UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarter Ended June 30, 2008

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 333-112591

APOLLO INVESTMENT CORPORATION

(Exact name of registrant as specified in its charter)

Maryland **(State or other jurisdiction of** **incorporation or organization)**	**52-2439556** **(I.R.S. Employer** **Identification No.)**
9 West 57th Street **14th Floor** **New York, N.Y.** **(Address of principal executive office)**	**10019** **(Zip Code)**

(212) 515-3450

(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 and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

The number of shares of the registrant s Common Stock, $.001 par value, outstanding as of August 1, 2008 was 142,221,335.

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APOLLO INVESTMENT CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2008

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PART I. FINANCIAL INFORMATION

In this Quarterly Report, Apollo Investment , Company , AIC , Fund , we , us and our refer to Apollo Investment Corporation unless the c
otherwise states.

Item 1. Financial Statements

APOLLO INVESTMENT CORPORATION

STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except per share amounts)

	June 30, 2008 (unaudited)	March 31, 2008
Assets		
Non-controlled/non-affiliated investments, at value (cost $3,108,743 and $3,139,047, respectively)	$ 3,027,822	$ 2,986,556
Controlled investments, at value (cost $298,275 and $247,400, respectively)	281,042	246,992
Cash equivalents, at value (cost $896,445 and $404,063, respectively)	896,425	403,898
Cash	4,149	8,954
Foreign currency (cost $3,555 and $2,140, respectively)	3,553	2,130
Interest receivable	38,755	46,643
Dividends receivable	27,912	23,024
Prepaid expenses and other assets	4,938	5,896
Receivable from investment adviser	4	231
Total assets	$ 4,284,600	$ 3,724,324
Liabilities		
Payable for investments and cash equivalents purchased	$ 1,018,472	$ 142,339
Credit facility payable (see notes 7 & 12)	965,689	1,639,122
Management and performance-based incentive fees payable (see note 3)	27,600	26,969
Dividends payable		9,368
Interest payable	6,261	6,178
Accrued administrative expenses	90	288
Other liabilities and accrued expenses	1,585	2,152
Total liabilities	$ 2,019,697	$ 1,826,416
Net Assets		
Common stock, par value $.001 per share, 400,000 and 400,000 common shares authorized, respectively, and 142,221 and 119,894 issued and outstanding, respectively	$ 142	$ 120
Paid-in capital in excess of par	2,352,883	1,983,795
Undistributed net investment income (see note 2g)		24,959
Distributions in excess of net investment income (see note 2g)	(2,683)	
Accumulated net realized gain (see note 2g)	56,318	86,136
Net unrealized depreciation	(141,757)	(197,102)
Total Net Assets	$ 2,264,903	$ 1,897,908
Total liabilities and net assets	$ 4,284,600	$ 3,724,324

Net Asset Value Per Share	$	15.93	$	15.83

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share amounts)

	Three months ended	
	June 30, 2008	**June 30, 2007**
INVESTMENT INCOME:		
From non-controlled/non-affiliated investments:		
Interest	$ 84,975	$ 74,550
Dividends	3,335	4,026
Other income	197	320
From controlled investments:		
Dividends	2,452	50
Other income		10,000
Total Investment Income	90,959	88,946
EXPENSES:		
Management fees (see note 3)	$ 16,022	$ 12,996
Performance-based incentive fees (see note 3)	11,578	10,835
Interest and other credit facility expenses	13,917	7,607
Administrative services expense	1,868	1,461
Other general and administrative expenses	1,347	1,350
Total expenses	44,732	34,249
Expense offset arrangement (see note 8)	(86)	(61)
Net expenses	44,646	34,188
Net investment income	$ 46,313	$ 54,758
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:		
Net realized gain (loss):		
Investments and cash equivalents	(29,230)	(17,000)
Foreign currencies	(588)	(3,743)
Net realized loss	(29,818)	(20,743)
Net change in unrealized gain (loss):		
Investments and cash equivalents	54,889	149,922
Foreign currencies	456	(6,215)
Net change in unrealized gain	55,345	143,707
Net realized and unrealized gain from investments, cash equivalents and foreign currencies	25,527	122,964
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 71,840	$ 177,722
EARNINGS PER SHARE (see note 5)	$ 0.55	$ 1.72

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except shares)

	Three months ended June 30, 2008 (unaudited)	Year ended March 31, 2008
Increase (Decrease) in net assets from operations:		
Net investment income	$ 46,313	$ 201,606
Net realized gains (losses)	(29,818)	54,300
Net change in unrealized gain (loss)	55,345	(289,344)
Net increase (decrease) in net assets resulting from operations	71,840	(33,438)
Dividends and distributions to stockholders:	(73,955)	(230,889)
Capital share transactions:		
Net proceeds from shares sold	369,589	285,545
Less offering costs	(479)	(461)
Reinvestment of dividends		27,403
Net increase in net assets from capital share transactions	369,110	312,487
Total increase in net assets:	366,995	48,160
Net assets at beginning of period	1,897,908	1,849,748
Net assets at end of period	$ 2,264,903	$ 1,897,908
Capital share activity		
Shares sold	22,327,500	14,950,000
Shares issued from reinvestment of dividends		1,436,069
Net increase in capital share activity	22,327,500	16,386,069

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Three months ended	
	June 30, 2008	**June 30, 2007**
Cash Flows from Operating Activities:		
Net Increase in Net Assets Resulting from Operations	$ 71,840	$ 177,722
Adjustments to reconcile net increase:		
Purchase of investment securities	(139,991)	(763,189)
Proceeds from disposition of investment securities	90,184	356,253
Increase (decrease) from foreign currency transactions	(588)	(3,743)
Decrease (increase) in interest and dividends receivable	3,001	(4,957)
Decrease (increase) in prepaid expenses and other assets	1,185	(317)
Increase (decrease) in management and performance-based incentive fees payable	631	1,517
Increase in interest payable	83	543
Increase (decrease) in accrued expenses	(771)	14
Increase (decrease) in payable for investments and cash equivalents purchased	876,136	(236,353)
Increase (decrease) in receivables for securities sold		28,248
Net change in unrealized depreciation (appreciation) on investments, cash equivalents, foreign currencies and other assets and liabilities	(55,345)	(143,707)
Net realized (gain) loss on investments and cash equivalents	29,818	20,744
Net Cash Provided (Used) by Operating Activities	$ 876,183	$ (567,225)
Cash Flows from Financing Activities:		
Net proceeds from the issuance of common stock	$ 369,589	$
Offering costs from the issuance of common stock	(479)	
Dividends paid in cash	(83,323)	(44,154)
Borrowings under credit facility	256,666	829,192
Repayments under credit facility	(929,500)	(536,357)
Net Cash Provided (Used) by Financing Activities	$ (387,047)	$ 248,681
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 489,136	$ (318,544)
Effect of exchange rates on cash balances	8	(1)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 414,983	$ 1,097,952
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 904,127	$ 779,407

Non-cash financing activities consist of the reinvestment of dividends totaling $0 and $8,634, respectively (in thousands).

