APOLLO INVESTMENT CORP
Form N-2/A
September 06, 2007
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As filed with the Securities and Exchange Commission on September 6, 2007

Securities Act Registration No. 333-145804

Investment Company Act of 1940 File No. 814-00646

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

Registration Statement under the Securities Act of 1933	¨
Pre-Effective Amendment No. 1	x
Post-Effective Amendment No.	

Apollo Investment Corporation

(Exact Name of Registrant as Specified in the Declaration of Trust)

9 West 57th Street

New York, NY 10019

(Address of Principal Executive Offices)

Registrant s Telephone Number, including Area Code: (212) 515-3450

John J. Suydam

Gordon E. Swartz

c/o Apollo Investment Corporation

9 West 57th Street

New York, NY 10019

(Name and Address of Agent for Service)

Copies to:

Richard T. Prins, Esq.

Skadden, Arps, Slate, Meagher & Flom LLP

Four Times Square

New York, New York 10036

Approximate date of proposed public offering:

As soon as practicable after the effective date of this Registration Statement

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with dividend or interest reinvestment plans, check the following box x

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

x when declared effective pursuant to section 8(c)

If appropriate, check the following box:

¨ this ______ amendment designates a new effective for a previously filed ______ registration statement.

¨ this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective date is 33-124007

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Shares, $0.001 par value(2)				
Preferred Stock, $0.001 par value(2)				
Warrants(3)				
Debt Securities(4)				
Total(5)			$1,125,000,000(1)	$30,620.81

(1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement. $30,620.81 previously paid with the Registrant s initial filing on August 30, 2007.

(2) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of common stock or preferred stock as may be sold, from time to time.

(3) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of warrants as may be sold, from time to time, representing rights to purchase common stock, preferred stock or debt securities.

(4) Subject to Note 5 below, there is being registered hereunder an indeterminate principal amount of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed $1,125,000,000

(5) In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $1,125,000,000.

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

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Preliminary Base Prospectus dated September 6, 2007

$1,125,000,000

Common Stock

Preferred Stock

Warrants

Debt Securities

Apollo Investment Corporation is a closed-end, non-diversified management investment company that has elected to be treated as a business development company, or BDC, under the Investment Company Act of 1940, or 1940 Act. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in middle-market companies in the form of mezzanine and senior secured loans, each of which may include an equity component, as well as by making direct equity investments in such companies. We can offer no assurances that we will continue to achieve our objective.

Apollo Investment Management, L.P., an affiliate of Apollo Management, L.P., a leading private equity investor, serves as our investment adviser. Apollo Investment Administration, LLC provides the administrative services necessary for us to operate.

We may offer, from time to time, in one or more offerings or series, together or separately, up to $1,125,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, which we refer to, collectively, as the securities. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

Our common stock is quoted on The Nasdaq Global Select Market under the symbol AINV. The last reported closing price for our common stock on August 23, 2007 was $ 21.90 per share.

This prospectus, and the accompanying prospectus supplement, if any, contains important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 9 West 57th Street, New York, NY 10019 or by telephone at (212) 515-3450 or on our website at *www.apolloic.com*. The SEC also maintains a website at *www.sec.gov* that contains such information free of charge.

Investing in our securities involves a high degree of risk. Before buying any securities, you should read the discussion of the material risks of investing in our securities in Risk Factors beginning on page 8 of this prospectus.

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

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

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

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or the SEC, using the shelf registration process. Under the shelf registration process, we may offer, from time to time, up to $1,125,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities on the terms to be determined at the time of the offering. The securities may be offered at prices and on terms described in one or more supplements to this prospectus. This prospectus provides you with a general description of the securities that we may offer. Each time we use this prospectus to offer securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. Please carefully read this prospectus and any prospectus supplement together with any exhibits and the additional information described under the headings Available Information and Risk Factors before you make an investment decision.

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PROSPECTUS SUMMARY

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

Apollo Investment

Apollo Investment Corporation, a Maryland corporation organized on February 2, 2004, is a closed-end, non-diversified management investment company that has elected to be treated as a BDC under the 1940 Act. In addition, for tax purposes we have elected to be treated as a regulated investment company, or RIC, under the Internal Revenue Code of 1986, as amended.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We intend to invest primarily in middle-market companies in the form of mezzanine and senior secured loans, as well as by making equity investments. From time to time, we may also invest in public companies whose securities are thinly traded.

Our portfolio is comprised primarily of investments in long-term subordinated loans, referred to as mezzanine loans, and senior secured loans of private middle-market companies, and from time to time includes equity interests such as common stock, preferred stock, warrants or options. Our targeted investment size typically ranges between $20 million and $250 million, although this investment size may vary proportionately as the size of our capital base changes. In this prospectus, we use the term middle-market to refer to companies with annual revenues between $50 million and $2 billion.

AIM and its affiliates manage other funds that may have investment mandates that are similar, in whole or in part, with ours. AIM and its affiliates may determine that an investment is appropriate both for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, AIM may determine that we should invest on a side-by-side basis with one or more other funds. We may make all such investments subject to compliance with applicable regulations and interpretations, and our allocation procedures. In certain circumstances negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

During our fiscal year ended March 31, 2007, we invested $1.4 billion, across 24 new and several existing portfolio companies. This compares to investing $1.1 billion in 26 new and several existing portfolio companies for the previous fiscal year ended March 31, 2006. Investments sold or prepaid during the fiscal year ended March 31, 2007 totaled $845 million versus $452 million for the fiscal year ended March 31, 2006. Total invested capital since the IPO through March 31, 2007 is $3.4 billion. Of this amount, $2.9 billion were investments in U.S. companies and $527 million was invested in non-U.S. companies. At March 31, 2007, the weighted average yields on our subordinated debt portfolio, senior secured loan portfolio and total debt portfolio were 13.5%, 12.3% and 13.1%, respectively. At March 31, 2006, the yields were 13.6%, 12.2%, and 13.1%, respectively.

At March 31, 2007, our net portfolio consisted of 57 portfolio companies and was invested 61% in subordinated debt, 4% in preferred equity, 9% in common equity and warrants and 26% in senior secured loans versus 46 portfolio companies invested 60% in subordinated debt, 2% in preferred equity, 7% in common equity and 31% in senior secured loans at March 31, 2006.

While our primary focus is to generate both current income and capital appreciation through investments in loans and debt securities, both senior and subordinated, and private equity, we may invest a portion of the portfolio in opportunistic investments, such as foreign securities.

About Apollo

Founded in 1990, Apollo is a leading global alternative asset manager with a proven track record of successful private equity, distressed debt and mezzanine investing. Apollo raises, invests and manages private equity and capital markets funds on behalf of some of the world s most prominent pension and endowment funds as well as other institutional and individual investors. As of June 30, 2007, Apollo had assets under management of approximately $27 billion in its private equity and capital markets businesses.

Apollo s investment approach is value-oriented, focusing on industries in which it has considerable knowledge, and emphasizing downside protection and the preservation of capital. Apollo has successfully applied its investment philosophy in flexible and creative ways over its

17-year history, allowing it to consistently find attractive investment opportunities, deploy capital up and down the balance sheet of industry leading, or franchise, businesses and create value throughout economic cycles.

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Apollo s active private equity investment funds focus on making either control-oriented equity investments or distressed debt investments, either for control or non-control positions. In contrast, we seek to capitalize primarily on the significant investment opportunities emerging in the mezzanine segment of the lending market primarily for middle-market companies, which we believe offers the potential for attractive risk-adjusted returns.

About Apollo

Investment Management

AIM, our investment adviser, is led by a dedicated and growing team of investment professionals and is further supported by Apollo s team of 125 professionals as of June 30, 2007. AIM has now invested more than $3.4 billion in 86 companies with more than 55 financial sponsors since commencement of operations in April 2004. In addition, AIM expects to hire additional investment professionals in the future. AIM s investment committee currently consists of John J. Hannan, the Chairman of our board of directors, our Chief Executive Officer and Chairman of AIM s Investment Committee, James C. Zelter, our President and Chief Operating Officer and a Vice President of the general partner of AIM, Patrick J. Dalton, an Executive Vice President of Apollo Investment and a Vice President of the general partner of AIM, Edward Tam, an Executive Vice President of Apollo Investment and a Vice President of the general partner of AIM and José Briones, a Vice President of the general partner of AIM. The composition of the Investment Committee of AIM may change from time to time. AIM draws upon Apollo s 17 year history and benefits from the Apollo investment professionals significant capital markets, trading and research expertise developed through investments in a multitude of different industries and over 150 companies in the United States and Western Europe.

About Apollo Investment Administration

In addition to furnishing us with office facilities, equipment, and clerical, bookkeeping and record keeping services, AIA also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. AIA oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Furthermore, AIA provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance.

Operating and Regulatory Structure

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

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. See Regulation. We have elected to be treated for federal income tax purposes as a RIC. For more information, see Material U.S. Federal Income Tax Considerations.

Determination of Net Asset Value

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

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

Due to the inherent uncertainty of determining the fair value of our investments, the value of our investments may differ significantly from the values that would have been used had a readily available market existed for such investments, and the differences could be material. Determination of fair values involves subjective judgments and estimates not susceptible to substantiation by auditing procedures. Accordingly, under current auditing standards, the notes to our financial statements refer to the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our financial statements. For more information, see Determination of Net Asset Value.

Use of Proceeds

We intend to use the net proceeds from the sale of our securities pursuant to this prospectus for general corporate purposes, which includes investing in portfolio companies in accordance with our investment objective and strategies and repaying indebtedness incurred under our senior credit facility.

We anticipate that substantially all of the net proceeds of an offering of securities pursuant to this prospectus will be used for the above purposes within two years, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. Our portfolio currently consists primarily of senior loans, mezzanine loans and equity securities. Pending such investments, we will use the net proceeds of an offering to invest in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment, to reduce then-outstanding obligations under our credit facility or for other general corporate purposes. The supplement to this prospectus relating to an offering will more fully identify the use of the proceeds from such offering. For more information, see Use of Proceeds.

Dividends on Common Stock

We intend to continue to distribute quarterly dividends to our common stockholders. Our quarterly dividends, if any, will be determined by our board of directors. For more information, see Dividends.

Dividends on Preferred Stock

If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock will be quarterly and for any auction rate preferred stock, or ARPS, will be weekly subject to extension. With respect to ARPS, the dividend rate will be variable and will be determined for each dividend period.

Dividend Reinvestment Plan

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

Plan of Distribution

We may offer, from time to time, up to $1,125,000,000 of our common stock, preferred stock, debt securities or warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, on terms to be determined at the time of the offering.

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

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

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Our Corporate Information

Our administrative and principal executive offices are located at 9 West 57th Street, New York, NY 10019. Our common stock is quoted on The Nasdaq Global Select Market under the symbol AINV. Our Internet website address is *www.apolloic.com.* Information contained on our website is not incorporated by reference into this prospectus and you should not consider information contained on our website to be part of this prospectus.

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FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in shares of our common stock will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by you, us or Apollo Investment, or that we will pay fees or expenses, common stockholders will indirectly bear such fees or expenses as investors in Apollo Investment. Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

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

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

Stockholder transaction expenses:	
Sales load (as a percentage of offering price)	(1)
Offering expenses (as a percentage of offering price)	(2)
Total common stockholder expenses (as a percentage of offering price)	(3)
Estimated annual expenses (as percentage of net assets attributable to common stock) (4):	
Management fees	2.19%(5)
Incentive fees payable under investment advisory and management agreement (20% of pre-incentive fee net investment income in excess of hurdle and 20% of net realized capital gains net of gross unrealized capital losses)	3.13%(6)
Other expenses	.43%(7)
Interest and other credit facility related expenses on borrowed funds	1.86%(8)
Total annual expenses	7.61%(5)(6)(7)(8)

(1) In the event that the securities to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.

(2) The related prospectus supplement will disclose the estimated amount of offering expenses, the offering price and the offering expenses borne by us as a percentage of the offering price.

(3) The expenses of the dividend reinvestment plan are included in Other expenses.

(4) Net assets attributable to common stock equals net assets as of March 31, 2007.

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The SEC requires that Total annual expenses be calculated as a percentage of net assets in the above chart rather than as a percentage of total assets. Total assets includes assets that have been funded with borrowed monies (leverage). For reference, the below chart illustrates our Total annual expenses as a percentage of total assets:

Estimated annual expenses (as percentage of total assets):	
Management fees	2.00%(5)
Incentive fees payable under investment advisory and management agreement (20% of pre-incentive fee net investment income in excess of hurdle and 20% of net realized capital gains net of gross unrealized capital losses)	1.64%(6)
Other expenses	0.23%(7)
Interest and other credit facility related expenses on borrowed funds	0.97%(8)
Total annual expenses as a percentage of total assets	4.84%(5)(6)(7)(8)

(5) The contractual management fee is calculated at an annual rate of 2.00% of our average gross total assets. Annual expenses are based on current fiscal year estimates. For more detailed information about our computation of average total assets, please see Note 3 and Note 9 of our financial statements dated March 31, 2007 included in this prospectus.

(6) Assumes that annual incentive fees earned by our investment advisor, AIM, remain consistent with the incentive fees earned by AIM for the fiscal year ended March 31, 2007. AIM earns incentive fees consisting of two parts. The first part, which is payable quarterly in arrears, is based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% quarterly (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee (see footnote 5 above). Accordingly, we pay AIM an incentive fee as follows: (1) no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. You should be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income. The second part of the incentive fee will equal 20% of our realized capital gains for the calendar year, if any, computed net of all realized capital losses and unrealized capital depreciation (and incorporating unrealized depreciation on a gross investment-by-investment basis) and is payable in arrears at the end of each calendar year. For a more detailed discussion of the calculation of this fee, see Management Investment Advisory and Management Agreement.

(7) Includes our estimated overhead expenses, including payments under the administration agreement based on our estimated allocable portion of overhead and other expenses incurred by AIA in performing its obligations under the administration agreement. See Compensation of Directors and Officers Administration Agreement in this prospectus.

(8) Our interest and other credit facility expenses are based on current fiscal year estimates. As of March 31, 2007, we had $1.208 billion available and $492 million in borrowings outstanding under our $1.7 billion credit facility. For more information, see Risk Factors We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us in this prospectus and Interim Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in this prospectus.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. These dollar amounts are based upon payment by an investor of a 4.25% sales load (underwriting discounts and commissions), offering expenses totaling 0.20% and the assumption that our annual operating expenses (other than performance-based incentive fees) and leverage would remain at the levels set forth in the table above.

	1 year	3 years	5 years	10 years
You would pay the following expenses on a $1,000 investment, assuming a 5% annual return	$ 87	$ 174	$ 261	$ 484

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While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. Assuming a 5% annual return, the incentive fee under the investment advisory and management agreement would not be earned or payable and is not included in the example. This illustration assumes that we will not realize any capital gains computed net of all realized capital losses and gross unrealized capital depreciation in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend. See Dividend Reinvestment Plan for additional information regarding our dividend reinvestment plan.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.

RISK FACTORS

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

RISKS RELATING TO OUR BUSINESS AND STRUCTURE

We can offer no assurance that we will be able to replicate our own success or the success of Apollo s private funds and our investment returns could be substantially lower than the returns achieved by those private funds.

Even though AIM is led by senior investment professionals of Apollo who apply the value-oriented philosophy and techniques used by the Apollo investment professionals in their private fund investing, our investment strategies and objective differ from those of other private funds that are or have been managed by the Apollo investment professionals. Further, investors in Apollo Investment are not acquiring an interest in other Apollo funds. Further, while Apollo Investment may consider potential co-investment participation in portfolio investments with other Apollo funds, any such investment activity is subject to a number of limitations, including applicable allocation policies and regulatory limitations on certain types of co-investment activity. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained. Accordingly, we can offer no assurance that Apollo Investment will replicate Apollo s historical success, and we caution you that our investment returns could be substantially lower than the returns achieved by those private funds. Finally, we can offer no assurance that AIM will be able to continue to implement our investment objective with the same degree of success as it has in the past or that shares of our common stock will continue to trade at the current level.

We are dependent upon Apollo Investment Management s key personnel for our future success and upon their access to Apollo s investment professionals and partners.

We depend on the diligence, skill and network of business contacts of the senior management of AIM. Members of our senior management may depart at any time. For a description of the senior management team, see Management. We also depend, to a significant extent, on AIM s access to the investment professionals and partners of Apollo and the information and deal flow generated by the Apollo investment professionals in the course of their investment and portfolio management activities. The senior management of AIM evaluates, negotiates, structures, closes and monitors our investments. Our future success depends on the continued service of the senior management team of AIM. The departure of any directors or any senior managers of AIM, or of a significant number of the investment professionals or partners of Apollo, could have a material adverse effect on our ability to achieve our investment objective. In addition, we can offer no assurance that AIM will remain our investment adviser or that we will continue to have access to Apollo s partners and investment professionals or its information and deal flow.

Our financial condition and results of operation depend on our ability to manage future growth effectively.

Our ability to achieve our investment objective depends, in part, on our ability to grow, which depends, in turn, on AIM s ability to identify, invest in and monitor companies that meet our investment criteria. Accomplishing this result on a cost-effective basis is largely a function of AIM s structuring of the investment process, its ability to provide competent, attentive and efficient services to us and our access to financing on acceptable terms. The senior management team of AIM has substantial responsibilities under the investment advisory and management agreement, as well as in connection with their roles as officers of other Apollo funds. They may also be called upon to provide managerial assistance to our portfolio companies as principals of our administrator. These demands on their time may distract them or slow the rate of investment. In order to grow, we and AIM need to hire, train, supervise and manage new employees. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make. We compete with public and private funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally

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has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in. As a result of these new entrants, competition for investment opportunities has intensified and we expect that trend to continue. Some of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this existing and increasing competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors make loans with interest rates that are comparable to or lower than the rates we offer.

We may lose investment opportunities if we do not match our competitors pricing, terms and structure. If we match our competitors pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

Any failure on our part to maintain our status as a BDC would reduce our operating flexibility.

If we do not remain a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act and correspondingly decrease our operating flexibility.

We will be subject to corporate-level income tax if we are unable to qualify as a RIC.

To qualify as a RIC under the Code, we must meet certain source-of-income, asset diversification and annual distribution requirements. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. To the extent we use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. If we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level income tax. To qualify as a RIC, we must also meet certain asset diversification requirements at the end of each calendar quarter. Failure to meet these tests may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments are in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we fail to qualify as a RIC for any reason and become subject to corporate-level income tax, the resulting corporate-level taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us and our stockholders.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash representing such income.

For federal income tax purposes, we include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or payment-in-kind interest, which represents contractual interest added to the loan balance and due at the end of the loan term. Such original issue discount, which could be significant relative to Apollo Investment s overall investment activities, or increases in loan balances as a result of payment-in-kind arrangements are included in income before we receive any corresponding cash payments. We also may be required to include in income certain other amounts that we do not receive in cash.

That part of the incentive fee payable by us that relates to our net investment income is computed and paid on income that may include interest that has been accrued but not yet received in cash. If a portfolio company defaults on a loan that is structured to provide accrued interest, it is possible that accrued interest previously used in the calculation of the incentive fee will become uncollectible.

Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the tax requirement to distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to maintain our status as a RIC. Accordingly, we may

have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. See Material U.S. Federal Income Tax Considerations Taxation as a RIC.

Regulations governing our operation as a BDC affect our ability to, and the way in which we raise additional capital.

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock at a price below the current net asset value of the common stock, or sell warrants, options or rights to acquire such common stock at a price below the current net asset value of the stock, if our board of directors determines that such sale is in the best interests of Apollo Investment and its stockholders, and our stockholders approve Apollo Investment s policy and practice of making such sales. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount).

In addition to issuing securities to raise capital as described above, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who we would expect to be willing to accept a substantially lower interest rate than the loans earn. We would retain all or a portion of the equity in the securitized pool of loans. Our retained equity would be exposed to any losses on the portfolio of loans before any of the debt securities would be exposed to such losses. Accordingly, if the pool of loans experienced a low level of losses due to defaults, we would earn an incremental amount of income on our retained equity but we would be exposed, up to the amount of equity we retained, to that proportion of any losses we would have experienced if we had continued to hold the loans in our portfolio. We would not treat the debt issued by such a subsidiary as senior securities. An inability to successfully securitize our loan portfolio could limit our ability to grow our business and fully execute our business strategy, and could decrease our earnings, if any. Moreover, the successful securitization of our loan portfolio might expose us to losses as the residual loans in which we do not sell interests may tend to be those that are riskier and more apt to generate losses.

We currently use borrowed funds to make investments and are exposed to the typical risks associated with leverage.

We are exposed to increased risk of loss due to our use of debt to make investments. A decrease in the value of our investments will have a greater negative impact on the value of our common stock than if we did not use debt. Our ability to pay dividends will be restricted if our asset coverage ratio falls below at least 200% and any amounts that we use to service our indebtedness are not available for dividends to our common stockholders.

Our current and future debt securities are and may be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing such securities. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.

We fund a portion of our investments with borrowed money, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. Our lenders have fixed dollar claims on our consolidated assets that are superior to the claims of our common stockholders or any preferred stockholders. If the value of our consolidated assets increases, then leveraging would cause the net asset value to increase more sharply than it would have had we not leveraged. Conversely, if the value of our consolidated assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our consolidated income in excess of consolidated interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our consolidated income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to make common stock dividend payments. Leverage is generally considered a speculative investment technique.

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We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for gain or loss and the risks of investing in us in the same way as our borrowings.

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the dividends on any preferred stock we issue must be cumulative. Payment of such dividends and repayment of the liquidation preference of such preferred stock must take preference over any dividends or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

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

Because we borrow money, and may issue preferred stock to finance investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds or pay dividends on preferred stock and the rate at which we invest these funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds would increase except to the extent we issue fixed rate debt or preferred stock, which could reduce our net investment income. Our long-term fixed-rate investments are financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act. We have analyzed the potential impact of changes in interest rates on interest income net of interest expense. Assuming that the balance sheet were to remain constant and no actions were taken to alter the existing interest rate sensitivity, a hypothetical immediate 1% change in interest rates would have adversely affected our net income over a one-year horizon. Although management believes that this is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the balance sheet and other business developments that could affect net increase in net assets resulting from operations, or net income. Accordingly, no assurances can be given that actual results would not differ materially from the potential outcome simulated by this estimate.

You should also be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates we receive on many of our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase in the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income.

We need to raise additional capital to grow because we must distribute most of our income.

