Apollo Global Management LLC
Form 10-Q
May 07, 2013
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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 MARCH 31, 2013

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 , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (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 May 7, 2013 there were 132,295,332 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, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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 are intended to identify forward-looking statements. Although managem 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, credit 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 Annual Report on Form 10-K filed with the United States Securities and Exchange Commission (SEC) on March 1, 2013, 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 quarterly report 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.

Terms Used in This Report

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

AMH refers to Apollo Management Holdings, L.P., a Delaware limited partnership owned by APO Corp. and Holdings;

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 ;

Assets Under Management, or AUM, refers to the investments 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 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 credit funds, other than certain collateralized loan obligations (CLOs), which we measure by using the mark-to-market value of the aggregate principal amount of the underlying CLO and collateralized debt obligation (CDO) credit funds that have a fee generating basis other than mark-to-market assets or liabilities, plus used or available leverage and/or capital commitments;

(iii) the gross asset value or net asset value of our real estate entities and the structured portfolio company investments included within the funds we manage, which includes the leverage used by such structured portfolio companies;

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(iv) the incremental value associated with the reinsurance investments of the portfolio company assets that we manage; and

(v) the fair value of any other investments 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.

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. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers.

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 par asset value, adjusted cost of all unrealized portfolio investments, capital commitments, adjusted assets, stockholders equity, invested capital or capital contributions, each as defined in the applicable management agreement. Monitoring fees, also referred to as advisory fees, generally are based on the total value of certain structured portfolio company investments, which normally includes leverage, less any portion of such total value that is already considered in fee-generating AUM.

Non-fee generating AUM consists of assets that do not produce management fees or monitoring fees. These assets generally consist of the following:

(i) fair value above invested capital for those funds that earn management fees based on invested capital;

(ii) net asset values related to general partner and co-investment ownership;

(iii) unused credit facilities;

(iv) available commitments on those funds that generate management fees on invested capital;

(v) structured portfolio company investments that do not generate monitoring fees; and

(vi) the difference between gross asset 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;

carried interest, carried interest income, and incentive income refer to interests granted to Apollo by an Apollo fund that entitle Apollo to receive allocations, distributions or fees which are based on the performance of such fund or its underlying investments;

Contributing Partners refer to those of our partners (and their related parties) who indirectly own (through Holdings) Apollo Operating Group units;

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feeder funds refer to funds that operate by placing substantially all of their assets in, and conducting substantially all of their investment and trading activities through, a master fund, which is designed to facilitate collective investment by the participating feeder funds. With respect to certain of our funds that are organized in a master-feeder structure, the feeder funds are permitted to make investments outside the master fund when deemed appropriate by the fund s investment manager;

gross IRR of a private equity fund represents the cumulative investment-related cash flows for all of the investors in the fund on the basis of the actual timing of investment inflows and outflows (for unrealized investments assuming disposition on March 31, 2013 or other date specified) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund s investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund s investors;

Holdings means AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership through which our Managing Partners and Contributing Partners hold their Apollo Operating Group units;

Managing Partners refer 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;

net IRR of a private equity fund means the gross IRR applicable to all investors, including related parties which may not pay fees, net of management fees, organizational expenses, transaction costs, and certain other fund expenses (including interest incurred by the fund itself). The realized and the estimated unrealized value is adjusted such that a percentage of up to 20.0% of the unrealized gain is allocated to the general partner, thereby reducing the balance attributable to fund investors carried interest all offset to the extent of interest income, and measures returns based on amounts that, if distributed, would be paid to investors of the fund, to the extent that an private equity fund exceeds all requirements detailed within the applicable fund agreement;

net return represents the calculated return that is based on month-to-month changes in net assets and is calculated using the returns that have been geometrically linked based on capital contributions, distributions and dividend reinvestments, as applicable;

our manager means AGM Management, LLC, a Delaware limited liability company that is controlled by our Managing Partners;

permanent capital means capital of publicly traded vehicles that do not have redemption provisions or a requirement to return capital to investors upon exiting the investments made with such capital, except as required by applicable law, such as AP Alternative Assets, L.P., Apollo Investment Corporation, Apollo Commercial Real Estate Finance, Inc., Apollo Residential Mortgage, Inc., Apollo Tactical Income Fund, Inc., and Apollo Senior Floating Rate Fund Inc.; such publicly traded vehicles may be required, or elect, to return all or a portion of capital gains and investment income;

private equity investments refer to (i) direct or indirect investments in existing and future private equity funds managed or sponsored by Apollo, (ii) direct or indirect co-investments with existing and future private equity funds managed or sponsored by Apollo, (iii) direct or indirect investments in securities which are not immediately capable of resale in a public market that Apollo identifies but does not pursue through its private equity funds, and (iv) investments of the type described in (i) through (iii) above made by Apollo funds; and

Strategic Investors refers to the California Public Employees Retirement System, or CalPERS, and an affiliate of the Abu Dhabi Investment Authority, or ADIA.

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APOLLO GLOBAL MANAGEMENT, LLC

CONDENSED CONSOLIDATED STATEMENTS

OF FINANCIAL CONDITION (UNAUDITED)

(dollars in thousands, except share data)

	March 31, 2013	December 31, 2012
Assets:		
Cash and cash equivalents	$ 899,272	$ 946,225
Cash and cash equivalents held at Consolidated Funds		1,226
Restricted cash	8,409	8,359
Investments	2,155,995	2,138,096
Assets of consolidated variable interest entities:		
Cash and cash equivalents	1,720,327	1,682,696
Investments, at fair value	12,684,131	12,689,535
Other assets	264,111	299,978
Carried interest receivable	2,551,153	1,878,256
Due from affiliates	189,981	173,312
Fixed assets, net	51,933	53,452
Deferred tax assets	539,464	542,208
Other assets	49,555	36,765
Goodwill	48,894	48,894
Intangible assets, net	126,112	137,856
Total Assets	**$ 21,289,337**	**$ 20,636,858**
Liabilities and Shareholders Equity		
Liabilities:		
Accounts payable and accrued expenses	$ 35,215	$ 38,337
Accrued compensation and benefits	54,518	56,125
Deferred revenue	309,048	252,157
Due to affiliates	476,390	477,451
Profit sharing payable	1,116,829	857,724
Debt	737,711	737,818
Liabilities of consolidated variable interest entities:		
Debt, at fair value	11,347,332	11,834,955
Other liabilities	969,996	634,053
Other liabilities	66,597	44,855
Total Liabilities	**15,113,636**	**14,933,475**
Commitments and Contingencies (see note 12)		
Shareholders Equity:		
Apollo Global Management, LLC shareholders equity:		
Class A shares, no par value, unlimited shares authorized, 132,145,332 shares and 130,053,993 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively		
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at March 31, 2013 and December 31, 2012		
Additional paid in capital	2,913,814	3,043,334
Accumulated deficit	(1,915,855)	(2,142,020)
Appropriated partners capital	1,760,270	1,765,360

Accumulated other comprehensive income	142	144
Total Apollo Global Management, LLC shareholders equity	2,758,371	2,666,818
Non-Controlling Interests in consolidated entities	2,031,029	1,893,212
Non-Controlling Interests in Apollo Operating Group	1,386,301	1,143,353
Total Shareholders Equity	**6,175,701**	**5,703,383**
Total Liabilities and Shareholders Equity	**$ 21,289,337**	**$ 20,636,858**