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited)

June 30, 2008

(in thousands)

Investments in Non-Controlled/Non-Affiliated Portfolio Companies	**Industry**	**Par Amount ***	**Cost**	**Fair Value (1)**
Subordinated Debt/Corporate Notes 78.8%				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650, 7/9/17	Retail	£ 38,490	$ 74,838	$ 68,367
Advanstar, Inc., L+700, 11/30/15	Media	$ 22,673	22,673	22,786
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	31,403	30,918	31,403
AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14 ¿	Building Products	50,314	49,520	45,283
Applied Systems, Inc., 12.50%, 9/26/14	Business Services	22,000	21,906	21,780
Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14	Direct Marketing	71,994	71,826	17,999
Babson CLO Ltd., Series 2008-2A Class E, L+975, 7/15/18 ¿	Asset Management	11,000	9,957	9,956
Babson CLO Ltd., Series 2008-1A Class E, L+550, 7/20/18 ¿	Asset Management	10,150	7,109	7,228
BNY ConvergEx Group, LLC, 14.00%, 10/2/14	Business Services	15,380	15,380	15,380
Brenntag Holding GmbH & Co. KG, E+700, 12/23/15	Chemicals	19,135	23,550	25,061
Catalina Marketing Corporation, L+550, 10/1/17	Grocery	$ 31,959	30,245	29,882
Ceridian Corp., 12.25%, 11/15/15	Diversified Service	50,000	50,000	45,687
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	31,000	30,548	28,442
Collect America, Ltd., 13.50%, 8/5/12 ¿	Consumer Finance	38,136	37,595	38,136
Delta Educational Systems, Inc., 16.00%, 5/12/13	Education	18,840	18,280	18,840
DSI Renal Inc., 14.00%, 4/7/14	Healthcare	10,456	10,456	10,456
Dura-Line Merger Sub, Inc., 13.25%, 9/22/14	Telecommunications	40,461	39,750	40,461
Energy Future Holdings, 11.25%, 11/1/17	Utilities	25,000	24,474	25,062
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ¿	Agriculture	26,504	22,313	5,566
Eurofresh, Inc., 11.50%, 1/15/13 ¿	Agriculture	50,000	50,000	34,500
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	2,741	3,471	3,951
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	16,248	20,146	24,960
First Data Corporation, 9.80%, 3/31/16	Financial Services	$ 40,000	32,800	32,800
First Data Corporation, 9.875%, 9/24/15 ¿	Financial Services	45,500	39,131	39,699
FleetPride Corporation, 11.50%, 10/1/14 ¿	Transportation	47,500	47,500	44,887
FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 ¿	Transportation	37,846	34,511	30,939
General Nutrition Centers, Inc., L+450, 3/15/14	Retail	29,775	29,311	25,458
Goodman Global Inc., 13.50%, 2/15/16 ¿	Manufacturing	25,000	25,000	24,625
Hub International Holdings, 10.25%, 6/15/15 ¿	Insurance	25,000	24,100	20,625
HydroChem Holding, Inc., 13.50%, 12/8/14	Environmental	21,606	21,606	21,066
Infor Lux Bond Company (Infor Global), L+800, 9/2/14	Business Services	8,844	8,844	5,085
KAR Holdings, Inc., 10.00%, 5/1/15	Transportation	43,225	39,892	36,633
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	25,333	24,050

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2008

(in thousands)

	Industry	Par Amount *	Cost	Fair Value (1)
Language Line Inc., 11.125%, 6/15/12	Business Services	$ 27,081	$ 26,875	$ 28,164
Latham Manufacturing Corp., 14.00%, 12/30/12	Leisure Equipment	34,553	34,084	32,825
Laureate Education, Inc., 11.75%, 8/15/17 ¿	Education	53,540	49,435	47,115
Lexicon Marketing (USA), Inc., 13.25%, 5/11/13 ***	Direct Marketing	28,482	28,482	
LVI Services, Inc., 14.50%, 11/16/12	Environmental	45,834	45,834	45,032
MW Industries, Inc., 13.00%, 5/1/14	Manufacturing	60,000	58,974	60,000
NCO Group Inc., 11.875%, 11/15/14	Consumer Finance	9,000	7,069	7,470
Neff Corp., 10.00%, 6/1/15	Rental Equipment	5,000	5,000	1,919
Nielsen Finance LLC, 0% / 12.50%, 8/1/16	Market Research	61,000	42,969	42,344
OTC Investors Corporation (Oriental Trading Company), 13.50%, 1/31/15	Direct Marketing	24,407	24,407	23,918
Pacific Crane Maintenance Company, L.P., 13.00%, 2/15/14	Machinery	34,000	34,000	34,000
PBM Holdings, Inc., 13.50%, 9/29/13	Beverage, Food & Tobacco	17,723	17,723	17,191
Playpower Holdings Inc., 15.50%, 12/31/12 ¿	Leisure Equipment	77,686	77,686	77,686
Plinius Investments II B.V. (Casema), E+925, 9/13/16	Cable TV	17,701	23,062	27,098
Pro Mach Merger Sub, Inc., 12.50%, 6/15/12	Machinery	$ 14,616	14,437	14,616
QHB Holdings LLC (Quality Home Brands), 13.50%, 12/20/13	Consumer Products	45,827	44,963	37,464
Ranpak Holdings, Inc., 15.00%, 12/27/15	Packaging	52,005	52,005	52,005
RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 7/31/15	Consumer Products	45,312	45,312	45,312
Serpering Investments B.V. (Casema), E+925, 9/13/16	Cable TV	16,403	20,752	25,251
The Servicemaster Company, L+550, 7/15/15	Diversified Service	$ 67,173	60,353	54,914
TL Acquisitions, Inc. (Thomson Learning), 0% / 13.25%, 7/15/15 ¿	Education	72,500	63,132	53,469
TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 ¿	Education	47,500	46,704	41,622
TP Financing 2, Ltd. (Travelex), GBP L+725, 4/1/15	Financial Services	£ 12,665	24,641	20,476
US Foodservice, L+475, 6/30/17	Beverage, Food & Tobacco	$ 30,000	24,000	23,100
US Investigations Services, Inc., 10.50%, 11/1/15 ¿	Diversified Service	9,500	7,843	8,788
Varietal Distribution, 10.25%, 7/15/15	Distribution	15,000	15,000	13,925
Varietal Distribution, 10.75%, 6/30/17	Distribution	21,875	21,257	20,453
WDAC Intermediate Corp., E+600, 11/29/15	Publishing	43,882	59,434	45,735
Westbrook CLO Ltd., Series 2006-1A, L+370, 12/20/20 ¿	Asset Management	$ 11,000	6,391	6,160
Total Subordinated Debt/Corporate Notes			**$ 1,974,807**	**$ 1,785,105**