We may need additional capital to fund growth in our investments. We have issued equity securities and have borrowed from financial institutions. A reduction in the availability of new capital could limit our ability to grow. We must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders to maintain our regulated investment company status. As a result, such earnings are not available to fund investment originations. We expect to continue to borrow from financial institutions and issue additional debt and equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, it could limit our ability to grow, which may have an adverse effect on the value of our securities. In addition, as a BDC, we are generally required to maintain a ratio of at least 200% of total assets to total borrowings and preferred stock, which may restrict our ability to borrow or issue additional preferred stock in certain circumstances.

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

A large percentage of our portfolio investments are not publicly traded. The fair value of these investments may not be readily determinable. We value these investments quarterly at fair value as determined in good faith by or under the direction of our board of directors pursuant to a valuation policy and a consistently applied valuation process utilizing the input of our investment adviser, independent valuation firms and the audit committee. Our board of directors utilizes the services of several independent valuation firms to aid it in determining the fair value of these investments. The types of factors that may be considered in fair value pricing of these investments include the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a readily available market for these investments existed and may differ materially from the amounts we realize on any disposition of such investments. Our net asset value could be adversely affected if our determinations regarding the fair value of these investments were materially higher than the values that we ultimately realize upon the disposal of such investments.

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The lack of liquidity in our investments may adversely affect our business.

We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or are otherwise less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we or an affiliated manager of Apollo has material non-public information regarding such portfolio company.

We may experience fluctuations in our periodic results.

We could experience fluctuations in our periodic operating results due to a number of factors, including the interest rates payable on the debt securities we acquire, the default rate on such securities, the level of our expenses (including the interest rates payable on our borrowings, the dividends rates on preferred stock we issue, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

There are significant potential conflicts of interest which could adversely affect our investment returns.

Our executive officers and directors, and the partners of our investment adviser, AIM, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. Moreover, we note that, notwithstanding the difference in principal investment objectives between us and other Apollo funds, such other Apollo sponsored funds, including new affiliated potential pooled investment vehicles or managed accounts not yet established, have and may from time to time have overlapping investment objectives with us and, accordingly, invest in, whether principally or secondarily, asset classes similar to those targeted by us. To the extent such other investment vehicles have overlapping investment objectives, the scope of opportunities otherwise available to us may be adversely affected and/or reduced. As a result, the partners of AIM may face conflicts in their time management and commitments as well as in the allocation of investment opportunities to other Apollo funds. In addition, in the event such investment opportunities are allocated among ourselves and other investment vehicles affiliated with AIM, our desired investment portfolio may be adversely affected. Although AIM endeavors to allocate investment opportunities in a fair and equitable manner, it is possible that we may not be given the opportunity to participate in certain investments made by investment funds managed by investment managers affiliated with AIM.

There are no information barriers amongst Apollo and certain of its affiliates. If AIM were to receive material non-public information about a particular company, or have an interest in investing in a particular company, Apollo or certain of its affiliates may be prevented from investing in such company. Conversely, if Apollo or certain of its affiliates were to receive material non-public information about a particular company, or have an interest in investing in a particular company, we may be prevented in investing in such company.

AIM and its affiliates and investment managers may determine that an investment is appropriate both for us and for one or more other funds. In such event, depending on the availability of such investment and other appropriate factors, AIM may determine that we should invest on a side-by-side basis with one or more other funds. We may make all such investments subject to compliance with applicable regulations and interpretations, and our allocation procedures. In certain circumstances negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

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

AIM receives a quarterly incentive fee based, in part, on our pre-incentive fee income, if any, for the immediately preceding calendar quarter. This incentive fee is subject to a quarterly hurdle rate before providing an incentive fee return to

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the investment adviser. To the extent we or AIM are able to exert influence over our portfolio companies, the quarterly pre-incentive fee may provide AIM with an incentive to induce our portfolio companies to accelerate or defer interest or other obligations owed to us from one calendar quarter to another.

We have entered into a royalty-free license agreement with Apollo, pursuant to which Apollo has agreed to grant us a non-exclusive license to use the name Apollo. Under the license agreement, we have the right to use the Apollo name for so long as AIM or one of its affiliates remains our investment adviser. In addition, we rent office space from AIA, an affiliate of AIM, and pay Apollo Administration our allocable portion of overhead and other expenses incurred by AIA in performing its obligations under the administration agreement, including our allocable portion of the cost of our Chief Financial Officer and Chief Compliance Officer and their respective staffs, which can create conflicts of interest that our board of directors must monitor.

Changes in laws or regulations governing our operations may adversely affect our business.

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations could have a material adverse affect on our business.

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

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

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

RISKS RELATED TO OUR INVESTMENTS

We may not realize gains from our equity investments.

When we invest in mezzanine or senior secured loans, we have and may continue to acquire warrants or other equity securities as well. In addition, we may invest directly in the equity securities of portfolio companies. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

Our ability to invest in public companies may be limited in certain circumstances.

As a BDC, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). If we invest in an issuer that, at the time we make the investment, has outstanding securities listed on a national securities exchange, these acquired assets cannot in certain circumstances be treated as qualifying assets. This treatment results from the definition of eligible portfolio company under the 1940 Act, which in part looks to whether a company has outstanding securities that are listed on a national securities exchange.

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Our portfolio is concentrated in a limited number of portfolio companies, which subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt securities.

A consequence of the limited number of investments in our portfolio is that the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Beyond our income tax diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

Our investments in prospective portfolio companies may be risky, and you could lose all or part of your investment.

Investment in middle-market companies involves a number of significant risks. Middle-market companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment. In addition, they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors actions and market conditions, as well as general economic downturns. Middle-market companies are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us. Middle-market companies also generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

A portfolio company s failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company s ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we or one of our affiliates may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in order to: (1) increase or maintain in whole or in part our equity ownership percentage; (2) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing or (3) attempt to preserve or enhance the value of our investment.

We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, because we prefer other opportunities, or because we are inhibited by compliance with BDC requirements or the desire to maintain our tax status.

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When we do not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.

As of March 31, 2007, we had not taken controlling equity positions in our portfolio companies. Subsequently we have taken a controlling interest in one portfolio company representing more than 5% of our net assets. To the extent that we do not hold a controlling equity interest in a portfolio company, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity for the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company, and may therefore suffer a decrease in the value of our investments.

An investment strategy focused primarily on privately-held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

We have invested and will continue to invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of AIM s investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately-held companies frequently have less diverse product lines and smaller market presence than public company competitors, which often are larger. These factors could affect our investment returns.

Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.

We have invested and intend to invest primarily in mezzanine and senior debt securities issued by our portfolio companies. The portfolio companies usually have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. In addition, we may not be in a position to control any portfolio company by investing in its debt securities. As a result, we are subject to the risk that a portfolio company in which we invest may make business decisions with which we disagree and the management of such company, as representatives of the holders of their common equity, may take risks or otherwise act in ways that do not serve our interests as debt investors.

Our incentive fee may induce AIM to make certain investments, including speculative investments.

The incentive fee payable by us to AIM may create an incentive for AIM to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement. The way in which the incentive fee payable to AIM is determined, which is calculated as a percentage of the return on invested capital, may encourage our investment adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our common stock, including investors in offerings of common stock, securities convertible into our common stock or warrants representing rights to purchase our common stock or securities convertible into our common stock pursuant to this prospectus. In addition, AIM receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, AIM may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to AIM also may create an incentive for AIM to invest on our behalf in instruments that have a deferred interest feature. Under these investments, we would accrue the interest over the life of the investment but would not receive the cash income from the investment until the end of the term. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash.

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We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company s expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to AIM with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each of our common stockholders will bear his or her share of the management and incentive fee of AIM as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates that a portion of our investments may be in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments are denominated in U.S. dollars, our investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency may change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or, that if we do, such strategies will be effective.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transaction may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

While we may enter into transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

RISKS RELATED TO ISSUANCE OF OUR PREFERRED STOCK

An investment in our preferred stock should not constitute a complete investment program.

If we issue preferred stock, the net asset value and market value of our common stock may become more volatile.

We cannot assure that the issuance of preferred stock would result in a higher yield or return to the holders of the common stock. The issuance of preferred stock would likely cause the net asset value and market value of the common stock to become more volatile. If the dividend rate on the preferred stock were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the dividend rate on the preferred stock were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of common stock than if we had not issued preferred stock. Any decline in the net asset value of our investments would be borne entirely by the holders of common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of common stock than if we were not leveraged through the issuance of preferred stock. This greater net asset value decrease would also tend to cause a greater decline in the market price for the common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or

of losing our ratings on the preferred stock or, in an extreme case, our current investment income might not be sufficient to meet the dividend requirements on the preferred stock. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock. In addition, we would pay (and the holders of common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher advisory fees if our total return exceeds the dividend rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

Holders of any preferred stock we might issue would have the right to elect members of the board of directors and class voting rights on certain matters.

Holders of any preferred stock we might issue, voting separately as a single class, would have the right to elect two members of the board of directors at all times and in the event dividends become two full years in arrears would have the right to elect a majority of the directors until such arrearage is completely eliminated. In addition, preferred stockholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of dividends or other distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair our ability to maintain its qualification as a RIC for federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

RISKS RELATING TO AN INVESTMENT IN OUR COMMON STOCK

Investing in our securities may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, therefore, an investment in our securities may not be suitable for someone with a low risk tolerance.

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

We intend to make distributions on a quarterly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. Finally, if more stockholders opt to receive cash dividends rather than participate in our dividend reinvestment plan, we may be forced to liquidate some of our investments and raise cash in order to make dividend payments.

Our shares may trade at discounts from net asset value or at premiums that are unsustainable over the long term.

Shares of business development companies may trade at a market price that is less than the net asset value that is attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at a premium that is unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.

The market price of our securities may fluctuate significantly.

The market price and liquidity of the market for our securities may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

- changes in regulatory policies or tax guidelines, particularly with respect to RICs or business development companies;

loss of RIC status;

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- changes in earnings or variations in operating results;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of AIM s key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

We may allocate the net proceeds from this offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of this offering and may use the net proceeds from this offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

We may be unable to invest the net proceeds raised from offerings on acceptable terms, which would harm our financial condition and operating results.

Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in interest-bearing deposits or other short-term instruments or use the net proceeds from such offerings to reduce then-outstanding obligations under our credit facility. We cannot assure you that we will be able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from an offering will produce a sufficient return.

Sales of substantial amounts of our securities may have an adverse effect on the market price of our securities.

Sales of substantial amounts of our securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for our securities. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

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USE OF PROCEEDS

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

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

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DIVIDENDS

We intend to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors.

We have elected to be taxed as a RIC under Subchapter M of the Internal Revenue Code of 1986. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In order to avoid certain excise taxes we must distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary income for the calendar year, (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31st and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. In addition, although we currently intend to distribute realized net capital gains (i.e., realized net long-term capital gains in excess of realized net short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under Material U.S. Federal Income Tax Considerations.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. See Dividend Reinvestment Plan.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a BDC under the 1940 Act and due to provisions in future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our RIC status. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to shareholders.

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

	Declared Dividends	
Fiscal Year Ending March 31, 2007		
Fourth Fiscal Quarter	$	0.510
Third Fiscal Quarter	$	0.500
Second Fiscal Quarter	$	0.470
First Fiscal Quarter	$	0.450
Fiscal Year Ending March 31, 2006		
Fourth Fiscal Quarter	$	0.450
Third Fiscal Quarter	$	0.440
Second Fiscal Quarter	$	0.430
First Fiscal Quarter	$	0.310
Fiscal Year Ending March 31, 2005		
Fourth Fiscal Quarter	$	0.260
Third Fiscal Quarter	$	0.180
Second Fiscal Quarter	$	0.045
First Fiscal Quarter (period from April 8, 2004* to June 30, 2004)		

* Commencement of operations

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SELECTED CONDENSED CONSOLIDATED FINANCIAL DATA

The Statement of Operations, Per Share and Balance Sheet data for the fiscal years ended March 31, 2007, March 31, 2006 and March 31, 2005 are derived from our financial statements which have been audited by PricewaterhouseCoopers LLP, our independent registered public accounting firm. This data should be read in conjunction with our financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in this prospectus.

	For the Year Ended March 31, 2007 (dollar amounts in thousands, except per share data)	For the Year Ended March 31, 2006 (dollar amounts in thousands, except per share data)	For the Period April 8, 2004* through March 31, 2005 (dollar amounts in thousands, except per share data)
Statement of Operations Data:			
Total Investment Income	$ 266,101	$ 152,827	$ 47,833
Total Expenses	$ 140,783	$ 63,684	$ 22,380
Net Investment Income	$ 125,318	$ 89,143	$ 25,453
Net Realized and Unrealized Gains	$ 186,848	$ 31,244	$ 18,692
Net Increase in Net Assets Resulting from Operations	$ 312,166	$ 120,387	$ 44,145
Per Share Data:			
Net Asset Value	$ 17.87	$ 15.15	$ 14.27
Net Increase in Net Assets Resulting from Operations	$ 3.64	$ 1.90	$ 0.71
Distributions Declared	$ 1.930	$ 1.630	$ 0.485
Balance Sheet Data:			
Total Assets	$ 3,523,218	$ 2,511,074	$ 1,733,384
Borrowings Outstanding	$ 492,312	$ 323,852	$ 0
Total Net Assets	$ 1,849,748	$ 1,229,855	$ 892,886
Other Data:			
Total Return (1)	31.7%	12.9%	15.3%
Number of Portfolio Companies at Period End	57	46	35
Total Portfolio Investments for the Period	$ 1,446,730	$ 1,110,371	$ 894,335
Investment Sales and Prepayments for the Period	$ 845,485	$ 452,325	$ 71,730
Weighted Average Yield on Debt Portfolio at Period End	13.1%	13.1%	10.5%

* Commencement of operations

(1) Total return is based on the change in market price per share and takes into account dividends and distributions, if any, reinvested in accordance with Apollo Investment s dividend reinvestment plan. Total return is not annualized.

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FORWARD-LOOKING STATEMENTS

Some of the statements in this prospectus constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained in this prospectus involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. Our actu results could differ materially from those projected in the forward-looking statements for any reason, including the factors set forth in Risk Factors and elsewhere in this prospectus.

We have based the forward-looking statements included in this prospectus on information available to us on the date of this prospectus, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Apollo Investment was incorporated under the Maryland General Corporation Law in February 2004. We have elected to be treated as a BDC under the 1940 Act. As such, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of our total assets in qualifying assets, including securities of private or thinly traded public U.S. companies, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, for federal income tax purposes we have elected to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended. Pursuant to this election and assuming we qualify as a RIC, we generally do not have to pay corporate-level federal income taxes on any income we distribute to our stockholders. Apollo Investment commenced operations on April 8, 2004 upon completion of its initial public offering that raised $870 million in net proceeds from selling 62 million shares of its common stock at a price of $15.00 per share.

Investments

Our level of investment activity can and does vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle market companies, the level of merger and acquisition activity, the general economic environment and the competitive environment for the types of investments we make.

As a BDC, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in eligible portfolio companies. The SEC recently adopted new rules under the 1940 Act to expand the definition of eligible portfolio company to include companies whose securities are not listed on a national securities exchange. The new rules also will permit us to include as qualifying assets certain follow-on investments in companies that were eligible portfolio companies at the time of initial investment but that no longer meet the definition. The new rules became effective November 30, 2006. Due to this new rule, we will no longer be required to determine the eligibility of a portfolio company by reference to whether or not it has outstanding marginable securities.

In addition to the adoption of the rules described above, the SEC also proposed for comment a rule that would include as eligible portfolio companies certain public companies that have listed their securities on a national securities exchange, as long as their public float and/or market capitalization are below a specified level. We will continue to monitor closely any developments with respect to the definition of eligible portfolio company, and intend to adjust our investment focus as needed to comply with and/or take advantage of the new rules as well as any other regulatory, legislative, administrative or judicial actions in this area.

Revenue

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

Expenses

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

investment advisory and management fees;

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

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

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

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

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

offerings of our common stock and other securities;

registration and listing fees;

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

transfer agent and custodial fees;

taxes;

independent directors fees and expenses;

marketing and distribution-related expenses;

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

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

organization and offering; and

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

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

Portfolio and Investment Activity

For the fiscal years ended March 31, 2007, March 31, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005:

During our fiscal year ended March 31, 2007, we invested $1.4 billion, across 24 new and several existing portfolio companies. This compares to investing $1.1 billion in 26 new and several existing portfolio companies for the previous fiscal year ended March 31, 2006 and $894.3 million in 37 portfolio companies for the period of April 8, 2004 (commencement of operations) through March 31, 2005. Investments sold or prepaid during the fiscal year ended March 31, 2007 totaled $845 million versus $452 million for the fiscal year ended March 31, 2006 and $71.7 million for the period of April 8, 2004 through March 31, 2005.

At March 31, 2007, our net portfolio consisted of 57 portfolio companies and was invested 61% in subordinated debt, 4% in preferred equity, 9% in common equity and warrants and 26% in senior secured loans versus 46 portfolio companies invested 60% in subordinated debt, 2% in preferred equity, 7% in common equity and 31% in senior secured loans at March 31, 2006. At March 31, 2005, our net portfolio consisted of 35 portfolio companies and was invested 51% in subordinated debt/corporate notes, 42% in senior secured loans, 3% in common stock/warrants and 4% in cash equivalents.

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The weighted average yields on our subordinated debt portfolio, senior secured loan portfolio and total debt portfolio were 13.5%, 12.3% and 13.1%, respectfully at March 31, 2007 versus 13.6%, 12.2%, and 13.1%, respectfully, at March 31, 2006 and 13.7%, 8.2% and 10.5%, respectively, at March 31, 2005.

At March 31, 2007, 64% or $1,364.2 million of our interest-bearing portfolio was fixed rate debt and 36% or $783.6 million was floating rate debt. At March 31, 2006, 53% or $764.5 million of our interest-bearing portfolio was fixed rate debt and 47% or $683.3 million was floating rate debt. At March 31, 2005, 53% or $433.4 million of our interest bearing portfolio was fixed rate debt and 47% or $380.6 million was floating rate debt.

CRITICAL ACCOUNTING POLICIES

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

Valuation of Portfolio Investments

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

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

With respect to investments for which market quotations are not readily available or when such market quotations are not deemed to represent fair value, our board of directors undertakes a multi-step valuation process each quarter, as described below:

- Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

- Preliminary valuation conclusions are then documented and discussed with our senior management;

- Independent valuation firms engaged by our board of directors conduct independent appraisals and review management s preliminary valuations and their own independent assessment;

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

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

For more information, see Business Investment selection Valuation process.

Revenue Recognition

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

Net Realized Gains or Losses and Net Change in Unrealized Appreciation or Depreciation

We measure realized gains or losses by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized upfront fees and prepayment penalties. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized appreciation or depreciation, when gains or losses are realized.

Within the context of these critical accounting policies, we are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

RESULTS OF OPERATIONS

Results of operations comparisons are for the fiscal years ended March 31, 2007, March 31, 2006 and for the period of April 8, 2004 through March 31, 2005.

Investment Income

For the fiscal years ended March 31, 2007, March 31, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005, gross investment income totaled $266.1 million, $152.8 million and $47.8 million, respectively. Our significantly lower gross investment income for the period April 8, 2004 (commencement of operations) through March 31, 2005 reflects income earned primarily from short-term U.S. Government securities and other temporary investments held during the ramp-up period of our portfolio since our initial public offering. The continued increase in gross investment income for fiscal years 2006 and 2007 was primarily due to the growth of our investment portfolio as compared to previous fiscal periods. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans.

Expenses

Net expenses totaled $139.7 million, $63.7 million and $22.4 million, respectively, for the fiscal years ended March 31, 2007, March 31, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005, of which $57.9 million, $22.3 million and $0.0 million, respectively, were performance-based incentive fees and $34.4 million, $13.0 million and $0.0 million, respectively, were interest and other credit facility expenses. Expenses exclusive of performance-based incentive fees and interest and other credit facility expenses for the years ended March 31, 2007, March 31, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005 were $47.4 million, $28.4 million and $22.4 million, respectively. Of these expenses, general and administrative expenses totaled $6.8 million, $5.0 million and $5.1 million, respectively, for the fiscal years ended March 31, 2007, 2006 and 2005. Excise tax expense totaled $1.1 million for the fiscal year ended March 31, 2007. There was no excise tax expense for the fiscal year ended March 2006 and for the period of April 8, 2004 to March 31, 2005. Expenses consist of base investment advisory and management fees, insurance expenses, administrative services fees, professional fees, directors fees, audit and tax services expenses, and other general and administrative expenses. The increase in net expenses from fiscal year 2006 to fiscal year 2007 was primarily related to an accrual of $21.3 million in net realized capital gain incentive fees and an increase in base management fees and other general and administrative expenses related to the growth of our investment portfolio as compared to the previous period.

Net Investment Income

Our net investment income totaled $125.3 million, $89.1 million and $25.5 million, respectively, for the fiscal years ended March 31, 2007, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005.

Net Realized Gains/Losses

We had investment sales and prepayments totaling $845 million, $452 million and $72 million, respectively, for the fiscal years ended March 31, 2007, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005. Net realized gains for the fiscal years ended March 31, 2007, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005 were $132.9 million, $11.2 million and $0.5 million, respectively. The increase in net realized gains from fiscal year 2006 to fiscal year 2007 was primarily due to a gain of $107.6 million realized from GS Prysmian Co-Invest L.P. (pursuant to a sale and purchase agreement dated as of January 24, 2007, along with the GS Funds, GS Prysmian Co-Invest L.P. agreed to sell its remaining equity securities it owned in Prysmian (Lux) Sarl to a newly created entity for cash and equity securities consideration totaling 85.6 million).

Net Unrealized Appreciation on Investments and Foreign Currency Contracts and Translations

For the fiscal years ended March 31, 2007, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005, net unrealized appreciation on the Company s investments, foreign currencies and other assets and liabilities increased $54.0 million, $20.1 million and $18.2 million, respectively. At March 31, 2007, net unrealized appreciation totaled $92.2 million of which $21.6 million was attributable to net unrealized depreciation on our bank debt/senior secured debt and $113.8 million was attributable to net unrealized appreciation on our subordinated debt, preferred stock and private equity (after considering the effects of foreign currency borrowing/hedging for our non-U.S. investments).

Net Increase in Net Assets From Operations

For the fiscal years ended March 31, 2007, 2006, and for the period April 8, 2004 (commencement of operations) through March 31, 2005, the Company had a net increase in net assets resulting from operations of $312.2 million, $120.4 million and $44.1 million, respectively. The net change in net assets from operations per share was $3.64, $1.90 and $0.71, respectively, for the years ended March 31, 2007, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005.

