
| Due from affiliates | 11,203 | (11,226) |
| Other assets | (1,285) | (2,110) |
| Accounts payable and accrued expenses | (3,309) | (3,801) |
| Accrued compensation and benefits | 21,084 | 39,698 |
| Deferred revenue | (9,872) | (50,109) |
| Due to affiliates | (55,172) | (4,850) |
| Profit sharing payable | 158,418 | (31,261) |
| Other liabilities | 2,279 | (600) |
| Apollo Funds related: | | |
| Net realized losses (gains) from investment activities | 12,619 | (186) |
| Net unrealized gains from investment activities | (226,369) | (85,569) |
| Net realized gains on debt | (41,819) | (1,679) |
| Net unrealized losses on debt | 46,904 | 339 |
| Dividends from investment activities | 28,000 | 16,991 |
| Cash transferred in from Metals Trading Fund | | 38,033 |
| Change in cash held at consolidated variable interest entities | (107,416) | (86,271) |
| Purchases of investments | (840,719) | (371,583) |
| Sales of investments | 1,125,468 | 82,972 |
| Change in other assets | 18,881 | (14,986) |
| Change in other liabilities | 64,865 | 77,006 |
| **Net Cash Provided by (Used in) Operating Activities** | **564,475** | **(113,192)** |
| **Cash Flows from Investment Activities:** | | |
| Purchases of fixed assets | (12,125) | (2,169) |
| Business acquisition | | (1,354) |
| Proceeds from disposals of fixed assets | 356 | |

| | | |
|---|---|---|
| Purchase of investments in HFA (see note 3) | (52,069) | |
| Cash contributions to equity method investments | (16,518) | (42,023) |
| Cash distributions from equity method investments | 31,919 | 17,676 |
| Change in restricted cash | (655) | 358 |
| **Net Cash Used in Investing Activities** | **$ (49,092)** | **$ (27,512)** |

*See accompanying notes to condensed consolidated financial statements.*

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**APOLLO GLOBAL MANAGEMENT, LLC**

**CONDENSED CONSOLIDATED**

**STATEMENTS OF CASH FLOWS (UNAUDITED) (CONT D)**

**(dollars in thousands, except share data)**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2011** | **2010** |
| **Cash Flows from Financing Activities:** | | |
| Issuance of Class A shares | $ 383,990 | $ |
| Issuance costs | (1,502) | |
| Principal repayments on debt | (1,672) | (803) |
| Distributions related to deliveries of Class A shares for RSUs | (9,045) | (773) |
| Distributions to Non-Controlling Interests in consolidated entities | (7,355) | (11,527) |
| Contributions from Non-Controlling Interests in consolidated entities | | 15 |
| Dividends paid to Non-Controlling Interests in Apollo Operating Group | (93,600) | (16,800) |
| Dividends paid | (45,476) | (7,704) |
| Apollo Funds related: | | |
| Issuance of debt | 454,356 | 320,154 |
| Principal repayment of term loans | (412,057) | (17,239) |
| Purchase of AAA shares | | (740) |
| Dividends paid to Non-Controlling Interests in consolidated entities | (27,284) | (6,602) |
| Distributions paid to Non-Controlling Interests in consolidated variable interest entities | (300,921) | |
| **Net Cash (Used in) Provided by Financing Activities** | **(60,566)** | **257,981** |
| **Net Increase in Cash and Cash Equivalents** | 454,817 | 117,277 |
| **Cash and Cash Equivalents, Beginning of Period** | 382,269 | 366,226 |
| **Cash and Cash Equivalents, End of Period** | **$ 837,086** | **$ 483,503** |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | $ 24,596 | $ 22,540 |
| Interest paid by consolidated variable interest entities | 10,484 | 4,330 |
| Income taxes paid | 6,804 | 4,539 |
| **Supplemental Disclosure of Non-Cash Investment Activities:** | | |
| Change in accrual for purchase of fixed assets | 83 | 749 |
| Non-cash contributions on equity method investments | 3,640 | |
| Non-cash distributions on equity method investments | (409) | |
| Non-cash sale of assets held-for-sale for repayment of CIT loan | (11,069) | |
| Non-cash purchases of other investments, at fair value | 2,437 | |
| **Supplemental Disclosure of Non-Cash Financing Activities:** | | |
| Non-cash distributions | | (18) |
| Non-cash dividends | (5,914) | |
| Non-cash distributions to Non-Controlling Interests in consolidated entities | | (575) |
| Unrealized gain on interest rate swaps attributable to Non-Controlling Interests in Apollo Operating Group, net of taxes | 2,399 | 6,250 |
| Satisfaction of liability related to AAA RDUs | 3,845 | (6,099) |
| Net transfers of AAA ownership interest to Non-Controlling Interests in consolidated entities | 6,601 | 4,605 |
| Net transfers of AAA ownership interest from AGM | (6,601) | (4,605) |
| Dilution impact of issuance of Class A shares | 134,862 | |
| Dilution impact of issuance of Class A shares on Non-Controlling Interests in Apollo Operating Group | (127,096) | |
| Unrealized (loss) gain on available-for-sale securities (from equity method investment) | (109) | 123 |
| Non-cash contributions to Non-Controlling Interests related to equity-based compensation | 354,916 | 368,966 |
| Unrealized gain on interest rate swaps | 1,092 | 2,503 |
| Deferred tax asset related to interest rate swaps | (345) | (1,021) |
| Capital increases related to equity-based compensation | 215,391 | 182,898 |

| | | |
|---|---|---|
| Non-cash contribution from Non-Controlling Interests in consolidated entities | | 57 |
| Tax benefits from RSU deliveries | (683) | |
| Non-cash accrued compensation related to ARI RSUs | 430 | 421 |
| Non-cash accrued compensation related to AAA RDUs | 223 | 1,320 |
| Satisfaction of liability related to repayment on CIT loan | 11,069 | |
| **Net Assets Transferred from Metals Trading Fund:** | | |
| Cash | | 38,033 |
| Other assets | | 443 |
| **Net Assets Transferred from Consolidated Variable Interest Entity:** | | |
| Investments | | 1,102,114 |
| Other assets | | 28,789 |
| Debt | | (706,027) |
| Other liabilities | | (12,991) |

*See accompanying notes to condensed consolidated financial statements.*

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**APOLLO GLOBAL MANAGEMENT, LLC**

**NOTES TO CONDENSED CONSOLIDATED**

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**(dollars in thousands, except share data)**

**1. ORGANIZATION AND BASIS OF PRESENTATION**

Apollo Global Management, LLC and its consolidated subsidiaries (the Company or Apollo ), is a global alternative asset manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, capital markets and real estate funds on behalf of pension and endowment funds, as well as other institutional and high net worth individual investors. For these investment and management services, Apollo receives management fees generally related to the amount of assets managed, transaction and advisory fees for the investments made and carried interest income related to the performance of the respective funds that it manages. Apollo has three primary business segments:

***Private equity*** primarily invests in control equity and related debt instruments, convertible securities and distressed debt investments;

***Capital markets*** primarily invests in non-control debt and non-control equity investments, including distressed debt securities; and

***Real estate*** primarily invests in legacy commercial mortgage-backed securities, commercial first mortgage loans, mezzanine investments and other commercial real estate-related debt investments. The Company may seek to sponsor additional real estate funds that focus on opportunistic investments in distressed debt and equity recapitalization transactions.

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ( U.S. GAAP ) for interim financial information and instructions to Form 10-Q. The condensed consolidated financial statements and these notes are unaudited and exclude some of the disclosures required in annual financial statements. Management believes it has made all necessary adjustments (consisting of only normal recurring items) so that the condensed consolidated financial statements are presented fairly and that estimates made in preparing its condensed consolidated financial statements are reasonable and prudent. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. The condensed consolidated financial statements include the accounts of the Company, its wholly-owned or majority-owned subsidiaries, the consolidated entities which are considered to be variable interest entities and for which the Company is considered the primary beneficiary, and certain entities which are not considered variable interest entities but in which the Company has a controlling financial interest. Intercompany accounts and transactions have been eliminated upon consolidation. These condensed consolidated financial statements should be read in conjunction with the consolidated statements of the Company for the year ended December 31, 2010 included in the Company s prospectus dated March 29, 2011 filed with the Securities and Exchange Commission on March 30, 2011.

**Reorganization of the Company**

The Company was formed as a Delaware limited liability company on July 3, 2007 and completed a reorganization of its predecessor businesses on July 13, 2007 (the Reorganization ). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is wholly owned and controlled by Leon Black, Joshua Harris and Marc Rowan (the Managing Partners ).

As of June 30, 2011, the Company owned, through three intermediate holding companies that include APO Corp. ( APO Corp ), a Delaware corporation that is a domestic corporation for U.S. Federal income tax purposes, APO Asset Co., LLC ( APO Asset ), a Delaware limited liability company that is a disregarded entity for U.S. Federal income tax purposes, and APO (FC), LLC ( APO (FC) ), an Anguilla limited liability company that is treated as a corporation for U.S Federal income tax purposes (collectively, the Intermediate Holding Companies ), 33.7% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group as general partners.

AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership ( Holdings ), is the entity through which the Managing Partners and the contributing partners (the Contributing Partners ) hold Apollo Operating Group Units ( AOG Units ) that represent 66.3% of the economic interests in the Apollo Operating Group as of June 30, 2011. The Company consolidates the financial results of the Apollo Operating Group and its consolidated subsidiaries. Holdings ownership interest in the Apollo Operating Group is reflected as a Non-Controlling Interest in the accompanying condensed consolidated financial statements.

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Apollo also entered into an exchange agreement with Holdings that allows the partners in Holdings, subject to the vesting and minimum retained ownership requirements and transfer restrictions set forth in the partnership agreements of the Apollo Operating Group, to exchange their AOG Units for the Company s Class A shares on a one-for-one basis up to four times each year, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A limited partner must exchange one partnership unit in each of the ten Apollo Operating Group partnerships to effect an exchange for one Class A share.

***Initial Public Offering*** On April 4, 2011, the Company completed the initial public offering ( IPO ) of its Class A shares, representing limited liability company interests of the Company. AGM received net proceeds from the initial public offering of approximately $382.5 million, which was used to acquire additional AOG Units. As a result, Holdings ownership interest in the Apollo Operating Group decreased from 70.7% to 66.5% and the Company s ownership interest increased from 29.3% to 33.5%. As such, the difference between the fair value of the consideration paid for the Apollo Operating Group level ownership interest and the book value on the date of the IPO is reflected in Additional Paid in Capital.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation*** Apollo consolidates those entities it controls through a majority voting interest or through other means, including those funds in which the general partner is presumed to have control over them (e.g., AP Alternative Assets, L.P. ( AAA )). Apollo also consolidates entities that are VIEs for which Apollo is the primary beneficiary. Under the amended consolidation rules, an enterprise is determined to be the primary beneficiary if it holds a controlling financial interest. A controlling financial interest is defined as (a) the power to direct the activities of a VIE that most significantly impact the entity s business and (b) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE.

Certain of our subsidiaries hold equity interests in and/or receive fees qualifying as variable interests from the funds that the Company manages. The amended consolidation rules require an analysis to determine whether (a) an entity in which Apollo holds a variable interest is a VIE and (b) Apollo s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., carried interest and management fees), would give it a controlling financial interest. When the VIE has qualified for the deferral of the amended consolidation rules in accordance with U.S. GAAP, the analysis is based on previous consolidation rules, which require an analysis to determine whether (a) an entity in which Apollo holds a variable interest is a VIE and (b) Apollo s involvement, through holding interests directly or indirectly in the entity or contractually through other variable interests (e.g., carried interest and management fees), would be expected to absorb a majority of the variability of the entity.

Under both guidelines, the determination of whether an entity in which Apollo holds a variable interest is a VIE requires judgments which include determining whether the equity investment at risk is sufficient to permit the entity to finance its activities without additional subordinated financial support, evaluating whether the equity holders, as a group, can make decisions that have a significant effect on the success of the entity, determining whether two or more parties equity interests should be aggregated, and determining whether the equity investors have proportionate voting rights to their obligations to absorb losses or rights to receive returns from an entity. Under both guidelines, Apollo determines whether it is the primary beneficiary of a VIE at the time it becomes involved with a VIE and reconsiders that conclusion continuously. The consolidation analysis can generally be performed qualitatively. However, if it is not readily apparent whether Apollo is the primary beneficiary, a quantitative expected losses and expected residual returns calculation will be performed. Investments and redemptions (either by Apollo, affiliates of Apollo or third parties) or amendments to the governing documents of the respective Apollo fund may affect an entity s status as a VIE or the determination of the primary beneficiary.

Apollo assesses whether it is the primary beneficiary and will consolidate or deconsolidate the entity accordingly. Performance of that assessment requires the exercise of judgment. Where the variable interests have qualified for the deferral, judgments are made in estimating cash flows in evaluating which member within the equity group absorbs a majority of the expected profits or losses of the VIE. Where the variable interests have not qualified for the deferral, judgments are made in determining whether a member in the equity group has a controlling financial interest including power to direct activities that most significantly impact the VIE s economic performance and rights to receive benefits or obligations to absorb losses that are potentially significant to the VIE. Under both guidelines, judgment is made in evaluating the nature of the relationships and activities of the parties involved in determining which party within a related-party group is most closely associated with a VIE. The use of these judgments has a material impact to certain components of Apollo s condensed consolidated financial statements.