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 March 31, 2013	Three Months Ended March 31, 2012
Revenues:		
Advisory and transaction fees from affiliates	$ 47,419	$ 27,236
Management fees from affiliates	150,447	127,178
Carried interest income from affiliates	1,111,207	622,329
Total Revenues	1,309,073	776,743
Expenses:		
Compensation and benefits:		
Equity-based compensation	45,286	148,866
Salary, bonus and benefits	73,396	65,071
Profit sharing expense	423,620	249,024
Incentive fee compensation		35
Total Compensation and Benefits	542,302	462,996
Interest expense	7,518	11,380
Professional fees	16,060	11,527
General, administrative and other	22,941	19,207
Placement fees	9,358	921
Occupancy	9,805	8,726
Depreciation and amortization	14,618	8,473
Total Expenses	622,602	523,230
Other Income:		
Net gains from investment activities	52,133	157,708
Net gains (losses) from investment activities of consolidated variable interest entities	47,861	(16,201)
Income from equity method investments	27,790	43,251
Interest income	3,091	1,614
Other income, net	1,298	5,816
Total Other Income	132,173	192,188
Income before income tax provision	818,644	445,701
Income tax provision	(18,579)	(14,560)
Net Income	800,065	431,141
Net income attributable to Non-Controlling Interests	(551,087)	(333,098)
Net Income Attributable to Apollo Global Management, LLC	$ 248,978	$ 98,043
Distributions Declared per Class A Share	$ 1.05	$ 0.46

Net Income Per Class A Share:		
Net Income Per Class A Share Basic	$ 1.60	$ 0.66
Net Income Per Class A Share Diluted	$ 1.59	$ 0.66
Weighted Average Number of Class A Shares Basic	131,249,034	125,269,253
Weighted Average Number of Class A Shares Diluted	136,019,801	127,515,663

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC

CONDENSED CONSOLIDATED STATEMENTS

OF COMPREHENSIVE INCOME (UNAUDITED)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2013	2012
Net Income	**$ 800,065**	**$ 431,141**
Other Comprehensive Income, net of tax:		
Net unrealized gain on interest rate swaps (net of taxes of $0 and $237 for Apollo Global Management, LLC for the three months ended March 31, 2013 and 2012, respectively) and $0 for Non-Controlling Interests in Apollo Operating Group for both the three months ended March 31, 2013 and 2012)		1,602
Net income (loss) on available-for-sale securities (from equity method investment)	(2)	2
Total Other Comprehensive Income (loss), net of tax	(2)	1,604
Comprehensive Income	**800,063**	**432,745**
Comprehensive Income attributable to Non-Controlling Interests	(512,845)	(364,601)
Comprehensive Income Attributable to Apollo Global Management, LLC	**$ 287,218**	**$ 68,144**

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)

THREE MONTHS ENDED MARCH 31, 2013 AND 2012

(dollars in thousands, except share data)

	Apollo Global Management, LLC Shareholders									
	Class A Shares	Class B Shares	Additional Paid in Capital	Accumulated Deficit	Appropriated Partners Capital	Accumulated Other Comprehensive (Loss) Income	Total Apollo Global Management, LLC Total Shareholders Equity	Non-Controlling Interests in Consolidated Entities	Non-Controlling Interests in Apollo Operating Group	Total Shareholders Equity
Balance at January 1, 2012	**123,923,042**	**1**	**$ 2,939,492**	**$ (2,426,197)**	**$ 213,594**	**$ (488)**	**$ 726,401**	**$ 1,444,767**	**$ 477,153**	**$ 2,648,321**
Capital increase related to equity-based compensation			72,003				72,003		76,330	148,333
Capital contributions								7,351		7,351
Cash distributions								(2,030)		(2,030)
Distributions			(68,386)				(68,386)		(110,400)	(178,786)
Distributions related to deliveries of Class A shares for RSUs	2,387,698		13	(19,478)			(19,465)			(19,465)
Purchase of AAA shares								(50,321)		(50,321)
Non-cash distributions				(822)			(822)	(1,249)		(2,071)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities			(2,301)				(2,301)	2,301		
Satisfaction of liability related to AAA RDUs			997				997			997
Net income (loss)				98,043	(30,294)		67,749	149,996	213,396	431,141
Net gain on available-for-sale securities (from equity method investment)						2	2			2
Net unrealized gain on interest rate swaps (net of taxes of $237 and $0 for Apollo Global Management, LLC and Non-Controlling Interests in Apollo Operating Group, respectively)						393	393		1,209	1,602
Balance at March 31, 2012	**126,310,740**	**1**	**$ 2,941,818**	**$ (2,348,454)**	**$ 183,300**	**$ (93)**	**$ 776,571**	**$ 1,550,815**	**$ 657,688**	**$ 2,985,074**
	130,053,993	**1**	**$ 3,043,334**	**$ (2,142,020)**	**$ 1,765,360**	**$ 144**	**$ 2,666,818**	**$ 1,893,212**	**$ 1,143,353**	**$ 5,703,383**

Balance at January 1, 2013										
Dilution impact of issuance of Class A shares			825				825			825
Capital increase related to equity-based compensation			34,290				34,290		9,702	43,992
Capital contributions								191,045		191,045
Distributions			(163,738)		(43,332)		(207,070)	(20,431)	(252,000)	(479,501)
Distributions related to deliveries of Class A shares for RSUs	2,091,339		(3)	(22,813)			(22,816)			(22,816)
Purchase of AAA shares								(62,326)		(62,326)
Net transfers of AAA ownership interest to (from) Non-Controlling Interests in consolidated entities			(1,930)				(1,930)	1,930		
Satisfaction of liability related to AAA RDUs			1,036				1,036			1,036
Net income				248,978	38,242		287,220	27,599	485,246	800,065
Net loss on available-for-sale securities (from equity method investment)						(2)	(2)			(2)
Balance at March 31, 2013	**132,145,332**	**1**	**$ 2,913,814**	**$ (1,915,855)**	**$ 1,760,270**	**$ 142**	**$ 2,758,371**	**$ 2,031,029**	**$ 1,386,301**	**$ 6,175,701**

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2013 and 2012

(dollars in thousands, except share data)

