

Apollo Global Management LLC
Form 10-Q
May 11, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2012
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO
Commission File Number: 001-35107

APOLLO GLOBAL MANAGEMENT, LLC

(Exact name of Registrant as specified in its charter)

Edgar Filing: Apollo Global Management LLC - Form 10-Q

Delaware
(State or other jurisdiction of
incorporation or organization)

20-8880053
(I.R.S. Employer

Identification No.)

9 West 57th Street, 43rd Floor

New York, New York 10019

(Address of principal executive offices) (Zip Code)

(212) 515-3200

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 9, 2012 there were 126,460,740 Class A shares and 1 Class B share outstanding.

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. FINANCIAL STATEMENTS	
Unaudited Condensed Consolidated Financial Statements	
<u>Condensed Consolidated Statements of Financial Condition (Unaudited) as of March 31, 2012 and December 31, 2011</u>	5
<u>Condensed Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	6
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	7
<u>Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	8
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	9
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	11
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	61
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	117
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	120
PART II OTHER INFORMATION	
ITEM 1. <u>LEGAL PROCEEDINGS</u>	121
ITEM 1A. <u>RISK FACTORS</u>	122
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	122
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	123
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	123
ITEM 5. <u>OTHER INFORMATION</u>	123
ITEM 6. <u>EXHIBITS</u>	124
<u>SIGNATURES</u>	128

Forward-Looking Statements

This quarterly report may contain forward looking statements that are within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include, but are not limited to, discussions related to Apollo's expectations regarding the performance of its business, its liquidity and capital resources and the other non-historical statements in the discussion and analysis. These forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. When used in this quarterly report, the words believe, anticipate, estimate, expect, intend and similar expressions are intended to identify forward-looking statements. Although management believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. These statements are subject to certain risks, uncertainties and assumptions, including risks relating to our dependence on certain key personnel, our ability to raise new private equity, capital markets or real estate funds, market conditions, generally; our ability to manage our growth, fund performance, changes in our regulatory environment and tax status, the variability of our revenues, net income and cash flow, our use of leverage to finance our businesses and investments by our funds and litigation risks, among others. We believe these factors include but are not limited to those described under the section entitled Risk Factors in the Company's Form 10-K filed with the United States Securities and Exchange Commission (SEC) pursuant to Rule 424(b) of the Securities Act of 1933 on March 9, 2012, as such factors may be updated from time to time in our periodic filings with the SEC, which are accessible on the SEC's website at www.sec.gov. These factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this release and in other filings. We undertake no obligation to publicly update or review any forward-looking statements, whether as a result of new information, future developments or otherwise, except as required by applicable law.

Terms Used in This Report

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

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

- (i) the limited partnerships through which our Managing Partners currently operate our businesses; and
- (ii) one or more limited partnerships formed for the purpose of, among other activities, holding certain of our gains or losses on our principal investments in the funds, which we refer to as our principal investments.

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

- (i) the fair value of our private equity investments plus the capital that we are entitled to call from our investors pursuant to the terms of their capital commitments plus non-recallable capital to the extent a fund is within the commitment period in which management fees are calculated based on total commitments to the fund;
- (ii) the net asset value, or NAV, of our capital markets funds, other than certain senior credit funds, which are structured as collateralized loan obligations (such as Artus, which we measure by using the mark-to-market value of the aggregate principal amount of the underlying collateralized loan obligations) or certain collateralized loan obligation and collateralized debt obligation credit funds that have a fee generating basis other than mark-to-market asset values, plus used or available leverage and/or capital commitments;
- (iii) the gross asset values or net asset values of our real estate entities and the structured portfolio vehicle investments included within the funds we manage, which includes the leverage used by such structured portfolio vehicles;

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

Our AUM measure includes Assets Under Management for which we charge either no or nominal fees. Our definition of AUM is not based on any definition of Assets Under Management contained in our operating agreement or in any of our Apollo fund management agreements. We consider multiple factors for determining what should be included in our definition of AUM. Such factors include but are not limited to (1) our ability to influence the investment decisions for existing and available assets; (2) our ability to generate income from the underlying assets in our funds; and (3) the AUM measures that we use internally or believe are used by other investment managers. Given the differences in the investment strategies and structures among other alternative investment managers, our calculation of AUM may differ from the calculations employed by other investment managers and, as a result, this measure may not be directly comparable to similar measures presented by other investment managers.

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

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

Gross IRR of a fund represents the cumulative investment-related cash flows for all of the investors in the fund on the basis of the actual timing of investment inflows and outflows (for unrealized investments assuming disposition on March 31, 2012 or other date specified) aggregated on a gross basis quarterly, and the return is annualized and compounded before management fees, carried interest and certain other fund expenses (including interest incurred by the fund itself) and measures the returns on the fund's investments as a whole without regard to whether all of the returns would, if distributed, be payable to the fund's investors;

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

Net return for Value Funds, SOMA and AAOF represents the calculated return that is based on month-to-month changes in net assets and is calculated using the returns that have been geometrically linked based on capital contributions, distributions and dividend reinvestments, as applicable.