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity and capital resources are generated primarily through our senior secured, multi-currency $1.7 billion, five-year, revolving credit facility maturing in April 2011 as well as from cash flows from operations, including investment sales and prepayments of senior and subordinated loans and income earned from investments and cash equivalents. At March 31, 2007, we had $492 million in borrowings outstanding and had $1.208 billion available for its use. We closed on a follow-on equity offering and issued 18 million shares of common stock on January 18, 2007, receiving $386 million in net proceeds after deducting underwriting discounts and commissions. In addition, on February 7, 2007, we issued 2.7 million shares of common stock to cover the underwriter s over-allotment option on the January 18, 2007 equity offering, receiving approximately $58 million in net proceeds after deducting underwriting discounts and commissions. In the future, we may raise additional equity or debt capital off its shelf registration or may securitize a portion of its investments. We may also further access $300 million of additional credit commitments available to it under the terms of its existing credit facility and as our equity capital base grows. The primary use of funds will be investments in portfolio companies, cash distributions to our stockholders and for other general corporate purposes.

	Payments due by Period (dollars in millions)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Senior Secured Revolving Credit Facility (1)	$ 492	$	$	$ 492	$

(1) At March 31, 2007, $1,208 million remained unused under our senior secured revolving credit facility.

Contractual Obligations

We have entered into two contracts under which we have future commitments: the investment advisory and management agreement, pursuant to which AIM has agreed to serve as our investment adviser, and the administration

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agreement, pursuant to which Apollo Administration has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the investment advisory and management agreement are equal to (1) a percentage of the value of our gross assets and (2) a two-part incentive fee. Payments under the administration agreement are equal to an amount based upon our allocable portion of Apollo Administration s overhead in performing its obligations under the administration agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. Either party may terminate each of the investment advisory and management agreement and administration agreement without penalty upon not more than 60 days written notice to the other. Please see Note 3 within our financial statements for more information.

Off-Balance Sheet Arrangements

On February 28, 2007, the Company entered into Senior Secured Term Loan agreements with Gray Wireline Service Inc., resulting in investments of $40 million in a First Out Term Loan and $70 million in a Second Out Term Loan. In connection with the transaction, the Company also committed to $27.5 million of additional delay draw commitments under the term loans subject to various contingencies and draw down tests.

At March 31, 2007, we did not have any additional off-balance sheet liabilities or other contractual obligations that are reasonably likely to have a current or future material effect on our financial condition, other than the investment advisory and management agreement and the administration agreement described above.

Dividends

Dividends paid to stockholders for the fiscal years ended March 31, 2007, 2006 and for the period April 8, 2004 (commencement of operations) through March 31, 2005, totaled $168.4 million or $1.93 per share, $102.7 million or $1.63 per share, and $30.2 million or $0.485 per share, respectively. The following table summarizes our quarterly dividends paid to shareholders for the fiscal years ended March 31, 2007, 2006 and for the period of April 8, 2004 through March 31, 2005, respectively:

	Declared Dividends
Fiscal Year Ending March 31, 2007	
Fourth Fiscal Quarter	$ 0.510
Third Fiscal Quarter	$ 0.500
Second Fiscal Quarter	$ 0.470
First Fiscal Quarter	$ 0.450
Fiscal Year Ending March 31, 2006	
Fourth Fiscal Quarter	$ 0.450
Third Fiscal Quarter	$ 0.440
Second Fiscal Quarter	$ 0.430
First Fiscal Quarter	$ 0.310
Fiscal Year Ending March 31, 2005	
Fourth Fiscal Quarter	$ 0.260
Third Fiscal Quarter	$ 0.180
Second Fiscal Quarter	$ 0.045
First Fiscal Quarter (period from April 8, 2004* to June 30, 2004)	

* Commencement of operations

Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year.

We expect to continue to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors.

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We have elected to be taxed as a RIC under Subchapter M of the Code. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment. In such event, the consequences of our retention of net capital gains are as described under Material U.S. Federal Income Tax Considerations.

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends. See Dividend Reinvestment Plan.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a BDC under the 1940 Act and due to provisions in current or future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our RIC status. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a particular level.

With respect to the dividends paid to stockholders, income from origination, structuring, closing, commitment and other upfront fees associated with investments in portfolio companies is treated as taxable income and accordingly, distributed to stockholders. For the fiscal years ended March 31, 2007 and 2006, upfront fees totaling $8.3 million and $5.8 million, respectively, are being amortized into income over the lives of their respective loans. For the period from April 8, 2004 (commencement of operations) through March 31, 2005, upfront fees totaling $4.5 million are being amortized into income over the lives of their respective loans.

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PRICE RANGE OF COMMON STOCK

Our common stock is traded on the NASDAQ Global Select Market under the symbol AINV. The following table lists the high and low closing sale price for our common stock, the closing sale price as a percentage of net asset value, or NAV, and quarterly dividends per share since shares of our common stock began being regularly quoted on NASDAQ.

		Closing Sales Price		Premium of High Sales Price to	Premium of Discount of Low Sales Price to	Declared
	NAV(1)	High	Low	NAV(2)	NAV(2)	Dividends
Fiscal Year Ending March 31, 2007						
Fourth Fiscal Quarter	$ 17.87	$ 24.12	$ 20.30	135%	114%	$ 0.510
Third Fiscal Quarter	$ 16.36	$ 23.27	$ 20.56	142%	126%	$ 0.500
Second Fiscal Quarter	$ 16.14	$ 20.81	$ 17.96	129%	111%	$ 0.470
First Fiscal Quarter	$ 15.59	$ 19.39	$ 17.74	124%	114%	$ 0.450
Fiscal Year Ending March 31, 2006						
Fourth Fiscal Quarter	$ 15.15	$ 19.51	$ 17.81	129%	118%	$ 0.450
Third Fiscal Quarter	$ 14.41	$ 19.97	$ 17.92	139%	124%	$ 0.440
Second Fiscal Quarter	$ 14.29	$ 20.40	$ 17.63	143%	123%	$ 0.430
First Fiscal Quarter	$ 14.19	$ 18.75	$ 15.66	132%	110%	$ 0.310
Fiscal Year Ending March 31, 2005						
Fourth Fiscal Quarter	$ 14.27	$ 17.62	$ 14.93	123%	105%	$ 0.260
Third Fiscal Quarter	$ 14.32	$ 15.13	$ 13.43	106%	94%	$ 0.180
Second Fiscal Quarter	$ 14.10	$ 14.57	$ 13.06	103%	93%	$ 0.045
First Fiscal Quarter (period from April 8, 2004* to June 30, 2004)	$ 14.05	$ 15.25	$ 12.83	109%	91%	

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the NAV per share on the date of the high and low sales prices. The NAVs shown are based on outstanding shares at the end of each period.

(2) Calculated as of the respective high or low closing sales price divided by the quarter end NAV.

* Commencement of operations

While our common stock currently trades in excess of our net asset value, there can be no assurance, however, that our shares will continue to trade at such a premium (to net asset value). The last reported closing market price of our common stock on August 23, 2007 was $21.90 per share. As of August 23, 2007, we had 86 shareholders of record.

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BUSINESS

Apollo Investment

Apollo Investment Corporation, a Maryland corporation organized on February 2, 2004, is a closed-end, non-diversified management investment company that has filed an election to be treated as a BDC under the 1940 Act. In addition, for tax purposes we have elected to be treated as a RIC.

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We intend to invest primarily in middle-market companies in the form of mezzanine and senior secured loans, as well as by making equity investments. From time to time, we may also invest in public companies whose securities are thinly traded.

We commenced operations on April 8, 2004, at which time we closed our initial public offering and sold 62 million shares of our common stock at a price of $15.00 per share, receiving $870 million in total net proceeds from the offering.

During our fiscal year ended March 31, 2007, we invested $1.4 billion, across 24 new and several existing portfolio companies. This compares to investing $1.1 billion in 26 new and several existing portfolio companies for the previous fiscal year ended March 31, 2006. Investments sold or prepaid during the fiscal year ended March 31, 2007 totaled $845 million versus $452 million for the fiscal year ended March 31, 2006. Total invested capital since the IPO through March 31, 2007 was $3.4 billion. Of this amount, $2.9 billion were investments in U.S. companies and $527 million was invested in non-U.S. companies. At March 31, 2007, the weighted average yields on our subordinated debt portfolio, senior secured loan portfolio and total debt portfolio were 13.5%, 12.3% and 13.1%, respectively. At March 31, 2006, the yields were 13.6%, 12.2%, and 13.1%, respectively.

Our targeted investment size typically ranges between $20 million and $250 million, although this investment size may vary proportionately as the size of our capital base changes. At March 31, 2007, our net portfolio consisted of 57 portfolio companies and was invested 61% in subordinated debt, 4% in preferred equity, 9% in common equity and warrants and 26% in senior secured loans versus 46 portfolio companies invested 60% in subordinated debt, 2% in preferred equity, 7% in common equity and 31% in senior secured loans at March 31, 2006.

At March 31, 2007, 64% or $1,364.2 million of our interest-bearing portfolio was fixed rate debt and 36% or $783.6 million was floating rate debt. At March 31, 2006, 53% or $764.5 million of our interest-bearing portfolio was fixed rate debt and 47% or $683.3 million was floating rate debt.

About Apollo

Founded in 1990, Apollo is a leading global alternative asset manager with a proven track record of successful private equity, distressed debt and mezzanine investing. Apollo raises, invests and manages private equity and capital markets funds on behalf of some of the world s most prominent pension and endowment funds as well as other institutional and individual investors. As of June 30, 2007, Apollo had assets under management of approximately $27 billion in its private equity and capital markets businesses.

Apollo s investment approach is value-oriented, focusing on industries in which it has considerable knowledge, and emphasizing downside protection and the preservation of capital. Apollo has successfully applied its investment philosophy in flexible and creative ways over its 17-year history, allowing it to consistently find attractive investment opportunities, deploy capital up and down the balance sheet of industry leading, or franchise, businesses and create value throughout economic cycles.

Apollo s active private investment funds focus on making either control-oriented equity investments or distressed debt investments, either for control or non-control positions. In contrast, Apollo Investment seeks to capitalize primarily on the significant investment opportunities emerging in the mezzanine segment of the lending market primarily for middle-market companies, which we believe offers the potential for attractive risk-adjusted returns.

About Apollo Investment Management

AIM, our investment adviser, is led by a dedicated and growing team of investment professionals and is further supported by Apollo s team of 125 professionals as of June 30, 2007. AIM has now invested more than $3.4 billion in 86 companies with more than 55 financial sponsors since commencement of operations in April 2004. In addition, AIM expects to hire additional investment professionals in the future. AIM s investment committee currently consists of John J. Hannan, the Chairman of our board of directors, our Chief Executive Officer and Chairman of AIM s Investment Committee, James C. Zelter, our President and Chief Operating Officer and a Vice President of the general partner of AIM, Patrick J.

Dalton, an Executive Vice President of Apollo Investment and a Vice President of the general partner of AIM, Edward Tam, an

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Executive Vice President of Apollo Investment and a Vice President of the general partner of AIM and José Briones, a Vice President of the general partner of AIM. The composition of the Investment Committee of AIM may change from time to time. AIM draws upon Apollo s 17 year history and benefits from the Apollo investment professionals significant capital markets, trading and research expertise developed through investments in a multitude of different industries and over 150 companies in the United States and Western Europe.

About Apollo Investment Administration

In addition to furnishing us with office facilities, equipment, and clerical, bookkeeping and record keeping services, AIA also oversees our financial records as well as the preparation of our reports to stockholders and reports filed with the SEC. AIA oversees the determination and publication of our net asset value, oversees the preparation and filing of our tax returns, and generally monitors the payment of our expenses and the performance of administrative and professional services rendered to us by others. Furthermore, AIA provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance.

Operating and Regulatory Structure

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

As a BDC, we are required to comply with certain regulatory requirements. Also, while we are permitted to finance investments using debt, our ability to use debt is limited in certain significant respects. We have elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code.

Investments

We seek to create a portfolio that includes primarily mezzanine, senior secured loans and private equity by generally investing approximately $20 million to $250 million of capital, on average, in the securities of middle-market companies. The average investment size will vary as the size of our capital base varies. Our target portfolio will generally be more heavily weighted toward mezzanine loans. Structurally, mezzanine loans usually rank subordinate in priority of payment to senior debt, such as senior bank debt, and are often unsecured. As such, other creditors may rank senior to us in the event of an insolvency. However, mezzanine loans rank senior to common and preferred equity in a borrowers capital structure. Mezzanine loans may have a fixed or floating interest rate. Additional upside can be generated from upfront fees, call protection including call premiums, equity co-investments or warrants. We believe that mezzanine loans offer an attractive investment opportunity based upon their historic returns and resilience during economic downturns. Additionally, we may acquire investments in the secondary market.

Our principal focus is to provide capital to middle-market companies in a variety of industries. We generally seek to target companies that generate positive free cash flows. We also generally seek to invest in companies from the broad variety of industries in which Apollo s investment professionals have direct expertise.

The following is a representative list of the industries in which Apollo has invested:

- Building materials
- Business services
- Cable television
- Chemicals

Communications

Consumer products

Distribution

Education

Energy/Utilities

Environmental services

Financial services

Food

Healthcare

Lodging/Leisure/Resorts

Manufacturing/Basic industry

Media

Packaging

Printing and publishing

Restaurants

Retail

Transportation

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We may also invest in other industries if we are presented with attractive opportunities.

In an effort to increase our returns and the number of loans that we can make, we may in the future seek to securitize our loans. To securitize loans, we may create a wholly owned subsidiary contribute a pool of loans to the subsidiary and have the subsidiary issue primarily investment grade debt securities to purchasers who would expect to be willing to accept a substantially lower interest rate than the loans earn. We may use the proceeds of such sales to pay down bank debt or to fund additional investment.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds. AIM and its affiliates manage other funds that may have investment mandates that are similar, in whole or in part, with ours. AIM and its affiliates may determine that an investment is appropriate both for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, AIM may determine that we should invest on a side-by-side basis with one or more other funds. We may make all such investments subject to compliance with applicable regulations and interpretations, and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained. We may also co-invest on a concurrent basis with affiliates of ours, subject to compliance with applicable regulations and our allocation procedures. In certain circumstances, negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

Listed below are our top ten portfolio companies and industries represented as a percentage of total assets as of March 31, 2007 and 2006:

TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF MARCH 31, 2007

PORTFOLIO COMPANY	% of Total Assets	INDUSTRY	% of Total Assets
Gray Wireline Service, Inc.	3.2%	Oil & Gas	8.5%
Sorenson Communications, Inc.	2.8%	Business Services	5.4%
Varel Holdings, Inc.	2.5%	Consumer Services	4.8%
ALM Media Holdings, Inc.	2.4%	Publishing	4.7%
Associated Materials, Inc.	2.3%	Direct Marketing	4.2%
Quality Home Brands Holdings	2.2%	Manufacturing	3.4%
Fleetpride Corporation	2.2%	Consumer Products	3.4%
N.E.W. Customer Service Cos.	2.0%	Leisure Equipment	2.9%
SigmaKalon Holdco B.V.	2.0%	Building Products	2.7%
GS Prysmian Co-Invest L.P.	1.9%	Chemicals	2.6%

TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF MARCH 31, 2006

PORTFOLIO COMPANY	% of Total Assets	INDUSTRY	% of Total Assets
Associated Materials, Inc.	3.2%	Publishing	5.2%
Hanley Wood LLC	2.8%	Consumer Services	4.8%
Playpower Holdings Inc.	2.8%	Leisure Equipment	4.7%
N.E.W. Customer Service Cos.	2.8%	Direct Marketing	3.6%
Eurofresh, Inc.	2.6%	Building Products	3.6%
SigmaKalon Holdco B.V.	2.3%	Environmental	3.4%
Deluxe Corp.	2.3%	Media	3.2%
Sorenson Communications, Inc.	2.0%	Chemicals	3.1%
FCI International S.A.S.	2.0%	Healthcare	2.8%
WDAC Intermediate Corp.	1.9%	Manufacturing	2.8%

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Investment Selection

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

Prospective portfolio company characteristics

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

Value orientation/positive cash flow

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

Experienced management

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

Strong competitive position in industry

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

Exit strategy

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

Liquidation value of assets

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

Due diligence

Our investment adviser conducts diligence on prospective portfolio companies consistent with the approach adopted by the investment professionals of Apollo. We believe that Apollo s investment professionals have a reputation for conducting extensive due diligence investigations in their investment activities. In conducting their due diligence, Apollo s investment professionals use publicly available information as well as information from their extensive relationships with former and current management teams, consultants, competitors and investment bankers and the direct experience of the senior partners of Apollo.

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Our due diligence will typically include:

- review of historical and prospective financial information;
- on-site visits;
- interviews with management, employees, customers and vendors of the potential portfolio company;
- review of senior loan documents;
- background checks; and
- research relating to the company s management, industry, markets, products and services, and competitors.

Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the professionals leading the investment present the investment opportunity to our investment adviser s investment committee, which determines whether to pursue the potential investment.

The investment committee

All new investments by us must be approved by the investment committee of AIM. The members of the investment committee receive no compensation from us. Such members are employees or partners of AIM and receive compensation or profit distributions from AIM, and in certain instances, from other Apollo affiliates. The members of the investment committee are listed below.

John J. Hannan *Chairman of the board of directors, Chief Executive Officer and Director of Apollo Investment Corporation and a Vice President of AIM.* Mr. Hannan became a director of Apollo Investment in March 2004 and was elected our Chief Executive Officer in February 2006 and Chairman of the board of directors in August 2006. Mr. Hannan has served on AIM s investment committee since February 2006. Mr. Hannan, a senior partner of Apollo, co-founded Apollo Management, L.P. in 1990. Mr. Hannan also is a partner of a number of other Apollo affiliates that advise the Apollo investment entities referenced below under the *caption Compensation of Directors and Officers Investment Advisory and Management Agreement Management Services.* Mr. Hannan serves on several boards of directors, including the board of Vail Resorts, Inc. and Goodman Global, Inc.

Patrick J. ***Dalton*** *Vice President of AIM and Executive Vice President of Apollo Investment*. Mr. Dalton joined Apollo Investment Management LP (AIM) in June 2004 as a partner and as a member of AIM s investment committee. Mr. Dalton is also the Chief Investment Officer of AIM and a member of the Investment Committee of Apollo Investment Europe. Before joining Apollo, Mr. Dalton was a Vice President with Goldman, Sachs & Co. s Principal Investment Area with a focus on mezzanine investing since 2000. From 1990 to 2000, Mr. Dalton was a Vice President with the Chase Manhattan Bank where he worked most recently in the Acquisition Finance Department.

Edward Tam *Vice President of AIM and Executive Vice President of Apollo Investment*. Mr. Tam joined Apollo Investment in June 2004 as a partner and as a member of AIM s investment committee. Before joining Apollo, Mr. Tam was in the corporate finance group at Donaldson Lufkin & Jenrette from 1991 to 1999. In 1999, Mr. Tam joined DLJ Investment Partners, a mezzanine fund as a Vice President and was promoted to Director in 2002.

Jose A. Briones *Vice President of AIM*. Mr. Briones joined Apollo in 2006 as a partner and as a member of AIM s investment committee. Before joining Apollo, Mr. Briones was a Managing Director with UBS Securities LLC in the Financial Sponsors and Leveraged Finance Group. Prior to joining UBS, from 1999 to 2001, Mr. Briones was a Vice President with JP Morgan where he worked in the Global Leveraged Finance Group. Prior to joining JP Morgan, from 1992 to 1999, Mr. Briones was a Vice President at BT Securities and BT Alex Brown Incorporated in the Corporate Finance Department.

James Zelter *managing partner of Apollo s Capital Markets Business (which includes AIM) and President and Chief Operating Officer of Apollo Investment*. Mr. Zelter joined Apollo in 2006 and has served on AIM s investment committee since such time. Previously, Mr. Zelter had been with Citigroup and its predecessor companies since 1994, where he was responsible for the global expansion and strong financial performance of the Special Situations Investment Group, a

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proprietary investment group that he founded within Citigroup s Fixed Income Division. From 2003 to 2005, Mr. Zelter was Chief Investment Officer of Citigroup Alternative Investment, and prior to that he was responsible for the firm s global high yield and leveraged finance business. Mr. Zelter is also a partner of a number of another Apollo affiliates that advise the Apollo investment entities referenced below under the caption *Compensation of Directors and Officers Investment Advisory and Management Agreement Management Services.*

Investment structure

Once we have determined that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment.

We seek to structure our mezzanine investments primarily as unsecured, subordinated loans that provide for relatively high interest rates that provide us with significant current interest income. These loans typically have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine loans. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt securities or defer payments of interest after our investment. Also, in some cases our mezzanine loans may be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, our mezzanine loans have maturities of five to ten years.

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

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

- requiring an expected total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;

- generally incorporating call protection into the investment structure; and

- negotiating covenants and information rights in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with our goal of preserving our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Any warrants we receive with our debt securities generally require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we may also seek to obtain registration rights in connection with these equity interests, which may include demand and piggyback registration rights.

We expect to hold most of our investments to maturity or repayment, but we may sell certain of our investments earlier, including, if a liquidity event takes place such as the sale or recapitalization or worsening of credit quality of a portfolio company.

Managerial assistance

As a BDC, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services. AIA provides such managerial assistance on our behalf to portfolio companies that request this assistance.

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Ongoing relationships with portfolio companies

Monitoring

AIM monitors our portfolio companies on an ongoing basis. AIM monitors the financial trends of each portfolio company to determine if each is meeting its respective business plans and to assess the appropriate course of action for each company.

AIM has several methods of evaluating and monitoring the performance and fair value of our investments, which can include, but are not limited to, the following:

- Assessment of success in adhering to portfolio company s business plan and compliance with covenants;
- Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- Comparisons to other portfolio companies in the industry;
- Attendance at and participation in board meetings; and
- Review of monthly and quarterly financial statements and financial projections for portfolio companies.

In addition to various risk management and monitoring tools, AIM also uses an investment rating system to characterize and monitor our expected level of returns on each investment in our portfolio.

