

Apollo Global Management LLC
Form 10-Q
August 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

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

APOLLO GLOBAL MANAGEMENT, LLC

(Exact name of Registrant as specified in its charter)

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

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Forward-Looking Statements

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

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

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

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

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

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

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

- (i) the fair value of our private equity investments plus the capital that we are entitled to call from our investors pursuant to the terms of their capital commitments plus non-recallable capital to the extent a fund is within the commitment period in which management fees are calculated based on total commitments to the fund;
- (ii) the net asset value, or NAV, of our capital markets funds, other than certain senior credit funds, which are structured as collateralized loan obligations (such as Artus, which we measure by using the mark-to-market value of the aggregate principal amount of the underlying collateralized loan obligations), plus used or available leverage and/or capital commitments;
- (iii) the gross asset values of our real estate entities and the structured portfolio vehicle investments included within the funds we manage, which includes the leverage used by such structured portfolio vehicles;
- (iv) the incremental value associated with the reinsurance investments of the funds we manage; and
- (v) the fair value of any other assets that we manage plus unused credit facilities, including capital commitments for investments that may require pre-qualification before investment plus any other capital commitments available for investment that are not otherwise included in the clauses above.

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

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vehicle investments, which normally include leverage, less any portion of such total value that is already considered in fee-generating AUM.

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

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

Table of Contents**APOLLO GLOBAL MANAGEMENT, LLC****CONDENSED CONSOLIDATED****STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)**

(dollars in thousands, except share data)

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

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents**APOLLO GLOBAL MANAGEMENT, LLC****CONDENSED CONSOLIDATED****STATEMENTS OF OPERATIONS (UNAUDITED)**

(dollars in thousands, except share data)

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

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Dividends Declared per Class A Share	\$	0.22	\$	0.07	\$	0.39	\$	0.07
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Net Loss Per Class A Share:

Net Loss Per Class A Share	\$	(0.46)	\$	(0.79)	\$	(0.19)	\$	(1.42)
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Weighted Average Number of Class A Shares								
Basic and Diluted		120,963,248		96,346,032		109,652,330		96,065,452

See accompanying notes to condensed consolidated financial statements.

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APOLLO GLOBAL MANAGEMENT, LLC

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

(dollars in thousands, except share data)

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

See accompanying notes to condensed consolidated financial statements.

Table of Contents**APOLLO GLOBAL MANAGEMENT, LLC****CONDENSED CONSOLIDATED****STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (UNAUDITED)****SIX MONTHS ENDED JUNE 30, 2011 AND 2010**

(dollars in thousands, except share data)

Apollo Global Management, LLC Shareholders

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

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**Balance at June 30,
2010**

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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Table of Contents**APOLLO GLOBAL MANAGEMENT, LLC****CONDENSED CONSOLIDATED****STATEMENTS OF CASH FLOWS (UNAUDITED) (CONT D)**

(dollars in thousands, except share data)

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

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Non-cash contribution from Non-Controlling Interests in consolidated entities		57
Tax benefits from RSU deliveries	(683)	
Non-cash accrued compensation related to ARI RSUs	430	421
Non-cash accrued compensation related to AAA RDUs	223	1,320
Satisfaction of liability related to repayment on CIT loan	11,069	
Net Assets Transferred from Metals Trading Fund:		