	2013	2012
Cash Flows from Operating Activities:		
Net income	$ 800,065	$ 431,141
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity-based compensation	45,286	148,866
Depreciation and amortization	2,874	2,417
Amortization of intangible assets	11,744	6,055
Amortization of debt issuance costs	128	128
Unrealized gains from investment in HFA and other investments	(3,660)	(3,664)
Non-cash interest income	(824)	(893)
Income from equity awards received for directors fees	(612)	(373)
Income from equity method investment	(27,790)	(43,251)
Waived management fees		(6,791)
Non-cash compensation expense related to waived management fees		6,791
Change in fair value of contingent obligations	13,431	
Deferred taxes, net	15,877	11,424
Changes in assets and liabilities:		
Carried interest receivable	(672,897)	(501,238)
Due from affiliates	(16,812)	(22,579)
Other assets	(12,925)	517
Accounts payable and accrued expenses	(3,122)	3,097
Accrued compensation and benefits	(2,126)	2,942
Deferred revenue	56,891	37,312
Due to affiliates	(20,538)	(68,875)
Profit sharing payable	245,674	215,943
Other liabilities	9,430	4,555
Apollo Funds related:		
Net realized gains from investment activities	(51,172)	(2,376)
Net unrealized gains from investment activities	(72,982)	(224,217)
Net realized losses on debt	7,603	
Net unrealized losses on debt	88,236	88,578
Distributions from investment activities	62,189	50,000
Change in cash held at consolidated variable interest entities	(37,631)	(99,906)
Purchases of investments	(2,464,952)	(884,940)
Proceeds from sale of investments and liquidating distributions	2,541,951	499,512
Change in other assets	35,867	(2,456)
Change in other liabilities	335,922	62,097
Net Cash Provided by (Used in) Operating Activities	**885,125**	**(290,184)**
Cash Flows from Investing Activities:		
Purchases of fixed assets	(1,352)	(831)
Cash contributions to equity method investments	(39,318)	(12,017)
Cash distributions from equity method investments	41,182	13,593
Change in restricted cash	(50)	915

Net Cash Provided by Investing Activities	**$**	**462**	**$**	**1,660**

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)

THREE MONTHS ENDED MARCH 31, 2013 and 2012

(dollars in thousands, except share data)

	2013	2012
Cash Flows from Financing Activities:		
Principal repayments on debt and repurchase of debt	$ (107)	$ (225)
Distributions related to deliveries of Class A shares for RSUs	(22,813)	(17,020)
Distributions to Non-Controlling Interests in consolidated entities	(3,616)	(2,030)
Contributions from Non-Controlling Interests in consolidated entities	232	2,458
Distributions paid	(144,277)	(61,219)
Distributions paid to Non-Controlling Interests in Apollo Operating Group	(252,000)	(110,400)
Apollo Funds related:		
Issuance of debt	332,250	425,684
Principal repayment on senior secured notes	(911,775)	(2,791)
Purchase of AAA shares	(62,326)	(50,321)
Distributions paid	(43,332)	
Distributions paid to Non-Controlling Interests in consolidated variable interest entities	(16,815)	
Contributions from Non-Controlling Interests in consolidated entities	190,813	4,893
Net Cash (Used in) Provided by Financing Activities	**(933,766)**	**189,029**
Net Decrease in Cash and Cash Equivalents	(48,179)	(99,495)
Cash and Cash Equivalents, Beginning of Period	947,451	744,731
Cash and Cash Equivalents, End of Period	**$ 899,272**	**$ 645,236**
Supplemental Disclosure of Cash Flow Information:		
Interest paid	$ 10,421	$ 13,859
Interest paid by consolidated variable interest entities	31,618	14,176
Income taxes paid	1,432	158
Supplemental Disclosure of Non-Cash Investing Activities:		
Non-cash contributions on equity method investments	$ 816	$ 86
Non-cash distributions from equity method investments	(412)	(468)
Non-cash distributions from investing activities		2,071
Change in accrual for purchase of fixed assets	1	286
Supplemental Disclosure of Non-Cash Financing Activities:		
Non-cash distributions	$	$ (822)
Declared and unpaid distributions	(19,461)	(7,167)
Non-cash distributions to Non-Controlling Interests in consolidated entities		(1,249)
Non-cash contributions from Non-Controlling Interests in Apollo Operating Group related to equity-based compensation	9,702	76,330
Unrealized gain on interest rate swaps to Non-Controlling Interests in Apollo Operating Group, net of taxes		1,209
Satisfaction of liability related to AAA RDUs	1,036	997
Net transfers of AAA ownership interest to Non-Controlling Interests in consolidated entities	1,930	2,301
Net transfer of AAA ownership interest from Apollo Global Management, LLC	(1,930)	(2,301)
Unrealized gain on interest rate swaps		630
Unrealized (loss) gain on available for sale securities (from equity method investment)	(2)	2
Capital increases related to equity-based compensation	34,290	72,003
Dilution impact of issuance of Class A shares	825	

Deferred tax asset related to interest rate swaps		(237)
Tax benefits related to deliveries of Class A shares for RSUs	3	(13)

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC

NOTES TO CONDENSED CONSOLIDATED

FINANCIAL STATEMENTS

(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 investment manager whose predecessor was founded in 1990. Its primary business is to raise, invest and manage private equity, credit and real estate funds as well as strategic investment accounts, on behalf of pension, endowment and sovereign wealth funds, as well as other institutional and individual investors. For these investment 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;
- ***Credit*** primarily invests in non-control corporate and structured debt instruments; 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. Additionally, the Company sponsors real estate funds that focus on opportunistic investments in distressed debt and equity recapitalization transactions.

During the third quarter of 2012, the Company changed the name of its capital markets business segment to the credit segment. The Company believes this new name provides a more accurate description of the types of assets which are managed within this segment. In addition, this segment name change is consistent with the Company s management reporting and organizational structure as well as the manner in which resource deployment and compensation decisions are made.

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 the Quarterly Report on 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 (VIEs) and for which the Company is considered the primary beneficiary, and certain entities which are not considered variable interest entities but which the Company controls through a majority voting interest. Intercompany accounts and transactions have been eliminated upon consolidation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2012 included in the Company s Annual Report on Form 10-K filed with the SEC.

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 2007 Reorganization). The Company is managed and operated by its manager, AGM Management, LLC, which in turn is indirectly wholly-owned and controlled by Leon Black, Joshua Harris and Marc Rowan (the Managing Partners).

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As of March 31, 2013, the Company owned, through three intermediate holding companies that include APO Corp., a Delaware corporation that is a domestic corporation for U.S. Federal income tax purposes, APO Asset Co., LLC, a Delaware limited liability company that is a disregarded entity for U.S. Federal income tax purposes, and APO (FC), LLC, an Anguilla limited liability company that is treated as a corporation for U.S Federal income tax purposes (collectively, the Intermediate Holding Companies), 35.5% of the economic interests of, and operated and controlled all of the businesses and affairs of, the Apollo Operating Group through its wholly-owned subsidiaries.

AP Professional Holdings, L.P., a Cayman Islands exempted limited partnership (Holdings), is the entity through which the Managing Partners and certain of the Company s other partners (the Contributing Partners) indirectly beneficially own, including in certain cases estate planning vehicles (through Holdings), Apollo Operating Group units (AOG Units) that represent 64.5% of the economic interests in the Apollo Operating Group as of March 31, 2013. 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.

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, upon notice, subject to customary conversion rate adjustments for splits, unit distributions and reclassifications. A limited partner in Holdings must exchange one partnership unit in each of the ten Apollo Operating Group partnerships to effectuate an exchange for one Class A share.

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 (e.g., AP Alternative Assets, L.P., (AAA) and the Apollo Credit Senior Loan Fund, L.P. (Apollo Senior Loan Fund)). 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 the Company s 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,

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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 the previous and amended consolidation rules, 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 the previous and amended consolidation rules, 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 if there is a related-party group, and if so, which party within the related-party group is most closely associated with the VIE. The use of these judgments has a material impact to certain components of Apollo s condensed consolidated financial statements.