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2008

(in thousands, except shares)

	Industry	Shares	Cost	Fair Value (1)
Preferred Equity 6.3%				
DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14	Healthcare	32,500	$ 31,899	$ 32,500
Exco Resources, Inc., 7.00% / 9.00% (Convertible)	Oil & Gas	975	9,750	18,135
Exco Resources, Inc., 7.00% / 9.00% Hybrid (Convertible)	Oil & Gas	4,025	40,250	74,865
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	11,226	12,360
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	3,325	3,325	2,634
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	
Varietal Distribution Holdings, LLC, 8.00%	Distribution	3,097	3,097	2,625
Total Preferred Equity			**$ 101,422**	**$ 143,119**
Common Equity/Equity Interests 14.3%				
A-D Conduit Holdings, LLC (Duraline) **	Telecommunications	2,778	$ 2,778	$ 3,440
AHC Mezzanine LLC (Advanstar) **	Media	10,000	10,000	7,780
CA Holding, Inc. (Collect America, Ltd.)	Consumer Finance	25,000	2,500	3,549
CA Holding, Inc. (Collect America, Ltd.)	Consumer Finance	4,294	429	859
FSC Holdings Inc. (Hanley Wood LLC) **	Media	10,000	10,000	7,335
Garden Fresh Restaurant Holding, LLC **	Retail	50,000	5,000	5,486
Gray Energy Services, LLC Class H (Gray Wireline) **	Oil & Gas	1,081	2,000	3,470
Gryphon Colleges Corporation (Delta Educational Systems, Inc.) **	Education	175	175	
GS Prysmian Co-Invest L.P. (Prysmian Cables & Systems) (2,3)	Industrial			110,141
Latham International, Inc. (fka Latham Acquisition Corp.) **	Leisure Equipment	33,091	3,309	469
LM Acquisition Ltd. (Lexicon Marketing Inc.) **	Direct Marketing	10,000	10,000	
LVI Acquisition Corp. (LVI Services, Inc.) **	Environmental	6,250	625	
MEG Energy Corp. (4) **	Oil & Gas	1,718,388	44,718	84,687
New Omaha Holdings Co-Invest LP (First Data)	Financial Services	13,000,000	65,000	65,000
PCMC Holdings, LLC (Pacific Crane)	Machinery	40,000	4,000	3,496
Prism Business Media Holdings, LLC (Penton Media, Inc.) **	Media	68	14,947	12,686
Pro Mach Co-Investment, LLC **	Machinery	150,000	1,500	3,277
RC Coinvestment, LLC (Ranpak Corp.)	Packaging	50,000	5,000	4,924
Sorenson Communications Holdings, LLC Class A **	Consumer Services	454,828	45	6,594
Varietal Distribution Holdings, LLC Class A **	Distribution	28,028	28	
Total Common Equity and Equity Interests			**$ 182,054**	**$ 323,193**

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2008

(in thousands, except warrants)

	Industry	Warrants	Cost	Fair Value (1)
Warrants 0.6%				
DSI Holdings Company, Inc. (DSI Renal Inc.), Common **	Healthcare	5,011,327		$ 2,905
Fidji Luxco (BC) S.C.A., Common (FCI) (2) **	Electronics	48,769	$ 491	8,004
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Common **	Education	98	98	
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class A-1 Preferred **	Education	459	460	597
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), Class B-1 Preferred **	Education	1,043	1,043	826
Total Warrants			**$ 2,092**	**$ 12,332**

		Par Amount *		
2nd Lien Bank Debt/Senior Secured Loans (5) 33.7%				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), 7/9/16	Retail	£ 11,400	$ 19,660	$ 20,022
AB Acquisitions UK Topco 2 Limited (Alliance Boots), 7/9/16	Retail	3,961	5,399	5,508
Advanstar Communications, Inc., 11/30/14	Media	$ 20,000	20,000	14,300
Asurion Corporation, 7/3/15	Insurance	135,300	134,888	123,969
BNY Convergex Group, LLC, 4/2/14	Business Services	50,000	49,793	45,750
C.H.I. Overhead Doors, Inc., 10/22/11	Building Products	15,000	15,022	13,950
Clean Earth, Inc., 8/1/14	Environmental	25,000	25,000	23,875
Dresser, Inc., 5/4/15	Industrial	61,000	60,917	58,979
Educate, Inc., 6/14/14	Education	10,000	10,000	8,500
Garden Fresh Restaurant Corp., 12/22/11	Retail	26,000	25,831	25,480
Generics International, Inc., 4/30/15	Healthcare	20,000	19,907	19,500
Gray Wireline Service, Inc., 12.25%, 2/28/13	Oil & Gas	77,500	76,889	77,500
HydroChem Industrial Services, Inc., 12/8/14	Environmental	35,100	35,100	34,222
Infor Enterprise Solutions Holdings, Inc., Tranche B-1, 3/2/14	Business Services	5,000	5,000	3,288
Infor Enterprise Solutions Holdings, Inc., 3/2/14	Business Services	15,000	14,841	10,387
Infor Global Solutions European Finance S.á.R.L., 3/2/14	Business Services	6,210	8,263	6,604
IPC Systems, Inc., 6/1/15	Telecommunications	$ 37,250	36,202	26,261
Kronos, Inc., 6/11/15	Electronics	60,000	60,000	52,200
Penton Media, Inc., 2/1/14	Media	14,000	10,353	10,360
Quality Home Brands Holdings LLC, 6/20/13	Consumer Products	40,000	39,520	21,000
Ranpak Corp. (6), 12/27/14	Packaging	12,500	12,500	12,500
Ranpak Corp. (7), 12/27/14	Packaging	5,206	7,584	8,203
Sheridan Holdings, Inc., 6/15/15	Healthcare	$ 60,000	60,000	51,150
Sorenson Communications, Inc., 2/18/14	Consumer Services	62,103	62,103	60,680