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS
OF FINANCIAL CONDITION (UNAUDITED)
(dollars in thousands, except share data)

	March 31, 2012	December 31, 2011
Assets:		
Cash and cash equivalents	\$ 639,903	\$ 738,679
Cash and cash equivalents held at Consolidated Funds	5,333	6,052
Restricted cash	7,374	8,289
Investments	2,007,008	1,857,465
Assets of consolidated variable interest entities:		
Cash and cash equivalents	273,448	173,542
Investments, at fair value	3,757,800	3,301,966
Other assets	60,311	57,855
Carried interest receivable	1,369,820	868,582
Due from affiliates	199,792	176,740
Fixed assets, net	50,811	52,683
Deferred tax assets	578,058	576,304
Other assets	26,332	26,976
Goodwill	48,894	48,894
Intangible assets, net	75,790	81,846
Total Assets	\$ 9,100,674	\$ 7,975,873
Liabilities and Shareholders Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 36,357	\$ 33,545
Accrued compensation and benefits	48,411	45,933
Deferred revenue	270,059	232,747
Due to affiliates	519,559	578,764
Profit sharing payable	568,839	352,896
Debt	738,291	738,516
Liabilities of consolidated variable interest entities:		
Debt, at fair value	3,700,536	3,189,837
Other liabilities	184,406	122,264
Other liabilities	49,142	33,050
Total Liabilities	6,115,600	5,327,552
Commitments and Contingencies (see note 12)		
Shareholders Equity:		
Apollo Global Management, LLC shareholders equity:		
Class A shares, no par value, unlimited shares authorized, 126,310,740 shares and 123,923,042 shares issued and outstanding at March 31, 2012 and December 31, 2011, respectively		
Class B shares, no par value, unlimited shares authorized, 1 share issued and outstanding at March 31, 2012 and December 31, 2011		
Additional paid in capital	2,941,818	2,939,492
Accumulated deficit	(2,348,454)	(2,426,197)
Appropriated partners capital	183,300	213,594
Accumulated other comprehensive loss	(93)	(488)

Edgar Filing: Apollo Global Management LLC - Form 10-Q

Total Apollo Global Management, LLC shareholders' equity	776,571	726,401
Non-Controlling Interests in consolidated entities	1,550,815	1,444,767
Non-Controlling Interests in Apollo Operating Group	657,688	477,153
Total Shareholders' Equity	2,985,074	2,648,321
Total Liabilities and Shareholders' Equity	\$ 9,100,674	\$ 7,975,873

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS
OF OPERATIONS (UNAUDITED)
(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2012	2011
Revenues:		
Advisory and transaction fees from affiliates	\$ 27,236	\$ 19,416
Management fees from affiliates	127,178	118,150
Carried interest income from affiliates	622,329	558,776
Total Revenues	776,743	696,342
Expenses:		
Compensation and benefits:		
Equity-based compensation	148,866	283,607
Salary, bonus and benefits	65,071	72,069
Profit sharing expense	249,024	217,085
Incentive fee compensation	35	10,159
Total Compensation and Benefits	462,996	582,920
Interest expense	11,380	10,882
Professional fees	11,527	17,361
General, administrative and other	19,207	16,607
Placement fees	921	539
Occupancy	8,726	7,226
Depreciation and amortization	8,473	6,046
Total Expenses	523,230	641,581
Other Income:		
Net gains from investment activities	157,708	157,929
Net (losses) gains from investment activities of consolidated variable interest entities	(16,201)	17,088
Income from equity method investments	43,251	21,826
Interest income	1,614	258
Other income, net	5,816	8,063
Total Other Income	192,188	205,164
Income before income tax provision	445,701	259,925
Income tax provision	(14,560)	(8,820)
Net Income	431,141	251,105
Net income attributable to Non-Controlling Interests	(333,098)	(212,949)
Net Income Attributable to Apollo Global Management, LLC	\$ 98,043	\$ 38,156
Distributions Declared per Class A Share	\$ 0.46	\$ 0.17
Net Income Per Class A Share:		

Edgar Filing: Apollo Global Management LLC - Form 10-Q

Net Income Per Class A Share	Basic and Diluted	\$	0.66	\$	0.33
Weighted Average Number of Class A Shares	Basic		125,269,253		98,215,736
Weighted Average Number of Class A Shares	Diluted		127,515,663		98,509,109

See accompanying notes to condensed consolidated financial statements.

APOLLO GLOBAL MANAGEMENT, LLC
CONDENSED CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME (UNAUDITED)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2012	2011
Net Income	\$ 431,141	\$ 251,105
Other Comprehensive Income, net of tax:		
Net unrealized gain on interest rate swaps (net of taxes of \$237 and \$40 for Apollo Global Management, LLC for the three months ended March 31, 2012 and 2011, respectively) and \$0 for Non-Controlling Interests in Apollo Operating Group for both the three months ended March 31, 2012 and 2011)	1,602	1,727
Net income (loss) on available-for-sale securities (from equity method investment)	2	(49)