Certain of the consolidated VIEs were formed to issue collateralized notes in the legal form of debt backed by financial assets. The difference between the fair value of the assets and liabilities of these VIEs is presented within appropriated partners capital in the condensed consolidated statements of financial condition as these VIEs are funded solely with debt. Changes in the fair value of the assets and liabilities of these VIEs and the related interest and other income is presented within net gains from investment activities of consolidated variable interest entities and net (income) loss attributable to Non-Controlling Interests in the condensed consolidated statements of operations. Such amounts are recorded within appropriated partners capital as, in each case, the VIE s note holders, not Apollo, will ultimately receive the benefits or absorb the losses associated with the VIE s assets and liabilities.

Assets and liability amounts of the consolidated VIEs are shown in separate sections within the condensed consolidated statements of financial condition as of March 31, 2013 and December 31, 2012.

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 such entities. Income (loss) from equity method investments is recognized as part of other income (loss) in the condensed consolidated statements of operations. 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, primarily 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.

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Non-Controlling Interests 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 Interests in the condensed consolidated financial statements. As of March 31, 2013, the Non-Controlling Interests relating to Apollo Global Management, LLC primarily includes the 64.5% 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 approximately 97% ownership interest held by limited partners in AAA as of March 31, 2013. Non-Controlling Interests also include limited partner interests of Apollo managed funds in certain consolidated VIEs.

Non-Controlling Interests are presented as a separate component of shareholders equity on the Company s condensed consolidated statements of financial condition. The primary components of Non-Controlling Interests are separately presented in the Company s condensed consolidated statements of changes in shareholders equity to clearly distinguish the interest in the Apollo Operating Group and other ownership interests in the consolidated entities. Net income (loss) includes the net income (loss) attributable to the holders of Non-Controlling Interests on the Company s condensed consolidated statements of operations. Profits and losses are allocated to Non-Controlling Interests in proportion to their relative 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 the Company has with the portfolio companies and debt investment vehicles of the private equity funds and credit 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 the transaction and advisory agreements. Additionally, during the normal course of business, the Company incurs certain costs related to certain transactions that are not consummated (broken deal costs). These costs (e.g. research costs, due diligence costs, professional fees, legal fees and other related items) are determined to be broken deal costs upon management s decision to no longer pursue the transaction. In accordance with the related fund agreement, in the event the deal is deemed broken, all of the costs are reimbursed by the funds and then included in the calculation of the Management Fee Offset described below. If a deal is successfully completed, Apollo is reimbursed by the fund or fund s portfolio company of all costs incurred and no offset is generated.

Advisory and transaction fees from affiliates also include underwriting fees. Underwriting fees include gains, losses and fees, net of syndicate expenses, arising from securities offerings in which one of the Company s subsidiaries participates in the underwriter syndicate. Underwriting fees are recognized at the time the underwriting is completed and the income is reasonably assured and are included in the condensed consolidated statements of operations. Underwriting fees recognized but not received are included in other assets on the condensed consolidated statements of financial condition.

As a result of providing advisory services to certain private equity and credit portfolio companies, Apollo is generally entitled to receive fees for transactions related to the acquisition, in certain cases, and disposition of portfolio companies as well as ongoing monitoring of portfolio company operations and directors fees. 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 may be subject to a reduction based on a certain percentage of such

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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.

Management Fees from Affiliates Management fees for private equity, real estate and credit funds are recognized in the period during which the related services are performed in accordance with the contractual terms of the related agreement, and are generally based upon (1) a percentage of the capital committed during the commitment period, and thereafter based on the remaining invested capital of unrealized investments, or (2) 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 carried interest income from affiliates 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.

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 the fair value option was elected. The unrealized gains and losses resulting from changes in the fair value are reflected as net gains (losses) from investment activities and net gains (losses) 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.

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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, opportunistic credit funds, distressed debt and non-investment grade residual interests in securitizations and CDOs and CLOs 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.

In cases where an investment or financial instrument that is measured and reported at fair value is transferred into or out of Level III of the fair value hierarchy, the Company accounts for the transfer as of the end of the reporting period.

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 close price on the date of determination.

Valuation approaches used to estimate the fair value of investments that are less liquid include the market approach and the income approach. 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, including actual trading levels of similar companies and, to the extent available, actual transaction data of similar companies. Judgment is required by management when assessing which companies are similar to the subject company being valued. 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 and market information and assumptions, general economic and market conditions and other factors deemed relevant. 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.

On a quarterly basis, Apollo utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to our private equity investments. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses. 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.

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Credit Investments

The majority of the investments in Apollo s credit funds are valued based on quoted market prices and valuation models. 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 credit funds also enter into foreign currency exchange contracts, total return swap 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. Total return swap contracts and 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 total return or credit default swap 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 credit 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.

On a quarterly basis, Apollo utilizes a valuation committee consisting of members from senior management, to review and approve the valuation results related to our credit investments. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses.

Real Estate Investments

For the commercial mortgage-backed security (CMBS) portfolio of Apollo s funds, 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 for certain investments. For Apollo s opportunistic and value added real estate funds, 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.

On a quarterly basis, Apollo utilizes a valuation committee, consisting of members from senior management, to review and approve the valuation results related to our real estate investments. The Company also retains independent valuation firms to provide third-party valuation consulting services to Apollo, which consist of certain limited procedures that management identifies and requests them to perform. The limited procedures provided by the independent valuation firms assist management with validating their valuation results or determining fair value. The Company performs various back-testing procedures to validate their valuation approaches, including comparisons between expected and observed outcomes, forecast evaluations and variance analyses.

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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.

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 $793.9 million based on a yield analysis using available market data of comparable securities with similar terms and remaining maturities as of March 31, 2013. However, the carrying value that is recorded on the condensed consolidated statements of financial condition is the amount for which we expect to settle the long term debt obligation. The Company has determined that the long term debt obligation related to the AMH Credit Agreement would be categorized as a Level III liability in the fair-value hierarchy.

Fair Value Option Apollo has elected the fair value option for the convertible notes issued by HFA Holdings Limited (HFA) and 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 the consolidated VIEs that otherwise would not have been carried at fair value. For the convertible notes issued by HFA, Apollo has elected to separately present interest income from other changes in the fair value of the convertible notes in the condensed consolidated statements of operations. Refer to notes 3 and 4 for further disclosure on the investment in HFA and financial instruments of the consolidated VIEs for which the fair value option has been elected.

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. When market quotations are not available, a model based approach is used to determine fair value.

The consolidated VIEs also have debt obligations that are recorded at fair value. The primary valuation methodology used to determine fair value for debt obligation is market quotation. Prices are based on the average of the bid and ask prices. In the event that market quotations are not available, a model based approach is used. The valuation approach used to estimate the fair values of debt obligations for which market quotations are not available 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.

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Compensation and Benefits

Equity-Based Compensation Equity-based compensation is 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 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 include base salaries, discretionary and non-discretionary bonuses, severance and employee benefits. Bonuses are generally accrued over the related 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 three months ended March 31, 2013 and 2012.