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Assets and liability amounts of the consolidated VIEs are shown in separate sections within the condensed consolidated statement of financial condition.

Refer to additional disclosures regarding VIEs in note 4. Intercompany transactions and balances, if any, have been eliminated in the consolidation.

***Equity Method Investments*** For investments in entities over which the Company exercises significant influence but which do not meet the requirements for consolidation, the Company uses the equity method of accounting, whereby the Company records its share of the underlying income or loss of these entities. Income (loss) from equity method investments is recognized as part of other income (loss) in the condensed consolidated statements of operations and income (loss) on available-for-sale securities (from equity method investments) is recognized as part of other comprehensive income (loss), net of tax in the condensed consolidated statement of comprehensive income (loss) . The carrying amounts of equity method investments are reflected in investments in the condensed consolidated statements of financial condition. As the underlying entities that the Company manages and invests in are, for U.S. GAAP purposes, investment companies which reflect their investments at estimated fair value, the carrying value of the Company s equity method investments in such entities are at fair value.

***Non-Controlling Interest*** For entities that are consolidated, but not 100% owned, a portion of the income or loss and corresponding equity is allocated to owners other than Apollo. The aggregate of the income or loss and corresponding equity that is not owned by the company is included in Non-Controlling Interest in the condensed consolidated financial statements. The Non-Controlling Interests relating to Apollo Global Management, LLC primarily includes the 66.3% ownership interest in the Apollo Operating Group held by the Managing Partners and Contributing Partners through their limited partner interests in Holdings and other ownership interests in consolidated entities, which primarily consist of the approximate 98% ownership interest held by limited partners in AAA as of June 30, 2011. Non-Controlling Interests also include limited partner interests of Apollo managed funds in certain consolidated VIEs.

The authoritative guidance for Non-Controlling Interests in the condensed consolidated financial statements requires reporting entities to present Non-Controlling Interest as equity and provides guidance on the accounting for transactions between an entity and Non-Controlling Interests. According to the guidance, (1) Non-Controlling Interests are presented as a separate component of shareholders equity on the company s condensed consolidated statements of financial condition, (2) net income (loss) includes the net income (loss) attributed to the Non-Controlling Interest holders on the company s condensed consolidated statements of operations, (3) the primary components of Non-Controlling Interest are separately presented in the company s condensed consolidated statements of changes in shareholders equity to clearly distinguish the interests in the Apollo Operating Group and other ownership interests in the consolidated entities and (4) profits and losses are allocated to Non-Controlling Interests in proportion to their ownership interests regardless of their basis.

***Revenues*** Revenues are reported in three separate categories that include (i) advisory and transaction fees from affiliates, which relate to the investments of the funds and may include individual monitoring agreements with the portfolio companies and debt investment vehicles of the private equity funds and capital markets funds; (ii) management fees from affiliates, which are based on committed capital, invested capital, net asset value, gross assets or as otherwise defined in the respective agreements; and (iii) carried interest income (loss) from affiliates, which is normally based on the performance of the funds subject to preferred return.

*Advisory and Transaction Fees from Affiliates* Advisory and transaction fees, including directors fees are recognized when the underlying services rendered are substantially completed in accordance with the terms of their transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to private equity fund transactions that are not consummated ( Broken Deal Costs ).

As a result of providing advisory services to certain private equity and capital markets portfolio companies, Apollo is entitled to receive fees for transactions related to the acquisition and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations. The amounts due from portfolio companies are included in Due from Affiliates, which is discussed further in note 11. Under the terms of the limited partnership agreements for certain funds, the management fee payable by the funds is subject to a reduction based on a certain percentage of such advisory and transaction fees, net of applicable broken deal costs ( Management Fee Offset ). Such amounts are presented as a reduction to Advisory and Transaction Fees from Affiliates in the condensed consolidated statements of operations.

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*Management Fees from Affiliates* Management fees for private equity funds, real estate funds and certain capital markets funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement. Management fees for private equity funds and certain capital markets funds are based upon a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments. For most capital markets funds, management fees are recognized in the period during which the related services are performed and are based upon net asset value, gross assets or as otherwise defined in the respective agreements.

*Carried Interest Income from Affiliates* Apollo is entitled to an incentive return that can normally amount to as much as 20% of the total returns on funds capital, depending upon performance. Performance-based fees are assessed as a percentage of the investment performance of the funds. The carried interest income from affiliates for any period is based upon an assumed liquidation of the fund s net assets on the reporting date, and distribution of the net proceeds in accordance with the fund s income allocation provisions. Carried interest receivable is presented separately in the condensed consolidated statements of financial condition. The net carried interest income may be subject to reversal to the extent that the carried interest income recorded exceeds the amount due to the general partner based on a fund s cumulative investment returns. When applicable, the accrual for potential repayment of previously received carried interest income, which is a component of due to affiliates, represents all amounts previously distributed to the general partner that would need to be repaid to the Apollo funds if these funds were to be liquidated based on the current fair value of the underlying funds investments as of the reporting date. The actual general partner obligation, however, would not become payable or realized until the end of a fund s life.

***Compensation and Benefits***

The components of compensation and benefits have been expanded for the three and six month periods ended June 30, 2010 to conform with the 2011 presentation.

***Equity-Based Compensation*** Equity-based compensation is accounted for in accordance with U.S. GAAP, which requires that the cost of employee services received in exchange for an award of equity instruments generally be measured based on the grant date fair value of the award. Equity-based awards that do not require future service (i.e., vested awards) are expensed immediately. Equity-based employee awards that require future service are expensed over the relevant service period. The Company estimates forfeitures for equity-based awards that are not expected to vest. Equity based awards granted to non-employees for services provided to the affiliates are remeasured to fair value at the end of each reporting period and expensed over the relevant service period.

***Salaries, Bonus and Benefits*** Salaries, bonus and benefits includes base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are accrued over the service period.

From time to time, the Company may assign profits interests received in lieu of management fees to certain investment professionals. Such assignments of profits interests are treated as compensation and benefits when assigned.

The Company sponsors a 401(k) Savings Plan whereby U.S.-based employees are entitled to participate in the plan based upon satisfying certain eligibility requirements. The Company may provide discretionary contributions from time to time. No contributions relating to this plan were made by the Company for the six months ended June 30, 2011 and 2010, respectively.

***Profit Sharing Expense*** Profit sharing expense consists of a portion of carried interest earned in one or more funds allocated to employees and former employees. Profit sharing expense is recognized as the related carried interest income is recognized. Profit sharing expense can be reversed during periods when there is a decline in carried interest income that was previously recognized.

In June 2011, the Company adopted a performance based bonus arrangement for certain Apollo partners and employees designed to more closely align compensation on an annual basis with the overall performance of the Company. This arrangement enables certain partners and employees to earn discretionary bonuses based on carried interest realizations earned by the Company in a given year which amounts are reflected as profit sharing expense in the accompanying condensed consolidated financial statements.

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***Incentive Fee Compensation*** Certain employees are entitled to receive a discretionary portion of incentive fee income from certain of our capital markets funds, based on performance for the year. Incentive fee compensation expense is recognized on accrual basis as the related carried interest income is earned. Incentive fee compensation expense may be subject to reversal during the interim period where there is a decline in the related carried interest income, however it is not subject to reversal once the carried interest income crystallizes.

***Other Income (Loss)***

***Net Gains (Losses) from Investment Activities*** Net gains (losses) from investment activities include both realized gains and losses and the change in unrealized gains and losses in the Company s investment portfolio between the opening balance sheet date and the closing balance sheet date. Net unrealized gains (losses) are a result of changes in the fair value of investments that have not been realized as of the balance sheet date. The condensed consolidated financial statements include the net realized and unrealized gains (losses) of AAA, the Apollo fund that was consolidated during the six months ended June 30, 2011 and 2010 and the investment in HFA Holdings Limited ( HFA ) (see note 3).

***Net Gains from Investment Activities of Consolidated Variable Interest Entities*** Changes in the fair value of the consolidated VIEs assets and liabilities and related interest, dividend and other income and expenses subsequent to consolidation are presented within net gains (losses) from investment activities of consolidated variable interest entities and are attributable to Non-Controlling Interests in the condensed consolidated statements of operations.

***Investments, at Fair Value*** The Company follows U.S. GAAP attributable to fair value measurements, which among other things, requires enhanced disclosures about investments that are measured and reported at fair value. Investments, at fair value, represent investments of the consolidated funds, investments of the consolidated VIEs and certain financial instruments for which fair value option was elected and the unrealized gains and losses resulting from changes in the fair value are reflected as net gains from investment activities and net gains from investment activities of the consolidated variable interest entities, respectively, in the condensed consolidated statements of operations. In accordance with U.S. GAAP, investments measured and reported at fair value are classified and disclosed in one of the following categories:

*Level I* Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed derivatives. As required by U.S. GAAP, the Company does not adjust the quoted price for these investments, even in situations where the Company holds a large position and the sale of such position would likely deviate from the quoted price.

*Level II* Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs. These investments exhibit higher levels of liquid market observability as compared to Level III investments. The Company subjects broker quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II investment. These criteria include, but are not limited to, the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

*Level III* Pricing inputs are unobservable for the investment and includes situations where there is little observable market activity for the investment. The inputs into the determination of fair value may require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, mezzanine funds, funds of hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations where the fair value is based on observable inputs as well as unobservable inputs. When a security is valued based on broker quotes, the Company subjects those quotes to various criteria in making the determination as to whether a particular investment would qualify for treatment as a Level II or Level III investment. Some of the factors we consider include the number of broker quotes we obtain, the quality of the broker quotes, the standard deviations of the observed broker quotes and the corroboration of the broker quotes to independent pricing services.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment when the fair value is based on unobservable inputs.

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***Private Equity Investments*** The value of liquid investments, where the primary market is an exchange (whether foreign or domestic) is determined using period end market prices. Such prices are generally based on the last sales price on the date of determination.

Valuation approaches used to estimate the fair value of investments that are less liquid include the income approach and the market approach. The income approach provides an indication of fair value based on the present value of cash flows that a business or security is expected to generate in the future. The most widely used methodology used in the income approach is a discounted cash flow method. Inherent in the discounted cash flow method are assumptions of expected results and a calculated discount rate. The market approach provides an indication of fair value based on a comparison of the subject company to comparable publicly traded companies and transactions in the industry. The market approach is driven more by current market conditions of actual trading levels of similar companies and actual transaction data of similar companies. Consideration may also be given to such factors as the Company s historical and projected financial data, valuations given to comparable companies, the size and scope of the Company s operations, the Company s strengths, weaknesses, expectations relating to the market s receptivity to an offering of the Company s securities, applicable restrictions on transfer, industry information and assumptions, general economic and market conditions and other factors deemed relevant. As part of management s process, the Company utilizes a valuation committee to review and approve the valuations. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

***Capital Markets Investments*** The majority of the investments in Apollo s capital markets funds are valued using quoted market prices. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing recognized pricing services, market participants or other sources. The capital markets funds also enter into foreign currency exchange contracts, credit default swap contracts, and other derivative contracts, which may include options, caps, collars and floors. Foreign currency exchange contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. If securities are held at the end of this period, the changes in value are recorded in income as unrealized. Realized gains or losses are recognized when contracts are settled. Credit default swap contracts are recorded at fair value as an asset or liability with changes in fair value recorded as unrealized appreciation or depreciation. Realized gains or losses are recognized at the termination of the contract based on the difference between the close-out price of the credit default contract and the original contract price.

Forward contracts are valued based on market rates obtained from counterparties or prices obtained from recognized financial data service providers. When determining fair value pricing when no market value exists, the value attributed to an investment is based on the enterprise value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation approaches used to estimate the fair value of illiquid investments included in Apollo s capital markets funds also may use the income approach or market approach. The valuation approaches used consider, as applicable, market risks, credit risks, counterparty risks and foreign currency risks.

***Real Estate Investments*** For Apollo s CMBS portfolio, the estimated fair value is determined by reference to market prices provided by certain dealers who make a market in these financial instruments. Broker quotes are only indicative of fair value and may not necessarily represent what the funds would receive in an actual trade for the applicable instrument. Additionally, the loans held-for-investment are stated at the principal amount outstanding, net of deferred loan fees and costs in accordance with U.S. GAAP. Loans that the funds plan to sell or liquidate in the near term will be treated as loans held-for-sale and will be held at the lower of cost or fair value. For Apollo s illiquid investments, valuations of non-marketable underlying investments are determined using methods that include, but are not limited to (i) discounted cash flow estimates or comparable analysis prepared internally, (ii) third party appraisals or valuations by qualified real estate appraisers, and (iii) contractual sales value of investments/properties subject to bona fide purchase contracts. Methods (i) and (ii) also incorporate consideration of the use of the income, cost, or sales comparison approaches of estimating property values. For portfolio or operating company investments, valuations may also incorporate the use of sales comparisons, valuing statistically meaningful samples, and the use of other techniques such as earnings multiples of similar companies due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the value of investments by certain of our real estate funds 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.