We use an investment rating scale of 1 to 5. The following is a description of the conditions associated with each investment rating:

Investment Rating	**Summary Description**
1	Capital gain expected
2	Full return of principal and interest or dividend expected, with the portfolio company performing in accordance with our analysis of its business
3	Full return of principal and interest or dividend expected, but the portfolio company requires closer monitoring
4	Some loss of interest, dividend or capital appreciation expected, but still expecting an overall positive internal rate of return on the investment
5	Loss of interest or dividend and some loss of principal investment expected, which would result in an overall negative internal rate of return on the investment

AIM monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, AIM reviews these investment ratings on a quarterly basis, and our board of directors affirms such ratings.

Valuation Process

The following is a description of the steps we take each quarter to determine the value of our portfolio. Many of our portfolio investments are recorded at fair value as determined in good faith by or under the direction of our board of directors pursuant to a valuation policy and a consistently applied valuation process utilizing the input of our investment adviser, independent valuation firms and the audit committee. As a result, there is uncertainty as to the value of our portfolio investments. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations if they are deemed to represent fair value. With respect to investments for which market quotations are not readily available, our board of directors undertakes a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

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- Preliminary valuation conclusions are then documented and discussed with our senior management;

- Independent valuation firms engaged by our board of directors conduct independent appraisals and review management s preliminary valuations and make their own independent assessments;

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

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

When we make investments that involve deferrals of interest payable to us, any increase in the value of the investment due to the accrual or receipt of payment of interest is allocated to the increase in the cost basis of the investment, rather than to capital appreciation or gain.

Competition

Our primary competitors in providing financing include public and private funds, commercial and investment banks, commercial financing companies, and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in. As a result of these new entrants, competition for investment opportunities at middle-market companies has intensified. Some of our existing and potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. We expect to use the industry information of Apollo s investment professionals to which we have access to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of the senior managers of AIM and of the senior partners of Apollo, enable us to learn about, and compete effectively for, financing opportunities with attractive middle-market companies in the industries in which we seek to invest.

Staffing

We have a chief financial officer and a chief compliance officer and, to the extent necessary, they have hired and will continue to hire additional personnel. These individuals are employees of Apollo Administration and perform their respective functions under the terms of the administration agreement. In addition, we reimburse AIA for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

Properties

We do not own any real estate or other physical properties materially important to our operation. Our administrative and principal executive offices are located at 9 West 57th Street, New York, NY 10019. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

Legal Proceedings

We and AIM are not currently subject to any material legal proceedings.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a wide variety of new regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

Pursuant to Rule 13a-14 under the Exchange Act, our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the financial statements contained in our periodic reports;

- Pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;

- Pursuant to Rule 13a-15 under the Exchange Act, our management must prepare a report regarding its assessment of our internal control over financial reporting, which must be audited by our independent registered public accounting firm; and

- Pursuant to Item 308 of Regulation S-K and Rule 13a-15 under the Exchange Act, our periodic reports must disclose whether there were significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act and the regulations promulgated thereunder. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act and will take actions necessary to ensure that we are in compliance therewith.

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MANAGEMENT

Our business and affairs are managed under the direction of our board of directors. The board of directors currently consists of six members, five of whom are not interested persons of Apollo Investment as defined in Section 2(a)(19) of the 1940 Act. We refer to these individuals as our independent directors. Our board of directors elects our officers, who serve at the discretion of the board of directors.

BOARD OF DIRECTORS

Under our charter, our directors are divided into three classes. Each class of directors holds office for a three year term. At each annual meeting of our stockholders, the successors to the class of directors whose terms expire at such meeting will be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. Each director holds office for the term to which he or she is elected and until his or her successor is duly elected and qualifies.

Directors

Information regarding the board of directors is as follows:

Interested Director

Name	Age	Position	Director Since	Term Expires
John J. Hannan	54	Chairman of the Board and Chief Executive Officer	2004	2009

Independent Directors

Name	Age	Position	Director Since	Term Expires
Claudine B. Malone	71	Director	2007	2008
Carl Spielvogel	78	Director	2004	2008
Elliot Stein, Jr.	58	Director	2004	2007*
Gerald Tsai, Jr.	78	Director	2004	2009
Bradley J. Wechsler	55	Director	2004	2007*

The address for each director is c/o Apollo Investment Corporation, 9 West 57th Street, New York, NY 10019.

* Messrs. Stein and Wechsler were re-elected to serve until 2010 on August 7, 2007 at the annual shareholder meeting.

Executive officers who are not directors

Information regarding our executive officers who are not directors is as follows:

Name	Age	Position
James C. Zelter	45	President and Chief Operating Officer
Patrick J. Dalton	39	Executive Vice President
Edward Tam	38	Executive Vice President
Richard L. Peteka	46	Chief Financial Officer and Treasurer
John J. Suydam	47	Vice President and Chief Legal Officer
Gordon E. Swartz	60	Chief Compliance Officer and Secretary

The address for each executive officer is c/o Apollo Investment Corporation, 9 West 57th Street, New York, NY 10019.

Biographical information

Directors

Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the 1940 Act.

Independent directors

Claudine B. Malone *(71)* Director. Ms. Malone became director of Apollo Investment on April 17, 2007. Ms. Malone is the President and Chief Executive Officer of Financial & Management Consulting Inc. of McLean, Virginia. She also currently serves as a director of Hasbro Inc., Novell, Inc. and Aviva Life Insurance Company (USA). Previously, Ms. Malone was Chairman of the Board of the Federal Reserve Bank of Richmond from 1996 to 1999. She served as a visiting professor at the Colgate-Darden Business School of the University of Virginia from 1984 to 1987, an adjunct professor of the School of Business Administration at Georgetown University from 1982 to 1984 and an assistant and associate professor at the Harvard Graduate School of Business Administration from 1972 to 1981.

Carl Spielvogel *(78)* Director. Ambassador Spielvogel became a director of Apollo Investment in March 2004. Amb. Spielvogel has been Chairman and Chief Executive Officer of Carl Spielvogel Associates, Inc., an international management and counseling company, from 1997 to 2000, and from 2001 to present. In 2000-2001, Amb. Spielvogel served as U.S. Ambassador to the Slovak Republic, based in Bratislava, Slovakia. From 1994 to 1997, Amb. Spielvogel was Chairman and Chief Executive Officer of the United Auto Group, Inc., one of the first publicly-owned auto dealership groups. Earlier, Amb. Spielvogel was Chairman and Chief Executive Officer of Backer Spielvogel Bates Worldwide, a global marketing communications company from 1985 to 1994. Amb. Spielvogel currently is a director of the Interactive Data Corporation, Inc. He is also a trustee to the Metropolitan Museum of Art; a member of the board of Trustees and Chairman of the Business Council of the Asia Society; a member of the board of trustees of Lincoln Center for the Performing Arts; a member of the Council on Foreign Relations, and a member of the board of trustees of the Institute for the Study of Europe, at Columbia University, and a member of the Executive Committee of the Council of American Ambassadors.

Elliot Stein, Jr. *(58)* Director. Mr. Stein became a director of Apollo Investment in March 2004. Mr. Stein has served as chairman of Caribbean International News Corporation since 1985. He is also a managing director of Commonwealth Capital Partners as well as various private companies including VTG Holdings Inc. and Cloud Solutions LLC. Mr. Stein is a trustee of Claremont Graduate University and the New School University and is a member of the Board of Councilors of the Annenberg School of Communications at the University of Southern California. He is a member of the Council on Foreign Relations.

Gerald Tsai, Jr. *(78)* Director. Mr. Tsai became a director of Apollo Investment in March 2004. Mr. Tsai was elected chairman of the Board of Sequa Corporation on January 3, 2007 and is a private investor. He also currently serves on other boards of directors including Zenith National Insurance Corp., Triarc Companies, Inc. and United Rentals, Inc., as well as director emeritus of Saks Incorporated. Previously, Mr. Tsai was chairman of the board, president and Chief Executive Officer of Delta Life Corporation from 1993 to 1997. He also joined Primerica Corporation in 1982 and served in various positions until 1988, the latest as chairman of the board and Chief Executive Officer. Mr. Tsai currently serves as a trustee of NYU Hospitals Center and New York University School of Medicine Foundation.

Bradley J. Wechsler *(55)* Director. Mr. Wechsler became a director of Apollo Investment in April 2004. Mr. Wechsler has been the Co-Chairman and Co-Chief Executive Officer of IMAX Corporation since May, 1996. Previously Mr. Wechsler has had several executive positions in the entertainment industry and was a partner in the entertainment and media practice for a New York-based investment bank. Mr. Wechsler is a Vice-Chairman of the board of the NYU Hospital and Medical Center, a member of the Executive Committee and chairs its Finance Committee. In addition, he sits on the boards of The American Museum of the Moving Image, the Ethical Culture Fieldston Schools and Math for America.

Interested director

John J. Hannan *(54)* Chairman of the Board, Chief Executive Officer and Director of Apollo Investment. Mr. Hannan became a director of Apollo in March 2004 and was elected our Chief Executive Officer in February 2006 and Chairman of the board of directors in August 2006. Mr. Hannan has served on AIM s investment committee since February 2006. Mr. Hannan, a senior partner of Apollo, co-founded Apollo Management, L.P. in 1990 and Apollo Real Estate Advisors, L.P. (an investment manager affiliated with Apollo s real estate investment funds) in 1993. Mr. Hannan serves on several boards of directors, including the board of Vail Resorts, Inc. and Goodman Global, Inc.

Executive officers who are not directors

James C. Zelter *(45)* President and Chief Operating Officer of Apollo Investment. Mr. Zelter joined Apollo in 2006. Prior to joining the firm, he was with Citigroup and its predecessor companies since 1994, and was responsible for the global expansion and strong financial performance of the Special Situations Investment Group, a proprietary investment group that he founded within Citigroup s Fixed Income Division. From 2003 to 2005, Mr. Zelter was Chief Investment Officer of Citigroup Alternative Investment, and prior to that he was responsible for the firm s global high yield and leveraged finance business.

Patrick J. Dalton *(39)* Executive Vice President of Apollo Investment. Mr. Dalton joined Apollo in June 2004 as a partner and as a member of AIM s investment committee. Before joining Apollo, Mr. Dalton was a Vice President with Goldman, Sachs & Co. s Principal Investment Area with a focus on mezzanine investing since 2000. From 1990 to 2000, Mr. Dalton was a Vice President with the Chase Manhattan Bank where he worked most recently in the Acquisition Finance Department.

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Edward Tam *(38)* Executive Vice President of Apollo Investment. Mr. Tam joined Apollo in 2004 as a partner and as a member of AIM s investment committee. Before joining Apollo, Mr. Tam joined DLJ Investment Partners, a mezzanine fund, in 1999 and was promoted to Director in 2002. Mr. Tam was in the corporate finance group at Donaldson Lufkin & Jenrette from 1991 to 1999.

Richard L. Peteka *(46)* Chief Financial Officer and Treasurer of Apollo Investment. Mr. Peteka joined Apollo Investment in June 2004 as its Chief Financial Officer and Treasurer. Prior to joining the firm, he was Chief Financial Officer and Treasurer of various closed-end and open-end registered investment companies for Citigroup Asset Management. He joined Citigroup Asset Management as a Director in July 1999.

John J. Suydam *(47)* Vice President and Chief Legal Officer of Apollo Investment. Mr. Suydam joined Apollo in 2006. From 2002 to 2006, Mr. Suydam was a partner at O Melveny & Myers, where he served as head of Mergers & Acquisitions and co-head of the Corporate Department. Prior to that, Mr. Suydam served as Chairman of the law firm O Sullivan, LLP, which specialized in representing private equity investors. Mr. Suydam serves on the Board of the Big Apple Circus.

Gordon E. Swartz *(60)* Chief Compliance Officer and Secretary of Apollo Investment. Mr. Swartz became the Chief Compliance Officer of Apollo Investment in October 2004. Prior to joining Apollo Investment, Mr. Swartz was an Associate General Counsel of Citigroup Asset Management.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit committee

The Audit Committee operates pursuant to an Audit Committee Charter approved by the board of directors. The charter sets forth the responsibilities of the Audit Committee, which include selecting or retaining each year an independent registered public accounting firm (the auditors) to audit our accounts and records; reviewing and discussing with management and the auditors our annual audited financial statements, including disclosures made in management s discussion and analysis, and recommending to the board of directors whether the audited financial statements should be included in our annual report on Form 10-K; reviewing and discussing with management and the auditors our quarterly financial statements prior to the filings of our quarterly reports on Form 10-Q; pre-approving the auditors engagement to render audit and/or permissible non-audit services; and evaluating the qualifications, performance and independence of the auditors. The Audit Committee is presently composed of four persons: Messrs. Spielvogel, Stein and Tsai, and Ms. Malone (Chair), all of whom are independent directors and are otherwise considered independent under FINRA listing standards (the FINRA Listing Standards). Our board of directors has determined that Mr. Tsai and Ms. Malone each is an audit committee financial expert as that term is defined under Item 401 of Regulation S-K under the Securities Exchange Act of 1934 (the Exchange Act). The Audit Committee Charter is available on our website (*http://www.apolloic.com*). During the fiscal year ended March 31, 2007, the audit committee met six times.

Nominating and corporate governance committee

The members of the nominating and corporate governance committee are Messrs. Franklin, Spielvogel, Stein (Chairman) and Tsai, each of whom is independent for purposes of the 1940 Act and The Nasdaq Global Select Market corporate governance regulations. Mr. Stein serves as chairman of the nominating and corporate governance committee. The nominating and corporate governance committee is responsible for selecting, researching and nominating directors for election by our stockholders, selecting nominees to fill vacancies on the board of directors or a committee of the board of directors, developing and recommending to the board of directors a set of corporate governance principles and overseeing the evaluation of the board of directors and our management. The nominating and corporate governance committee considers nominees recommended by our stockholders. During the fiscal year ended March 31, 2007, the nominating and corporate governance committee met six times.

Compensation committee

We do not have a compensation committee. Decisions regarding executive compensation are made by our entire board of directors.

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COMPENSATION OF DIRECTORS AND OFFICERS

The following table shows information regarding the compensation expected to be received by the independent directors and executive officers for the fiscal year ended March 31, 2007. No compensation is paid to directors who are interested persons.

Name	Aggregate compensation from Apollo Investment	Pension or retirement benefits accrued as part of our expenses(1)	Total compensation from Apollo Investment paid to director/officer
Independent directors			
Claudine B. Malone*	N/A	None	N/A
Carl Spielvogel	117,125	None	117,125
Elliot Stein, Jr.	118,750	None	118,750
Gerald Tsai, Jr.	114,750	None	114,750
Bradley J. Wechsler	97,250	None	97,250
Interested directors			
John J. Hannan	None	None	None
Executive Officers			
Patrick J. Dalton	None	None	None
Richard L. Peteka(2)	None	None	None
John J. Suydam	None	None	None
Gordon E. Swartz(2)	None	None	None
Edward Tam	None	None	None
James C. Zelter	None	None	None

(1) We do not have a profit sharing or retirement plan, and directors do not receive any pension or retirement benefits.

(2) Richard L. Peteka and Gordon E. Swartz are employees of AIA.

* Effective as of April 17, 2007, Claudine B. Malone became a Director. Accordingly, she received no compensation. Her term will expire in 2008. Martin E. Franklin resigned from the board on December 29, 2006. For the period he served as a director during the fiscal year ended March 31, 2007, Mr. Franklin received $81,375 in aggregate/total compensation.

The independent directors annual fee was increased from $75,000 to $100,000, effective as of January 1, 2007. They also receive $2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive $1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the Chairman of the Audit Committee receives an annual fee of $7,500 and each chairman of any other committee receives an annual fee of $2,500 for their additional services in these capacities. In addition, we purchase directors and officers liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors fees paid in shares of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment.

INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT

Management services

AIM serves as our investment adviser and is controlled by Apollo. AIM is registered as an investment adviser under the Advisers Act. Subject to the overall supervision of our board of directors, the investment adviser manages the day-to-day operations of, and provide investment advisory and management services to, Apollo Investment. Under the terms of an investment advisory and management agreement, AIM:

determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;

identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies); and

closes and monitors the investments we make.

AIM s services under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities so long as its services to us are not impaired.

In addition to managing our investments, investment professionals of AIM also manage or have managed the following other Apollo investment entities, none of which is currently soliciting new investors:

Fund Name(1)(2)	Investment Focus	Established	Committed Capital(3) (in billions)	Status
Managed Institutional Investment Accounts(4)	Private Equity/ Distressed Debt	1990-2	2.8	Fully invested and realized
Apollo Investment Fund	Private Equity	1990	0.4	Fully invested and realized
AIF II	Private Equity	1992	0.5	Fully invested and realized
Apollo Investment Fund III	Private Equity	1995	1.5	Fully invested, substantially realized
Apollo Investment Fund IV	Private Equity	1998	3.6	Fully invested, partially realized
Apollo Investment Fund V	Private Equity	2001	3.7	Fully invested, partially realized
Apollo Value Investment Fund	Private Equity/ Distressed Debt	2003	0.65	Actively investing
Apollo Investment Fund VI	Private Equity	2005	10.0	Actively investing
AP Alternative Assets	Private Equity/ Capital Markets	2006	1.9	Actively investing

(1) *Investors in Apollo Investment are not acquiring interests in any of the other Apollo funds. Performance of other Apollo funds is not necessarily indicative of results to be realized from an investment in Apollo Investment*

(2) *The investment professionals of Apollo also manage a private investment fund that invests in distressed debt.*

(3) *Represents capital commitments at inception for each fund.*

(4) *Represents institutional managed account principally invested in a distressed high-yield portfolio.*

In addition to the entities listed above, investment professionals of AIM also manage two other investment vehicles which were recently formed. One of the entities focuses on value investing and distressed debt, while the other entity focuses on mezzanine securities of companies in Europe. Both entities are actively engaged in investment activities. *See Certain Relationships.*

Management fee

Pursuant to the investment advisory and management agreement, we pay AIM a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. For the fiscal years ended March 31, 2007, 2006 and the period April 8, 2004 (commencement of operations) through March 31, 2005, AIM received $40.6 million, $23.4 million and $17.3 million, respectively, in base investment advisory and management fees and $36.6 million, $22.3 million and $0, respectively, in performance-based net investment income incentive fees from us. At March 31, 2007, we had also accrued $21.3 million for a net realized capital gains based incentive fee. The amount actually payable by us will be determined as of the end of the calendar year. We did not pay any net realized capital gain based incentive fees for the fiscal years ended March 31, 2007, March 31, 2006 and the period April 8, 2004 (commencement of operations) through March 31, 2005.

The base management fee is calculated at an annual rate of 2.00% of our average gross assets. For services that were rendered under the investment advisory and management agreement during the period commencing on the closing of our initial public offering through and including our first six months of operations, the base management fee was payable monthly in arrears. Thereafter, the base management fee has been payable quarterly in arrears. For the first quarter of our operations, the base management fee was calculated based on the initial value of our gross assets. The base management fee is now calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters, and appropriately adjusted for any share issuances or repurchases during the current calendar quarter. Base management fees for any partial month or quarter are appropriately pro rated.

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The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income does not include any realized capital gains computed net of all realized capital losses and unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. We pay AIM an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate;

- 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter (8.75% annualized). We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than 2.1875%) as the catch-up. The catch-up provision is intended to provide our investment adviser with an incentive fee of 20% on all of our pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.1875% in any calendar quarter; and

- 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized).

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:

Quarterly Incentive Fee Based on Net Investment Income

Pre-incentive fee net investment income

(expressed as a percentage of the value of net assets)

Percentage of pre-incentive fee net investment income

allocated to income-related portion of incentive fee

These calculations are appropriately pro rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. You should be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as of the termination date), commenced on December 31, 2004, and will equal 20.0% of our realized capital gains for each calendar year computed net of all realized capital losses and unrealized capital depreciation and incorporating unrealized depreciation on a gross investment-by-investment basis at the end of such year. Capital gains with respect to any investment will equal the difference between the proceeds from the sale of such investment and the accreted or amortized cost basis of such investment.

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Examples of Quarterly Incentive Fee Calculation

Example 1: Income Related Portion of Incentive Fee (*):

Alternative 1

Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate (1) = 1.75%

Management fee (2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%

Pre-incentive fee net investment income

(investment income   (management fee + other expenses)) = 0.55%

Pre-incentive net investment income does not exceed hurdle rate, therefore there is no incentive fee.

Alternative 2

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate (1) = 1.75%

Management fee (2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%

Pre-incentive fee net investment income

(investment income   (management fee + other expenses)) = 2.00%

Incentive fee = 100% × pre-incentive fee net investment income, subject to the   catch-up   (4)

= 100% × (2.00%   1.75%)

= 0.25%

Alternative 3

Assumptions

Investment income (including interest, dividends, fees, etc.) = 3.00%

Hurdle rate (1) = 1.75%

Management fee (2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%

Pre-incentive fee net investment income

(investment income (management fee + other expenses)) = 2.30%

Incentive fee = 20% × pre-incentive fee net investment income, subject to catch-up (4)

Incentive fee = 100% × catch-up + (20% × (pre-incentive fee net investment income 2.1875%))

Catch-up = 2.1875% 1.75%

= 0.4375%

Incentive fee = (100% × 0.4375%) + (20% × (2.3% 2.1875%))

= 0.4375% + (20% × 0.1125%)

= 0.4375% + 0.0225%

= 0.46%

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(1) *Represents 7.0% annualized hurdle rate.*

(2) *Represents 2.0% annualized management fee.*

(3) *Excludes organizational and offering expenses.*

(4) *The catch-up provision is intended to provide our investment adviser with an incentive fee of 20% on all of our pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.1875% in any calendar quarter.*

(*) The *hypothetical* amount of pre-incentive fee net investment income shown is based on a percentage of total net assets.