Profit Sharing Expense Profit sharing expense primarily consists of a portion of carried interest recognized in one or more funds allocated to employees and former employees. Profit sharing expense is recognized on an accrued basis as the related carried interest income is earned. Profit sharing expense can be reversed during periods when there is a decline in carried interest income that was previously recognized. Additionally, profit sharing expenses previously distributed may be subject to clawback from employees, former employees and Contributing Partners.

Changes in the fair value of the contingent obligations that were recognized in connection with certain Apollo acquisitions are reflected in the Company s condensed consolidated statements of operations as profit sharing expense.

Profit sharing expense is also the result of profits interests issued to certain employees whereby they are entitled to a share in earnings of and any appreciation of the value in a subsidiary of the Company during their term of employment. Profit sharing expense related to these profits interests is recognized ratably over the requisite service period and thereafter will be recognized at the time the distributions are determined.

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

Incentive Fee Compensation Certain employees are entitled to receive a discretionary portion of incentive fee income from certain of our credit funds, based on performance for the year. Incentive fee compensation expense is recognized on an accrual basis as the related carried interest income is earned. Incentive fee compensation expense may be subject to reversal until 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

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investment portfolio between the opening balance sheet date and the closing balance sheet date. The condensed consolidated financial statements include the net realized and unrealized gains (losses) of investments, at fair value.

Net Gains (Losses) 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.

Other Income (Loss), Net Other income (loss), net includes the recognition of bargain purchase gains as a result of Apollo acquisitions, gains (losses) arising from the remeasurement of foreign currency denominated assets and liabilities of foreign subsidiaries, gains (losses) arising from the remeasurement of derivative instruments associated with fees from certain of the Company s affiliates and other miscellaneous non-operating income and expenses.

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 distributions declared on all classes of securities to arrive at undistributed earnings. During periods of net losses, the net loss is reduced for distributions 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 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 a hypothetical 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, contingent consideration obligations related to acquisitions, 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.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued guidance to enhance disclosures about financial instruments and derivative instruments that are either (1) offset or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Under the guidance, an entity is required to disclose quantitative information relating to recognized assets and liabilities that are offset or subject to an enforceable master netting arrangement or similar agreement, including the gross amounts of those recognized assets and liabilities, the amounts offset to determine the net amount presented in the statement of financial position, and the net amount presented in the statement of financial position. With respect to amounts subject to an enforceable master netting arrangement or similar agreement which are not offset, disclosure is required of the amounts related to recognized financial instruments and other derivative instruments, the amount related to financial collateral (including cash collateral), and the overall net amount after considering amounts that have not been offset. The guidance is effective for annual reporting periods beginning on or after January 1, 2013 and interim periods within those annual periods and retrospective application is required. As the amendments are limited to disclosure only, the adoption of this guidance did not have a material impact on the Company s condensed consolidated financial statements.

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In January 2013, the FASB issued guidance to clarify the scope of disclosures about offsetting assets and liabilities. The amendments clarify that the scope of guidance issued in December 2011 to enhance disclosures around financial instruments and derivative instruments that are either (1) offset, or (2) subject to a master netting arrangement or similar agreement, irrespective of whether they are offset, applies to derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for interim and annual periods beginning on or after January 1, 2013. As the amendments are limited to disclosure only, the adoption of this guidance did not have a material impact on the Company s condensed consolidated financial statements.

In July 2012, the FASB issued amended guidance related to testing indefinite-lived intangible assets, other than goodwill, for impairment. Under the revised guidance, entities have the option to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If an entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not to be less than the carrying amount, then the entity must perform the quantitative impairment test; otherwise, further testing would not be required. The amendments are effective for all entities for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance is not expected to have an impact on the Company s condensed consolidated financial statements when the Company performs its annual impairment test in June 2013.

In February 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. The guidance does not change the requirement for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes to the financial statements, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance is effective prospectively for periods beginning after December 15, 2012. As the amendments are limited to presentation and disclosure only, the adoption of this guidance did not have a material impact on the Company s condensed consolidated financial statements.

3. INVESTMENTS

The following table represents Apollo s investments:

	March 31, 2013	**December 31, 2012**
Investments, at fair value	$ 1,735,976	$ 1,744,412
Other investments	420,019	393,684
Total Investments	$ 2,155,995	$ 2,138,096

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Investments, at Fair Value

Investments, at fair value, consist of financial instruments held by AAA, investments held by the Apollo Senior Loan Fund, the Company s investment in HFA and other investments held by the Company at fair value. As of March 31, 2013 and December 31, 2012, the net assets of the consolidated funds (excluding VIEs) were $1,676.7 million and $1,691.3 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:

Investments, at Fair Value Affiliates	March 31, 2013 Fair Value Private Equity	Credit	Total	Cost	% of Net Assets of Consolidated Funds	December 31, 2012 Fair Value Private Equity	Credit	Total	Cost	% of Net Assets of Consolidated Funds
Investments held by:										
AAA	$ 1,652,029	$	$ 1,652,029	$ 1,498,965	98.5%	$ 1,666,448	$	$ 1,666,448	$ 1,561,154	98.5%
Apollo Senior Loan Fund		28,540	28,540	28,091	1.7		27,653	27,653	27,296	1.5
HFA		53,577	53,577	58,639	N/A		48,723	48,723	57,815	N/A
Other Investments	1,830		1,830	3,272	N/A	1,588		1,588	3,563	N/A
Total	$ 1,653,859	$ 82,117	$ 1,735,976	$ 1,588,967	100.2%	$ 1,668,036	$ 76,376	$ 1,744,412	$ 1,649,828	100.0%

Securities

At March 31, 2013 and December 31, 2012, the sole investment held by AAA was its investment in AAA Investments, L.P. (AAA Investments), which is measured based on AAA s share of net asset value of AAA investments. The following tables represent each investment of AAA Investments constituting more than five percent of the net assets of the funds that the Company consolidates (excluding VIEs) as of the aforementioned dates:

	March 31, 2013 Instrument Type	Cost	Fair Value	% of Net Assets of Consolidated Funds	December 31, 2012 Instrument Type	Cost	Fair Value	% of Net Assets of Consolidated Funds
Athene Holding Ltd.(1)	Equity	$ 1,276,366	$ 1,601,066	95.5%	Equity	$ 1,276,366	$ 1,578,954	93.4%

(1) Two subsidiaries of AAA Investments, AAA Guarantor-Athene, L.P. and Apollo Life Re Ltd., own the majority of the equity of Athene Holding Ltd.

AAA Investments owns through its subsidiaries the majority of the equity of Athene Holding Ltd. (together with its subsidiaries, Athene), the direct or indirect parent of the following principal operating subsidiaries: Athene Life Re Ltd., a Bermuda-based reinsurance company focused on the fixed annuity reinsurance sector, Athene Annuity & Life Assurance Company (formerly Liberty Life Insurance Company), a

Delaware-domiciled (formerly South Carolina-domiciled) stock life insurance company focused on retail sales and reinsurance in the retirement services market, Athene Life Insurance Company, a Delaware-domiciled (formerly Indiana-domiciled) stock life insurance company focused on the institutional funding agreement backed note and funding agreement markets, and Presidential Life Insurance Company, a New-York-domiciled stock life insurance company focused on retail sales of fixed annuity products principally in New York.