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2008

(in thousands, except shares)

	Industry	Par Amount *	Cost	Fair Value (1)
TransFirst Holdings, Inc., 6/15/15	Financial Services	$ 34,750	$ 33,596	$ 29,885
Total 2nd Lien Bank Debt/Senior Secured Loans			**$ 848,368**	**$ 764,073**
Total Investments in Non-Controlled/Non-Affiliated Portfolio Companies 133.7%			**$ 3,108,743**	**$ 3,027,822**
Investments in Controlled Portfolio Companies		**Shares**		
Preferred Equity 3.3%				
Grand Prix Holdings, LLC Series A, 12.00% (Innkeepers USA)	Hotels, Motels, Inns & Gaming	2,989,431	$ 74,736	$ 74,736
Common Equity/Equity Interests 9.1%				
AIC Credit Opportunity Fund LLC (8)	Asset Management		$ 50,875	$ 56,686
Grand Prix Holdings, LLC (Innkeepers USA)	Hotels, Motels, Inns & Gaming	17,335,834	172,664	149,620
Total Common Equity/Equity Interests			$ 223,539	$ 206,306
Total Investments in Controlled Portfolio Companies 12.4%			**$ 298,275**	**$ 281,042**
Total Investments			**$ 3,407,018**	**$ 3,308,864**
		Par Amount *		
Cash Equivalents 39.6%				
U.S. Treasury Bill, 1.83%, 9/18/08	Government	$ 900,000	$ 896,445	$ 896,425
Total Investments & Cash Equivalents 185.7% (9)			**$ 4,303,463**	**$ 4,205,289**
Liabilities in Excess of Other Assets (85.7%)				**(1,940,386)**
Net Assets 100.0%				**$ 2,264,903**

(1) Fair value is determined by or under the direction of the Board of Directors of the Company (see Notes 2 and 6).
(2) Denominated in Euro ( ).
(3) The Company is the sole Limited Partner in GS Prysmian Co-Invest L.P.
(4) Denominated in Canadian dollars.
(5) Includes floating rate instruments that accrue interest at a predetermined spread relative to an index, typically the LIBOR (London Inter-bank Offered Rate), EURIBOR (Euro Inter-bank Offered Rate), GBP LIBOR (London Inter-bank Offered Rate for British Pounds), or the prime rate. At June 30, 2008, the range of interest rates on floating rate bank debt was 7.80% to 12.46%.

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

June 30, 2008

(in thousands)

(6) Position is held across five US Dollar-denominated tranches with varying yields.
(7) Position is held across three Euro-denominated tranches with varying yields.
(8) See Note 6.
(9) Aggregate gross unrealized appreciation for federal income tax purposes is $243,575; aggregate gross unrealized depreciation for federal income tax purposes is $349,106. Net unrealized depreciation is $105,531 based on a tax cost of $4,310,820.
¿ These securities are exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions that are exempt from registration, normally to qualified institutional buyers.
* Denominated in USD unless otherwise noted.
** Non-income producing security.
*** Non-accrual status.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (unaudited) (continued)

Industry Classification	Percentage at June 30, 2008
Oil & Gas	7.8%
Hotels, Motels, Inns and Gaming	6.8%
Financial Services	5.7%
Education	5.6%
Industrial	5.1%
Business Services	4.8%
Retail	4.5%
Insurance	4.4%
Diversified Service	4.2%
Environmental	3.7%
Healthcare	3.5%
Transportation	3.4%
Leisure Equipment	3.4%
Consumer Products	3.1%
Manufacturing	2.6%
Asset Management	2.4%
Packaging	2.3%
Media	2.3%
Publishing	2.3%
Telecommunications	2.1%
Consumer Services	2.0%
Grocery	1.8%
Electronics	1.8%
Building Products	1.8%
Machinery	1.7%
Cable TV	1.6%
Consumer Finance	1.5%
Market Research	1.3%
Direct Marketing	1.3%
Beverage, Food, & Tobacco	1.2%
Agriculture	1.2%
Distribution	1.1%
Utilities	0.8%
Chemicals	0.8%
Rental Equipment	0.1%
Total Investments	100.0%

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS

March 31, 2008

(in thousands)