***Fair Value of Financial Instruments*** U.S. GAAP guidance requires the disclosure of the estimated fair value of financial instruments. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

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Except for the Company s debt obligation related to the AMH Credit Agreement (as defined in note 8), Apollo s financial instruments are recorded at fair value or at amounts whose carrying value approximates fair value. See Investments, at Fair Value above. While Apollo s valuations of portfolio investments are based on assumptions that Apollo believes are reasonable under the circumstances, the actual realized gains or losses will depend on, among other factors, future operating results, the value of the assets and market conditions at the time of disposition, any related transaction costs and the timing and manner of sale, all of which may ultimately differ significantly from the assumptions on which the valuations were based. Other financial instruments carrying values generally approximate fair value because of the short-term nature of those instruments or variable interest rates related to the borrowings. As disclosed in note 8, the Company s long term debt obligation related to the AMH Credit Agreement is believed to have an estimated fair value of approximately $743.4 million based on a yield analysis using available market data of comparable securities with similar terms and remaining maturities. However, the carrying value that is recorded on the condensed consolidated statement of financial condition is the amount for which we expect to settle the long term debt obligation.

***Financial Instruments held by Consolidated VIEs*** The consolidated VIEs hold investments that are traded over-the-counter. Investments in securities that are traded on a securities exchange or comparable over-the-counter quotation systems are valued based on the last reported sale price at that date. If no sales of such investments are reported on such date, and in the case of over-the-counter securities or other investments for which the last sale date is not available, valuations are based on independent market quotations obtained from market participants, recognized pricing services or other sources deemed relevant, and the prices are based on the average of the bid and ask prices, or at ascertainable prices at the close of business on such day. Market quotations are generally based on valuation pricing models or market transactions of similar securities adjusted for security-specific factors such as relative capital structure priority and interest and yield risks, among other factors.

The consolidated VIEs also have debt obligations that are recorded at fair value. The valuation approach used to estimate the fair values of debt obligations is the discounted cash flow method, which includes consideration of the cash flows of the debt obligation based on projected quarterly interest payments and quarterly amortization. Debt obligations are discounted based on the appropriate yield curve given the loan s respective maturity and credit rating. Management uses its discretion and judgment in considering and appraising relevant factors for determining the valuations of its debt obligations.

***Fair Value Option*** Apollo has elected the fair value option for the assets and liabilities of the consolidated VIEs. Such election is irrevocable and is applied to financial instruments on an individual basis at initial recognition. Apollo has applied the fair value option for certain corporate loans, other investments and debt obligations held by these entities that otherwise would not have been carried at fair value. Refer to note 4 for further disclosure on financial instruments of the consolidated VIEs for which the fair value option has been elected.

***Net Income (Loss) Per Class A Share*** U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to common Class A Shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding common shares and all potential common shares assumed issued if they are dilutive. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential common shares.

***Use of Estimates*** The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements, the disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Apollo s most significant estimates include goodwill, intangible assets, income taxes, carried interest income from affiliates, non-cash compensation and fair value of investments and debt in the consolidated and unconsolidated funds and VIEs. Actual results could differ materially from those estimates.

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**Recent Accounting Pronouncements**

In April 2011, the FASB amended existing guidance for agreements to transfer financial assets that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity. The amendments remove from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and the collateral maintenance implementation guidance related to that criterion. The guidance is effective for the first interim or annual period beginning on or after December 15, 2011 and is to be applied prospectively. The adoption of this guidance is not expected to have a material impact on the Company s condensed consolidated financial statements.

In May 2011, the FASB issued an update which includes amendments that result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Certain of the amendments could change how the fair value measurement guidance is applied including provisions related to highest and best use and valuation premise for nonfinancial assets, application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, premiums or discounts in fair value measurement, fair value of an instrument classified in a reporting entity s shareholders equity, and additional disclosure requirements about fair value measurements. The update is effective for interim and annual periods beginning after December 15, 2011 for public entities to be applied prospectively. The Company is currently evaluating the impact that this guidance will have on its condensed consolidated financial statements.

In June 2011, the FASB issued an update which includes amendments that eliminate the option to present components of other comprehensive income (OCI) as part of the statement of changes in stockholders equity and requires entities to report components of other comprehensive income in either (1) a single continuous statement of comprehensive income or (2) two separate but consecutive statements. In a single continuous statement, entities must include the components of net income, a total for net income, the components of OCI, a total for OCI, and a total for comprehensive income. Under the two separate but continuous statements approach, the first statement would include components of net income, consistent with the income statement format used today, and the second statement would include components of OCI. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. For all entities, the amendments must be applied retrospectively for all periods presented and do not require any transition disclosures. The adoption of this guidance will not have an impact on the Company s condensed consolidated financial statements as the Company presents a separate statement of comprehensive income.

**3. INVESTMENTS**

The following table represents Apollo s investments:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Investments, at fair value | $ 1,883,075 | $ 1,637,091 |
| Other investments | 298,364 | 283,462 |
| Total Investments | $ 2,181,439 | $ 1,920,553 |

**Investments at Fair Value**

Investments at fair value consist of financial instruments held by AAA, consolidated VIEs and other investments as discussed further in note 4, the investment in HFA and other investments held at fair value. As of June 30, 2011 and December 31, 2010, the net assets of the consolidated funds and VIEs were $1,819.1 million and $1,951.6 million, respectively. The following investments, except the investment in HFA and other investments, are presented as a percentage of net assets of the consolidated funds and VIEs:

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| | June 30, 2011 | | | | | December 31, 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fair Value | | | | % of Net Assets of Consolidated Funds and VIEs | Fair Value | | | | % of Net Assets of Consolidated Funds and VIEs |
| **Investments, at Fair Value Affiliates** | **Private Equity** | **Capital Markets** | **Total** | **Cost** | | **Private Equity** | **Capital Markets** | **Total** | **Cost** | |
| Investments, at fair value: | | | | | | | | | | |
| AAA | $ 1,810,577 | $ | $ 1,810,577 | $ 1,668,299 | 99.5% | $ 1,637,091 | $ | $ 1,637,091 | $ 1,695,992 | 83.9% |
| HFA | | 70,061 | 70,061 | 52,069 | (1) | | | | | |
| Other | 2,437 | | 2,437 | 2,437 | (1) | | | | | |
| Total | $ 1,813,014 | $ 70,061 | $ 1,883,075 | $ 1,722,805 | 99.5% | $ 1,637,091 | $ | $ 1,637,091 | $ 1,695,992 | 83.9% |

(1) Investments were not held by a consolidated fund or consolidated VIEs.

**Securities**

At June 30, 2011 and December 31, 2010, the sole investment of AAA was its investment in AAA Investments, L.P. ( AAA Investments ). The following tables represent each investment of AAA Investments constituting more than five percent of the net assets of the consolidated funds and VIEs as of the aforementioned dates:

| | June 30, 2011 | | | |
|---|---|---|---|---|
| | **Instrument Type** | **Cost** | **Fair Value** | **% of Net Assets of Consolidated Funds and VIEs** |
| Apollo Life Re Ltd. | Equity | $ 201,098 | $ 278,700 | 15.3% |
| Momentive Performance Materials Holdings Inc. | Equity | 76,007 | 184,323 | 10.1 |
| Apollo Strategic Value Offshore Fund, Ltd. | Investment Fund | 113,772 | 172,258 | 9.5 |
| Rexnord Corporation | Equity | 37,461 | 138,700 | 7.6 |
| Charter Communications, Inc. | Equity | 44,585 | 124,075 | 6.8 |
| LeverageSource, L.P. | Equity | 139,851 | 120,060 | 6.6 |
| Apollo Asia Opportunity Offshore Fund, Ltd. | Investment Fund | 96,357 | 101,281 | 5.6 |
| Caesars Entertainment Corporation | Equity | 176,729 | 95,100 | 5.2 |

| | December 31, 2010 | |
|---|---|---|
| | **Instrument Type** | **Cost** |

| | | | Fair Value | % of Net Assets of Consolidated Funds and VIEs |
|---|---|---|---|---|
| Apollo Life Re Ltd. | Equity | $ 201,098 | $ 249,900 | 12.8% |
| Apollo Strategic Value Offshore Fund, Ltd. | Investment Fund | 113,772 | 160,262 | 8.2 |
| Momentive Performance Materials Holdings Inc. | Equity | 76,007 | 137,992 | 7.1 |
| Rexnord Corporation | Equity | 37,461 | 133,700 | 6.9 |
| LeverageSource, L.P. | Equity | 140,743 | 115,677 | 5.9 |
| Apollo Asia Opportunity Offshore Fund, Ltd. | Investment Fund | 102,530 | 110,029 | 5.6 |
| Caesars Entertainment Corporation | Equity | 176,729 | 99,000 | 5.1 |

In addition to AAA Investments private equity co-investment in Caesars Entertainment Corporation (formerly known as Harrah s Entertainment, Inc.) ( Caesars ), as shown in the tables above, AAA Investments has an ownership interest in LeverageSource, L.P., which owns Caesars debt. AAA Investments combined share of these debt and equity investments is greater than 5% of the net asset of the consolidated funds and VIEs and is valued at $98.8 million and $102.8 million at June 30, 2011 and December 31, 2010, respectively. In addition to AAA Investments private equity co-investment in Momentive Performance Materials Holdings Inc. ( Momentive ) noted above, AAA Investments has an ownership interest in the debt of Momentive. AAA Investments combined share of these debt and equity investments is greater than 5% of the net assets of consolidated funds and VIEs and is valued at $185.1 million and $138.8 million at June 30, 2011 and December 31, 2010, respectively. Furthermore, AAA Investments owns equity, as a private equity co-investment, and debt, through its investment in Autumnleaf, L.P. and Apollo Fund VI BC, L.P., in CEVA Logistics. AAA Investments combined share of CEVA Logistics debt and equity investments was greater than 5% of the net assets of consolidated funds and was valued at $165.2 million and $124.6 million as of June 30, 2011 and December 31, 2010, respectively.

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Apollo Strategic Value Offshore Fund, Ltd. (the Apollo Strategic Value Fund ) primarily invests in the securities of leveraged companies in North America and Europe through three core strategies: distressed investments, value-driven investments and special opportunities. In connection with the redemptions requested by AAA Investments of its investment in the Apollo Strategic Value Fund, the remainder of AAA Investments investment in the Apollo Strategic Value Fund, was converted into liquidating shares issued by the Apollo Strategic Value Fund. The liquidating shares are generally allocated a pro rata portion of each of Apollo Strategic Value Fund s existing investments and liabilities, and as those investments are sold, AAA Investments is allocated the proceeds from such disposition less its proportionate share of any expenses incurred by the Apollo Strategic Value Fund.

Apollo Asia Opportunity Offshore Fund, Ltd. ( Asia Opportunity Fund ) is an investment vehicle that seeks to generate attractive risk-adjusted returns across market cycles by capitalizing on investment opportunities created by the increasing demand for capital in the rapidly expanding Asian markets. In connection with a redemption requested by AAA Investments of its investment in Asia Opportunity Fund, a portion of AAA Investments investment was converted into liquidating shares issued by the Asia Opportunity Fund. The liquidating shares are generally allocated a pro rata portion of each of Asia Opportunity Fund s existing investments and liabilities, and as those investments are sold, AAA Investments is allocated the proceeds from such disposition less its proportionate share of any expenses incurred or reserves set by Asia Opportunity Fund. At June 30, 2011, the liquidating shares of Asia Opportunity Fund had a fair value of $38.6 million.

Apollo Life Re Ltd. is an Apollo-sponsored vehicle that owns the majority of the equity of Athene Holding Ltd., the parent of Athene Life Re Ltd. ( Athene ), a Bermuda-based reinsurance company focusing on the life reinsurance sector, Liberty Life Insurance Company, a recently acquired South Carolina-domiciled stock life insurance company focused on retail sales and reinsurance in the retirement services market, and Athene Life Insurance Company, a recently organized Indiana-domiciled stock life insurance company focused on the Institutional Guaranteed Investment Contracts (GIC)-backed note and funding agreement markets.

**HFA**

On March 7, 2011, the Company invested $52.1 million (including expenses related to the purchase) in a convertible note with an aggregate principal amount of $50.0 million and received 20,833,333 stock options issued by HFA, an Australian based specialist global funds management company providing absolute return fund products to investors.

The terms of the convertible note allow the Company to convert the note, in whole or in part, into common shares of HFA at an exchange rate equal to the principal plus accrued payment-in-kind interest (or PIK interest) divided by US$0.98 at any time, and convey participation rights, on an as-converted basis, in any dividends declared in excess of $6.0 million per annum, as well as seniority rights over HFA common equity holders. Unless previously converted, repurchased or cancelled, the note shall be converted on the eighth anniversary of its issuance. Additionally, the note has a percentage coupon interest of 6% per annum, paid via principal capitalization (PIK interest) for the first four years, and thereafter either in cash or via principal capitalization at HFA s discretion. The PIK provides for the Company to receive additional common shares of HFA if the note is converted. The Company has elected the fair value option for the convertible note. The convertible note was valued using an as if-converted basis . The terms of the stock options allow for the Company to acquire 20,833,333 fully paid ordinary shares of HFA at an exercise price in Australian Dollars ( A$ ) of A$8.00 (exchange rate of A$1.00 to $1.07 as of June 30, 2011) per stock option. The stock options became exercisable upon issuance and expire on the eighth anniversary of the issuance date. The stock options are accounted for as a derivative and are valued at their fair value under U.S. GAAP at each balance sheet date. As a result, for the three and six months ended June 30, 2011, the Company recorded an unrealized gain of approximately $2.2 million and $20.1 million, respectively, related to the convertible note and stock options within net gains (losses) from investment activities in the condensed consolidated statements of operations.