During the fourth quarter of 2012, AAA and AAA Investments consummated a transaction whereby a wholly-owned subsidiary of AAA Investments contributed substantially all of its investments to Athene Holding Ltd. in exchange for common shares of Athene Holding Ltd., cash and a short term promissory note (the AAA Transaction). After the AAA Transaction, Athene Holding Ltd. was AAA s only material investment and as of March 31, 2013 and December 31, 2012, AAA through its investment in AAA Investments was the largest shareholder of Athene Holding Ltd. with an approximate 72% and 77%, respectively, ownership stake (without giving to effect to restricted common shares issued under Athene s management equity plan).

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Apollo Senior Loan Fund

On December 31, 2011, the Company invested $26.0 million in the Apollo Senior Loan Fund. As a result, the Company became the sole investor in the fund and therefore consolidated the assets and liabilities of the fund. The fund invests in U.S. denominated senior secured loans, senior secured bonds and other income generating fixed-income investments. At least 90% of the Apollo Senior Loan Fund s portfolio of investments must consist of senior secured, floating rate loans or cash or cash equivalents. Up to 10% of the Apollo Senior Loan Fund s portfolio may consist of non-first lien fixed income investments and other income generating fixed income investments, including but not limited to senior secured bonds. The Apollo Senior Loan Fund may not purchase assets rated (tranche rating) at B3 or lower by Moody s, or equivalent rating by another nationally recognized rating agency.

The Company has classified the instruments associated with the Apollo Senior Loan Fund investment as Level II and Level III investments. All Level II and Level III investments of the Apollo Senior Loan Fund were valued using broker quotes.

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.

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 will be converted on the eighth anniversary of its issuance on March 11, 2019. 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 interest 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 is valued using an if-converted basis, which is based on a hypothetical exit through conversion to common equity (for which quoted price exists) as of the valuation date. The Company separately presents interest income in the condensed consolidated statements of operations from other changes in the fair value of the convertible note. For the three months ended March 31, 2013 and 2012, the Company recorded $0.8 million in PIK interest income included in interest income in the condensed consolidated statements of operations. The terms of the stock options allow for the Company to acquire 20,833,333 fully paid ordinary shares of HFA at an exercise price in Australian Dollars (A$) of A$8.00 (exchange rate of A$1.00 to $1.04 and A$1.00 to $1.03 as of March 31, 2013 and 2012, respectively) 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 months ended March 31, 2013 and 2012, the Company recorded an unrealized gain of approximately $4.0 million and $3.4 million, respectively, related to the convertible note and stock options within net gains from investment activities in the condensed consolidated statements of operations.

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

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Net Gains from Investment Activities

Net gains 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 resulting from changes in fair value of the consolidated funds investments and realization of previously unrealized gains. Additionally net gains from investment activities include changes in the fair value of the investment in HFA and other investments held at fair value. The following tables present Apollo s net gains from investment activities for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31, 2013		
	Private Equity	Credit	Total
Realized gains on sales of investments	$	$ 242	$ 242
Change in net unrealized gains due to changes in fair values	47,770	4,121	51,891
Net Gains from Investment Activities	$ 47,770	$ 4,363	$ 52,133

	For the Three Months Ended March 31, 2012		
	Private Equity	Credit	Total
Realized gains on sales of investments	$	$ 91	$ 91
Change in net unrealized gains due to changes in fair values	153,692	3,925	157,617
Net Gains from Investment Activities	$ 153,692	$ 4,016	$ 157,708

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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.

The following table presents income from equity method investments for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31, 2013	2012
Investments:		
Private Equity Funds:		
AAA Investments	$ 27	$ 84
Apollo Investment Fund V, L.P. (Fund V)	7	5
Apollo Investment Fund VI, L.P. (Fund VI)	1,078	2,612
Apollo Investment Fund VII, L.P. (Fund VII)	20,413	24,081
Apollo Natural Resources Partners, L.P. (ANRP)	11	37
AION Capital Partners Limited (AION)	184	
Apollo Asia Private Credit Fund, L.P. (APC)	1	
Credit Funds:		
Apollo Special Opportunities Managed Account, L.P. (SOMA)	384	696
Apollo Value Investment Fund, L.P. (VIF)	7	19
Apollo Strategic Value Fund, L.P. (SVF)	3	15
Apollo Credit Liquidity Fund, L.P. (ACLF)	704	1,888
Apollo/Artus Investors 2007-I, L.P. (Artus)		395
Apollo Credit Opportunity Fund I, L.P. (COF I)	3,574	9,019
Apollo Credit Opportunity Fund II, L.P. (COF II)	888	2,433
Apollo European Principal Finance Fund, L.P. (EPF I)	(331)	644
Apollo Investment Europe II, L.P. (AIE II)	57	903
Apollo Palmetto Strategic Partnership, L.P. (Palmetto)	583	511
Apollo Senior Floating Rate Fund Inc. (AFT)	8	10
Apollo Residential Mortgage, Inc. (AMTG)	486[(1)]	152[(2)]
Apollo European Credit, L.P. (AEC)	76	35
Apollo European Strategic Investments, L.P. (AESI)	152	193
Apollo Centre Street Partnership, L.P. (ACSP)	181	
Apollo Investment Corporation (AINV)	(627)	
Apollo European Principal Finance Fund II, L.P. (EPF II)	63	
Apollo SK Strategic Investments, L.P.	26	
Apollo SPN Investments I, L.P.	(413)	
Apollo Tactical Income Fund Inc. (AIF)	5	
Real Estate:		
Apollo Commercial Real Estate Finance, Inc. (ARI)	223[(1)]	248[(2)]
AGRE U.S. Real Estate Fund, L.P.	14	(53)
CPI Capital Partners North America LP	58	(21)

CPI Capital Partners Asia Pacific, L.P.	2	5
Apollo GSS Holding (Cayman), L.P.	(4)	
Other Equity Method Investments:		
VC Holdings, L.P. Series A (Vantium A/B)	13	(305)
VC Holdings, L.P. Series C (Vantium C)	(8)	(150)
VC Holdings, L.P. Series D (Vantium D)	(47)	242
Other	(8)	(447)
Total Income from Equity Method Investments	$ 27,790	$ 43,251

(1) Amounts are as of December 31, 2012.
(2) Amounts are as of December 31, 2011.