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Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions

Year 1: $20 million investment made in Company A (Investment A), and $30 million investment made in Company B (Investment B)

Year 2: Investment A sold for $50 million and fair market value (FMV) of Investment B determined to be $32 million

Year 3: FMV of Investment B determined to be $25 million

Year 4: Investment B sold for $31 million

The capital gains portion of the incentive fee would be:

Year 1: None

Year 2: Capital gains incentive fee of $6 million ($30 million realized capital gains on sale of Investment A multiplied by 20%)

Year 3: None

$5 million (20% multiplied by ($30 million cumulative capital gains less $5 million cumulative capital depreciation)) less $6 million (previous capital gains fee paid in Year 2)

Year 4: Capital gains incentive fee of $200,000

$6.2 million ($31 million cumulative realized capital gains multiplied by 20%) less $6 million (capital gains fee taken in Year 2)

Alternative 2

Assumptions

Year 1: $20 million investment made in Company A (Investment A), $30 million investment made in Company B (Investment B) and $25 million investment made in Company C (Investment C)

Year 2: Investment A sold for $50 million, FMV of Investment B determined to be $25 million and FMV of Investment C determined to be $25 million

Year 3: FMV of Investment B determined to be $27 million and Investment C sold for $30 million

Year 4: FMV of Investment B determined to be $35 million

Year 5: Investment B sold for $20 million

The capital gains incentive fee, if any, would be:

Year 1: None

Year 2: $5 million capital gains incentive fee

20% multiplied by $25 million ($30 million realized capital gains on Investment A less unrealized capital depreciation on Investment B)

Year 3: $1.4 million capital gains incentive fee(1)

$6.4 million (20% multiplied by $32 million ($35 million cumulative realized capital gains less $3 million unrealized capital depreciation)) less $5 million capital gains fee received in Year 2

Year 4: None

Year 5: None

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$5 million (20% multiplied by $25 million (cumulative realized capital gains of $35 million less realized capital losses of $10 million)) less $6.4 million cumulative capital gains fee paid in Year 2 and Year 3

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(1) *As illustrated in Year 3 of Alternative 1 above, if Apollo Investment were to be wound up on a date other than December 31st of any year, Apollo Investment may have paid aggregate capital gain incentive fees that are more than the amount of such fees that would be payable if Apollo Investment had been wound up on December 31st of such year.*

Payment of our expenses

All investment professionals of the investment adviser and their respective staffs when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by AIM. We bear all other costs and expenses of our operations and transactions, including those relating to: organization and offering; calculation of our net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by AIM payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies; interest payable on debt, if any, incurred to finance our investments; offerings of our common stock and other securities; investment advisory and management fees; fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments; transfer agent and custodial fees; registration fees; listing fees; taxes; independent directors fees and expenses; costs of preparing and filing reports or other documents of the SEC; the costs of any reports, proxy statements or other notices to stockholders, including printing costs; our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums; direct costs and expenses of administration, including auditor and legal costs; and all other expenses incurred by us or Apollo Administration in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including rent and our allocable portion of the cost of our chief compliance officer and chief financial officer and their respective staffs.

Duration and termination

The continuation of our investment advisory and management agreement was approved by our board of directors on March 21, 2007. Unless terminated earlier as described below, it will remain in effect from year to year if approved annually by our board of directors or by the affirmative vote of the holders of a majority of our outstanding voting securities, including, in either case, approval by a majority of our directors who are not interested persons. The investment advisory and management agreement will automatically terminate in the event of its assignment. Either party may terminate the investment advisory and management agreement without penalty upon not more than 60 days written notice to the other party. See Risk Factors Risks relating to our business and structure We are dependent upon AIM s key personnel for our future success and upon their access to Apollo s investment professionals and partners.

Indemnification

The investment advisory and management agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or reckless disregard of its duties and obligations, AIM and its officers, managers, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Apollo Investment for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of AIM s services under the investment advisory and management agreement or otherwise as an investment adviser of Apollo Investment.

Organization of the investment adviser

AIM is a Delaware limited partnership that is registered as an investment adviser under the Advisers Act. The principal executive offices of AIM are at 9 West 57th Street, New York, NY 10019.

Board approval of the Investment Advisory and Management Agreement

At a meeting of our board of directors held on March 21, 2007, the board of directors, including all of our directors who are not interested persons as defined in the 1940 Act, unanimously voted to approve the continuation of the investment advisory and management agreement. The independent directors had the opportunity to consult in executive session with their counsel regarding the approval of such agreement. In reaching a decision to approve the continuation of the investment advisory and management agreement, the board of directors reviewed a significant amount of information and considered, among other things:

the nature, quality and extent of the advisory and other services provided and to be provided to us by the investment adviser;

- the investment performance of Apollo Investment and the investment adviser;
- the reasonableness of the fee that we pay the investment adviser in light of comparative performance, expense and advisory fee information, costs of the services provided, and profits realized and benefits derived or to be derived by the investment adviser from its relationship with us;
- the potential for economies of scale to be realized by the adviser in managing our assets and the extent to which material economies of scale may be shared with us; and
- various other matters.

In approving the continuation of the investment advisory and management agreement, the entire board of directors, including all of the directors who are not interested persons, made the following conclusions:

- **Nature, Quality and Extent of Services.** The board of directors considered the nature, extent and quality of the investment selection process employed by the investment adviser. The board of directors also considered the investment adviser s personnel and their prior experience in connection with the types of investments made by us. In addition, the board of directors determined that the terms and conditions of the investment advisory and management agreement. The board of directors concluded that the substantive terms of the investment advisory and management agreement, including the services to be provided, are generally the same as those of comparable business development companies described in the available market data. The board of directors determined that the nature, extent and quality of the services provided by the investment adviser are adequate and appropriate.
- **Investment Performance.** The board of directors reviewed the long-term and short-term investment performance of Apollo Investment and the investment adviser, as well as comparative data with respect to the long-term and short-term investment performance of other externally managed business development companies. The board of directors concluded that the investment adviser was delivering results consistent with the investment objective of Apollo Investment and that its investment performance was satisfactory when compared to comparable business development companies.
- **The reasonableness of the fee Apollo Investment pays to the Investment Adviser.** The board of directors considered comparative data based on publicly available information and information provided by a third party retained to provide comparative data on other business development companies with respect to services rendered and the advisory fees (including the management fees and incentive fees) of other business development companies as well as our projected operating expenses and expense ratio compared to other business development companies, including business development companies with similar investment objectives. Based upon its review, the board of directors concluded that the fees payable under the investment advisory and management agreement are reasonable compared to other business development companies and in light of the services provided by the investment adviser. In addition, the board of directors concluded that our expected expenses as a percentage of net assets attributable to common stock are reasonable compared to other business development companies.
- **Economies of Scale.** The board of directors considered information about the potential of the investment adviser to realize economies of scale in managing our assets, and determined that at this time there were not economies of scale to be realized by the investment adviser and that, to the extent that material economies of scale were not being shared with Apollo Investment, the board of directors would seek to do so.

Based on the information reviewed and the discussions detailed above, the board of directors (including all of the directors who are not interested persons) concluded that the investment advisory and management fee rates and terms are fair and reasonable in relation to the services provided and approved the continuation of investment advisory and management agreement with the investment adviser as being in the best interests of Apollo Investment and its stockholders.

In view of the wide variety of factors that our board of directors considered in connection with its evaluation of the investment advisory and management agreement, it is not practical to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. The board of directors did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the board of directors. Rather, our board of directors based its approval on the totality of information presented to, and the investigation review by, it. In considering the factors discussed above, individual directors may have given different weights to different factors.

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ADMINISTRATION AGREEMENT

Pursuant to a separate administration agreement, Apollo Administration furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under the administration agreement, Apollo Administration also performs, or oversee the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders and reports filed with the SEC. In addition, Apollo Administration assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement are equal to an amount based upon our allocable portion of Apollo Administration s overhead in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our chief compliance officer and chief financial officer and their respective staffs. Under the administration agreement, Apollo Administration also provides on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Either party may terminate the administration agreement without penalty upon 60 days written notice to the other party.

For the fiscal years ended March 31, 2007 and 2006 and the period April 8, 2004 (commencement of operations) through March 31, 2005, the Administrator was reimbursed $2,237, $1,017 and $674, respectively, from Apollo Investment on the $2,437, $1,470 and $988, respectively, of expenses accrued under the administration agreement.

Indemnification

The administration agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or reckless disregard of its duties and obligations, Apollo Administration and its officers, manager, partners, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from Apollo Investment for any damages, liabilities, costs and expenses (including reasonable attorneys fees and amounts reasonably paid in settlement) arising from the rendering of Apollo Administration s services under the administration agreement or otherwise as administrator for Apollo Investment.

LICENSE AGREEMENT

We have entered into a license agreement with Apollo pursuant to which Apollo has agreed to grant us a non-exclusive, royalty-free license to use the name Apollo. Under this agreement, we will have a right to use the Apollo name, for so long as Apollo Investment Management or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we will have no legal right to the Apollo name. This license agreement will remain in effect for so long as the investment advisory and management agreement with our investment adviser is in effect.

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CERTAIN RELATIONSHIPS

We have entered into the investment advisory and management agreement with AIM. Our senior management and our chairman of the board of directors have ownership and financial interests in AIM. Our senior management also serve as principals of other investment managers affiliated with AIM that may in the future manage investment funds with investment objectives similar to ours. In addition, our executive officers and directors and the partners of our investment adviser, AIM, serve or may serve as officers, directors or principals of entities that operate in the same or related line of business as we do or of investment funds managed by our affiliates. Accordingly, we may not be given the opportunity to participate in certain investments made by investment funds managed by advisers affiliated with AIM. However, our investment adviser and other members of Apollo intend to allocate investment opportunities in a fair and equitable manner consistent with our investment objectives and strategies so that we are not disadvantaged in relation to any other client. See Risk Factors Risks relating to our business and structure There are significant potential conflicts of interest which could impact our investment returns.

We have entered into a license agreement with Apollo, pursuant to which Apollo has agreed to grant us a non-exclusive, royalty-free license to use the name Apollo. In addition, pursuant to the terms of the administration agreement, Apollo Administration provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. AIM, our investment adviser, is the sole member of and controls Apollo Administration.

We have in the past and expect in the future to co-invest on a concurrent basis with other affiliates of Apollo Investment, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures. Certain types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any such order will be obtained.

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CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

As of March 31, 2007, there were no persons that owned 25% or more of our outstanding voting securities, and no person would be deemed to control us, as such term is defined in the 1940 Act.

The following table sets forth, as of March 31, 2007, each stockholder who owned more than 5% of our outstanding shares of common stock, each director, the chief executive officer, our executive officers and our directors and executive officers as a group. Unless otherwise indicated, we believe that each beneficial owner set forth in the table had sole voting and investment power over such securities.

Our directors have been divided into two groups interested directors and independent directors. Interested directors are interested persons as defined in the 1940 Act.

The following table sets forth, as of March 31, 2007, certain ownership information with respect to our common stock for those persons who directly or indirectly owned, controlled or held with the power to vote, 5% or more of our outstanding common stock as of that date and all officers and directors, as a group. Unless otherwise indicated, we believe that each beneficial owner set forth in the table had sole voting and investment power over such securities.

Name and address	Type of ownership(1)	Shares owned	Percentage of common stock outstanding
AIC Co-Investors LLC(2)	Beneficial	762,095	* %
All officers and directors as a group (11 persons)(3)	Beneficial		* %

* *Represents less than 1%.*

(1) *All of our common stock is owned of record by Cede & Co., as nominee of the Depository Trust Company.*

(2) *AIC Co-Investors LLC is a special purpose entity related to AIM. The address for AIC Co-Investors LLC is 9 West 57th Street, New York, NY 10019.*

(3) *The address for all officers and directors is c/o Apollo Investment Corporation, 9 West 57th Street, New York, NY 10019.*

The following table sets forth the dollar range of our equity securities beneficially owned through interests in AIM by each of our directors as of March 31, 2007. (We are not part of a family of investment companies, as that term is defined in the 1940 Act.)

Name of Director	Dollar Range of Equity Securities in Apollo Investment(1)	
Independent Directors(2)		
Carl Spielvogel	$	50,001 $100,000
Elliot Stein, Jr.	$	50,001 $100,000
Gerald Tsai, Jr.	$	10,001 $50,000
Bradley J. Wechsler	$	100,001 $500,000
Interested Directors and Executive Officers		
John J. Hannan	$	Over $1,000,000(3)

(1) *Dollar ranges are as follows: None, $1 $10,000, $10,001 $50,000, $50,001 $100,000, $100,001 $500,000, $500,001 $1,000,000 or over $1,000,000.*

(2) *Effective as of April 17, 2007, Claudine B. Malone became a Director. Her term will expire in 2008.*

(3) *Reflects pecuniary interests in AIC Co-Investors LLC. Mr. Hannan disclaims beneficial ownership of shares held by AIC Co-Investors LLC.*

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PORTFOLIO COMPANIES

The following is a listing of each portfolio company or its affiliate, together referred to as portfolio companies, in which we had an investment at March 31, 2007. Percentages shown for class of investment securities held by us represent percentage of the class owned and do not necessarily represent voting ownership. Percentages shown for equity securities, other than warrants or options, represent the actual percentage of the class of security held before dilution. Percentages shown for warrants and options held represent the percentage of class of security we may own assuming we exercise our warrants or options before dilution.

The portfolio companies are presented in three categories: companies more than 25% owned which represent portfolio companies where we directly or indirectly own more than 25% of the outstanding voting securities of such portfolio company and, therefore, are presumed to be controlled by us under the 1940 Act; companies owned 5% to 25% which represent portfolio companies where we directly or indirectly own 5% to 25% of the outstanding voting securities of such portfolio company or where we hold one or more seats on the portfolio company s board of directors and, therefore, are deemed to be an affiliated person under the 1940 Act; and companies less than 5% owned which represent portfolio companies where we directly or indirectly own less than 5% of the outstanding voting securities of such portfolio company and where we have no other affiliations with such portfolio company. We make available significant managerial assistance to our portfolio companies. We generally request and may receive rights to observe the meetings of our portfolio companies board of directors.

Name and Address of Portfolio Company	Nature of its Principal Business	Title of Securities Held by Apollo Investment	Percentage of Class Held(1)
Companies More Than 25% Owned			
None			
Companies 5% to 25% Owned			
None			
Companies Less Than 5% Owned			
A-D Conduit Holdings, LLC (Dura-Line) 835 Innovation Drive Knoxville, TN 37932	Telecommunications	Common Equity/ Partnership Interests	5%(4)*
Advantage Sales & Marketing Inc. 19100 Von Karman Avenue Suite 300 Irvine, CA 92612	Grocery	Subordinated Debt/ Corporate Notes	
ALM Media Holdings, Inc. 345 Park Avenue			

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Prior Pricing

Ratio of Consolidated Debt to Consolidated EBITDAR	Euro-Dollar Loans and Letters of Credit	Base Rate Loans	Applicable Unused Fee Rate
Greater than 2.75 to 1.00	3.25%	1.0%	0.375%
Greater than 2.25 to 1.00	2.75%	0.5%	0.30%

but less than or equal to 2.75 to 1.00			
Greater than 1.75 to 1.00 but less than or equal to 2.25 to 1.00	2.50%	0.25%	0.25%
Less than or equal to 1.75 to 1.00	2.00%	0%	0.25%

In exchange for these amendments, the Company agreed to pay fees of $250,000.

The interest rate on our overnight borrowings under the Credit Agreement at June 30, 2012 was 4.25%. The interest rate including all borrowings made under the Credit Agreement at June 30, 2012 was 4.1%. The interest rate on the Company's borrowings under the agreements for the six months ended June 30, 2012 was 4.0%. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. At June 30, 2012, the rate was 0.375% per annum. The Credit Agreement is collateralized by revenue equipment having a net book value of $165.4 million at June 30, 2012, and all trade and other accounts receivable. The Credit Agreement requires us to meet certain financial covenants (i.e., a maximum leverage ratio of 3.6 and a minimum fixed charge ratio of 1.0) and to maintain a minimum tangible net worth of approximately $106.4 million at June 30, 2012. The covenants would prohibit the payment of dividends by us if such payment would cause us to be in violation of any of the covenants. As the Company reprices its debt on a quarterly basis, the borrowings under the Credit Agreement approximate its fair value. And, at June 30, 2012, the Company had outstanding $2.2 million in letters of credit and had approximately $23.9 million available under the Credit Agreement.

At June 30, 2012, we were not in compliance with all of the financial covenants contained in our Credit Agreement. We paid a ten (10) basis points fee ($100,000) to obtain a waiver from our bank group for such non-compliance and, if the Credit Agreement is not refinanced by August 24, 2012, we will be charged an additional thirty (30) basis points fee ($300,000) for the extension of the waiver. Commencing September 7, 2012, and at various dates through October 31, 2012, we must take further steps to protect the interests of our existing lenders if the Credit Agreement is not refinanced by such dates.

Subsequent to June 30, 2012, we must continue to comply with our financial covenants. We do not believe that we will be in compliance with all of our covenants based upon our September 30, 2012 results. Because the waiver does not extend to financial covenants measured after June 30, 2012, and because we do not expect to be in compliance with the financial covenants based upon September 30, 2012 results, the amount due under the Credit Agreement has been classified as current in the accompanying consolidated balance sheet at June 30, 2012. If we do not refinance our Credit Agreement prior to the next measurement of financial covenants and we are unable to comply with such covenants, we would intend to seek an additional waiver at such time. We cannot assure you that any such waiver would be obtained or that amounts outstanding would not be accelerated.

The Company is currently negotiating with a lender to obtain a new credit facility. If the Company is successful in obtaining the new credit facility, the proceeds will be used in part to pay off the outstanding balance of the Credit Agreement, fund certain fees and expenses associated with obtaining the new credit facility, finance working capital and capital expenditures and provide for general corporate purposes.

(2) Capitalized lease obligations in the amount of $49.7 million have various termination dates extending through November 2015 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 1.6% to 4.0% at June 30, 2012. The lease agreements require us to pay property taxes, maintenance and operating expenses.

NOTE 12 – LEASES AND COMMITMENTS

We lease certain revenue equipment under capital leases with terms of 36, 42 or 45 months. Balances related to these capitalized leases are included in property and equipment in the accompanying consolidated balance sheets and are set forth in the table below for the periods indicated.

	(in thousands)		
	Capitalized Costs	Accumulated Amortization	Net Book Value
June 30, 2012	$ 63,576	$ 13,441	$ 50,135
December 31, 2011	72,272	22,525	49,747

We have entered into leases with lenders who participate in the Credit Agreement. Those leases contain cross-default provisions with the Credit Agreement. We have also entered into leases with other lenders who do not participate in our Credit Agreement. Multiple leases with lenders who do not participate in our Credit Agreement or Revolver generally contain cross-default provisions.

We routinely monitor our equipment acquisition needs and adjust our purchase schedule from time to time based on our analysis of factors such as new equipment prices, the condition of the used equipment market, demand for our freight services, prevailing interest rates, technological improvements, fuel efficiency, equipment durability, equipment specifications, our operating performance and the availability of qualified drivers.

As of June 30, 2012, for the remainder of 2012, we had commitments for purchases of non-revenue equipment in the amount of $0.01 million and commitments for the purchases of revenue equipment in the amount of approximately $25.3 million, none of which is cancelable by us upon advance written notice. We anticipate taking delivery of these purchases throughout the remainder of 2012.

NOTE 13 – INCOME TAXES

During the three months ended June 30, 2012 and 2011, our effective tax rates were 34.3% and 57.8%, respectively. During the six months ended June 30, 2012 and 2011, our effective tax rates were 35.0% and 15.2%, respectively. Income tax expense varies from the amount computed by applying the statutory federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Drivers may elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages and employee benefits are slightly lower, and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income increases, the impact of the driver per diem program on our effective tax rate decreases because aggregate per diem pay becomes smaller in relation to pre-tax income. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

We account for any uncertainty in income taxes by determining whether it is more likely than not that a tax position we have taken in a tax return will be sustained upon examination by the appropriate taxing authority based on the technical merits of the position. In that regard, we have analyzed filing positions in our federal and applicable state tax returns as well as in all open tax years. The only periods subject to examination for our federal returns are the 2009, 2010 and 2011 tax years. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. In conjunction with the above, our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. We have not recorded any unrecognized tax benefits through June 30, 2012.

NOTE 14 – CHANGE IN ACCOUNTING ESTIMATE

Effective May 1, 2011, the Company changed the time period over which it depreciates its 2005 model year and newer trailers and it changed the amount of the salvage value to which those trailers are being depreciated. The depreciation time period was changed to 14 years from 10 years and the salvage value was changed to $500 from 25.0% of the original purchase price. The Company believes that both of these changes more clearly and appropriately reflect the state of the current trailer market and thus, will more reasonably and accurately report the value of the trailers on the balance sheet. This change is being accounted for as a change in estimate. This change in estimate resulted in a reduction of depreciation expense as set forth in the following table:

	(in thousands, except per share data)		
	Pre-tax Basis	Net of Tax	Per Share Effect
Three Months Ended			
June 30, 2012	$ 568	$ 350	$ 0.03
June 30, 2011	402	248	0.02
Six Months Ended			
June 30, 2012	$ 1,141	$ 704	$ 0.07
June 30, 2011	402	248	0.02

NOTE 15 – LOSS PER SHARE

Basic loss per share is computed based on the weighted average number of shares of Common Stock outstanding during the period. Diluted loss per share is computed by adjusting the weighted average number of shares of Common Stock outstanding by Common Stock equivalents attributable to dilutive stock options and restricted stock. The computation of diluted loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on loss per share.

The following table sets forth the computation of basic and diluted loss per share:

	(in thousands, except per share amounts)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Numerator:				
Net (loss) income	$ (3,486)	$ 598	$ (8,359)	$ (2,118)
Denominator:				
Denominator for basic loss per share – weighted average shares	10,304	10,306	10,302	10,302
Effect of dilutive securities:				
Employee stock options and restricted stock	--	11	--	--
Denominator for diluted loss per share – adjusted weighted average shares and assumed conversions	10,304	10,317	10,302	10,302
Basic per share	$ (0.34)	$ 0.06	$ (0.81)	$ (0.21)
Diluted (loss) earnings per share	$ (0.34)	$ 0.06	$ (0.81)	$ (0.21)
Weighted average anti-dilutive employee stock options and restricted stock	177	121	175	125

NOTE 16 – LITIGATION

We are party to routine litigation incidental to our business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. We maintain insurance to cover liabilities in excess of certain self-insured retention levels. Though management believes these claims to be routine and immaterial to our long-term financial position, adverse results of one or more of these claims could have a material adverse effect on our financial position or results of operations in any given reporting period.

On July 28, 2008, a former commission sales agent, Mr. William Blankenship ("Blankenship"), filed an action in the United States District Court, Western District of Arkansas entitled William Blankenship, Jr. v. USA Truck, Inc., asking the court to set aside a previously consummated settlement agreement between the parties. The matter was dismissed by the District Court based upon our Motion to Dismiss, but was later reinstated by the 8th Circuit Court of Appeals and set for trial in the United States District Court in Fort Smith, Arkansas. In October 2011, the trial was held in the United States District Court and the jury returned a favorable verdict for the Company on all counts and determined that the Company had no additional liability in this matter. On December 13, 2011, the Court entered an order awarding the Company its costs and attorney's fees incurred in defending the case totaling approximately $0.2 million. Blankenship has now appealed the jury verdict and Court order.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements generally may be identified by their use of terms or phrases such as "expects," "estimates," "anticipates," "projects," "believes," "plans," "in "may," "will," "should," "could," "potential," "continue," "future" and terms or phrases of similar substance. Forward-l statements are based upon the current beliefs and expectations of our management and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Accordingly, actual results may differ from those set forth in the forward-looking statements. Readers should review and consider the factors that may affect future results and other disclosures by the Company in its press releases, Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. Additional risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2011 under the heading "Risk Factors" in Item 1A of that report and updates, if any, to that information are included in Item 1A of Part II of this report. We disclaim any obligation to update or revise any forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking information. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement.