The Company has classified all instruments associated with the HFA investment as Level III.

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**Net Gains (Losses) from Investment Activities**

Net gains (losses) from investment activities in the condensed consolidated statements of operations include net realized gains from sales of investments, and the change in net unrealized gains (losses) resulting from changes in fair value of the affiliated funds investments and realization of previously unrealized gains (losses). The following tables present Apollo s net gains (losses) from investment activities for the three and six months ended June 30, 2011 and 2010:

| | Three Months Ended June 30, 2011 | | |
|---|---|---|---|
| | **Private Equity** | **Capital Markets** | **Total** |
| Net unrealized gains due to changes in fair value | $ 61,079 | $ 2,232 | $ 63,311 |
| Net Gains from Investment Activities | $ 61,079 | $ 2,232 | $ 63,311 |

| | Three Months Ended June 30, 2010 | | |
|---|---|---|---|
| | **Private Equity** | **Capital Markets** | **Total** |
| Net unrealized losses due to changes in fair value | $ (9,961) | $ (1,044) | $ (11,005) |
| Net Losses from Investment Activities | $ (9,961) | $ (1,044) | $ (11,005) |

| | Six Months Ended June 30, 2011 | | |
|---|---|---|---|
| | **Private Equity** | **Capital Markets** | **Total** |
| Net unrealized gains due to changes in fair value | $ 201,179 | $ 20,061 | $ 221,240 |
| Net Gains from Investment Activities | $ 201,179 | $ 20,061 | $ 221,240 |

| | Six Months Ended June 30, 2010 | | |
|---|---|---|---|
| | **Private Equity** | **Capital Markets** | **Total** |
| Net unrealized gains (losses) due to changes in fair value | $ 102,990 | $ (2,274) | $ 100,716 |
| Net Gains (Losses) from Investment Activities | $ 102,990 | $ (2,274) | $ 100,716 |

**Other Investments**

Other Investments primarily consist of equity method investments. Apollo s share of operating income (loss) generated by these investments is recorded within income from equity method investments in the condensed consolidated statements of operations.

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Income (loss) from equity method investments for the three and six months ended June 30, 2011 and 2010 consisted of the following:

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Investments: | | | | |
| Private Equity Funds: | | | | |
| AAA Investments | $ 39 | $ (3) | $ 119 | $ 64 |
| Apollo Investment Fund IV, L.P. ( Fund IV ) | 2 | 13 | 12 | 16 |
| Apollo Investment Fund V, L.P. ( Fund V ) | 12 | (12) | 17 | 25 |
| Apollo Investment Fund VI, L.P. ( Fund VI ) | 222 | 139 | 2,896 | (241) |
| Apollo Investment Fund VII, L.P. ( Fund VII ) | 3,295 | 2,655 | 13,665 | 2,703 |
| Capital Markets Funds: | | | | |
| Apollo Special Opportunities Managed Account, L.P. | (152) | 114 | 142 | 321 |
| Apollo Value Investment Fund, L.P. | (11) | 7 | 4 | 13 |
| Apollo Strategic Value Fund, L.P. | (6) | (1) | 3 | 8 |
| Apollo Credit Liquidity Fund, L.P. | (197) | (1,563) | 496 | (1,088) |
| Apollo/Artus Investors 2007-I, L.P. | (97) | 487 | 369 | 1,191 |
| Apollo Credit Opportunity Fund I, L.P. ( COF I ) | 175 | (1,190) | 4,360 | (2,130) |
| Apollo Credit Opportunity Fund II, L.P. ( COF II ) | 323 | (363) | 938 | 172 |
| Apollo European Principal Finance Fund, L.P. | 1,516 | 357 | 2,863 | 1,960 |
| Apollo Investment Europe II, L.P. | 235 | (569) | 1,410 | (111) |
| Apollo Palmetto Strategic Partnership, L.P. | 173 | 11 | 521 | 133 |
| Real Estate: | | | | |
| Apollo Commercial Real Estate Finance, Inc. | 175 | 263 | 312 | 120 |
| CPI Capital Partners NA Fund | 81 | | 81 | |
| CPI Capital Partners Asia Pacific Fund | 14 | | 14 | |
| Other Equity Method Investments: | | | | |
| VC Holdings, L.P. Series A ( Vantium A ) | (683) | (96) | (1,306) | (526) |
| VC Holdings, L.P. Series C ( Vantium C ) | 174 | (2,010) | 220 | 3,514 |
| VC Holdings, L.P. Series D ( Vantium D ) | 80 | 49 | 60 | 24 |
| Total Income (loss) from Equity Method Investments | $ 5,370 | $ (1,712) | $ 27,196 | $ 6,168 |

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Other investments as of June 30, 2011 and December 31, 2010 consisted of the following:

| | Equity Held as of | | | |
|---|---|---|---|---|
| | **June 30, 2011** | **% of Ownership** | **December 31, 2010** | **% of Ownership** |
| Investments: | | | | |
| Private Equity Funds: | | | | |
| AAA Investments | $ 1,034 | 0.056% | $ 929 | 0.056% |
| Fund IV | 28 | 0.006 | 48 | 0.005 |
| Fund V | 228 | 0.013 | 231 | 0.013 |
| Fund VI | 8,531 | 0.069 | 5,860 | 0.051 |
| Fund VII | 129,482 | 1.333 | 122,384 | 1.345 |
| Capital Markets Funds: | | | | |
| Apollo Special Opportunities Managed Account, L.P. | 5,992 | 0.540 | 5,863 | 0.537 |
| Apollo Value Investment Fund, L.P. | 157 | 0.084 | 152 | 0.085 |
| Apollo Strategic Value Fund, L.P. | 146 | 0.055 | 144 | 0.055 |
| Apollo Credit Liquidity Fund, L.P. | 15,780 | 2.305 | 18,736 | 2.450 |
| Apollo/Artus Investors 2007-I, L.P. | 6,441 | 6.156 | 7,143 | 6.156 |
| Apollo Credit Opportunity Fund I, L.P. | 44,234 | 1.957 | 41,793 | 1.949 |
| Apollo Credit Opportunity Fund II, L.P | 26,257 | 1.446 | 27,415 | 1.441 |
| Apollo European Principal Finance Fund, L.P. | 17,192 | 1.363 | 15,352 | 1.363 |
| Apollo Investment Europe II, L.P. | 9,563 | 2.051 | 8,154 | 2.045 |
| Apollo Palmetto Strategic Partnership, L.P. | 7,228 | 1.186 | 6,403 | 1.186 |
| Apollo Senior Floating Rate Fund ( AFT ) | 100 | 0.034 | | |
| Apollo/JH Loan Portfolio, L.P. | 100 | 0.191 | | |
| Apollo Residential Mortgage, Inc. | 1 | | | |
| Real Estate: | | | | |
| Apollo Commercial Real Estate Finance, Inc. | 9,195[(2)] | 3.198[(2)] | 9,440[(1)] | 3.198[(1)] |
| AGRE U.S. Real Estate Fund | 5,963 | 5.892 | | |
| CPI Capital Partners NA Fund | 592 | 0.332 | | |
| CPI Capital Partners Europe Fund | 5 | 0.001 | | |
| CPI Capital Partners Asia Pacific Fund | 227 | 0.040 | | |
| Other Equity Method Investments: | | | | |
| Vantium A | 914 | 14.773 | 2,219 | 12.240 |
| Vantium C | 7,853 | 2.163 | 10,135 | 2.166 |
| Vantium D | 1,121 | 6.345 | 1,061 | 6.345 |
| Total Other Investments | $ 298,364 | | $ 283,462 | |

(1) Amounts are as of September 30, 2010.
(2) Amounts are as of March 31, 2011.

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For the six months ended June 30, 2011, four equity method investees held by Apollo individually exceeded 20% of it s total consolidated income. As such, Apollo is required to present summarized aggregate income statement information for the four equity method investees, which is presented as follows:

| | Private Equity | | Capital Markets | | Aggregate Totals | |
|---|---|---|---|---|---|---|
| | For the Six Months Ended June 30, | | For the Six Months Ended June 30, | | For the Six Months Ended June 30, | |
| **Income Statement Information** | **2011** | **2010** | **2011** | **2010** | **2011** | **2010** |
| Revenues/investment income | $ 412,393 | $ 227,248 | $ 124,500 | $ 36,986 | $ 536,893 | $ 264,234 |
| Expenses | (90,394) | (83,609) | (53,026) | (42,174) | (143,420) | (125,783) |
| Net Investment Income (Loss) | 321,999 | 143,639 | 71,474 | (5,188) | 393,473 | 138,451 |
| Net Realized and Unrealized Gain (Loss) | 1,881,709 | 450,192 | 240,929 | (43,236) | 2,122,638 | 406,956 |
| Net Income (Loss) | $ 2,203,708 | $ 593,831 | $ 312,403 | $ (48,424) | $ 2,516,111 | $ 545,407 |

**Fair Value Measurements**

The following table summarizes the valuation of Apollo s investments in fair value hierarchy levels as of June 30, 2011 and December 31, 2010:

| | Level I | | Level II | | Level III | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** |
| Assets, at fair value: | | | | | | | | |
| Investment in AAA Investments, L.P. | $ | $ | $ | $ | $ 1,810,577 | $ 1,637,091 | $ 1,810,577 | $ 1,637,091 |
| Investments in HFA and Other | | | | | 72,498 | | 72,498 | |
| Total | $ | $ | $ | $ | $ 1,883,075 | $ 1,637,091 | $ 1,883,075 | $ 1,637,091 |

| | Level I | | Level II | | Level III | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** | **June 30, 2011** | **December 31, 2010** |
| Liabilities, at fair value: | | | | | | | | |
| Interest rate swap agreements | $ | $ | $ 8,475 | $ 11,531 | $ | $ | $ 8,475 | $ 11,531 |
| Total | | $ | 8,475 | $ 11,531 | | $ | 8,475 | $ 11,531 |

There were no transfers between Level I, II or III during the three and six months ended June 30, 2011 relating to assets and liabilities, at fair value, noted in the tables above.

The following table summarizes the changes in AAA Investments, which is measured at fair value and characterized as a Level III investment:

| | For the Three Months Ended June 30 | | For the Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Balance, Beginning of Period | $ 1,777,191 | $ 1,437,947 | $ 1,637,091 | $ 1,324,939 |
| Purchases | 307 | 286 | 307 | 343 |
| Distributions | (28,000) | (16,991) | (28,000) | (16,991) |
| Change in unrealized gains (losses), net | 61,079 | (9,961) | 201,179 | 102,990 |
| Balance, End of Period | $ 1,810,577 | $ 1,411,281 | $ 1,810,577 | $ 1,411,281 |

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The following table summarizes the changes in investment in HFA and Other, which is measured at fair value and characterized as a Level III investment:

| | For the Three Months Ended June 30 2011 | For the Six Months Ended June 30 2011 |
|---|---|---|
| Balance, Beginning of Period | $ 69,898 | $ |
| Purchases | 2,437 | 54,506 |
| Change in unrealized gains, net | 2,232 | 20,061 |
| Expenses incurred | (2,069) | (2,069) |
| Balance, End of Period | $ 72,498 | $ 72,498 |

The change in unrealized gains, net have been recorded within the caption Net gains (losses) from investment activities in the condensed consolidated statements of operations.

The following table summarizes a look-through of the Company s Level III investments by valuation methodology of the underlying securities held by AAA Investments:

| | Private Equity | | | |
|---|---|---|---|---|
| | June 30, 2011 | | December 31, 2010 | |
| | | % of Investment of AAA | | % of Investment of AAA |
| Approximate values based on net asset value of the underlying funds, which are based on the funds underlying investments that are valued using the following: | | | | |
| Comparable company and industry multiples | $ 989,599 | 49.4% | $ 782,775 | 42.6% |
| Discounted cash flow models | 485,978 | 24.3 | 490,024 | 26.6 |
| Listed quotes | 297,948 | 14.9 | 24,232 | 1.3 |
| Broker quotes | 209,018 | 10.4 | 504,917 | 27.5 |
| Other net assets(1) | 20,082 | 1.0 | 37,351 | 2.0 |
| Total Investments | 2,002,625 | 100.0% | 1,839,299 | 100.0% |
| Other net liabilities(2) | (192,048) | | (202,208) | |
| Total Net Assets | $ 1,810,577 | | $ 1,637,091 | |

(1) Balances include other assets and liabilities of certain funds in which AAA Investments has invested. Other assets and liabilities at the fund level primarily include cash and cash equivalents, broker receivables and payables and amounts due to and from affiliates. Carrying values approximate fair value for other assets and liabilities, and accordingly, extended valuation procedures are not required.