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Other investments as of March 31, 2013 and December 31, 2012 consisted of the following:

	Equity Held as of			
	March 31, 2013	% of Ownership	December 31, 2012	% of Ownership
Investments:				
Private Equity Funds:				
AAA Investments	$ 992	0.058%	$ 998	0.057%
Fund IV	9	0.014	9	0.015
Fund V	179	0.014	173	0.014
Fund VI	10,529	0.090	9,814	0.094
Fund VII	179,797	1.304	164,773	1.316
ANRP	2,429	0.823	2,355	0.903
AION	809	10.000	625	10.000
APC	18	0.059	17	0.058
Credit Funds:				
SOMA	6,269	0.732	5,887	0.643
VIF	148	0.091	141	0.093
SVF	46	0.077	137	0.076
ACLF	9,759	2.573	9,281	2.579
Artus	667	6.156	667	6.156
COF I	35,585	1.914	39,416	1.924
COF II	16,710	1.416	19,654	1.429
EPF I	19,210	1.363	18,329	1.363
AIE II	7,221	2.234	7,207	2.205
Palmetto	14,231	1.186	13,614	1.186
AFT	106	0.034	98	0.034
AMTG[3]	4,753[1]	0.817[1]	4,380[2]	0.811[2]
AEC	1,867	1.064	1,604	1.079
AESI	3,070	1.021	3,076	0.991
ACSP	5,752	2.457	5,327	2.457
AINV[4]	51,135[1]	3.027[1]	51,761[2]	2.955[2]
EPF II	15,126	2.257	5,337	1.316
Apollo SK Strategic Investments, L.P.	1,276	0.990	1,002	0.988
Apollo SPN Investments I, L.P.	1,834	0.686	90	0.083
CION Investment Corporation	1,000	6.500	1,000	22.207
AIF	105	0.037		
Real Estate:				
ARI[3]	12,260[1]	2.002[1]	11,469[2]	2.729[2]
AGRE U.S. Real Estate Fund, L.P.	6,764	1.845	5,210	1.845
CPI Capital Partners North America	410	0.414	455	0.413
CPI Capital Partners Europe	5	0.001	5	0.001
CPI Capital Partners Asia Pacific	177	0.039	186	0.039
Apollo GSS Holding (Cayman), L.P.	2,904	4.950	2,428	4.621
Other Equity Method Investments:				

Vantium A/B	67	6.450	54	6.450
Vantium C	4,914	2.070	5,172	2.071
Vantium D	1,886	6.340	1,933	6.345
Total Other Investments	$ 420,019		$ 393,684	

(1) Amounts are as of December 31, 2012.
(2) Amounts are as of September 30, 2012.
(3) Investment value includes the fair value of RSUs granted to the Company as of the grant date. These amounts are not considered in the percentage of ownership until the RSUs are vested, at which point the RSUs are converted to common stock and delivered to the Company.
(4) The value of the Company s investment in AINV was $51,351 based on the quoted market price as of March 31, 2013 and December 31, 2012.

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As of March 31, 2013 and December 31, 2012 and for the three months ended March 31, 2013 and 2012, no single equity method investee held by Apollo exceeded 20% of its total consolidated assets or income. As such, Apollo is not required to present summarized income statement information for any of its equity method investees.

Fair Value Measurements

The following table summarizes the valuation of Apollo s investments in fair value hierarchy levels as of March 31, 2013 and December 31, 2012:

	Level I		Level II		Level III		Totals	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Assets, at fair value:								
Investment in AAA Investments	$	$	$	$	$ 1,652,029	$ 1,666,448	$ 1,652,029	$ 1,666,448
Investments held by Apollo Senior Loan Fund			28,540	27,063		590	28,540	27,653
Investments in HFA and Other					55,407	50,311	55,407	50,311
Total	$	$	$ 28,540	$ 27,063	$ 1,707,436	$ 1,717,349	$ 1,735,976	$ 1,744,412

There was a transfer of investments from Level III into Level II relating to investments held by the Apollo Senior Loan Fund during the three months ended March 31, 2013 and a transfer from Level II into Level III for the three months ended March 31, 2012 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. For the three months ended March 31, 2013 and 2012, there were no transfers between Level I and Level II investments.

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 March 31,	
	2013	2012
Balance, Beginning of Period	$ 1,666,448	$ 1,480,152
Distributions	(62,189)	(52,071)
Change in unrealized gains, net	47,770	153,692
Balance, End of Period	$ 1,652,029	$ 1,581,773

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

	For the Three Months Ended March 31,	
	2013	2012
Balance, Beginning of Period	$ 50,311	$ 47,757
Purchases	1,435	1,150
Director Fees	(902)	
Change in unrealized gains, net	4,563	3,664
Balance, End of Period	$ 55,407	$ 52,571

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

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The following table summarizes the changes in the Apollo Senior Loan Fund, which is measured at fair value and characterized as a Level III, investment for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
Balance, Beginning of Period	$ 590	$ 456
Purchases of investments	22	
Sale of investments		(460)
Realized gains		9
Change in unrealized gains (losses)	9	(5)
Transfers into Level III		484
Transfers out of Level III	(621)	
Balance, End of Period	$	$ 484

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			
	March 31, 2013		December 31, 2012	
		% 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:				
Discounted cash flow models	$ 1,601,066	96.7%	$ 1,581,975	98.6%
Listed quotes	54,320	3.3	22,029	1.4
Total Investments	1,655,386	100.0%	1,604,004	100.0%
Other net (liabilities) assets[(1)]	(3,357)		62,444	
Total Net Assets	$ 1,652,029		$ 1,666,448	

(1) Balances include other assets, liabilities and general partner interests of AAA Investments. Balance at March 31, 2013 and December 31, 2012 is primarily comprised of $51.2 million and $113.3 million in notes receivable from an affiliate, respectively, less the obligation to

the general partner. Carrying values approximate fair value for other assets and liabilities and, accordingly, extended valuation procedures are not required.

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4. VARIABLE INTEREST ENTITIES

The Company consolidates entities that are VIEs for 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 credit 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. There is no recourse to the Company for the consolidated VIEs liabilities.

The assets and liabilities of the consolidated VIEs are comprised primarily of investments and debt, at fair value, and are included within assets and liabilities of consolidated variable interest entities, respectively, in the condensed consolidated statements of financial condition.

Consolidated Variable Interest Entities

Apollo has consolidated VIEs in accordance with the methodology described in note 2. The majority of the consolidated VIEs were formed for the sole purpose of issuing collateralized notes to investors. 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 assets of these consolidated VIEs are not available to creditors of the Company. In addition, the investors in these consolidated VIEs have no recourse against 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.

Fair Value Measurements

The following table summarizes the valuation of Apollo s consolidated VIEs in fair value hierarchy levels as of March 31, 2013 and December 31, 2012:

	Level I		Level II		Level III		Totals	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Investments, at fair value	$ 345	$ 168	$ 10,917,798	$ 11,045,902	$ 1,765,988	$ 1,643,465	$ 12,684,131	$ 12,689,535

	Level I		Level II		Level III		Totals	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Liabilities, at fair value	$	$	$	$	$ 11,347,332	$ 11,834,955	$ 11,347,332	$ 11,834,955

Level III investments include corporate loan and corporate bond investments held by the consolidated VIEs. Level III liabilities consist of notes and loans, the valuations of which are discussed further in note 2. All Level II investments were valued using broker quotes. Transfers of investments out of Level III and into Level II or Level I, if any, are accounted for as of the end of the reporting period in which the transfer occurred. For the three months ended March 31, 2013 and 2012, there were no transfers between Level I and Level II investments.

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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.

There were no fair value transfers between Level I and Level II during the three months ended March 31, 2013 and 2012.