References to the "Company," "we," "us," "our" and words of similar import refer to USA Truck, Inc. and its subsidiary.

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto and other financial information that appears elsewhere in this report.

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand USA Truck, Inc., our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and notes thereto and other financial information that appears elsewhere in this report. This overview summarizes the MD&A, which includes the following sections:

Our Business – a general description of our business, the organization of our operations and the service offerings that comprise our operations.

Results of Operations – an analysis of our consolidated results of operations for the periods presented in our consolidated financial statements and a discussion of seasonality, the potential impact of inflation and fuel availability and cost.

Off-Balance Sheet Arrangements – a discussion of significant financial arrangements, if any, that are not reflected on our balance sheet.

Liquidity and Capital Resources – an analysis of cash flows, sources and uses of cash, debt, equity and contractual obligations.

Critical Accounting Estimates – a discussion of accounting policies that require critical judgment and estimates.

Our Business

We operate primarily in the for-hire truckload segment of the trucking industry. Customers in a variety of industries engage us to haul truckload quantities of freight, with the trailer we use to haul that freight being assigned exclusively to that customer's freight until delivery. Our business is classified into three operating and reportable segments: our Trucking operating segment consisting primarily of our General Freight and Dedicated Freight service offerings; our SCS operating segment consisting entirely of our freight brokerage service offering; and our rail Intermodal operating segment.

Substantially all of our base revenue from the three reportable segments is generated by transporting, or arranging for the transportation of, freight for customers and is predominantly affected by the rates per mile received from our customers and similar operating costs.

Our SCS and Intermodal operating segments are intended to provide services which complement our Trucking services, primarily to existing customers of our Trucking operating segment. A majority of the customers using our SCS and Intermodal services are also customers of our Trucking operating segment.

The following chart describes the base revenue of our three segments.

	Trucking			
	Three Months Ended June 30,		Six Months Ended, June 30,	
	2012	2011	2012	2011
Base revenue (in thousands)	71,846	85,309	147,782	168,184
Percent of revenue	69.4 %	78.6 %	73.4 %	80.8 %

	SCS			
	Three Months Ended June 30,		Six Months Ended, June 30,	
	2012	2011	2012	2011
Base revenue (in thousands)	26,253	17,871	43,848	29,439
Percent of revenue	25.4 %	16.5 %	21.8 %	14.1 %

	Intermodal			
	Three Months Ended June 30,		Six Months Ended, June 30,	
	2012	2011	2012	2011
Base revenue (in thousands)	5,421	5,294	9,712	10,503
Percent of revenue	5.2 %	4.9 %	4.8 %	5.1 %

We generally charge customers for our services on a per-mile basis. The expenses which have a major impact on our profitability are the variable costs of transporting freight for our customers. The variable costs include fuel expense, insurance and claims and driver-related expenses, such as wages and benefits.

Trucking. Trucking includes the following primary service offerings provided to our customers:

- General Freight. Our General Freight service offering provides truckload freight services as a short- to medium-haul common carrier. We have provided General Freight services since our inception and we derive the largest portion of our revenue from these services.

- Dedicated Freight. Our Dedicated Freight service offering is a variation of our General Freight service, whereby we agree to make our equipment and drivers available to a specific customer for shipments over particular routes at specified times. In addition to serving specific customer needs, our Dedicated Freight service offering also aids in driver recruitment and retention.

Strategic Capacity Solutions. Our SCS operating segment consists entirely of our freight brokerage service offering which matches customer shipments with available equipment of authorized carriers and provides services that complement our Trucking operations. We provide these services primarily to our existing Trucking customers, many of whom prefer to rely on a single carrier, or a small group of carriers, to provide all their transportation needs. To date, a majority of the customers of SCS have also engaged us to provide services through one or more of our Trucking service offerings.

Intermodal. Our rail Intermodal service offering provides our customers cost savings over General Freight with a slightly slower transit speed, while allowing us to reposition our equipment.

Results of Operations

Executive Overview

USA Truck's net loss for the second quarter of 2012 narrowed compared to the past three sequential quarters. Bright spots included continued strong performance in our SCS segment, improved base revenue per manned tractor and lower fuel expense. Unfortunately, progress in these areas was hampered by lackluster performance in our Trucking segment where unmanned tractors and lack of network efficiency continued to diminish asset productivity.

In our SCS segment, total revenue grew by 36.4%, to $29.6 million, and operating income grew 11.2%, to $2.5 million, compared with the second quarter of 2011. An increase in purchased transportation expense pressured our gross margin, and our fixed costs rose faster than freight volumes as our continued growth necessitated the addition of branch offices. During the quarter ended June 30, 2012, total revenue from our intermodal operations decreased approximately 1.5% compared to the same period of the prior year. These two asset-light business units together produced over 28% of our total second quarter revenue.

Though our operational execution of manned tractors improved sequentially, our Trucking operations took a step backward compared to the same quarter of 2011 as average trucking revenue per tractor per week declined approximately 9.2%, to $2,546. Loaded revenue per mile increased for the first time in two quarters to $1.63 but remained 1.7% below last year's level. At 10.9%, our empty mile factor was the same in both the second quarter and the prior year's second quarter, but showed material improvement sequentially. Poor tractor utilization was the main inhibitor to performance.

Three primary factors negatively impacted our tractor utilization during the quarter. First, a less robust U.S. economy, particularly in manufacturing, depressed volumes. Freight demand was not too weak for carriers with established networks to operate profitably. However, given our present network, the depressed volumes hindered our efforts to optimize our freight mix as there was less opportunity to obtain better loads. While we are actively working to optimize our freight network, we expect it to take several months to show meaningful results.

Second, our operational execution has been disappointing. However, during the second quarter, we did show progress as evidenced by the improved revenue per manned truck per week. Additionally, to assist us in improving our operational execution, we have hired experienced key personnel and engaged industry consultants to analyze our processes and recommend improvements. Their main focus is to increase our percentage of tractors available for dispatch each day, to improve our freight planning efficiency, and to improve our freight mix.

Third, our unmanned tractor count averaged 12.2% for the quarter, driven by a challenging environment for hiring drivers and an inefficient network making it hard to retain them. The peak reached 14.1% of our fleet before a series of internal recruiting and retention initiatives began yielding results, reducing it to 11.7% at the end of the quarter. We continue to evaluate our options to remedy this problem.

At June 30, 2012, our outstanding debt, less cash, represented 50.9% of our balance sheet capitalization, compared to 47.4% at December 31, 2011. At June 30, 2012, we were not in compliance with all of the financial covenants contained in our revolving credit agreement. We paid a ten (10) basis points fee ($100,000) to obtain a waiver from our bank group for such non-compliance. Concurrently, we are negotiating a new five-year revolving credit facility with a different lender that will replace our current revolving credit agreement. If we are able to close the new facility, we anticipate it will afford us improved pricing and significantly greater financial flexibility. If we are unable to close the new facility by August 24, 2012, we will be charged an additional thirty (30) basis points fee ($300,000) for the extension of the waiver. Commencing September 7, 2012, and at various dates through October

31, 2012, we must take further steps to protect the interests of our existing lenders if the Credit Agreement is not refinanced by such dates.

Subsequent to June 30, 2012, we must continue to comply with our financial covenants. We do not believe that we will be in compliance with all of our covenants based upon our September 30, 2012 results. Because the waiver does not extend to financial covenants measured after June 30, 2012, and because we do not expect to be in compliance with the financial covenants based upon September 30, 2012 results, the amount due under the Credit Agreement has been classified as current in the accompanying consolidated balance sheet at June 30, 2012. If we do not refinance our current Credit Agreement prior to the next measurement of financial covenants and we are unable to comply with such covenants, we would intend to seek an additional waiver at such time. We cannot assure you that any such waiver would be granted.

For the six months ended June 30, 2012, we incurred net capital expenditures of approximately $19.9 million (including approximately $3.7 million relating to revenue equipment that we took possession of during 2011 but funded in 2012) and we anticipate our net capital expenditures to be approximately
$7.4 million for the remainder of 2012.

Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011

Results of Operations – Combined Services

Total base revenue decreased 4.6% to $103.5 million for the quarter ended June 30, 2012 from $108.5 million for the same quarter of 2011. We reported a net loss of $3.5 million ($0.34 per share) for the quarter ended June 30, 2012 as compared to net income of $0.6 million ($0.06 per share) for the comparable prior year period.

Our effective tax rate was 34.3% for the quarter ended June 30, 2012 compared to 57.8% for the same quarter of 2011. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Due to the partially nondeductible effect of per diem payments, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

Results of Operations – Trucking

Relationship of Certain Items to Base Revenue

The following table sets forth the percentage relationship of certain items to base revenue of our Trucking operating segment for the periods indicated. Fuel and fuel taxes are shown net of fuel surcharges.

	Three Months Ended June 30,			
	2012		2011	
Base Trucking revenue	100.0	%	100.0	%
Operating expenses and costs:				
Salaries, wages and employee benefits	43.8		38.8	
Depreciation and amortization	15.4		14.5	
Operations and maintenance	13.6		11.4	
Fuel and fuel taxes	13.0		13.6	
Purchased transportation	7.0		8.8	
Insurance and claims	7.4		6.5	
Operating taxes and licenses	2.1		1.4	
Communications and utilities	1.3		1.2	
Gain on disposal of revenue equipment, net	(1.0)		(1.6)	
Other	6.2		5.3	
Total operating expenses and costs	108.8		99.9	
Operating (loss) income	(8.8)	%	0.1	%

Key Operating Statistics:

	Three Months Ended June 30,			
	2012		2011	
Operating loss (in thousands)	$	(6,324)	$	37
Total miles (in thousands) (1)		49,594		57,846
Empty mile factor (2)		10.9%		10.9%
Weighted average number of tractors (3)		2,171		2,341
Average miles per tractor per period		22,844		24,710
Average miles per tractor per week		1,757		1,901
Average miles per trip (4)		527		534
Base Trucking revenue per tractor per week	$	2,546	$	2,803
Number of tractors at end of period (3)		2,182		2,354
Operating ratio (5)		108.8%		99.9%

(1) Total miles include both loaded and empty miles.

(2) The empty mile factor is the number of miles traveled for which we are not typically compensated by any customer as a percent of total miles traveled.

(3) Tractors include Company-operated tractors in-service plus tractors operated by independent contractors.

(4) Average miles per trip are based upon loaded miles divided by the number of Trucking shipments.

(5) Operating ratio is based upon total operating expenses, net of fuel surcharge revenue, as a percentage of base revenue.

Our base Trucking revenue decreased 15.8% from $85.3 million to $71.8 million and our operating loss was $6.3 million compared to operating income of approximately $37,000 for the same quarter of 2011. The decrease in our base Trucking revenue resulted from our miles per tractor per period decreasing 7.6%, our loaded rate per mile decreasing 1.7% and our average tractor count decreasing by 7.3%.

Overall, our operating ratio deteriorated by 8.9 percentage points of base revenue to 108.8% from 99.9% as a result of the following factors:

- Salaries, wages and employee benefits expense increased by 5.0 percentage points of base Trucking revenue predominately due to a 15.8% reduction in Trucking base revenue, an increase in driver sign-on bonuses related to recruiting more qualified drivers and, as mentioned below, a decrease in the number of independent contractors. During the second quarter of 2012, we continued to see evidence of a tightening market of eligible drivers related to the continued impact of the Department of Transportation's ("DOT") Compliance, Safety, Accountability ("CSA") program, which was implemented in December 2010, accompanied by seasonal job alternatives for drivers that made driver retention more difficult. New hours-of-service rules being reviewed by the DOT, through the Federal Motor Carrier Safety Administration, may further reduce the pool of eligible drivers. In July 2012, we raised driver pay for new drivers with less than one year experience by over $0.02 per mile in order to retain and attract drivers. The measures that we have taken may continue to cause increases in driver related expenses that would increase salaries, wages and employee benefits. In addition to the above, medical payments made under the Company's employee benefits plan increased approximately $0.5 million, or 31.8% and our workers' compensation expense increased approximately $0.2 million, or 37.1%.

- Fuel and fuel taxes expense decreased 0.6 percentage points of base Trucking revenue. Contributing to this decrease, was a 4.4% decrease in fuel prices that was offset by a 30.7% decrease in our number of independent contractors, which increased the percentage of our fleet comprised of Company trucks, for which we bear the fuel expense. Fuel costs will continue to be affected in the future by price fluctuations, the terms and collectability of fuel surcharge revenue and the percentage of total miles driven by independent contractors.

- Purchased transportation expense, which is comprised of independent contractor compensation and fees paid to Mexican carriers decreased by 1.8 percentage points of base Trucking revenue. This decrease is primarily the result of the above mentioned decrease in the number of independent contractors from 153 to 106. Over the longer term, we expect our purchased transportation expense to increase if we achieve our long-term goal to grow our independent contractor fleet, but in the event that we are unable to recruit and retain independent contractors, this expense could continue to fall causing a corresponding increase in fuel and fuel taxes expense and salaries, wages and employee benefits expense.

- While the actual amount of depreciation and amortization expense decreased during the second quarter of 2012 compared to the second quarter of 2011, as a percentage of base Trucking revenue it increased 0.9 percentage points. During the quarter, we purchased 150 tractors and 100 trailers and disposed of 138 tractors, 110 trailers and miscellaneous other equipment. As our unmanned tractor count increased throughout the quarter, we delayed in-servicing some of the new equipment while selling some of the older equipment, which resulted in this decrease in depreciation and amortization expense. In addition, effective May 1, 2011, the Company changed the time period over which it depreciates its 2005 model year and newer trailers to 14 years from 10 years and it changed the amount of the salvage value to which those trailers are being depreciated from 25.0% of the original purchase price to $500. This change in estimate resulted in a reduction of depreciation expense on a pre-tax basis of approximately $0.6 million and on a net-of-tax basis of approximately $0.4 million ($0.03 per share) during the quarter. Although all of these resulted in a lower absolute dollar expense, it was not enough to offset the aforementioned reduction in revenue, which caused depreciation and amortization as a percentage of base Trucking revenue to increase. Depreciation and amortization expense may be affected in the future as equipment manufacturers change prices and if the prices of used equipment fluctuate.

- Operations and maintenance expense increased 2.2 percentage points of base Trucking revenue primarily due to a 6.9% increase in direct repair costs related to new engine emissions requirements mandated by the EPA, the higher mileage equipment remaining in our fleet and the increase in the cost of parts and tires. Our average tractor age as of June 30, 2012 was 28.7 months compared to 27.6 months at June 30, 2011, whereas our average trailer age was 74.6 months and 67.1 months, respectively. Operations and maintenance expense may increase in the future if we delay the purchase of new equipment and the age of our equipment continues to increase.

- Insurance and claims expense increased 0.9 percentage points of base Trucking revenue. While our accident frequencies continue to improve, during the quarter, we determined it was necessary to increase the reserves on some open claims. The continuing education of our drivers regarding accident prevention is assisting in reducing insurance and claims expense. If we are able to continue to successfully execute our safety initiatives, we would expect insurance and claims expense to continue to decrease over the long term, though remaining volatile from period-to-period.

- Other expenses increased 0.9 percentage points of base Trucking revenue as a result of increased driver recruiting expenses and an increase in professional services. Due in large part to a reduction in our miles per tractor per week, we experienced a 37% increase in driver turnover, which increased the percentage of unmanned trucks by 33.5%. In addition, the DOT's CSA program has increased the difficulty of recruiting qualified drivers as the demand for those highly qualified drivers has increased, while the program has simultaneously decreased the overall supply of drivers. While our driver recruiting costs have trended upward the past several quarters, we expect that most of these costs will subside upon reaching our goal of 4% unmanned tractors, but this could take several quarters to achieve given our current unmanned tractor count and the tight driver hiring market. In the event that we are unable to retain existing drivers or attract new drivers and drive down our unmanned tractor count in the future, we would expect other expenses to increase as a percentage of base Trucking revenue as a result of the increased recruiting costs. The increase in professional services is primarily related to additional consulting and legal fees.

- Gain on the disposal of equipment decreased 0.6 percentage points in the quarter ended June 30, 2012 as a result of fewer sales of our tractors and trailers. Despite the reduction in gains, the market for used equipment remains steady. If the used equipment market was to soften or we decided to keep our equipment for a longer period of time, gains on disposal of equipment could decrease.

Results of Operations – Strategic Capacity Solutions

The following table sets forth certain information relating to our SCS segment for the periods indicated:

	Three Months Ended June 30,	
	2012	2011
Total SCS revenue	$ 37,500	$ 25,720
Intercompany revenue	(7,938)	(4,055)
Net revenue	$ 29,562	$ 21,665
Operating income (in thousands)	$ 2,528	$ 2,273
Gross margin (1)	13.9 %	15.8%

(1) Gross margin is calculated by taking total SCS revenue less purchased transportation and dividing that amount by total SCS revenue. This calculation includes intercompany revenue and expenses.

Net revenue from SCS increased 36.4% to $29.6 million from $21.7 million, while operating income increased 11.2% to $2.5 million from $2.3 million. This increase was primarily a result of the continued expansion of our SCS operations bringing the total number of branches to 13 at June 30, 2012. This increase was partially offset by a 12.5% decline in gross margin resulting primarily from an increase in purchased transportation costs caused by less capacity in the marketplace. If we are successful in continuing to build our SCS business, we would expect to see the percentage of our total revenue coming from SCS continue to grow. However, we recently experienced an increase in purchased transportation expense because our cost to secure capacity increased faster than the rates paid by our customers. Our gross margin from our SCS business may continue to decline if this condition persists.

Results of Operations – Intermodal Operations

The following table sets forth certain information relating to our Intermodal operating segment for the periods indicated:

	Three Months Ended June 30, 2012		Three Months Ended June 30, 2011	
Total Intermodal revenue (1)	$ 7,395		$ 8,070	
Intercompany revenue	(198)		(759)	
Net revenue	$ 7,197		$ 7,311	
Operating loss (in thousands)	$ (533)		$ (98)	
Gross margin (2)	17.5	%	11.4	%

(1) Includes fuel surcharge revenue.

(2) Gross margin is calculated by taking total Intermodal revenue less purchased transportation and dividing that amount by total Intermodal revenue. This calculation includes intercompany revenue and expenses.

Total net revenue from our Intermodal operating segment decreased 1.5% to $7.2 million from $7.3 million. We have had a difficult time achieving the lane density needed to operate the containers well enough to overcome the fixed costs associated with them. We continue to try to improve our lane density and cull business that does not cover the costs associated with operating our containers. Because of the lack of lane density, we placed 175 containers in storage to eliminate the cost associated with chassis rental in order to limit our operating losses. The Company's container contract with BNSF expires on December 31, 2012. Accordingly, we plan to return the leased containers to BNSF at year-end and transition profitable intermodal freight to other sources of capacity in 2013.

Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011

Results of Operations – Combined Services

Total base revenue decreased 3.3% to $201.3 million for the six months ended June 30, 2012 from $208.1 million for the same quarter of 2011. We reported a net loss of $8.4 million ($0.81 per share) for the six months ended June 30, 2012 as compared to a net loss of $2.1 million ($0.21 per share) for the comparable prior year period.

Our effective tax rate was 35.0% for the six months ended June 30, 2012 compared to 15.2% for the same period of 2011. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Due to the partially nondeductible effect of per diem payments, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

Results of Operations – Trucking

Relationship of Certain Items to Base Revenue

The following table sets forth the percentage relationship of certain items to base revenue of our Trucking operating segment for the periods indicated. Fuel and fuel taxes are shown net of fuel surcharges.

	Six Months Ended June 30,			
	2012		2011	
Base Trucking revenue	100.0	%	100.0	%
Operating expenses and costs:				
Salaries, wages and employee benefits	43.9		38.7	
Fuel and fuel taxes	15.5		15.4	
Depreciation and amortization	14.9		14.8	
Operations and maintenance	13.5		11.2	
Purchased transportation	7.0		9.0	
Insurance and claims	6.9		6.8	
Operating taxes and licenses	1.9		1.5	
Communications and utilities	1.3		1.1	
Gain on disposal of revenue equipment, net	(0.9)		(1.3)	
Other	5.7		5.2	
Total operating expenses and costs	109.7		102.4	
Operating loss	(9.7)	%	(2.4)	%

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Key Operating Statistics:

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating loss (in thousands)	$(14,280)	$ (4,080)
Total miles (in thousands) (1)	102,953	116,508
Empty mile factor (2)	11.4%	10.4%
Weighted average number of tractors (3)	2,201	2,341
Average miles per tractor per period	46,776	49,769
Average miles per tractor per week	1,799	1,925
Average miles per trip (4)	527	545
Base Trucking revenue per tractor per week	$ 2,582	$ 2,778
Number of tractors at end of period (3)	2,182	2,354
Operating ratio (5)	109.7%	102.4%

(1) Total miles include both loaded and empty miles.

(2) The empty mile factor is the number of miles traveled for which we are not typically compensated by any customer as a percent of total miles traveled.

(3) Tractors include Company-operated tractors in-service plus tractors operated by independent contractors.

(4) Average miles per trip are based upon loaded miles divided by the number of Trucking shipments.

(5) Operating ratio is based upon total operating expenses, net of fuel surcharge revenue, as a percentage of base revenue.

Our base Trucking revenue decreased 12.1% from $168.2 million to $147.8 million and our operating loss was $14.3 million compared to an operating loss of $4.1 million for the same period of 2011. The decrease in our base Trucking revenue resulted from our miles per tractor per period decreasing 6.0% and our weighted average tractor count decreasing by 6.0%. While our loaded rate per mile improved 0.5%, it was offset by an increase in our empty mile factor of 9.6%.