Investments in Non-Controlled/Non-Affiliated Portfolio Companies	Industry	Par Amount *	Cost	Fair Value (1)
Subordinated Debt/Corporate Notes 97.6%				
AB Acquisitions UK Topco 2 Limited (Alliance Boots), GBP L+650, 7/9/17	Retail	£ 38,156	$ 74,087	$ 72,612
Advanstar, Inc., L+700, 11/30/15	Media	$ 22,115	22,115	22,225
Advantage Sales & Marketing, Inc., 12.00%, 3/29/14	Grocery	31,245	30,746	31,245
AMH Holdings II, Inc. (Associated Materials), 13.625%, 12/1/14 ¿	Building Products	50,314	49,501	50,314
Applied Systems, Inc., 12.50%, 9/26/14	Business Services	22,000	21,903	21,120
Arbonne Intermediate Holdco Inc. (Natural Products Group LLC), 13.50%, 6/19/14	Direct Marketing	67,395	67,221	37,067
Associated Materials, Inc., 0% / 11.25%, 3/1/14	Building Products	43,415	31,846	29,522
BNY ConvergEx Group, LLC, 14.00%, 10/2/14	Business Services	15,304	15,304	15,304
Brenntag Holding GmbH & Co. KG, E+700, 12/23/15	Chemicals	19,135	23,548	24,221
Catalina Marketing Corporation, L+500, 10/1/17	Grocery	$ 31,959	30,218	28,124
Ceridian Corp., 12.25%, 11/15/15	Diversified Service	50,000	50,000	41,750
Ceridian Corp., 11.25%, 11/15/15	Diversified Service	31,000	30,539	26,376
Collect America, Ltd., 13.50%, 8/5/12 ¿	Consumer Finance	36,320	35,792	36,320
Delta Educational Systems, Inc., 16.00%, 5/12/13	Education	18,789	18,210	18,789
DSI Renal Inc., 14.00%, 4/7/14	Healthcare	10,404	10,404	10,404
Dura-Line Merger Sub, Inc., 13.25%, 9/22/14	Telecommunications	40,461	39,732	40,461
Energy Future Holdings, 11.25%, 11/1/17	Utilities	25,000	24,466	24,750
Eurofresh, Inc., 0% / 14.50%, 1/15/14 ¿	Agriculture	26,504	21,467	10,602
Eurofresh, Inc., 11.50%, 1/15/13 ¿	Agriculture	50,000	50,000	31,750
European Directories (DH5) B.V., 15.735%, 7/1/16	Publishing	2,539	3,153	3,439
European Directories (DH7) B.V., E+950, 7/1/15	Publishing	15,867	19,546	22,628
First Data Corporation, L+525, 3/31/16	Financial Services	$ 100,000	79,000	79,000
First Data Corporation, 9.875%, 9/24/15 ¿	Financial Services	45,500	38,946	37,860
FleetPride Corporation, 11.50%, 10/1/14 ¿	Transportation	47,500	47,500	45,837
FPC Holdings, Inc. (FleetPride Corporation), 0% / 14.00%, 6/30/15 ¿	Transportation	37,846	33,179	33,304
General Nutrition Centers, Inc., L+450, 3/15/14 ¿	Retail	29,775	29,296	24,862
Goodman Global Inc., 13.50%, 2/15/16 ¿	Manufacturing	25,000	25,000	24,625
Hub International Holdings, 10.25%, 6/15/15 ¿	Insurance	20,000	20,000	13,900
HydroChem Holding, Inc., 13.50%, 12/8/14	Environmental	20,226	20,226	19,720
Infor Lux Bond Company (Infor Global), L+800, 9/2/14	Business Services	8,611	8,611	6,361
KAR Holdings, Inc., 10.00%, 5/1/15	Transportation	43,225	39,816	38,092
Language Line Holdings, Inc., 0% / 14.125%, 6/15/13	Business Services	27,678	24,468	22,641
Language Line Inc., 11.125%, 6/15/12	Business Services	27,081	26,863	27,623

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (continued)

March 31, 2008

(in thousands)

	Industry	Par Amount *	Cost	Fair Value (1)
Latham Manufacturing Corp., 14.00%, 12/30/12	Leisure Equipment	$ 34,467	$ 33,980	$ 34,467
Laureate Education, Inc., L+550, 8/15/17	Education	53,540	49,385	47,115
Lexicon Marketing (USA), Inc., 13.25%, 5/11/13 ***	Direct Marketing	28,482	28,482	
LVI Services, Inc., 14.50%, 11/16/12	Environmental	45,302	45,302	45,302
MW Industries, Inc., 13.00%, 5/1/14	Manufacturing	60,000	58,946	60,000
Neff Corp., 10.00%, 6/1/15	Rental Equipment	5,000	5,000	2,395
Nielsen Finance LLC, 0% / 12.50%, 8/1/16	Market Research	61,000	41,572	38,926
OTC Investors Corporation (Oriental Trading Company), 13.50%, 1/31/15	Direct Marketing	24,407	24,407	24,407
Pacific Crane Maintenance Company, L.P., 13.00%, 2/15/14	Machinery	34,000	34,000	34,000
PBM Holdings, Inc., 13.50%, 9/29/13	Beverage, Food & Tobacco	17,723	17,723	17,014
Playpower Holdings Inc., 15.50%, 12/31/12 ¿	Leisure Equipment	72,098	72,098	72,098
Plinius Investments II B.V. (Casema), E+925, 9/13/16	Cable TV	17,701	23,060	26,841
Pro Mach Merger Sub, Inc., 12.50%, 6/15/12	Machinery	$ 14,598	14,411	14,598
QHB Holdings LLC (Quality Home Brands), 13.50%, 12/20/13	Consumer Products	44,331	43,442	44,331
Ranpak Holdings, Inc., 15.00%, 12/27/15	Packaging	50,125	50,125	50,125
RSA Holdings Corp. of Delaware (American Safety Razor), 13.50%, 7/31/15	Consumer Products	43,817	43,817	43,817
Safety Products Holdings LLC, 11.75%, 1/1/12	Manufacturing	34,043	33,662	34,405
Serpering Investments B.V. (Casema), E+925, 9/13/16	Cable TV	16,403	20,752	25,014
The Servicemaster Company, L+500, 7/15/15	Diversified Service	$ 67,173	60,177	51,051
TL Acquisitions, Inc. (Thomson Learning), 0% / 13.25%, 7/15/15 ¿	Education	72,500	61,153	52,109
TL Acquisitions, Inc. (Thomson Learning), 10.50%, 1/15/15 ¿	Education	47,500	46,680	41,681
TP Financing 2, Ltd. (Travelex), GBP L+725, 4/1/15	Financial Services	£ 11,862	23,047	19,748
US Investigations Services, Inc., 10.50%, 11/1/15 ¿	Diversified Service	$ 7,500	6,131	6,188
Varietal Distribution, 10.25%, 7/15/15	Distribution	15,000	15,000	14,112
Varietal Distribution, 10.75%, 6/30/17	Distribution	21,875	21,247	19,359
WDAC Intermediate Corp., E+600, 11/29/15	Publishing	41,611	55,902	45,607
Yankee Acquisition Corp., 9.75%, 2/15/17	Retail	$ 17,000	16,971	13,579
Yankee Acquisition Corp., 8.50%, 2/15/15	Retail	1,915	1,546	1,558
Total Subordinated Debt/Corporate Notes			**$ 2,010,721**	**$ 1,852,695**

See notes to financial statements.