The following table summarizes the quantitative inputs and assumptions used for investments, at fair value, categorized as Level III in the fair value hierarchy as of March 31, 2013. The disclosure below excludes Level III investments, at fair value, as of March 31, 2013, for which the determination of fair value is based on broker quotes:

	Fair Value at March 31, 2013	Valuation Techniques	Unobservable Inputs	Ranges	Weighted Average
Financial Assets:					
Bank Debt Term Loans	$ 58,567	Discounted Cash Flow Comparable Yields	Discount Rates	10.6% 22.4%	14.75%
Stocks	1,440	Market Comparable Companies	Comparable Multiples	6.0x	6.0x
Total	**$ 60,007**				

The significant unobservable inputs used in the fair value measurement of the bank debt term loans and stocks include the discount rate applied and the multiples applied in the valuation models. These unobservable inputs in isolation can cause significant increases (decreases) in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of an investment; conversely, decreases in the discount rate can significantly increase the fair value of an investment. The discount rate is determined based on the market rates an investor would expect for a similar investment with similar risks. When a comparable multiple model is used to determine fair value, the comparable multiples are generally multiplied by the underlying companies earnings before interest, taxes, depreciation and amortization (EBITDA) to establish the total enterprise value of the company. The comparable multiple is determined based on the implied trading multiple of public industry peers.

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

	For the Three Months Ended March 31, 2013	2012
Balance, Beginning of Period	$ 1,643,465	$ 246,609
Elimination of investments attributable to consolidation of VIEs	(3,902)	
Purchases	384,161	226,945
Sale of investments	(186,861)	(39,274)
Net realized losses	(4,442)	(4,658)
Changes in net unrealized (losses) gains	(1,353)	11,592
Transfers out of Level III	(337,673)	(290,517)
Transfers into Level III	272,593	64,549
Balance, End of Period	$ 1,765,988	$ 215,246
Changes in net unrealized (losses) gains included in Net Gains (Losses) from Investment Activities of consolidated VIEs related to investments still held at reporting date	$ (8,655)	$ 6,236

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 March 31, 2013	2012
Balance, Beginning of Period	$ 11,834,955	$ 3,189,837
Borrowings	332,250	425,684
Repayments	(911,775)	(2,791)
Net realized losses on debt	7,603	
Changes in net unrealized losses from debt	88,236	88,578
Elimination of debt attributable to consolidated VIEs	(3,937)	(772)
Balance, End of Period	$ 11,347,332	$ 3,700,536
	$ 87,186	$ 88,699

Changes in net unrealized losses included in Net Gains (Losses) from Investment Activities of consolidated VIEs related to liabilities still held at reporting date

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

The following table presents net gains (losses) from investment activities of the consolidated VIEs for the three months ended March 31, 2013 and 2012, respectively:

	For the Three Months Ended March 31, 2013	For the Three Months Ended March 31, 2012
Net unrealized gains from investment activities	$ 25,120	$ 70,019
Net realized gains from investment activities	50,930	2,285
Net gains from investment activities	76,050	72,304
Net unrealized losses from debt	(88,236)	(88,578)
Net realized losses from debt	(7,603)	
Net losses from debt	(95,839)	(88,578)
Interest and other income	177,125	45,631
Other expenses	(109,475)	(45,558)
Net Gains (Losses) from Investment Activities of Consolidated VIEs	$ 47,861	$ (16,201)

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Senior Secured Notes and Subordinated Notes Included within debt are amounts due to third-party institutions of the consolidated VIEs. The following table summarizes the principal provisions of the debt of the consolidated VIEs as of March 31, 2013 and December 31, 2012:

	March 31, 2013			December 31, 2012		
	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years	Principal Outstanding	Weighted Average Interest Rate	Weighted Average Remaining Maturity in Years
Senior Secured Notes(2)(3)	$ 10,887,222	1.13%	7.1	$ 11,409,825	1.30%	7.3
Subordinated Notes(2)(3)	1,006,544	N/A(1)	7.5	1,074,904	N/A(1)	7.7
	$ 11,893,766			$ 12,484,729		

(1) The subordinated notes do not have contractual interest rates but instead receive distributions from the excess cash flows of the VIEs.
(2) The fair value of Senior Secured and Subordinated Notes as of March 31, 2013 and December 31, 2012 was $11,347 million and $11,835 million, respectively.
(3) The debt at fair value of the consolidated VIEs is collateralized by assets of the consolidated VIEs and assets of one vehicle may not be used to satisfy the liabilities of another. As of March 31, 2013 and December 31, 2012, the fair value of the consolidated VIE assets was $14,669 million and $14,672 million, respectively. This collateral consisted of cash and cash equivalents, investments, at fair value, and other assets.

The following table provides a summary of the quantitative inputs and assumptions used for liabilities, at fair value, categorized as Level III in the fair value hierarchy as of March 31, 2013. The disclosure below excludes Level III liabilities, at fair value, as of March 31, 2013 for which the determination of fair value is based on broker quotes:

	As of March 31, 2013			
	Fair Value	Valuation Technique	Unobservable Input	Ranges
Subordinated Notes	$ 122,393	Discounted Cash	Discount Rate	17.0%
		Flow	Default Rate	1.5%
			Recovery Rate	80.0%
Senior Secured Notes	$ 2,095,613	Discounted Cash	Discount Rate	1.3% 1.6%
		Flow	Default Rate	2.0%
			Recovery Rate	30.0% 65.0%

The significant unobservable inputs used in the fair value measurement of the subordinated and senior secured notes include the discount rate applied in the valuation models, default and recovery rates applied in the valuation models. These inputs in isolation can cause significant increases (decreases) in fair value. Specifically, when a discounted cash flow model is used to determine fair value, the significant input used in the valuation model is the discount rate applied to present value the projected cash flows. Increases in the discount rate can significantly lower the fair value of subordinated and senior secured notes; conversely, decreases in the discount rate can significantly increase the fair value of subordinated and senior secured notes. The discount rate is determined based on the market rates an investor would expect for similar subordinated and senior secured notes with similar risks.

The consolidated VIEs have elected the fair value option to value the notes payable. The general partner uses its discretion and judgment in considering and appraising relevant factors in determining valuation of these loans. As of March 31, 2013, the debt, at fair value, is classified as Level III liabilities. Because of the inherent uncertainty in the valuation of the 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.

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The consolidated VIEs debt obligations contain various customary loan covenants as described above. As of March 31, 2013, 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.

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.

	March 31, 2013		
	Total Assets	**Total Liabilities**	**Apollo Exposure**
Private Equity	$ 13,141,800	$ (44,134)	$ 6,800
Credit	3,214,196	(256,250)	13,311
Real Estate	1,651,957	(1,198,351)	
Total	$ 18,007,953(1)	$ (1,498,735)(2)	$ 20,111(3)

(1) Consists of $535,570 in cash, $16,847,831 in investments and $624,552 in receivables.
(2) Represents $1,449,553 in debt and other payables, $43,146 in securities sold, not purchased, and $6,036 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, 2012		
	Total Assets	**Total Liabilities**	**Apollo Exposure**
Private Equity	$ 13,498,100	$ (34,438)	$ 7,105
Credit	3,276,198	(545,547)	12,605
Real Estate	1,685,793	(1,237,462)	
Total	$ 18,460,091(1)	$ (1,817,447)(2)	$ 19,710(3)

(1) Consists of $452,116 in cash, $17,092,814 in investments and $915,161 in receivables.
(2) Represents $1,752,294 in debt and othe