Overall, our operating ratio deteriorated by 7.3 percentage points of base revenue to 109.7% from 102.4% as a result of the following factors:

- Salaries, wages and employee benefits expense increased by 5.2 percentage points of base revenue predominately due to a 12.1% reduction in Trucking base revenue, an increase in driver sign-on bonuses related to recruiting more qualified drivers and, as mentioned below, a decrease in the number of independent contractors. Driver compensation costs increased in excess of $0.02 per mile, or $0.12 per share, for the six month period. During the first half of 2012, we continued to see evidence of a tightening market of eligible drivers related to the continued impact of the Department of Transportation's ("DOT") Compliance, Safety, Accountability ("CSA") program which, was implemented in December 2010, accompanied by seasonal job alternatives for drivers that made driver retention more difficult. New hours-of-service rules being reviewed by the DOT, through the Federal Motor Carrier Safety Administration, may further reduce the pool of eligible drivers and may continue to cause increases in driver related expenses that would increase salaries, wages and employee benefits. In addition to the above, medical payments made under the Company's employee benefits plan increased approximately $0.9 million, or

29.6% and our workers' compensation expense increased approximately $0.4 million, or 37.2%.

- Fuel and fuel taxes expense increased 0.1 percentage points of base Trucking revenue. Contributing to this increase, was a 1.1% increase in fuel prices, a 34.4% decrease in our number of independent contractors, which increased the percentage of our fleet comprised of Company trucks, for which we bear the fuel expense and, to a lesser extent, an increase in our out-of-route percentage. Partially offsetting this decrease was an improvement of 1.3% in our fuel economy. Fuel costs will continue to be affected in the future by price fluctuations, the terms and collectability of fuel surcharge revenue and the percentage of total miles driven by independent contractors.

- Purchased transportation expense, which is comprised of independent contractor compensation and fees paid to Mexican carriers decreased by 2.0 percentage points of base Trucking revenue. This decrease is primarily the result of the above mentioned decrease in the number of independent contractors included in our fleet. Over the longer term, we expect our purchased transportation expense to increase if we achieve our long-term goal to grow our independent contractor fleet, but in the event that we are unable to recruit and retain independent contractors, this expense could continue to fall causing a corresponding increase in fuel and fuel taxes expense and salaries, wages and employee benefits expense.

- Depreciation and amortization expense increased 0.1 percentage points of base Trucking revenue. During the six months, we purchased 215 tractors and 100 trailers and disposed of 260 tractors, 236 trailers and miscellaneous other equipment. As our unmanned tractor count increased throughout the quarter, we delayed in-servicing some of the new equipment while selling some of the older equipment. This resulted in a decrease in depreciation and amortization expense. In addition, effective May 1, 2011, the Company changed the time period over which it depreciates its 2005 model year and newer trailers to 14 years from 10 years and it changed the amount of the salvage value to which those trailers are being depreciated from 25.0% of the original purchase price to $500. This change in estimate resulted in a reduction of depreciation expense on a pre-tax basis of approximately $1.1 million and on a net-of-tax basis of approximately $0.7 million ($0.07 per share) during the six month period. Depreciation and amortization expense may be affected in the future as equipment manufacturers change prices and if the prices of used equipment fluctuate.

- Operations and maintenance expense increased 2.3 percentage points of base Trucking revenue primarily due to a 10.8% increase in direct repair costs related to new engine emissions requirements mandated by the EPA, the higher mileage equipment remaining in our fleet and the increase in the cost of parts and tires. Our average tractor age as of June 30, 2012 was 28.6 months compared to 27.7 months at June 30, 2011, whereas our average trailer age was 74.6 months and 67.1 months, respectively. Operations and maintenance expense may increase in the future if we delay the purchase of new equipment and the age of our equipment continues to increase.

- Insurance and claims expense increased 0.1 percentage points of base Trucking revenue; however, the actual amount of insurance and claims expense decreased by approximately $1.2 million. During the March 31, 2012 quarter, we experienced fewer winter related accidents as compared to the March 31, 2011 quarter due to the mild winter weather. In addition, the continuing education of our drivers regarding accident prevention is assisting in reducing insurance and claims expense. If we are able to continue to successfully execute our safety initiatives, we would expect insurance and claims expense to continue to decrease over the long term, though remaining volatile from period-to-period.

- Other expenses increased 0.5 percentage points of base Trucking revenue as a result of increased driver recruiting expenses and an increase in professional services. Due in large part to a reduction in our miles per tractor per week, we experienced a 38.3% increase in driver turnover. In addition, the DOT's CSA program has increased the difficulty of recruiting qualified drivers as the demand for those highly qualified drivers has increased, while the program has simultaneously decreased the overall supply of drivers. While our driver recruiting costs have trended upward the past several quarters, we expect that most of these costs will subside upon reaching our goal of 4% unmanned tractors, but this could take several quarters to achieve given our current unmanned tractor count. In the event that we are unable to retain existing drivers or attract new drivers and drive down our unmanned tractor count in the future, we would expect other expenses to increase as a percentage of base Trucking revenue as a result of the need for increased spending on driver recruiting. The increase in professional services is primarily related to additional consulting and legal fees.

- Gain on the disposal of equipment decreased 0.4 percentage points in the quarter ended June 30, 2012 as a result of fewer sales of our tractors and trailers. Despite the reduction in gains, the market for used equipment remains steady. If the used equipment market was to soften or we decided to keep our equipment for a longer period of time, gains on disposal of equipment could decrease.

Results of Operations – Strategic Capacity Solutions

The following table sets forth certain information relating to our SCS segment for the periods indicated:

Six Months Ended

	June 30, 2012	June 30, 2011
Total SCS revenue	$ 63,843	$ 42,181
Intercompany revenue	(13,129)	(6,479)
Net revenue	$ 50,714	$ 35,702
Operating income (in thousands)	$ 4,072	$ 3,606
Gross margin (1)	14.1 %	15.8%

(1) Gross margin is calculated by taking total SCS revenue less purchased transportation and dividing that amount by total SCS revenue. This calculation includes intercompany revenue and expenses.

Net revenue from SCS increased 42.0% to $50.7 million from $35.7 million, while operating income increased 12.9% to $4.1 million from $3.6 million. This increase was primarily a result of the continued expansion of our SCS operations bringing the total number of branches to 13 at June 30, 2012. This increase was partially offset by a 10.5% decline in gross margin resulting primarily from an increase in purchased transportation costs caused by less capacity in the marketplace. If we are successful in continuing to build our SCS business, we would expect to see the percentage of our total revenue coming from SCS to continue to grow. Further, we recently experienced an increase in purchased transportation expense because our costs to secure capacity increased faster than the rates paid by our customers. Our gross margin from our SCS business may continue to decline if these conditions persist.

Results of Operations – Intermodal Operations

The following table sets forth certain information relating to our Intermodal operating segment for the periods indicated:

	Six Months Ended June 30,	
	2012	2011
Total Intermodal revenue (1)	$ 13,105	$ 15,498
Intercompany revenue	(354)	(1,456)
Net revenue	$ 12,751	$ 14,042
Operating loss (in thousands)	$ (757)	$ (496)
Gross margin (2)	19.3 %	8.8 %

(1) Includes fuel surcharge revenue.

(2) Gross margin is calculated by taking total Intermodal revenue less purchased transportation and dividing that amount by total Intermodal revenue. This calculation includes intercompany revenue and expenses.

Total net revenue from our Intermodal operating segment decreased 9.2% to $12.8 million from $14.0 million. We have had a difficult time achieving the lane density needed to operate the containers well enough to overcome the fixed costs associated with them. We continue to try to improve our lane density and cull business that does not cover the costs associated with operating our containers. Without the lane density needed to achieve the covering of our costs, we opted to incur additional fixed costs associated with idle containers related to chassis rentals and storage. Because of the lack of lane density, we placed 175 containers in storage to eliminate the cost associated with chassis rental in order to limit our operating losses. The Company's container contract with BNSF expires on December 31, 2012. Accordingly, we plan to return the leased containers to BNSF at year-end and transition profitable intermodal freight to other sources of capacity in 2013.

Seasonality

In the trucking industry, revenue generally decreases as customers reduce shipments during the winter holiday season and as inclement weather impedes operations. At the same time, operating expenses increase due primarily to decreased fuel efficiency and increased maintenance costs. Future revenue could be impacted if customers, particularly those with manufacturing operations, reduce shipments due to temporary plant closings. Historically, many of our customers have closed their plants for maintenance or other reasons during January and July.

Inflation

Most of our operating expenses are inflation sensitive, and we have not always been able to offset inflation-driven cost increases through increases in our revenue per mile and our cost control efforts. The effect of inflation-driven cost increases on our overall operating costs is not expected to be greater for us than for our competitors.

Fuel Availability and Cost

The motor carrier industry is dependent upon the availability of fuel. Fuel shortages or increases in fuel taxes or fuel costs have adversely affected our profitability and will continue to do so. Fuel prices have fluctuated widely, and fuel prices and fuel taxes have generally increased in recent years. We have not experienced difficulty in maintaining necessary fuel supplies. Typically, we are not able to fully recover increases in fuel prices through rate increases and fuel surcharges, primarily because those items do not provide any benefit with respect to empty and out-of-route miles, for which we typically do not receive compensation from customers. We do not have any long-term fuel purchase contracts and we have not entered into any other hedging arrangements that protect us against fuel price increases.

Off-Balance Sheet Arrangements

We do not currently have off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our consolidated financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources. From time to time, we enter into operating leases relating to facilities and office equipment that are not reflected in our balance sheet.

Liquidity and Capital Resources

During the second quarter of 2012, the maximum amount borrowed under the Credit Agreement, including letters of credit, reached approximately 79.6% of the total amount available at its highest point and we ended the quarter with outstanding borrowings, including letters of credit, equal to approximately 76.1% of the total amount available. At June 30, 2012, we had approximately $18.6 million of availability for new capital leases under existing lease facilities, of which $50.0 million has been authorized for use through 2012 by the Company's Board of Directors. At June 30, 2012, we had approximately $23.9 million available under our Credit Agreement. We amended our Credit Agreement during the first quarter of 2012 to prevent a default at March 31, 2012 and ease two of the financial covenants through 2012. At June 30, 2012, we were not in compliance with all of the financial covenants contained in our Credit Agreement. We paid a ten (10) basis points fee ($100,000) to obtain a waiver from our bank group for such non-compliance and, if the Credit Agreement is not refinanced by August 24, 2012, we will be charged an additional thirty (30) basis points fee ($300,000) for the extension of the waiver. Commencing September 7, 2012, and at various dates through October 31, 2012, we must take further steps to protect the interests of our existing lenders if the Credit Agreement is not refinanced by such dates.

Subsequent to June 30, 2012, we must continue to comply with our financial covenants. We do not believe that we will be in compliance with all of our financial covenants based upon September 30, 2012 results. Because the waiver does not extend to financial covenants measured after June 30, 2012, and because we do not expect to be in compliance with the financial covenants based upon September 30, 2012 results, the amount due under the Credit Agreement has been classified as current in the accompanying consolidated balance sheet at June 30, 2012.

We are currently negotiating a credit agreement with a new lender to replace our current facility. If the Company is successful in obtaining the new credit facility, the proceeds will be used in part to pay off the outstanding balance of the Credit Agreement, fund certain fees and expenses associated with obtaining the new credit facility, finance working capital and capital expenditures and provide for general corporate purposes. If we are unable to obtain this replacement facility and refinance all outstanding obligations under our existing facility on or before August 24, 2012, we will be obligated to pay the additional waiver fee in the amount of $300,000 to our existing lenders. Commencing September 7, 2012, and at various dates through October 31, 2012, we must take further steps to protect the interests of our existing lenders if the Credit Agreement is not refinanced by such dates. If we are unable to obtain this replacement facility and refinance all outstanding obligations under our existing facility before any future defaults of our financial covenants, we will be required to seek an additional waiver. Our current lenders may or may not be willing to grant an additional waiver. And, if the additional waiver is obtained, we may incur higher interest rates and/or be required to pay amendment or waiver fees to obtain that waiver. A failure to refinance our current Credit Agreement (as we may or may not be able to obtain an additional waiver) may result in acceleration of our current debt. Accordingly, our financial condition, liquidity, results of operations, and price of our common stock could be adversely affected by our inability to obtain replacement financing in a timely manner.

The nature of our business requires significant investments in new revenue equipment. We have financed new tractor and trailer purchases predominantly with cash flows from operations, the proceeds from sales or trades of used equipment, borrowings under our Credit Agreement and capital lease purchase arrangements. We have historically met our working capital needs with cash flows from operations and with borrowings under financing arrangements. We use these financing arrangements to minimize fluctuations in cash flow needs and to provide flexibility in financing revenue equipment purchases. As discussed above, our ability to replace our Credit Agreement could cause a significant change in our sources of liquidity. While we have commitments from equipment financing sources outside our Credit Agreement to fund our purchases of tractors and trailers over the next twelve months, we are dependent on our ability to replace our Credit Agreement to provide the capital necessary to finance our operations, annual debt maturities, lease commitments, letter of credit commitments and capital expenditures over the next twelve months. There can be no assurance, however, that such sources will be sufficient to fund our operations and all expansion plans for the next several years, or that any necessary additional financing and facility renewal will be available, if at all, in amounts required or on terms satisfactory to us.

Our balance sheet debt, less cash, represents 50.9% of our total capitalization, and we have no material off-balance sheet debt. Our capital leases currently represent 40.0% of our total debt and carry an average fixed rate of 1.8%. On June 30, 2012, we had $18.6 million available through equipment financing commitments and approximately $23.9 million of additional availability on our revolving credit line.

During the six months ended June 30, 2012, we made net capital expenditures of approximately $15.5 million relating to revenue equipment that we took possession of in 2012 and approximately $3.7 million relating to revenue equipment we took possession of during 2011 and funded in 2012. During the six months ended June 30, 2012, we also incurred net capital expenditures of $0.7 million for facility expansions and other expenditures.

Cash Flows

	(in thousands)	
	Six Months Ended June 30,	
	2012	2011
Net cash provided by operating activities	$ 8,954	$ 9,545
Net cash provided by (used in) investing activities	3,778	(11,706)
Net cash (used in) provided by financing activities	(14,761)	1,211

Cash generated from operations decreased $0.6 million during the first half of 2012 as compared to the same time period of 2011, primarily due to the net effect of the following factors:

- An $8.4 million net loss was incurred for the six months ended June 30, 2012 compared to the $2.1 million net loss for the comparable prior year period. This loss was primarily due to a less robust economy, operational inefficiency, and an increase in the number of unmanned tractors.
- A $2.8 million decrease in depreciation and amortization due to an overall decrease in our revenue equipment counts. As of June 30, 2012, we reduced our total tractor count by 152 units as compared to June 30, 2011, representing units shut down due to high mileage and trade life cycles. We also reduced our trailer count by 390 year over year as part of our plan to reduce the number of trailers because of our investment in trailer tracking devices.
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An $11.5 million decrease in cash provided from accounts receivable resulting from a decline in fuel surcharge revenue and base revenue, primarily in June as compared to the same time period of 2011.

- An increase in our deferred tax liability of approximately $4.1 million due from the loss incurred during the current year.

    - A $1.0 million decrease in the gain on disposal of revenue equipment. We continue to experience a strong used equipment market; however, we had less revenue equipment in inventory to sell in 2012 as compared to 2011. During the first six months of 2012, we sold 260 tractors and 216 trailers as compared to 327 tractors and 422 trailers for the comparable prior year period.

- A $2.8 million decrease in cash used in trade accounts payable and accrued expenses primarily due to the timing of revenue equipment purchases.

  - Insurance and claims increased $1.9 million primarily due to an increase in reserves on some open claims.

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For the six months ended June 30, 2012, net cash provided by investing activities was $3.8 million, compared to $11.7 million of cash used for the same period of 2011. The $15.5 million decrease in cash used in investing activities primarily resulted from a decrease in purchases of property and equipment. Cash used to purchase property and equipment decreased $17.5 million during the first six months of 2012 as compared to the same period of 2011. This decrease was primarily due to the number of tractors and trailers we purchased. Through the first six months of 2012, we purchased 215 tractors compared to 305 tractors for the comparable prior year period. For trailers, we purchased 100 units through the first six months of 2012 compared to 350 during the first six months of 2011. Proceeds from the sale of equipment also decreased $1.9 million due to a decline in the number of units that were sold. During the first half of 2012, we sold 257 tractors and 216 trailers compared to 327 tractors and 422 trailers during the first half of 2011. During 2011, cash used in investing activities decreased $11.3 million as compared to the same time period of 2010 primarily due to the method utilized to finance the acquisition of revenue equipment. During 2010, we primarily utilized borrowings from our Credit Agreement to fund revenue equipment acquisitions and during 2011, we utilized more lease based financing. During the first half of 2011, we leased $15.4 million in revenue equipment acquisitions compared to $4.9 million during the same time period of 2010. In addition, we have also experienced higher sale prices and sale volumes in our used equipment sales, which resulted in a $6.3 million increase in proceeds from the sale of equipment.

Cash provided by financing activities decreased $16.0 million for the first half of 2012 as compared to the same time period in 2011. The primary reason for the decrease in cash provided was due to cash used for the principal payment on capitalized lease obligations. The increase in cash used was due to terminal payments associated with the expiration of various revenue equipment TRAC (Terminal Rental Adjustment Clause) leases for which we paid approximately $10.8 million during the first half of 2012 compared to $2.4 million during the same period of 2011. In addition to the increase in cash used for principal payments, our net borrowing from our Credit Facility decreased $5.0 million due to a decline in cash used in investing activities. During the first half of 2011, cash provided by financing activities increased $0.9 million as compared to the same time period in 2010. We borrowed a net amount on our Credit Agreement of $10.1 million in 2011 compared to $9.6 million in net borrowings in 2010, resulting in a $0.5 million increase in net borrowings on our Credit Agreement. The additional borrowing primarily related to purchasing replacement revenue equipment. In addition to the additional borrowing, cash provided by financing activities increased due to a $1.3 million increase in bank drafts outstanding, which was partially offset by a $0.7 million increase in principal payments on capitalized lease obligations.

Debt

On April 19, 2010, we entered into a Credit Agreement with BB&T as Administrative Agent, which replaced our Amended and Restated Senior Credit Facility that was to mature on September 1, 2010. The Credit Agreement provides for available borrowings of up to $100.0 million, including letters of credit not exceeding $25.0 million. Availability may be reduced by a borrowing base limit as defined in the Credit Agreement. The Credit Agreement provides an accordion feature allowing us to increase the maximum borrowing amount by up to an additional $75.0 million in the aggregate in one or more increases, subject to certain conditions. The Credit Agreement bears variable interest based on the type of borrowing and on the Administrative Agent’s prime rate or the London Interbank Offered Rate plus a certain percentage, which is determined based on our attainment of certain financial ratios. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. The obligations of the Company under the Credit Agreement are guaranteed by the Company and secured by a pledge of substantially all of the Company’s assets with the exception of real estate. The Credit Agreement includes usual and customary events of default for a facility of this nature and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the Credit Agreement may be accelerated, and the lenders’ commitments may be terminated. The Credit Agreement contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions outside of the ordinary course of business, and affiliate transactions. The new Credit Agreement will expire on April 19, 2014.

Borrowings under the Credit Agreement are classified as “base rate loans,” “LIBOR loans” or “Euro dollar loans.” Base rate loans accrue interest at a base rate equal to the Administrative Agent’s prime rate plus an applicable margin that is adjusted quarterly between 0.0% and 1.5%, based on the Company’s leverage ratio. LIBOR loans accrue interest at LIBOR plus an applicable margin that is adjusted quarterly between 2.00% and 3.75% based on the Company’s leverage ratio. Euro dollar loans and letters of credit accrue interest at the LIBOR rate in effect at the beginning of the month in which the borrowing occurs plus an applicable margin that is adjusted quarterly between 2.00% and 3.75% based on the Company’s leverage ratio. On a per annum basis, the Company must pay a fee on the unused amount of the revolving credit facility of between 0.25% and 0.375% based on the Company’s leverage ratio, and it must pay an annual administrative fee to the Administrative Agent of 0.03% of the total commitments.

On March 8, 2012, we entered into a Second Amendment to Credit Agreement (the "Second Amendment") with Branch Banking and Trust Company, as Administrative Agent (the "Agent"), Regions Bank, as Syndications Agent, U.S. Bank National Association, Bank of America, N.A., and BancorpSouth (collectively, the "Lenders"), which amends the Credit Agreement, dated April 19, 2010, by and among the Company, the Agent, and the Lenders. We amended the Credit Agreement to prevent a default and ease two of the financial covenants.

The Second Amendment, among other things, (i) amended the "Applicable Margin" and "Applicable Unused Fee Rate" as set forth in the tables below, (ii) eased the consolidated leverage ratio through the 2012 calendar year such that, where previously the ratio of consolidated debt to consolidated EBITDAR was not to exceed 3.00 to 1.00, now the consolidated leverage ratio is not to exceed: 3.60 to 1.00 for the period January 1, 2012 through June 30, 2012; 3.40 to 1.00 for the period July 1, 2012 through September 30, 2012; 3.25 to 1.00 for the period October 1, 2012 through December 31, 2012; and 3.00 to 1.00 for the period commencing January 1, 2013 and at all times thereafter, and (iii) eased the consolidated fixed charge coverage ratio through the 2012 calendar year such that, where previously the consolidated fixed charge coverage ratio was not to be less than 1.40 to 1.00, now the consolidated fixed charge coverage ratio is not to fall below: 1.00 to 1.00 for the period January 1, 2012 through June 30, 2012; 1.10 to 1.00 for the period July 1, 2012 through September 30, 2012; 1.20 to 1.00 for the period October 1, 2012 through December 31, 2012; and 1.40 to 1.00 for the period commencing January 1, 2013 and at all times thereafter.

New Pricing

Ratio of Consolidated Debt to Consolidated EBITDAR	Euro-Dollar Loans and Letters of Credit	Base Rate Loans	Applicable Unused Fee Rate
Greater than 3.00 to 1.00	3.75%	1.50%	0.375%
Greater than 2.75 to 1.00 but less than or equal to 3.00 to 1.00	3.25%	1.00%	0.375%
Greater than 2.25 to 1.00 but less than or equal to 2.75 to 1.00	2.75%	0.5%	0.30%
Greater than 1.75 to 1.00 but less than or equal to 2.25 to 1.00	2.50%	0.25%	0.25%
Less than or equal to 1.75 to 1.00	2.00%	0%	0.25%

Prior Pricing

Ratio of Consolidated Debt to Consolidated EBITDAR	Euro-Dollar Loans and Letters of Credit	Base Rate Loans	Applicable Unused Fee Rate
Greater than 2.75 to 1.00	3.25%	1.0%	0.375%
Greater than 2.25 to 1.00 but less than or equal to 2.75 to 1.00	2.75%	0.5%	0.30%
Greater than 1.75 to 1.00 but less than or equal to 2.25 to 1.00	2.50%	0.25%	0.25%
Less than or equal to 1.75 to 1.00	2.00%	0%	0.25%

In exchange for these amendments, the Company agreed to pay fees of $250,000.