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APOLLO INVESTMENT CORPORATION

SCHEDULE OF INVESTMENTS (continued)

March 31, 2008

(in thousands, except shares)

	Industry	Shares	Cost	Fair Value (1)
Preferred Equity 5.6%				
DSI Holding Company, Inc. (DSI Renal Inc.), 15.00%, 10/7/14	Healthcare	32,500	$ 31,875	$ 32,500
Exco Resources, Inc., 7.00% / 9.00% (Convertible)	Oil & Gas	975	9,750	10,871
Exco Resources, Inc., 7.00% / 9.00% Hybrid (Convertible)	Oil & Gas	4,025	40,250	44,879
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 13.50%, 5/12/14	Education	12,360	11,180	12,360
Gryphon Colleges Corporation (Delta Educational Systems, Inc.), 12.50% (Convertible)	Education	3,325	3,325	1,369
LVI Acquisition Corp. (LVI Services, Inc.), 14.00%	Environmental	1,875	1,875	529
Varietal Distribution Holdings, LLC, 8.00%	Distribution	3,097	3,097	3,097
Total Preferred Equity			**$ 101,352**	**$ 105,605**
Common Equity/Partnership Interests 15.5%				
A-D Conduit Holdings, LLC (Duraline) **	Telecommunications	2,778(339)		

Securities in a continuous loss position for more than 12 months		292	(3)
	$	2,708	$(342)

Net realized gains related to sales of marketable securities were $58,000 and $198,000 for the three month periods ended September 30, 2011 and 2010, respectively and $121,000 and $209,000 for the six month periods then ended, respectively.

The following is a summary of available-for-sale securities at March 31, 2011 (in thousands):

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Marketable securities	$ 23,708	$ 1,064	$ 180	$ 24,592

5. Goodwill and Intangible Assets

Goodwill is not amortized but is tested for impairment at least annually, in accordance with the provisions of ASC Topic 350-20-35-1. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. The fair value of a reporting unit is determined using two valuation techniques: an income approach and a market approach. The Company's reporting units are determined based upon whether discrete financial information is available and regularly reviewed, whether those units constitute a business, and the extent of economic similarities between those reporting units for purposes of aggregation. The Company's reporting units identified under ASC Topic 350-20-35-33 are at the component level, or one level below the reporting segment level as defined under ASC Topic 280-10-50-10 "Segment Reporting – Disclosure." The Company has four reporting units. Only two of the four reporting units carry goodwill at September 30, 2011 and March 31, 2011.

In accordance with ASC Topic 350-20-35-3, the measurement of impairment of goodwill consists of two steps. In the first step, the Company compares the fair value of each reporting unit to its carrying value. As part of the impairment analysis, the Company determines the fair value of each of its reporting units with goodwill using both the income approach and market approach. The income approach uses a discounted cash flow methodology to determine fair value. This methodology recognizes value based on the expected receipt of future economic benefits. Key assumptions in the income approach include a free cash flow projection, an estimated discount rate, a long-term growth rate and a terminal value. These assumptions are based upon the Company's historical experience, current market trends and future expectations. The market approach involves the determination of implied EBITDA multiples selected from an analysis of peer companies considered to be market participants and the application of those multiples to each reporting units' historical and forecasted earnings.

No impairment charges related to goodwill or intangible assets were recorded during the six months ended September 30, 2011 or 2010. However, future impairment indicators, such as declines in forecasted cash flows, may cause the need for interim impairment tests which may result in additional significant impairment charges. Impairment indicators could be the result of a significant decline in the Company's stock price, significant adverse changes in forecasted cash flows, declines in control premiums or other variables.

A summary of changes in goodwill during the six months ended September 30, 2011 is as follows (in thousands):

Balance at April 1, 2011	$	106,055
Currency translation		(1,102)
Balance at September 30, 2011	$	104,953

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Identifiable intangible assets acquired in a business combination are amortized over their useful lives unless their useful lives are indefinite, in which case those intangible assets are tested for impairment annually (or upon identification of impairment indicators) and not amortized until their lives are determined to be finite.

Identifiable intangible assets are summarized as follows (in thousands):

	September 30, 2011			March 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Trademark	$ 5,804	$ (954)	$ 4,850	$ 6,136	$ (841)	$ 5,295
Customer relationships	14,357	(3,955)	10,402	15,179	(3,485)	11,694
Other	1,316	(299)	1,017	1,339	(239)	1,100
Total	$ 21,477	$ (5,208)	$ 16,269	$ 22,654	$ (4,565)	$ 18,089

Based on the current amount of identifiable intangible assets, the estimated amortization expense for each of the fiscal years 2012 through 2016 is expected to be approximately $1,900,000.

6. Derivative Instruments

The Company uses derivative instruments to manage selected foreign currency exposures. The Company does not use derivative instruments for speculative trading purposes. All derivative instruments must be recorded on the balance sheet at fair value. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded as accumulated other comprehensive loss, or AOCL, and is reclassified to earnings when the underlying transaction has an impact on earnings. The ineffective portion of changes in the fair value of the derivative is reported in foreign currency exchange loss (gain) in the Company’s consolidated statement of operations. For derivatives not classified as cash flow hedges, all changes in market value are recorded as a foreign currency exchange loss (gain) in the Company’s consolidated statements of operations.

The Company has foreign currency forward agreements and a cross-currency swap in place to offset changes in the value of intercompany loans to certain foreign subsidiaries due to changes in foreign exchange rates. The notional amount of these derivatives is $11,970,000 and all contracts mature by September 30, 2013. These contracts are not designated as hedges.

The Company has foreign currency forward agreements in place to hedge changes in the value of recorded foreign currency liabilities due to changes in foreign exchange rates at the settlement date. The notional amount of those derivatives is $2,733,000 and all contracts mature within twelve months. These contracts are marked to market each balance sheet date and are not designated as hedges.

The Company has foreign currency forward agreements that are designated as cash flow hedges to hedge a portion of forecasted inventory purchases and sales, including multi-year contracts related to capital project sales, denominated in foreign currencies. The notional amount of those derivatives is $9,656,000 and all contracts mature within thirty-three months of September 30, 2011.

The Company is exposed to credit losses in the event of non performance by the counterparties on its financial instruments. All counterparties have investment grade credit ratings. The Company anticipates that these counterparties will be able to fully satisfy their obligations under the contracts. The Company has derivative contracts with four different counterparties as of September 30, 2011.