(2) Balances include other assets, liabilities and general partner interests of AAA Investments and are primarily comprised of $400.5 million and $537.5 million in long-term debt offset by cash and cash equivalents at the June 30, 2011 and December 31, 2010 balance sheet dates, respectively. Carrying values approximate fair value for other assets and liabilities (except for debt), and, accordingly, extended valuation procedures are not required.

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## 4. VARIABLE INTEREST ENTITIES

The Company consolidates entities that are VIEs of which the Company has been designated as the primary beneficiary. The purpose of such VIEs is to provide strategy-specific investment opportunities for investors in exchange for management and performance based fees. The investment strategies of the entities that the Company manages may vary by entity, however, the fundamental risks of such entities have similar characteristics, including loss of invested capital and the return of carried interest income previously distributed to the Company by certain private equity and capital markets entities. The nature of the Company s involvement with VIEs includes direct and indirect investments and fee arrangements. The Company does not provide performance guarantees and has no other financial obligations to provide funding to VIEs other than its own capital commitments.

**Consolidated Variable Interest Entities**

In accordance with the methodology described in note 2, Apollo consolidated four VIEs under the amended consolidation guidance during 2010 and consolidated a fifth VIE during the three months ended June 30, 2011.

One of the consolidated VIEs was formed to purchase loans and bonds in a leveraged structure for the benefit of its limited partners, which included certain Apollo funds that contributed equity to the consolidated VIE. Through its role as general partner of this VIE, it was determined that Apollo had the characteristics of the power to direct the activities that most significantly impact the VIE s economic performance. Additionally, the Apollo funds have involvement with the VIE that have the characteristics of the right to receive benefits from the VIE that could potentially be significant to the VIE. As a group, the Company and its related parties have the characteristics of a controlling financial interest. Apollo determined that it is the party within the related party group that is most closely associated with the VIE and therefore should consolidate it.

Three of the consolidated VIEs including the VIE formed during the three months ended June 30, 2011 were formed for the sole purpose of issuing collateralized notes to investors, which include one Apollo fund. The assets of these VIEs are primarily comprised of senior secured loans and the liabilities are primarily comprised of debt. Through its role as collateral manager of these VIEs, it was determined that Apollo had the power to direct the activities that most significantly impact the economic performance of these VIEs. Additionally, Apollo determined that the potential fees that it could receive directly and indirectly from these VIEs represent rights to returns that could potentially be significant to such VIEs. As a result, Apollo determined that it is the primary beneficiary and therefore should consolidate the VIEs.

The fifth VIE was formed during the fourth quarter of 2010 which qualified as an asset-backed financing entity and the Company determined that it was the primary beneficiary. Based on a restructuring of this VIE which occurred later in the fourth quarter of 2010, the Company no longer possessed the power to direct the activities of such VIE resulting in deconsolidation of such VIE in the fourth quarter of 2010.

Apollo holds no equity interest in any of the consolidated VIEs described above. The assets of these consolidated VIEs are not available to creditors of the Company. In addition, the investors in these consolidated VIEs have no recourse to the assets of the Company. The Company has elected the fair value option for financial instruments held by its consolidated VIEs, which includes investments in loans and corporate bonds, as well as debt obligations held by such consolidated VIEs. Other assets include amounts due from brokers and interest receivables. Other liabilities include payables for securities purchased, which represent open trades within the consolidated VIEs and primarily relate to corporate loans that are expected to settle within the next sixty days.

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**Fair Value Measurements**

The following table summarizes the valuation of Apollo s consolidated VIEs in fair value hierarchy levels as of June 30, 2011 and December 31, 2010:

| | Level I | | Level II | | Level III | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 |
| Investments, at fair value(1)(3) | $ | $ | $ 797,134 | $ 1,172,242 | $ 272,991 | $ 170,369 | $ 1,070,125 | $ 1,342,611 |

| | Level I | | Level II | | Level III | | Totals | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 |
| Liabilities, at fair value(2)(3) | $ | $ | $ | $ | $ 1,174,568 | $ 1,127,180 | $ 1,174,568 | $ 1,127,180 |

(1) During the first quarter of 2011, one of the consolidated VIEs sold all of its investments. At December 31, 2010, the cost and fair value of the investments of this VIE were $719.5 million and $684.1 million, respectively. The consolidated VIE had a net investment gain of $16.0 million relating to the sale for the six months ended June 30, 2011, which is reflected in the net (losses) gains from investment activities of consolidated variable interest entities on the condensed consolidated statement of operations.

(2) At December 31, 2010, the cost and fair value of the term loans were $453.9 million and $408.7 million, respectively. The term loans were paid down in the first quarter of 2011, with payments totaling $412.1 million, resulting in a gain of $41.8 million. Combined with net unrealized depreciation on the term loans of $45.2 million, as such, the consolidated VIE had a net loss on term loans of $3.4 million for the six months ended June 30, 2011, which is reflected in the net (losses) gains from investment activities of consolidated variable interest entities on the condensed consolidated statement of operations.

(3) During the three months ended June 30, 2011, the Company consolidated another VIE which included investments and notes. At June 30, 2011, the cost and fair value of the investments of this VIE were $352.7 million and $352.4 million, respectively. At June 30, 2011, the cost and fair value of the term loans were $454.4 million and $448.9 million, respectively.

Level III investments include corporate loan and corporate bond investments held by the consolidated VIEs, while the Level III liabilities consist of notes and loans, the valuations of which are discussed further in note 2. All Level II and III investments were valued using broker quotes. Transfers of investments out of Level III and into Level II or Level I, if any, are recorded as of the quarterly period in which the transfer occurred.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

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The following table summarizes the changes in investments of consolidated VIEs, which are measured at fair value and characterized as a Level III investment:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Balance, Beginning of Period | $ 135,427 | $ 1,121,723 | $ 170,369 | $ |
| Transition adjustment relating to consolidation of VIE on January 1, 2010 | | | | 1,102,114 |
| Purchases | 200,890 | 313,485 | 485,515 | 371,240 |
| Sale of investments | (30,130) | (24,128) | (80,589) | (82,972) |
| Net realized gains | 546 | 819 | 1,834 | 186 |
| Net unrealized gains (losses) | 268 | (36,478) | 2,690 | (15,147) |
| Elimination of equity investment attributable to consolidated VIEs | | (1,054) | | (1,054) |
| Transfers out of Level III | (102,599) | | (398,981) | |
| Transfers into Level III | 68,589 | | 92,153 | |
| Balance, End of Period | $ 272,991 | $ 1,374,367 | $ 272,991 | $ 1,374,367 |

Investments were transferred out of Level III into Level II and into Level III out of Level II, respectively as a result of subjecting the broker quotes on these investments to various criteria which include the number and quality of broker quotes, the standard deviation of obtained broker quotes, and the percentage deviation from independent pricing services.

The following table summarizes the changes in liabilities of consolidated VIEs, which are measured at fair value and characterized as Level III liabilities:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Balance, Beginning of Period | $ 723,232 | $ 702,298 | $ 1,127,180 | $ |
| Transition adjustment relating to consolidation of VIE on January 1, 2010 | | | | 706,027 |
| Elimination of equity investments attributable to consolidated VIEs | 20 | (1,054) | 4 | (1,054) |
| Additions | 454,356 | 320,154 | 454,356 | 320,154 |
| Repayments | | (3,794) | (412,057) | (17,239) |
| Net realized gains on debt | | (681) | (41,819) | (1,679) |
| Net unrealized (gains) losses on debt | (3,040) | (10,375) | 46,904 | 339 |
| Balance, End of Period | $ 1,174,568 | $ 1,006,548 | $ 1,174,568 | $ 1,006,548 |

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**Net (Losses) Gains from Investment Activities of Consolidated Variable Interest Entities**

The following table presents net (losses) gains from investment activities of the consolidated VIEs for the three and six months ended June 30, 2011 and 2010:

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net unrealized (losses) gains from investment activities | $ (6,957) | $ (36,478) | $ 25,190 | $ (15,147) |
| Net realized gains (losses) from investment activities | 2,425 | 819 | (12,619) | 186 |
| Net (losses) gains from investment activities | (4,532) | (35,659) | 12,571 | (14,961) |
| Net unrealized gains (losses) from debt | 3,040 | 10,375 | (46,904) | (339) |
| Net realized gains from debt | | 681 | 41,819 | 1,679 |
| Net gains (losses) from debt | 3,040 | 11,056 | (5,085) | 1,340 |
| Interest and other income | 10,187 | 12,164 | 24,948 | 23,429 |
| Other expenses | (21,064) | (6,993) | (27,715) | (10,073) |
| Net (Losses) Gains from Investment Activities of Consolidated VIEs | $ (12,369) | $ (19,432) | $ 4,719 | $ (265) |

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**Investments of Consolidated VIEs**

The following table presents a condensed summary of the consolidated VIEs investments that are included in the condensed consolidated statements of financial condition as of June 30, 2011 and December 31, 2010:

| | Fair Value as of June 30, 2011 | % of Net Assets of Consolidated Funds and VIEs | Fair Value as of December 31, 2010 | % of Net Assets of Consolidated Funds and VIEs |
|---|---|---|---|---|
| Corporate Loans: | | | | |
| North America | | | | |
| Communications | | | | |
| Intelsat Jackson term loan due February 1, 2014 | $ | N/A | $ 105,659 | 5.4% |
| Other | 92,850 | 5.1% | 221,383 | 11.3 |
| Communications | 92,850 | 5.1 | 327,042 | 16.7 |
| Chemicals | 34,978 | 1.9 | 13,950 | 0.7 |
| Consumer & Retail | 154,642 | 8.4 | 114,931 | 5.9 |
| Distribution & Transportation | 8,561 | 0.5 | 7,794 | 0.4 |
| Energy | 35,860 | 2.0 | 25,026 | 1.3 |
| Financial and Business Services | 144,691 | 8.0 | 85,713 | 4.4 |
| Healthcare | 146,812 | 8.1 | 144,343 | 7.4 |
| Manufacturing & Industrial | 120,298 | 6.6 | 200,290 | 10.3 |
| Media, Cable & Leisure | 138,421 | 7.6 | 93,798 | 4.8 |
| Metals & Mining | 13,072 | 0.7 | 14,025 | 0.7 |
| Packaging & Materials | 31,101 | 1.7 | 21,066 | 1.1 |
| Technology | 114,612 | 6.3 | 34,862 | 1.8 |
| Other | 5,605 | 0.3 | 9,539 | 0.5 |
| Total Corporate Loans North America (amortized cost $1,034,192 and $1,075,287) | 1,041,503 | 57.2 | 1,092,379 | 56.0 |
| Europe | | | | |
| Manufacturing & Industrial | 13,610 | 0.7 | 7,696 | 0.4 |
| Healthcare | | | | |
| Alliance Boots seniors facility B1 due July 5, 2015 | | N/A | 143,105 | 7.3 |
| Consumer & Retail | | N/A | 75,007 | 3.8 |
| Media, Cable & Leisure | | N/A | 10,787 | 0.6 |
| Chemicals | 8,191 | 0.5 | 9,909 | 0.5 |
| Total Corporate Loans Europe (amortized cost $21,639 and $284,760) | 21,801 | 1.2 | 246,504 | 12.6 |
| Total Corporate Loans (amortized cost $1,055,831 and $1,360,047) | 1,063,304 | 58.4 | 1,338,883 | 68.6 |

| | | | | |
|---|---|---|---|---|
| Corporate Bonds: | | | | |
| North America | | | | |
| Communications | | N/A | 1,564 | 0.1 |
| Distribution & Transportation | 3,785 | 0.2 | 4,160 | 0.2 |
| Energy | | N/A | 3,640 | 0.2 |
| Manufacturing & Industrial | | N/A | | |
| Media, Cable & Leisure | 5,151 | 0.3 | 3,550 | 0.2 |
| Total Corporate Bonds North America (amortized cost $8,451 and $12,406) | 8,936 | 0.5 | 12,914 | 0.7 |
| Europe | | | | |
| Media, Cable & Leisure | | N/A | 1,599 | 0.1 |
| Total Corporate Bonds Europe (amortized cost $0 and $1,519) | | N/A | 1,599 | 0.1 |
| Total Corporate Bonds (amortized cost $8,451 and $13,925) | 8,936 | 0.5 | 14,513 | 0.8 |
| Elimination of equity investments attributable to consolidated VIEs | (2,115) | (0.1) | (10,785) | (0.6) |
| Total Investments, at fair value, of Consolidated VIEs (amortized cost $1,064,282 and $1,373,972) | $ 1,070,125 | 58.8% | $ 1,342,611 | 68.8% |