The interest rate on our overnight borrowings under the Credit Agreement at June 30, 2012 was 4.25%. The interest rate including all borrowings made under the Credit Agreement at June 30, 2012 was 4.1%. The interest rate on the Company's borrowings under the agreements for the six months ended June 30, 2012 was 4.0%. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. At June 30, 2012, the rate was 0.375% per annum. The Credit Agreement is collateralized by revenue equipment having a net book value of $165.4 million at June 30, 2012, and all trade and other accounts receivable. The Credit Agreement requires us to meet certain financial covenants (i.e., a maximum leverage ratio of 3.6 and a minimum fixed charge ratio of 1.0) and to maintain a minimum tangible net worth of approximately $106.4 million at June 30, 2012. We were in compliance with these covenants at June 30, 2012. The covenants would prohibit the payment of dividends by us if such payment would cause us to be in violation of any of the covenants. As the Company reprices its debt on a quarterly basis, the borrowings under the Credit Agreement approximate its fair value. And, at June 30, 2012, the Company had outstanding $2.2 million in letters of credit and had approximately $23.9 million available under the Credit Agreement.

We amended our Credit Agreement during the first quarter of 2012 to prevent a default at March 31, 2012 and ease two of the financial covenants through 2012. At June 30, 2012, we were not in compliance with all of the financial covenants contained in our Credit Agreement. We paid a ten (10) basis points fee ($100,000) to obtain a waiver from our bank group for such non-compliance and, if the Credit Agreement is not refinanced by August 24, 2012, we will be charged an additional thirty (30) basis points fee ($300,000) for the extension of the waiver. Commencing September 7, 2012, and at various dates through October 31, 2012, we must take further steps to protect the interests of our existing lenders if the Credit Agreement is not refinanced by such dates.

Because such waiver does not extend to financial covenants measured after June 30, 2012, and because we do not expect to be in compliance with the financial covenants based upon September 30, 2012, results, the amount due under the Credit Agreement has been classified as current in the accompanying consolidated balance sheet at June 30, 2012.

We have entered into leases with lenders who participate in our Credit Agreement and who participated in our Amended and Restated Senior Credit Facility, which was replaced by the Credit Agreement. Those leases contain cross-default provisions with the Credit Agreement and the previous Facility. We have also entered into leases with other lenders who do not participate in our Credit Agreement nor participated in our previous Facility. Multiple leases with lenders who do not participate in our Credit Agreement or Revolver generally contain cross-default provisions.

We record derivative financial instruments in the balance sheet as either an asset or liability at fair value, with classification as current or long-term depending on the duration of the instrument. Changes in the derivative instrument’s fair value must be recognized currently in earnings unless specific hedge accounting criteria are met. For cash flow hedges that meet the criteria, the derivative instrument’s gains and losses, to the extent effective, are recognized in accumulated other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings.

Equity

At June 30, 2012, we had stockholders' equity of $118.7 million and total debt including current maturities of $124.3 million, resulting in a total debt, less cash, to total capitalization ratio of 50.9% compared to 47.4% at December 31, 2011.

Purchases and Commitments

We have updated our capital expenditures expectations since the end of the first quarter and now, as of June 30, 2012, our capital expenditures forecast, net of proceeds from the sale or trade of equipment, is $7.4 million for the remainder of 2012, approximately $5.6 million of which relates to revenue equipment. We may change the amount of the capital expenditures based on operating performance. Should we further decrease our capital expenditures for tractors and trailers, we would expect the age of our equipment to increase. To the extent further capital expenditures are feasible based on our debt covenants and operating cash requirements, we would use the balance of $1.8 million primarily for property acquisitions, facility construction and improvements and maintenance and office equipment.

We routinely evaluate our equipment acquisition needs and adjust our purchase and disposition schedules from time to time based on our analysis of factors such as freight demand, driver availability and the condition of the used equipment market. During the six months ended June 30, 2012, we incurred net capital expenditures of approximately $19.9 million relating to revenue equipment that we took possession of in 2012 (including approximately $3.7 million relating to revenue equipment we took possession of during 2011 and funded in 2012, and including approximately $7.1 million of revenue equipment that we took possession of during the first six months of 2012 and have not yet funded). During the six months ended June 30, 2012, we also incurred net capital expenditures of $0.7 million for facility expansions and other expenditures.

The following table represents our outstanding contractual obligations at June 30, 2012, excluding letters of credit:

	(in thousands) Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Long-term debt obligations (1)	$ 73,900	$ 73,900	$ --	$ --	$ --
Capital lease obligations (2)	51,852	17,317	27,300	7,235	--
Purchase obligations (3)	25,264	25,264	--	--	--
Rental obligations	4,039	1,686	1,955	97	301
Total	$ 155,055	$118,167	$ 29,255	$ 7,332	$ 301

(1) Long-term debt obligations, excluding letters of credit in the amount of $2.2 million, consist of our Credit Agreement, which matures on April 19, 2014. The primary purpose of this agreement is to provide working capital for the Company; however, the agreement is also used, as appropriate, to minimize interest expense on other Company purchases that could be obtained through other more expensive capital purchase financing sources. Because the borrowing amounts fluctuate and the interest rates vary, they are subject to various factors that will cause actual interest payments to fluctuate over time. Based on these factors, we have not included in this line item an estimate of future interest payments.

(2) Includes interest payments not included in the balance sheet.

(3) Purchase obligations include commitments to purchase approximately $25.3 million of revenue equipment, none of which is cancelable by us upon advance written notice. We anticipate taking delivery of these purchases throughout the remainder of 2012.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Actual results could differ from those estimates, and such differences could be material.

The most significant accounting policies and estimates that affect our financial statements include the following:

- Revenue recognition and related direct expenses based on relative transit time in each period. Revenue generated by our Trucking operating segment is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, we recognize revenue pro rata based on relative transit time completed as a portion of the estimated total transit time. Expenses are recognized as incurred.

Revenue generated by our SCS and Intermodal operating segments is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs because we have responsibility for billing and collecting such revenue.

Management believes these policies most accurately reflect revenue as earned and direct expenses, including third party purchased transportation costs, as incurred.

- Selections of estimated useful lives and salvage values for purposes of depreciating tractors and trailers. We operate a significant number of tractors and trailers in connection with our business. We may purchase this equipment or acquire it under leases. We depreciate purchased equipment on the straight-line method over the estimated useful life down to an estimated salvage or trade-in value. We initially record equipment acquired under capital leases at the net present value of the minimum lease payments and amortize it on the straight-line method over the lease term. Depreciable lives of tractors and trailers range from three years to ten years. We estimate the salvage value at the expected date of trade-in or sale based on the expected market values of equipment at the time of disposal.

We make equipment purchasing and replacement decisions on the basis of various factors, including, but not limited to, new equipment prices, used equipment market conditions, demand for our freight services, prevailing interest rates, technological improvements, fuel efficiency, equipment durability, equipment specifications and driver availability. Therefore, depending on the circumstances, we may accelerate or delay the acquisition and disposition of our tractors and trailers from time to time, based on an operating principle whereby we pursue trade intervals that economically balance our maintenance costs and expected trade-in values in response to the circumstances existing at that time. Such adjustments in trade intervals may cause us to adjust the useful lives or salvage values of our tractors or trailers. By changing the relative amounts of older equipment and newer equipment in our fleet, adjustments in trade intervals also increase and decrease the average age of our tractors and trailers, whether or not we change the useful lives or salvage values of any tractors or trailers. We also adjust depreciable lives and salvage values based on factors such as changes in prevailing market prices for used equipment. We periodically monitor these factors in order to keep salvage values in line with expected market values at the time of disposal. Adjustments in useful lives and salvage values are made as conditions warrant and when we believe that the changes in conditions are other than temporary. These adjustments result in changes in the depreciation expense we record in the period in which the adjustments occur and in future periods. These adjustments also impact any resulting gain or loss on the ultimate disposition of the revenue equipment. Management believes our estimates of useful lives and salvage values have been materially accurate as demonstrated by the insignificant amounts of gains and losses on revenue equipment dispositions in recent periods. However, management will continually review salvage values to assure that book values do not exceed market values.

To the extent depreciable lives and salvage values are changed, such changes are recorded in accordance with the applicable generally accepted accounting principles existing at the time of change.

Effective May 1, 2011, the Company changed the time period over which it depreciates its 2005 model year and newer trailers and it changed the amount of the salvage value to which those trailers are being depreciated. The depreciation time period was changed to 14 years from 10 years and the salvage value was changed to $500 from 25.0% of the original purchase price. For the three months ended June 30, 2012, this change in estimate resulted in a reduction of depreciation expense on a pre-tax basis of approximately $0.6 million and on a net-of-tax basis of approximately $0.4 million ($0.03 per share). For the six months ended June 30, 2012, this change in estimate resulted in a reduction of depreciation expense on a pre-tax basis of approximately $1.1 million and on a net-of-tax basis of approximately $0.7 million ($0.07 per share). For the three months ended June 30, 2011, this change in estimate resulted in a reduction of depreciation expense on a pre-tax basis of approximately $0.4 million and on a net-of-tax basis of approximately $0.25 million ($0.02 per share). For the six months ended June 30, 2011, this change in estimate resulted in a reduction of depreciation expense on a pre-tax basis of approximately $0.4 million and on a net-of-tax basis of approximately $0.25 million ($0.02 per share).

- Estimates of accrued liabilities for claims involving bodily injury, physical damage losses, employee health benefits and workers' compensation. We record both current and long-term claims accruals at the estimated ultimate payment amounts based on information such as individual case estimates, historical claims experience and an estimate of claims incurred but not reported. The current portion of the accrual reflects the amounts of claims expected to be paid in the next twelve months. In making the estimates, we rely on past experience with similar claims, negative or positive developments in the case and similar factors. We do not discount our claims liabilities. See our Claims Liabilities disclosure elsewhere in this report and in our Annual Report on Form 10-K for additional information.

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- Stock option valuation. The assumptions used to value stock options are dividend yield, expected volatility, risk-free interest rate, expected life and anticipated forfeitures. As we have not paid any dividends on our Common Stock, the dividend yield is zero. Expected volatility represents the measure used to project the expected fluctuation in our share price. We use the historical method to calculate volatility with the historical period being equal to the expected life of each option. This calculation is then used to determine the potential for our share price to increase over the expected life of the option. The risk-free interest rate is based on an implied yield on United States zero-coupon treasury bonds with a remaining term equal to the expected life of the outstanding options. Expected life represents the length of time we anticipate the options to be outstanding before being exercised. Based on historical experience, that time period is best represented by the option's contractual life. Anticipated forfeitures represent the number of shares under options we expect to be forfeited over the expected life of the options.

- Accounting for income taxes. Our deferred tax assets and liabilities represent items that will result in taxable income or a tax deduction in future years for which we have already recorded the related tax expense or benefit in our consolidated statements of operations. Deferred tax accounts arise as a result of timing differences between when items are recognized in our consolidated financial statements compared to when they are recognized in our tax returns. Significant management judgment is required in determining our provision for income taxes and in determining whether deferred tax assets will be realized in full or in part. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We periodically assess the likelihood that all or some portion of deferred tax assets will be recovered from future taxable income. To the extent we believe recovery is not probable, a valuation allowance is established for the amount determined not to be realizable. We have not recorded a valuation allowance at June 30, 2012, as all deferred tax assets are more likely than not to be realized.

We believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. During the three months ended June 30, 2012, we made no material changes in our assumptions regarding the determination of income tax liabilities. However, should our tax positions be challenged, different outcomes could result and have a significant impact on the amounts reported through our consolidated statements of operations.

- Prepaid tires. Commencing when the tires, including recaps, are placed into service, we account for them as prepaid expenses and amortize their cost over varying time periods, ranging from 18 to 30 months depending on the type of tire.

- Impairment of long-lived assets. We review our long-lived assets for impairment in accordance with Topic ASC 360, Property, Plant and Equipment. This authoritative guidance provides that whenever there are certain significant events or changes in circumstances the value of long-lived assets or groups of assets must be tested to determine if their value can be recovered from their future cash flows. In the event that undiscounted cash flows expected to be generated by the asset are less than the carrying amount, the asset or group of assets must be evaluated to determine if an impairment of value exists. Impairment exists if the carrying value of the asset exceeds its fair value.

In light of the sustained general economic downturn in the United States and world economies, the decline in our market capitalization and our net operating losses in recent years, triggering events and changes in circumstances have occurred, which required us to test our long-lived assets for recoverability at June 30, 2012.

We test for the recoverability of all of our long-lived assets as a single group at the entity level and examine the forecasted future cash flows generated by our revenue equipment, including its eventual disposition, to determine if those cash flows exceed the carrying value of our long-lived assets. At June 30, 2012, we determined that no impairment of value existed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We experience various market risks, including changes in interest rates, foreign currency exchange rates and commodity prices.

Interest Rate Risk. We are exposed to interest rate risk primarily from our Credit Agreement. The Credit Agreement bears variable interest based on the type of borrowing and on the Administrative Agent's prime rate or the London Interbank Offered Rate plus a certain percentage which is determined based on our attainment of certain financial ratios. At June 30, 2012, we had $76.1 million outstanding pursuant to our Credit Agreement including letters of credit of $2.2 million. Assuming the outstanding balance at June 30, 2012 was to remain constant, a hypothetical one-percentage point increase in interest rates applicable to the Credit Agreement would increase our interest expense over a one-year period by approximately $0.8 million.

Foreign Currency Exchange Rate Risk. We require customers to pay for our services in U.S. dollars. Although the Canadian government makes certain payments, such as tax refunds, to us in Canadian dollars, any foreign currency exchange risk associated with such payments is not material.

Commodity Price Risk. Fuel prices have fluctuated greatly and have generally increased in recent years. In some periods, our operating performance was adversely affected because we were not able to fully offset the impact of higher diesel fuel prices through increased freight rates and fuel surcharge revenue recoveries. We cannot predict the extent to which high fuel price levels will continue in the future or the extent to which fuel surcharge revenue recoveries could be collected to offset such increases. As of June 30, 2012, we did not have any derivative financial instruments to reduce our exposure to fuel price fluctuations, but may use such instruments in the future. Accordingly, volatile fuel prices will continue to impact us significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect our results of operations. Further, these costs could also exacerbate the driver shortages our industry experiences by forcing independent contractors to cease operations. Based on our expected fuel consumption for the remainder of 2012, a one dollar change in the related price of diesel fuel per gallon would change our fuel expense by approximately $3.9 million, assuming no further change to our fuel surcharge recovery.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective at the reasonable assurance level. There have been no changes in our internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

We have confidence in our internal controls and procedures. Nevertheless, our management, including our CEO and CFO, does not expect that our disclosure procedures and controls or our internal controls will prevent all errors or intentional fraud. An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all our control issues and instances of fraud, if any, have been detected.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are party to routine litigation incidental to our business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. We maintain insurance to cover liabilities in excess of certain self-insured retention levels. Though management believes these claims to be routine and immaterial to our long-term financial position, adverse results of one or more of these claims could have a material adverse effect on our financial position or results of operations in any given reporting period.

On July 28, 2008, a former commission sales agent, Mr. William Blankenship ("Blankenship"), filed an action in the United States District Court, Western District of Arkansas entitled William Blankenship, Jr. v. USA Truck, Inc., asking the court to set aside a previously consummated settlement agreement between the parties. The matter was dismissed by the District Court based upon our Motion to Dismiss, but was later reinstated by the 8th Circuit Court of Appeals and set for trial in the United States District Court in Fort Smith, Arkansas. In October 2011, the trial was held in the United States District Court and the jury returned a favorable verdict for the Company on all counts and determined that the Company had no additional liability in this matter. On December 13, 2011, the Court entered an order awarding the Company its costs and attorney's fees incurred in defending the case totaling approximately $0.2 million. Blankenship has now appealed the jury verdict and Court order.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business, some level of risk and uncertainty will always be present. Our Form 10-K for the year ended December 31, 2011, in the section entitled Item 1A. Risk Factors, describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. In addition to the risk factors set forth in our Form 10-K, we believe that the following additional issues, uncertainties, and risks should be considered in evaluating our business and growth outlook:

Our Credit Agreement and other financing arrangements contain certain covenants, restrictions, and requirements, and we may be unable to comply with the covenant, restrictions, and requirements or obtain a replacement facility. We have defaulted on our financial covenants in the past and a further default could result in the acceleration of all or part of our outstanding indebtedness, which could have an adverse effect on our financial condition, liquidity, results of operations, and the price of our common stock.

We have a $100.0 million Credit Agreement with a group of banks and numerous other financing arrangements. The Credit Agreement contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions outside of the ordinary course of business, affiliate transactions, and various financial covenants. In March 2012, we entered into a Second Amendment to Credit Agreement to revise our debt covenants to allow us more flexibility to implement our action plan. To obtain the amendment, our interest rates were increased and we had to pay a $250,000 amendment fee. Despite the Second Amendment to Credit Agreement, we continue to have difficulty meeting our financial covenants due to our results of operations. We sought and obtained a waiver for any non-compliance with our financial covenants for the quarter ended June 30, 2012, in exchange for payment of a $100,000 fee. We are currently negotiating a credit agreement with a new lender to replace our current facility. If we are unable to obtain this replacement facility and refinance all outstanding obligations under our existing facility on or before August 24, 2012, we will be obligated to pay an additional waiver fee in the amount of $300,000 to our existing lenders for an extension of the waiver. Commencing September 7, 2012, and at various dates through October 31, 2012, we must take further steps to protect the interests of our existing lenders if the Credit Agreement is not refinanced by such dates.

We do not believe that we will be in compliance with all of our financial covenants based upon September 30, 2012 results. If we are unable to obtain this replacement facility and refinance all outstanding obligations under our existing facility before any future defaults of our financial covenants, we will be required to seek an additional waiver. Our current lenders may or may not be willing to grant an additional waiver. And, if the additional waiver is obtained, we may incur higher interest rates and/or be required to pay amendment or waiver fees to obtain that waiver. A failure to refinance our current Credit Agreement (as we may or may not be able to obtain an additional waiver) may result in acceleration of our current debt. Accordingly, our financial condition, liquidity, results of operations, and price of our common stock could be adversely affected by our inability to obtain replacement financing in a timely manner.

Certain other financing arrangements contain certain restrictions and covenants, as well. If we fail to comply with any of our financing arrangement covenants, restrictions, and requirements, we will be in default under the relevant agreement, which could cause cross-defaults under our other financing arrangements. In the event of any such default, if we failed to obtain replacement financing, amendments to, or waivers under the applicable financing arrangements, our lenders could cease making further advances, declare our debt to be immediately due and payable, fail to renew letters of credit, impose significant restrictions and requirements on our operations, institute foreclosure procedures against their collateral, or impose significant fees and transaction costs. If acceleration occurs, it may be difficult or expensive to refinance the accelerated debt or we may have to issue equity securities, which would dilute stock ownership. Even if new financing is made available to us, more stringent borrowing terms may mean that credit is not available to us on acceptable terms. A default under our financing arrangements could cause a materially adverse effect on our liquidity, financial condition, and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Recent unregistered sales of securities.

None.

(b) Use of proceeds from registered sales of securities.

None.

(c) Purchases of equity securities by the issuer and affiliated purchasers.

On October 21, 2009, the Board of Directors of the Company approved the repurchase of up to 2,000,000 shares of the Company's Common Stock expiring on October 21, 2012. Subject to applicable timing and other legal requirements, these repurchases may be made on the open market or in privately negotiated transactions on terms approved by the Company's Chairman of the Board or President. Repurchased shares may be retired or held in treasury for future use for appropriate corporate purposes including issuance in connection with awards under the Company's employee benefit plans. During the three months ended June 30, 2012, we did not repurchase any shares of our Common Stock. Our current repurchase authorization has 2,000,000 shares remaining.

The following table sets forth information regarding shares of Common Stock purchased or that may yet be purchased by us under the current authorization during the second quarter of 2012.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 – April 30	--	$ --	--	2,000,000
May 1 – May 31	--	--	--	2,000,000
June 1 – June 30	--	--	--	2,000,000
Total	--	$ --	--	2,000,000

We may reissue repurchased shares under our equity compensation plans or as otherwise directed by the Board of Directors.

We are required to include in the table above purchases made by us or by an affiliated purchaser. For this purpose, "affiliated purchaser" does not include our Employee Stock Purchase Plan, which provides that shares purchased for team members under that Plan may be shares provided by us or shares purchased on the open market. Open market purchases under that Plan are made by the administrator of the Plan, which is an agent independent of us. Any shares purchased by the administrator are not counted against the number of shares available for purchase by us pursuant to the repurchase authorization described above.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

(a) Exhibits

3.1		Restated and Amended Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Registration No. 33-45682, filed with the Securities and Exchange Commission on February 13, 1992 [the "Form S-1"]).
3.2		Bylaws of the Company as Amended and Restated on May 4, 2011 (incorporated by reference to Exhibit 3.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2011).
3.3		Certificate of Amendment to Certificate of Incorporation of the Company filed March 17, 1992 (incorporated by reference to Exhibit 3.3 to Amendment No. 1 to the Form S-1 filed with the Securities and Exchange Commission on March 19, 1992).
3.4		Certificate of Amendment to Certificate of Incorporation of the Company filed April 29, 1993 (incorporated by reference to Exhibit 5 to the Company's Registration Statement on Form 8-A/A filed with the Securities and Exchange Commission on June 2, 1997 [the "Form 8-A/A"]).
3.5		Certificate of Amendment to Certificate of Incorporation of the Company filed May 13, 1994 (incorporated by reference to Exhibit 6 to the Form 8-A/A).
3.6	#	Certificate of Amendment to Certificate of Incorporation of the Company dated May 3, 2006.
4.1		Specimen certificate evidencing shares of the Common Stock, $.01 par value, of the Company (incorporated by reference to Exhibit 4.1 to the Form S-1).
4.2		Instruments with respect to long-term debt not exceeding 10.0% of the total assets of the Company have not been filed. The Company agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
31.1	#	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	#	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	#	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	#	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*	XBRL Instance Document.
101.SCH	*	XBRL Taxonomy Extension Schema Document.

101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document.

References:

*	In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."
#	Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

		USA Truck, Inc. (Registrant)
Date: August 9, 2012	By:	/s/ Clifton R. Beckham Clifton R. Beckham President and Chief Executive Officer

INDEX TO EXHIBITS
USA TRUCK, INC.

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