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The following is the pre-tax effect of derivative instruments on the condensed consolidated statement of operations for the six months ended September 30, 2011 (in thousands):

Derivatives Designated as Cash Flow Hedges	Amount of Gain or (Loss) Recognized in Other Comprehensive Loss on Derivatives (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Reclassified from AOCL into Income (Effective Portion)
Foreign exchange contracts	$ 135	Cost of products sold	$ 63

Derivatives Not Designated as Hedging Instruments	Location of Gain Recognized in Income on Derivatives	Amount of Gain Recognized in Income on Derivatives
Foreign exchange contracts	Foreign currency exchange gain	$ 988

As of September 30, 2011, the Company had no derivatives designated as net investments or fair value hedges in accordance with ASC Topic 815, "Derivatives and Hedging."

The following is information relative to the Company's derivative instruments in the condensed consolidated balance sheet as of September 30, 2011 (in thousands):

Derivatives Designated as Hedging Instruments	Balance Sheet Location	Fair Value of Asset (Liability)
Foreign exchange contracts	Other Assets	$ 380
Foreign exchange contracts	Accrued Liabilities	$ (1)

Derivatives Not Designated as Hedging Instruments	Balance Sheet Location	Fair Value of Asset (Liability)
Foreign exchange contracts	Other Assets	$ 85
Foreign exchange contracts	Accrued Liabilities	$ (344)

7. Debt

The Company entered into an amended, restated and expanded revolving credit facility dated December 31, 2009. The Revolving Credit Facility provides availability up to a maximum of $85,000,000 and has an initial term ending December 31, 2013.

Provided there is no default, the Company may, on a one-time basis, request an increase in the availability of the Revolving Credit Facility by an amount not exceeding $65,000,000, subject to lender approval. The unused portion of the Revolving Credit Facility totalled $68,695,000 net of outstanding borrowings of $0 and outstanding letters of credit of $16,305,000 as of September 30, 2011. Interest on the revolver is payable at varying Eurodollar rates based on LIBOR or prime plus a spread determined by the Company's total leverage ratio amounting to 225 or 125 basis points, respectively, based on the Company's leverage ratio at September 30, 2011. The Revolving Credit Facility is secured by all U.S. inventory, receivables, equipment, real property, subsidiary stock (limited to 65% of non-U.S. subsidiaries) and intellectual property.

The corresponding credit agreement associated with the Revolving Credit Facility places certain debt covenant restrictions on the Company, including certain financial requirements and restrictions on dividend payments, with which the Company was in compliance as of September 30, 2011. Key financial covenants include a minimum fixed charge coverage ratio of 1.25x, a maximum total leverage ratio, net of cash, of 3.50x and maximum annual capital expenditures of $18,000,000, excluding capital expenditures for a global ERP system.

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The Company entered into a third amendment to its Revolving Credit Facility on July 15, 2011 to (i) make reductions in the ‘Applicable Rate’ grid, in recognition of improved market conditions, resulting in lower unused, Libor and Base Rate borrowing and letters of credit fees at various levels in the grid, based on the Total Leverage Ratio (ii) amend the definition of Total Funded Indebtedness to exclude commercial letters of credit. Total funded indebtedness is used in the calculation of the Total Leverage Ratio covenant (iii) allow for letters of credit to be issued for any period up to 5 days prior to the expiry date of the Revolving Credit Facility and a “basket” of $20,000,000 for letters of credit which may expire up to 1 year past the expiry date (iv) permit a general lien “basket” of $2,500,000 (v) extend the expected date for consummation of a pre-approved specific acquisition and divestiture, and (vi) increase the general Investments “basket” by $5,000,000 to $30,000,000.

On January 25, 2011, the Company issued $150,000,000 principal amount of 7 7/8% Senior Subordinated Notes due 2019 in a private placement pursuant to Rule 144A under the Securities Act of 1933, as amended (Unregistered 7 7/8% Notes). The offering price of the notes was 98.545% of par after adjustment for original issue discount.

Provisions of the Unregistered 7 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restricted payments. Until February 1, 2014, the Company may redeem up to 35% of the outstanding Unregistered 7 7/8% Notes at a redemption price of 107.875% with the proceeds of equity offerings, subject to certain restrictions. On or after February 1, 2015, the Unregistered 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at a redemption price of 103.938%, reducing to 101.969% and 100% on February 1, 2016 and February 1, 2017, respectively and are due February 1, 2019. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the Unregistered 7 7/8% Notes may require the Company to repurchase all or a portion of such holder’s Unregistered 7 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The Unregistered 7 7/8% Notes are guaranteed by certain existing and future U.S. subsidiaries and are not subject to any sinking fund requirements.

During the six months ended September 30, 2011, the Company exchanged $150,000,000 of its outstanding Unregistered 7 7/8% Notes due 2019 for a like principal amount of its 7 7/8% Notes due 2019, registered under the Securities Act of 1933, as amended (7 7/8% Notes). All of the Unregistered 7 7/8% Senior Subordinated Notes due 2019 were exchanged in the transaction. The 7 7/8% Notes contain identical terms and provisions as the Unregistered 7 7/8% Notes.

The carrying amount of the Company’s revolving credit facility, notes payable to banks and other senior debt approximate their fair values based on current market rates. The Company’s 7 7/8% Notes, which have a par value of $150,000,000 at September 30, 2011, have an approximate fair value of $145,500,000 based on quoted market prices.

The Company’s Notes payable to banks consist primarily of draws against unsecured non-U.S. lines of credit. The Company’s other senior debt consists primarily of capital lease obligations.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of September 30, 2011, significant unsecured credit lines totalled approximately $8,974,000, of which $271,000 was drawn.

Refer to the Company’s consolidated financial statements included in its annual report on Form 10-K for the year ended March 31, 2011 for further information on its debt arrangements.

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8. Net Periodic Benefit Cost

The following table sets forth the components of net periodic pension cost for the Company's defined benefit pension plans (in thousands):

	Three months ended September 30, 2011	Three months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2010
Service costs	$845	$ 985	$1,691	$ 1,971
Interest cost	2,507	2,492	5,014	4,984
Expected return on plan assets	(2,688)	(2,469)	(5,376)	(4,938)
Net amortization	1,004	912	2,008	1,824
Curtailment (see below)	-	-	1,172	-
Net periodic pension cost	$1,668	$ 1,920	$4,509	$ 3,841

During the quarter ended June 30, 2011, the Company completed negotiations with one of its labor unions which resulted in an amendment to one of its pension plans. Within its cost of products sold for the six months ended September 30, 2011, the Company recorded a curtailment charge of $1,172,000 resulting from the amendment.