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***Senior Secured Notes, Subordinated Note, Term Loans*** Included within debt are amounts due to third-party institutions of the consolidated VIEs. The following table summarizes the principal provisions of the consolidated VIEs debt as of June 30, 2011 and December 31, 2010:

| | As of June 30, 2011 | | | As of December 31, 2010 | | | | |
|---|---|---|---|---|---|---|---|---|
| **Description** | **Outstanding Principal Balance** | **Fair Value** | **Weighted Average Interest Rate** | **Outstanding Principal Balance** | **Fair Value** | **Weighted Average Interest Rate** | **Maturity Date** | **Interest Rate** |
| Loans: | | | | | | | | |
| Term A Loan | $ | $ | % | $ 146,502 | $ 142,601 | 0.91% | October 29, 2012 | BBA 3 mo. LIBOR (USD) plus 0.5% |
| Term B Loan | | | | 145,390 | 111,655 | 0.91% | June 13, 2013 | BBA 3 mo. LIBOR (GBP) plus 0.5% |
| Term C Loan | | | | 161,984 | 154,394 | 0.91% | October 29, 2013 | BBA 3 mo. LIBOR (USD) plus 0.5% |
| | [1] | [1] | | 453,876 | 408,650 | | | |
| Notes:[2][3] | | | | | | | | |
| Senior secured notes A1 | 215,400 | 215,977 | 2.23 | 215,400 | 215,400 | 2.02% | May 20, 2020 | BBA 3 mo LIBOR (USD) plus 1.7% |
| Senior secured notes A2 | 11,100 | 10,930 | 2.84 | 11,100 | 10,767 | 2.48% | May 20, 2020 | BBA 3 mo LIBOR (USD) plus 2.25% |
| Senior secured notes B | 24,700 | 23,898 | 2.89 | 24,700 | 22,971 | 2.52% | May 20, 2020 | BBA 3 mo LIBOR (USD) plus 2.30% |
| Subordinated note | 70,946 | 69,660 | N/A | 70,946 | 70,376 | N/A | May 20, 2020 | N/A |
| | 322,146 | 320,465 | | 322,146 | 319,514 | | | |
| Notes:[2][4] | | | | | | | | |
| Senior secured notes A1 | 262,000 | 264,017 | 2.10 | 262,000 | 261,371 | 2.22% | November 20, 2020 | BBA 3 mo LIBOR (USD) plus 1.7% |
| Senior secured notes A1 | 20,500 | 20,746 | 2.90 | 20,500 | 19,959 | 3.05% | November 20, 2020 | BBA 3 mo LIBOR (USD) plus 2.5% |
| Senior secured notes B | 25,750 | 25,428 | 3.41 | 25,750 | 24,426 | 3.58% | November 20, 2020 | BBA 3 mo LIBOR (USD) plus 3.0% |
| Senior secured notes C | 14,000 | 13,741 | 4.41 | 14,000 | 12,604 | 4.62% | November 20, 2020 | BBA 3 mo LIBOR (USD) plus 4.0% |
| Senior secured notes D | 10,000 | 9,542 | 6.42 | 10,000 | 9,398 | 6.71% | November 20, 2020 | BBA 3 mo LIBOR (USD) plus 6.0% |
| Subordinated note[5] | 71,258 | 71,779 | N/A | 71,258 | 71,258 | N/A | November 20, 2020 | N/A |
| | 403,508 | 405,253 | | 403,508 | 399,016 | | | |
| Notes:[2][6] | | | | | | | | |
| | 274,500 | 274,500 | 1.67 | | | | July 18, 2022 | BBA 3 mo LIBOR (USD) plus 1.24% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Senior secured notes A | | | | | | | |
| Senior secured notes B | 58,500 | 58,061 | 2.33 | | | July 18, 2022 | BBA 3 mo LIBOR (USD) plus 1.90% |
| Senior secured notes C | 29,812 | 29,365 | 3.18 | | | July 18, 2022 | BBA 3 mo LIBOR (USD) plus 2.75% |
| Senior secured notes D | 20,250 | 18,681 | 3.63 | | | July 18, 2022 | BBA 3 mo LIBOR (USD) plus 3.20% |
| Senior secured notes E | 23,625 | 19,609 | 4.63 | | | July 18, 2022 | BBA 3 mo LIBOR (USD) plus 4.20% |
| Senior secured notes F | 11,270 | 9,185 | 5.93 | | | July 18, 2022 | BBA 3 mo LIBOR (USD) plus 5.50% |
| Subordinated note | 43,350 | 39,449 | N/A | | | July 18, 2022 | N/A |
| | 461,307 | 448,850 | | | | | |
| Total notes and loans | $ 1,186,961 | $ 1,174,568 | | $ 1,179,530 | $ 1,127,180 | | |

(1) At December 31, 2010, the cost and fair value of the term loans were $453.9 million and $408.7 million, respectively. The term loans were paid down in the first quarter of 2011, with payments totaling $412.1 million, resulting in a gain of $41.8 million. Combined with net unrealized depreciation on the term loans of $45.2 million, the consolidated VIE had a net loss on term loans of $3.4 million for the six months ended June 30, 2011, which is reflected in the net (losses) gains from investment activities of consolidated variable interest entities on the condensed consolidated statements of operations.

(2) Each class of notes will mature at par on the stated maturity, unless previously redeemed or repaid. Principal will not be payable on the notes except in certain limited circumstances. Interest on the notes is payable quarterly in arrears on the outstanding amount of the notes on scheduled payment dates. The subordinated note will be fully redeemed on the stated maturity unless previously redeemed. The subordinated note may be redeemed, in whole but not in part, on or after the redemption or repayment in full of principal and interest on the secured notes. No interest accrues or is payable on the subordinated note.

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(3) The notes are subject to two coverage tests. These tests are primarily used to determine whether principal and interest may be paid on the secured notes and distributions may be made on the subordinated notes. The Coverage Tests consist of the Overcollateralization Ratio Test and the Interest Coverage Test; each test applies to each note. The Overcollateralization Ratio Test and Interest Coverage Test applicable to the indicated classes of secured notes will be satisfied as of any date on which such Coverage Test is applicable, if (1) the applicable Overcollateralization Ratio or Interest Coverage Ratio is at least equal to the applicable ratio or (2) the class or classes of secured notes is no longer outstanding. The applicable Interest Coverage Ratio for Class A Notes and B Notes is 110.0% and 105.0%, respectively. The applicable Overcollateralization Ratio for Class A Notes and B Notes is 137.5% and 126.4%, respectively.

(4) The notes are subject to two coverage tests. These tests are primarily used to determine whether principal and interest may be paid on the secured notes and distributions may be made on the subordinated notes. The Coverage Tests consist of the Overcollateralization Ratio Test and the Interest Coverage Test; each test applies to each note. The Overcollateralization Ratio Test and Interest Coverage Test applicable to the indicated classes of secured notes will be satisfied as of any date on which such Coverage Test is applicable, if (1) the applicable Overcollateralization Ratio or Interest Coverage Ratio is at least equal to the applicable ratio or (2) the class or classes of secured notes is no longer outstanding. The applicable Interest Coverage Ratio for Class A Notes, Class B Notes, Class C Notes and Class D Notes is 110.0%, 105.0%, 102.0% and 101.0%, respectively. The applicable Overcollateralization Ratio for Class A Notes, Class B Notes, Class C Notes and Class D Notes is 135.59%, 124.76%, 120.13% and 117.39%, respectively.

(5) The subordinated notes were issued to an affiliate of the Company. Amount is reduced by approximately $2.1 million due to elimination of equity investment attributable to consolidated VIEs as of June 30, 2011 and December 31, 2010, respectively.

(6) The notes are subject to two coverage tests. These tests are primarily used to determine whether principal and interest may be paid on the secured notes and distributions may be made on the subordinated notes or whether funds which would otherwise be used to pay interest on the Secured Notes other than the Class A Notes and the Class B Notes and to make distributions on the Subordinated Notes must instead be used to pay principal on one or more Classes of Secured Notes according to the priorities defined. The Coverage Tests consist of the Overcollateralization Ratio Test and the Interest Coverage Test; each test applies to each specified Class or Classes of Secured Notes. The Overcollateralization Ratio Test and Interest Coverage Test applicable to the indicated classes of secured notes will be satisfied as of any date of determination on which such Coverage Test is applicable, if (1) the applicable Overcollateralization Ratio or Interest Coverage Ratio is at least equal to the applicable ratio or (2) the class or classes of secured notes is no longer outstanding. The applicable Interest Coverage Ratio for Class A and B Notes, Class C Notes and Class D Notes is 100.0% in respect of the first determination date and 120% thereafter, 110.0%, and 105.0%, respectively. The applicable Overcollateralization Ratio for Class A and B Notes, Class C Notes, Class D Notes and Class E Notes is 125.1%, 118.0%, 113.5% and 107.7%, respectively.

The consolidated VIEs have elected the fair value option to value the term loans and notes payable. The general partner uses its discretion and judgment in considering and appraising relevant factors in determining valuation of these loans. As of June 30, 2011, the notes payable are classified as Level III liabilities. Because of the inherent uncertainty in the valuation of the term loans and notes payable, which are not publicly traded, estimated values may differ significantly from the values that would have been reported had a ready market for such investments existed.

The consolidated VIEs debt obligations contain various customary loan covenants as described above. As of the balance sheet date, the Company was not aware of any instances of noncompliance with any of these covenants.

**Variable Interest Entities Which are Not Consolidated**

The Company holds variable interests in certain VIEs which are not consolidated as it has been determined that Apollo is not the primary beneficiary.

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The following tables present the carrying amounts of the assets and liabilities of the VIEs for which Apollo has concluded that it holds a significant variable interest, but that it is not the primary beneficiary. In addition, the tables present the maximum exposure to loss relating to those VIEs:

| | June 30, 2011 | | |
|---|---|---|---|
| | **Total Assets** | **Total Liabilities** | **Apollo Exposure** |
| Private Equity | $ 13,457,451 | $ (32,290) | $ 9,887 |
| Capital Markets | 3,123,834 | (606,859) | 12,736 |
| Real Estate | 1,577,713 | (1,271,954) | |
| Total | $ 18,158,998[(1)] | $ (1,911,103)[(2)] | $ 22,623[(3)] |

(1) Consists of $206,394 in cash, $17,590,304 in investments and $362,300 in receivables.
(2) Represents $1,846,009 in debt and other payables, $63,263 in securities sold, not purchased, and $1,831 in capital withdrawals payable.
(3) Apollo s exposure is limited to its direct and indirect investments in those entities in which Apollo holds a significant variable interest.

| | December 31, 2010 | | |
|---|---|---|---|
| | **Total Assets** | **Total Liabilities** | **Apollo Exposure** |
| Private Equity | $ 11,593,805 | $ (39,625) | $ 13,415 |
| Capital Markets | 3,117,013 | (824,957) | 13,302 |
| Real Estate | 1,569,147 | (1,263,354) | |
| Total | $ 16,279,965[(1)] | $ (2,127,936)[(2)] | $ 26,717[(3)] |

(1) Consists of $207,168 in cash, $15,672,604 in investments and $400,193 in receivables.
(2) Represents $2,011,194 in debt and other payables, $21,369 in securities sold, not purchased, and $95,373 in capital withdrawals payable.
(3) Apollo s exposure is limited to its direct and indirect investments in those entities in which Apollo holds a significant variable interest.

At June 30, 2011 and December 31, 2010, AAA Investments, the sole investment of AAA, invested in certain of the Company s unconsolidated VIEs, including LeverageSource, L.P., AutumnLeaf, L.P., Apollo ALS Holdings, L.P., and A.P. Charter Holdings, L.P. At June 30, 2011 and December 31, 2010, the aggregate amount of such investments were $166.6 million and $251.5 million, respectively. The Company s ownership interest in AAA was 2.43% and 2.81% at June 30, 2011 and December 31, 2010, respectively.

**5. CARRIED INTEREST RECEIVABLE**

The table below provides a roll-forward of the carried interest receivable balance for the six months ended June 30, 2011:

| | Private Equity | Capital Markets | Total |
|---|---|---|---|
| Carried interest receivable at January 1, 2011 | $ 1,578,135 | $ 288,938 | $ 1,867,073 |
| Carried interest income from change in fair value of funds | 580,681 | 142,228 | 722,909 |
| Foreign exchange gain | | 2,241 | 2,241 |
| Fund cash distributions | (289,948) | (101,266) | (391,214) |
| Carried Interest Receivable at June 30, 2011 | $ 1,868,868 | $ 332,141 | $ 2,201,009 |

The timing of the payment of carried interest due to the general partner or investment manager varies depending on the terms of the applicable fund agreements. Generally, carried interest with respect to the private equity funds is payable and is distributed to the fund s general partner upon realization of an investment if the fund s cumulative returns are in excess of the preferred return. For most capital markets funds, carried interest is payable based on realizations after the end of the relevant fund s fiscal year or fiscal quarter, subject to high watermark provisions. There is currently no carried interest receivable associated with the Company s real estate segment.

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## 6. OTHER LIABILITIES

Other liabilities consist of the following:

| | June 30, 2011 | December 31, 2010 |
|---|---|---|
| Interest rate swap agreements | $ 8,475 | $ 11,531 |
| Deferred rent | 12,608 | 10,318 |
| Deferred taxes | 4,350 | 2,424 |
| Other | 963 | 1,422 |
| Total Other Liabilities | $ 26,396 | $ 25,695 |

***Interest Rate Swap Agreements*** The principal financial instruments used for cash flow hedging purposes are interest rate swaps. Apollo enters into interest rate swap agreements to manage its exposure to interest rate changes. The swaps effectively converted a portion of the Company s variable rate debt under the AMH Credit Agreement (discussed in note 8) to a fixed rate, without exchanging the notional principal amounts. Apollo entered into an interest rate swap agreement whereby Apollo receives floating rate payments in exchange for fixed rate payments of 5.175%, on the notional amount of $167.0 million, effectively converting a portion of its floating rate borrowings to a fixed rate. The interest rate swap agreement expires in May 2012. Apollo has hedged only the risk related to changes in the benchmark interest rate (three month LIBOR). As of June 30, 2011 and December 31, 2010, the Company has recorded a liability of $8.5 million and $11.5 million, respectively, to recognize the fair value of this derivative.

The Company has determined that the valuation of the interest rate swaps fall within Level II of the fair value hierarchy. The Company estimates the fair value of its interest rate swaps using discounted cash flow models, which project future cash flows based on the instruments contractual terms using market-based expectations for interest rates. The Company also includes a credit risk adjustment to the cash flow discount rate to incorporate the impact of non-performance risk in the recognized measure of the fair value of the swaps. This adjustment is based on the counterparty s credit risk when the swaps are in a net asset position and on the Company s own credit risk when the swaps are in a net liability position.

## 7. INCOME TAXES

The Company is treated as a partnership for tax purposes and is therefore not subject to U.S. Federal income taxes; however, APO Corp., a wholly-owned subsidiary of the Company, is subject to U.S. Federal corporate income taxes. In addition, certain subsidiaries of the Company are subject to New York City Unincorporated Business Tax ( NYC UBT ) attributable to the Company s operations apportioned to New York City and certain non-U.S. subsidiaries of the Company are subject to income taxes in their local jurisdictions. APO Corp. is required to file a standalone Federal corporate tax return, as well as filing standalone corporate state and local tax returns in California, New York and New York City. The Company s provision for income taxes is accounted for under the provisions of U.S. GAAP.

The Company s provision for income taxes totaled $(3.6) million and $(12.7) million for the three months ended June 30, 2011 and 2010, respectively and $(12.4) million and $(16.8) million for the six months ended June 30, 2011 and 2010, respectively. The Company s effective tax rate was approximately (3.51)% and (4.40)% for the three months ended June 30, 2011 and 2010, respectively and 7.79% and (4.68)% for the six months ended June 30, 2011 and 2010, respectively.

Based upon the Company s review of its federal, state, local and foreign income tax returns and tax filing positions, the Company determined no unrecognized tax benefits for uncertain tax positions were required to be recorded. In addition, the Company does not believe that it has any tax positions for which it is reasonably possible that it will be required to record significant amounts of unrecognized tax benefits within the next twelve months.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and certain state, local, and foreign tax authorities. As of June 30, 2011 and December 31, 2010, Apollo and its predecessor entities U.S. federal, state, local and foreign income tax returns for the years 2008 through 2010 are open under the normal statute of limitations and therefore subject to examination.

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## 8. DEBT

Debt consists of the following:

| | June 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Outstanding Balance | Annualized Weighted Average Interest Rate | Outstanding Balance | Annualized Weighted Average Interest Rate |
| AMH credit agreement | $ 728,273 | 5.52%(1) | $ 728,273 | 3.78%(1) |
| CIT secured loan agreement | 10,511 | 3.37 | 23,252 | 3.50 |
| Total Debt | $ 738,784 | 5.46% | $ 751,525 | 3.77% |

(1) Includes the effect of interest rate swaps.

***AMH Credit Agreement*** On April 20, 2007, Apollo Management Holdings, L.P. ( AMH ) entered into a $1.0 billion seven year credit agreement (the AMH Credit Agreement ). Interest payable under the AMH Credit Agreement may from time to time be based on Eurodollar ( LIBOR ) or Alternate Base Rate ( ABR ) as determined by the borrower. Through the use of interest rate swaps, AMH has irrevocably elected three-month LIBOR for $433 million of the debt for three years from the closing date of the AMH Credit Agreement and $167 million of the debt for five years from the closing date of the AMH Credit Agreement. The interest rate swap agreements related to the $433 million notional amount were comprised of two components: a $333 million portion and a $100 million portion. The interest rate swap agreement related to the $333 million portion expired in May 2010. The interest rate swap agreement related to the $100 million portion expired in November 2010. The interest rate swap agreement related to the $167 million notional amount expires in May 2012. The remaining amount of the debt is computed currently based on three-month LIBOR. The interest rate of the Eurodollar loan, which was amended as discussed below, is the daily Eurodollar rate plus the applicable margin rate (3.75% for loans with extended maturity, as discussed below, and 1.00% for loans without the extended maturity as of June 30, 2011 and 4.25% for loans with extended maturity and 1.50% for loans without the extended maturity as of December 31, 2010). The interest rate on the ABR term loan, which was amended as discussed below, for any day, will be the greatest of (a) the prime rate in effect on such day, (b) the Federal Funds Rate in effect on such day plus 0.5% and (c) the one-month Eurodollar Rate plus 1.00%, in each case plus the applicable margin. The AMH Credit Agreement originally had a maturity date of April 2014.

On December 20, 2010, Apollo amended the AMH Credit Agreement to extend the maturity date of $995.0 million (including the $90.9 million of fair value debt repurchased by the Company) of the term loans from April 20, 2014 to January 3, 2017 and modified certain other terms of the credit facility. Pursuant to this amendment, AMH was required to purchase from each lender that elected to extend the maturity date of its term loan a portion of such extended term loan equal to 20% thereof. In addition, the Company is required to repurchase at least $50.0 million aggregate principal amount of term loans by December 31, 2014 and at least $100.0 million aggregate principal amount of term loans (inclusive of the previously purchased $50.0 million) by December 31, 2015 at a price equal to par plus accrued interest. The sweep leverage ratio was also extended to end at the new loan term maturity date. The interest rate for the highest applicable margin for the loan portion extended changed to LIBOR plus 4.25% and ABR plus 3.25%. On December 20, 2010, an affiliate of AMH that is a guarantor under the AMH Credit Agreement repurchased approximately $180.8 million of term loans in connection with the extension of the maturity date of such loans and thus the AMH loans (excluding the portions held by AMH affiliates) had a remaining balance of $728.3 million. The Company determined that the amendments to the AMH Credit Agreement resulted in a debt extinguishment which did not result in any gain or loss.

The interest rate on the $723.3 million, net ($995.0 million portion less amount repurchased) of the loan at June 30, 2011 was 4.01% and the interest rate on the remaining $5.0 million portion of the loan at June 30, 2011 was 1.26%. The estimated fair value of the Company s long-term debt obligation related to the AMH Credit Agreement is believed to be approximately $743.4 million based on a yield analysis using available market data of comparable securities with similar terms and remaining maturities. The $728.3 million carrying value of debt that is recorded on the condensed consolidated statement of financial condition at June 30, 2011 is the amount for which the Company expects to settle the AMH Credit Agreement.

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As of June 30, 2011 and December 31, 2010, the AMH Credit Agreement is guaranteed by, and collateralized by, substantially all of the assets of Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings IX, L.P. and AMH, as well as cash proceeds from the sale of assets or similar recovery events and any cash deposited pursuant to the excess cash flow covenant, which will be deposited as cash collateral to the extent necessary as set forth in the AMH Credit Agreement. As of June 30, 2011, the consolidated net assets (deficit) of Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings IX, L.P. and AMH and its consolidated subsidiaries were $149.4 million, $67.9 million, $44.7 million, $165.4 million and $(1,012.4) million, respectively. As of December 31, 2010, the consolidated net assets (deficit) of Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings IX, L.P. and AMH were $123.1 million, $24.0 million, $39.0 million, $136.0 million and $(1,126.6) million, respectively.

In accordance with the AMH Credit Agreement, Apollo Principal Holdings II, L.P., Apollo Principal Holdings IV, L.P., Apollo Principal Holdings V, L.P., Apollo Principal Holdings IX, L.P. and AMH and their respective subsidiaries are subject to certain negative and affirmative covenants. Among other things, the AMH Credit Agreement includes an excess cash flow covenant and an asset sales covenant. The AMH Credit Agreement does not contain any financial maintenance covenants.

If AMH s debt to EBITDA ratio (the Leverage Ratio ) as of the end of any fiscal year exceeds the level set forth in the next sentence (the Excess Sweep Leverage Ratio ), AMH must deposit in the cash collateral account the lesser of (a) 100% of its Excess Cash Flow (as defined in the AMH Credit Agreement) and (b) the amount necessary to reduce the Leverage Ratio on a pro forma basis as of the end of such fiscal year to 0.25 to 1.00 below the Excess Sweep Leverage Ratio. The Excess Sweep Leverage Ratio will be: for 2011, 4.00 to 1.00; for 2012, 4.00 to 1.00; for 2013, 4.00 to 1.00; for 2014, 3.75 to 1.00; and for 2015 and thereafter, 3.50 to 1.00.

In addition, AMH must deposit the lesser of (a) 50% of any remaining Excess Cash Flow and (b) the amount required to reduce the Leverage Ratio on a pro forma basis at the end of each fiscal year to a level 0.25 to 1.00 below the Sweep Leverage Ratio (as defined in the next paragraph) for such fiscal year.

If AMH receives net cash proceeds from certain non-ordinary course asset sales, then such net cash proceeds shall be deposited in the cash collateral account to the extent necessary to reduce its Leverage Ratio on a pro forma basis as of the last day of the most recently completed fiscal quarter (after giving effect to such non-ordinary course asset sale and such deposit) to (the following specified levels for the specified years, the Sweep Leverage Ratio ) (i) for 2011, 2012 and 2013, a Leverage Ratio of 3.50 to 1.00, (ii) for 2014, a Leverage Ratio of 3.25 to 1.00, (iii) for 2015, a Leverage Ratio of 3.00 to 1.00 and (iv) for all other years, a Leverage Ratio of 3.00 to 1.00.

The AMH Credit Agreement contains customary events of default, including events of default arising from non-payment, material misrepresentations, breaches of covenants, cross default to material indebtedness, bankruptcy and changes in control of AMH. As of June 30, 2011, the Company was not aware of any instances of non-compliance with the AMH Credit Agreement.

***CIT Secured Loan Agreement*** During the second quarter of 2008, the Company entered into four secured loan agreements totaling $26.9 million with CIT Group/Equipment Financing Inc. ( CIT ) to finance the purchase of certain fixed assets. The loans bear interest at LIBOR plus 318 basis points per annum with interest and principal to be repaid monthly and a balloon payment of the remaining principal totaling $9.4 million due at the end of the terms in April 2013. At June 30, 2011, the interest rate was 3.37%. On April 28, 2011, the Company sold its ownership interest in certain assets which served as collateral to the CIT secured loan agreement for $11.3 million with $11.1 million of the proceeds going to CIT directly. As a result of the sale and an additional payment made by the Company of $1.1 million, the Company satisfied the loan associated with the related asset of $12.2 million on April 28, 2011. As of June 30, 2011, the carrying value of the remaining CIT secured loan agreement is $10.5 million.

Apollo has determined that the carrying value of this debt approximates fair value as the loans are primarily variable rate in nature.

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## 9. NET LOSS PER CLASS A SHARE

U.S. GAAP requires use of the two-class method of computing earnings per share for all periods presented for each class of common stock and participating security as if all earnings for the period had been distributed. Under the two-class method, during periods of net income, the net income is first reduced for dividends declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for dividends declared on participating securities only if the security has the right to participate in the earnings of the entity and an objectively determinable contractual obligation to share in net losses of the entity.

The remaining earnings are allocated to common Class A Shares and participating securities to the extent that each security shares in earnings as if all of the earnings for the period had been distributed. Each total is then divided by the applicable number of shares to arrive at basic earnings per share. For the diluted earnings, the denominator includes all outstanding common shares and all potential common shares assumed issued if they are dilutive. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of these potential common shares.

The table below presents basic and diluted net loss per Class A share using the two-class method for the three and six months ended June 30, 2011 and 2010:

| | Basic and Diluted | | | |
|---|---|---|---|---|
| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Numerator: | | | | |
| Net loss attributable to Apollo Global Management, LLC | $ (50,989) | $ (75,124) | $ (12,833) | $ (135,806) |
| Dividends declared on Class A shares | (26,779)[1] | (6,744)[2] | (43,426)[1] | (6,744)[2] |
| Dividend equivalents on participating securities | (4,706) | (960) | (7,964) | (960) |
| Earnings allocable to participating securities | [3] | [3] | [3] | [3] |
| Net Loss Attributable to Class A Shareholders | $ (82,474) | $ (82,828) | $ (64,223) | $ (143,510) |
| Denominator: | | | | |
| Weighted average number of Class A shares outstanding | 120,963,248 | 96,346,032 | 109,652,330 | 96,065,452 |
| Net loss per Class A share: Basic and Diluted[4] | | | | |
| Distributable Earnings | $ 0.22 | $ 0.07 | $ 0.40 | $ 0.07 |
| Undistributed loss | (0.68) | (0.86) | (0.59) | (1.49) |
| Net Loss per Class A Share | $ (0.46) | $ (0.79) | $ (0.19) | $ (1.42) |

(1) The Company declared a $0.17 dividend on Class A shares on January 4, 2011 and a $0.22 dividend on Class A shares on May 12, 2011. As a result, there is an increase in net loss attributable to Class A shareholders presented during the three and six months ended June 30, 2011.
(2) The Company declared a $0.07 dividend on Class A shares in May 2010. As a result, there is an increase in net loss attributable to Class A shareholders presented during the three and six months ended June 30, 2010.
(3) No allocation of losses was made to the participating securities as the holders do not have a contractual obligation to share in losses of the Company with the Class A shareholders.
(4) For the three and six months ended June 30, 2011 and 2010, unvested RSUs, AOG Units and the share options were determined to be anti-dilutive. Therefore, basic and diluted net loss per share is presented as identical for these periods.

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On October 24, 2007, the Company commenced the granting of restricted share units ( RSUs ) that provide the right to receive, upon vesting, Class A shares of Apollo Global Management, LLC, pursuant to the 2007 Omnibus Equity Incentive Plan. Certain RSU grants to Company employees during 2010 and 2011 provide the right to receive distribution equivalents on vested RSUs on an equal basis any time a distribution is declared. The Company refers to these RSU grants as Plan Grants. For certain Plan Grants made before 2010, distribution equivalents are paid in January of the calendar year next following the calendar year in which a distribution on Class A shares was declared. In addition, certain RSU grants to Company employees in 2010 and 2011 (the Company refers to these as Bonus Grants ) provide that both vested and unvested RSUs participate in distribution equivalents on an equal basis with the Class A shareholders any time a distribution is declared. As of June 30, 2011, approximately 16.6 million vested RSUs and 6.5 million unvested RSUs were eligible for participation in distribution equivalents.

Any distribution equivalent paid to an employee will not be returned to the Company upon forfeiture of the award by the employee. Vested and unvested RSUs that are entitled to non-forfeitable distribution equivalents qualify as participating securities and are included in the Company s basic and diluted earnings per share computations using the two-class method. The holder of a RSU participating security would have a contractual obligation to share in the losses of the entity if the holder is obligated to fund the losses of the issuing entity or if the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. Because the RSU participating securities do not have a mandatory redemption amount and the holders of the participating securities are not obligated to fund losses, neither the vested RSUs nor the unvested RSUs are subject to any contractual obligation to share in losses of the Company.

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Holders of AOG Units are subject to the vesting requirements and transfer restrictions set forth in the agreements with the respective holders, and may up to four times each year (subject to the terms of the exchange agreement) exchange their AOG Units for Class A shares on a one-for-one basis. A limited partner must exchange one partnership unit in each of the eight Apollo Operating Group partnerships to effect an exchange for one Class A share. If fully converted, the result would be an additional 240,000,000 Class A shares added to the diluted earnings per share calculation.

Apollo has one Class B share outstanding, which is held by Holdings. The voting power of the Class B share is reduced on a one vote per one AOG Unit basis in the event of an exchange of AOG Units for Class A shares, as discussed above. The Class B share has no net income (loss) per share as it does not participate in Apollo s earnings (losses) or distributions. The Class B share has no distribution or liquidation rights. The Class B share has voting rights on a pari passu basis with the Class A shares. The Class B share currently has a super voting power of 240,000,000 votes.

On March 12, 2010, the Company issued 0.7 million Class A shares in exchange for vested RSUs. This issuance caused the Company s ownership interest in the Apollo Operating Group to increase to 28.6% from 28.5%. As Holdings did not participate in this Class A share issuance, its ownership interest in the Apollo Operating Group decreased from 71.5% to 71.4%.

On July 9, 2010 and July 23, 2010, the Company issued a total of 1.6 million Class A shares in exchange for vested RSUs. This issuance caused the Company s ownership interest in the Apollo Operating Group to increase to 29.0% from 28.6%. As Holdings did not participate in this Class A share issuance, its ownership interest in the Apollo Operating Group decreased from 71.4% to 71.0%.

On September 16, 2010, the Company repurchased 7,135 Class A shares from an employee who left the firm. This repurchase did not cause a material change to the Company s ownership interest in the Apollo Operating Group.

On September 30, 2010, the Company issued 11,405 Class A shares in exchange for vested RSUs. This issuance did not cause a material change to the Company s ownership interest in the Apollo Operating Group.

On January 8, 2011, the Company issued 2,287 Class A shares in exchange for vested RSUs. This issuance did not cause a material change to the Company s ownership interest in the Apollo Operating Group.

On March 15, 2011, the Company issued 1.5 million Class A shares in exchange for vested RSUs. This issuance caused the Company s ownership interest in the Apollo Operating Group to increase to 29.3% from 29.0%. As Holdings did not participate in this Class A share issuance, its ownership interest in the Apollo Operating Group decreased from 71.0% to 70.7% for Class A shares issued a change in ownership.

On April 4, 2011, the Company issued 21.5 million Class A shares as part of the IPO for net proceeds of $382.5 million. This issuance caused the Company s ownership interest in the Apollo Operating Group to increase to 33.5% from 29.3%. As Holdings did not participate in this IPO, its ownership interest in the Apollo Operating Group decreased from 70.7% to 66.5%.

On April 7, 2011, the Company issued 0.75 million Class A shares in exchange for vested RSUs. This issuance caused the Company s ownership interest in the Apollo Operating Group to increase to 33.7% from 33.5%. As Holdings did not participate in this Class A share issuance, its ownership interest in the Apollo Operating Group decreased from 66.5% to 66.3%.

**10. EQUITY-BASED COMPENSATION**

**AOG Units**

As a result of the service requirement, the fair value of the AOG Units of approximately $5.6 billion is being charged to compensation expense on a straight-line basis over the five or six year service period, as applicable. For the six months ended June 30, 2011 and 2010, $516.4 million and $516.7 million of compensation expense was recognized, respectively. For the three months ended June 30, 2011 and 2010, $258.2 million and $258.3 million of compensation expense was recognized, respectively. The estimated forfeiture rate was 3% for Contributing Partners and 0% for Managing Partners based on actual forfeitures as well as the Company s future forfeiture expectations. As of June 30, 2011, there was $1.0 billion of total unrecognized compensation cost related to unvested AOG Units that are expected to vest over the next two years.

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The following table summarizes AOG activity for the six months ended June 30, 2011:

| | Apollo Operating Group Units | Weighted Average Grant Date Fair Value |
|---|---|---|
| Balance at January 1, 2011 | 66,742,906 | $ 23.13 |
| Granted | | |
| Forfeited | | |
| Vested at June 30, 2011 | (22,074,848) | 23.39 |
| Balance at June 30, 2011 | 44,668,058 | $ 23.00 |

***Units Expected to Vest*** As of June 30, 2011, approximately 44,400,000 AOG Units are expected to vest over the next two years.

**RSUs**

On October 24, 2007, the Company commenced the granting of RSUs under the Company s 2007 Omnibus Equity Incentive Plan. These grants are accounted for as a grant of equity awards in accordance with U.S. GAAP. The fair value of Plan Grants made in 2011 was approximately $88.7 million, which is based on valuation methods that consider market comparables for transfer restrictions and lack of distributions until vested. For Bonus Grants, the valuation methods consider transfer restrictions and timing of distributions. The total fair value will be charged to compensation expense on a straight-line basis over the vesting period, which generally can be up to 24 quarters or annual vesting over three years. The actual forfeiture rate was 0.9% and 7.1% for the six months ended June 30, 2011 and 2010, respectively, and 0.4% and 2.8% for the three months ended June 30, 2011 and 2010, respectively. For the six months ended June 30, 2011 and 2010, $50.8 million and $35.2 million of compensation expense was recognized, respectively. For the three months ended June 30, 2011 and 2010, $27.0 million and $20.7 million of compensation expense was recognized, respectively.

**Delivery of Class A Shares**

The delivery of RSUs does not cause a transfer of amounts in the Condensed Consolidated Statement of Changes in Shareholders Equity to the Class A Shareholders. The delivery of Class A shares for vested RSUs causes the income allocated to the Non-Controlling Interests to shift to the Class A shareholders from the date of delivery forward. For the three months ended, the Company delivered 0.75 million Class A shares in settlement of vested RSUs, which caused the Company s ownership interest in the Apollo Operating Group to increase to 33.7% from 33.5%. Upon conversion of the AOG Units, there will be a transfer of amounts from Non-Controlling Interests to the Company s equity.

The following table summarizes RSU activity for the six months ended June 30, 2011:

| | Unvested | Weighted Average Grant Date Fair Value | Vested | Total Number of RSUs |
|---|---|---|---|---|
| Balance at January 1, 2011 | 23,442,916 | $ 10.25 | 15,642,921 | 39,085,837 |

| | | | | | |
|---|---|---|---|---|---|
| Granted | 5,467,855 | | 16.23 | | 5,467,855 |
| Forfeited | (266,724) | | 10.61 | | (266,724) |
| Delivered | | | 8.83 | (2,777,155) | (2,777,155) |
| Vested at June 30, 2011 | (3,763,510) | | 11.26 | 3,763,510 | |
| Balance at June 30, 2011 | 24,880,537 | $ | 11.41 | 16,629,276(1) | 41,509,813 |

(1) Amount excludes RSUs which have vested and have been delivered.

***Units Expected to Vest*** As of June 30, 2011, approximately 23,400,000 RSUs are expected to vest.

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**Share Options**

Under the Company s 2007 Omnibus Equity Incentive Plan, 5,000,000 options were granted on December 2, 2010. These options shall vest and become exercisable with respect to 4/24 of the option shares on December 31, 2011 and the remainder in equal installments over each of the remaining 20 quarters with full vesting on December 31, 2016. In addition, 555,556 options were granted on January 22, 2011 and 25,000 options were granted on April 9, 2011. The options granted on January 22, 2011 shall vest and become exercisable with respect to half of the option shares on December 31, 2011 and the other half on December 31, 2012. The options granted on April 9, 2011 shall vest and become exercisable with respect to half of the options shares on December 31, 2011 and the other half in four equal quarterly installments starting on March 31, 2012 and thereafter, ending on December 31, 2012. For the three and six months ended June 30, 2011, $1.8 million and $3.2 million of compensation expense was recognized as a result of these grants, respectively.

Apollo measures fair value of each option award on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for options awarded during 2011:

| **Assumptions:** | **2011** (2) |
|---|---|
| Risk-free interest rate | 2.79% |
| Weighted average expected dividend yield | 2.25% |
| Expected volatility factor | 40.22%(1) |
| Expected life in years | 5.72 |
| Fair Value of options per share | $ 8.44 |

(1) The Company determined its expected volatility based on comparable companies using daily stock prices.
(2) Represents weighted average of 2011 grants.

The following table summarizes the share option activity for the six months ended June 30, 2011:

| | Options Outstanding | Weighted Average Exercise Price | Aggregate Fair Value | Weighted Average Remaining Contractual Term |
|---|---|---|---|---|
| Balance at January 1, 2011 | 5,000,000 | $ 8.00 | $ 28,100 | 9.92 |
| Granted | 580,556 | 9.39 | 4,896 | 9.59 |
| Exercised | | | | |
| Forfeited | | | | |
| Balance at June 30, 2011 | 5,580,556 | $ 8.14 | $ 32,996 | 9.43 |

***Units Expected to Vest*** As of June 30, 2011, approximately 5,250,000 options are expected to vest.

The expected term of the options granted represents the period of time that options are expected to be outstanding and is based on the contractual term of the option. Unamortized compensation cost related to unvested share options at June 30, 2011 was $29.6 million and is expected to be recognized over a period of 5.1 years. None of the share options were vested or exercisable at June 30, 2011.

**AAA RDUs**

Incentive units that provide the right to receive AAA restricted depository units ( RDUs ) following vesting are granted periodically to employees of Apollo. These grants are accounted for as equity awards in accordance with U.S. GAAP. The RDUs subject to incentive units granted to employees generally vest over three years. In contrast, the Company s Managing Partners and Contributing Partners have received distributions of fully vested AAA RDUs. The fair value of the grants is recognized on a straight-line basis over the vesting period (or upon grant in the case of fully vested AAA RDUs). Vested AAA RDUs can be converted into ordinary common units of AAA. During the six months ended June 30, 2011 and 2010, the actual forfeiture rate was 0% and 2.5%, respectively. During the three months ended June 30, 2011 and 2010, the actual forfeiture rate was 0% and 0.5%, respectively. For the six months ended June 30, 2011 and 2010, $0.2 million and $1.3 million of compensation expense was recognized, respectively. For the three months ended June 30, 2011 and 2010, $0.1 million and $0.7 million of compensation expense was recognized, respectively.

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During the six months ended June 30, 2011 and 2010, the Company delivered 389,785 and 389,892 RDUs, respectively, to individuals who had vested in these units. The delivery in 2011 resulted in a reduction of the accrued compensation liability of $3.8 million and the recognition of a net decrease of additional paid in capital of $2.8 million. These amounts are presented in the condensed consolidated statement of changes in shareholders equity. There was $0.2 million and $1.4 million of liability for undelivered RDUs included in accrued compensation and benefits in the condensed consolidated statements of financial condition as of June 30, 2011 and 2010, respectively. The following table summarizes RDU activity for the six months ended June 30, 2011:

| Unvested | Weighted Average Grant Date Fair Value | &nbs |
|---|---|---|