The Company currently plans to contribute approximately $11,500,000 to its pension plans in fiscal 2012.

The following table sets forth the components of net periodic postretirement benefit cost for the Company's defined benefit postretirement plan (in thousands):

	Three months ended September 30, 2011	Three months ended September 30, 2010	Six months ended September 30, 2011	Six months ended September 30, 2010
Service costs	$-	$ -	$-	$ -
Interest cost	120	127	239	255
Amortization of plan net losses	82	86	164	172
Net periodic postretirement cost	$202	$ 213	$403	$ 427

For additional information on the Company's defined benefit pension and postretirement benefit plans, refer to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended March 31, 2011.

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9. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands):

	Three months ended		Six months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Numerator for basic and diluted earnings per share:				
Net income	$6,676	$ 1,868	$9,455	$ 1,146
Denominators:				
Weighted-average common stock outstanding – denominator for basic EPS	19,274	19,052	19,224	19,034
Effect of dilutive employee stock options and other share-based awards	197	180	287	201
Adjusted weighted-average common stock outstanding and assumed conversions – denominator for diluted EPS	$19,471	$ 19,232	$19,511	$ 19,235

On July 26, 2010, the shareholders of the Company approved the 2010 Long Term Incentive Plan ("LTIP"). The Company grants share based compensation to eligible participants under the LTIP. The total number of shares of common stock with respect to which awards may be granted under the plan is 1,250,000 including shares not previously authorized for issuance under any of the Prior Stock Plans and any shares not issued or subject to outstanding awards under the Prior Stock Plans.

During the first six months of fiscal 2012 and 2011, a total of 162,144 and 4,125 shares of stock were issued upon the exercising of stock options related to the Company's stock option plans. During the six months ended September 30, 2011 and 2010, 56,277 and 17,664 shares, respectively, of restricted stock vested and were issued. During the fiscal year ended March 31, 2011, 25,873 shares of restricted stock vested and were issued.

Refer to the Company's consolidated financial statements included in its Form 10-K for the year ended March 31, 2011 for further information on its earnings per share and stock plans.

10. Loss Contingencies

Like many industrial manufacturers, the Company is involved in asbestos-related litigation. In continually evaluating costs relating to its estimated asbestos-related liability, the Company reviews, among other things, the incidence of past and recent claims, the historical case dismissal rate, the mix of the claimed illnesses and occupations of the plaintiffs, its recent and historical resolution of the cases, the number of cases pending against it, the status and results of broad-based settlement discussions, and the number of years such activity might continue. Based on this review, the Company has estimated its share of liability to defend and resolve probable asbestos-related personal injury claims. This estimate is highly uncertain due to the limitations of the available data and the difficulty of forecasting with any certainty the numerous variables that can affect the range of the liability. The Company will continue to study the variables in light of additional information in order to identify trends that may become evident and to assess their impact on the range of liability that is probable and estimable.

Based on actuarial information, the Company has estimated its asbestos-related aggregate liability including related legal costs to range between $7,000,000 and $17,000,000 using actuarial parameters of continued claims for a period of 18 to 30 years from the end of the current fiscal year. The Company's estimation of its discounted asbestos-related aggregate liability that is probable and estimable, in accordance with U.S. generally accepted accounting principles approximates $11,000,000, which has been reflected as a liability in the condensed consolidated financial statements as of September 30, 2011. The recorded liability does not consider the impact of any potential favorable federal legislation. This liability will fluctuate based on the uncertainty in the number of future claims that will be filed and the cost to resolve those claims, which may be influenced by a number of factors, including the outcome of the ongoing broad-based settlement negotiations, defensive strategies, and the cost to resolve claims outside the broad-based settlement program. Of this amount, management expects to incur asbestos liability payments of approximately $1,000,000 over the next 12 months. Because payment of the liability is likely to extend over many years, management believes that the potential additional costs for claims will not have a material after-tax effect on the financial condition of the Company or its liquidity, although the net after-tax effect of any future liabilities recorded could be material to earnings in a future period.

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11. Restructuring Charges

During the six months ended September 30, 2011, the Company initiated and completed employee workforce reductions at one of its European facilities. These reductions resulted in approximately $413,000 in one-time termination benefits recorded as restructuring costs during the six months ended September 30, 2011. A restructuring liability in the amount of $86,600 is included within accrued liabilities related to the unpaid portion of the expenses at September 30, 2011. The liability is expected to be fully paid by the end of the fiscal year.

12. Income Taxes

Income tax expense as a percentage of income from continuing operations before income tax expense was −31% and 41% for the three month periods ended September 30, 2011 and 2010, respectively and 32% and 27% for the six month periods then ended, respectively. Typically these percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. During the quarter ended September 30, 2011, the Company received notice of a tax assessment related to a prior period for one of its foreign subsidiaries. Income tax expense for the three and six month periods ended September 30, 2011 includes approximately $900,000 in past due taxes, interest, and penalties related to the assessment. The effective tax rate for the six months ended September 30, 2010 was favorably impacted by the recording of a Mexican manufacturing zone tax benefit.

We estimate that the effective tax rate including discrete items related to continuing operations will be approximately 25% to 30% for fiscal 2012 based on the forecasted jurisdictional mix of taxable income.

During the third and fourth quarters of fiscal 2011, the Company recorded a non-cash charge of $42,983,000 included within its provision for income taxes. This charge relates to the Company’s determination that a full valuation allowance against its deferred tax assets generated in the U.S. and at three of the Company’s foreign subsidiaries was necessary. Accounting rules require a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available and objectively verifiable evidence, it is more likely than not that such assets will not be realized. The existence of cumulative losses for a certain threshold period is a significant form of negative evidence used in the assessment. If a cumulative loss threshold is met, the accounting rules indicate that forecasts of future profitability are generally not sufficient positive evidence to overcome the presumption that a valuation allowance is necessary.

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13. Summary Financial Information

The following information (in thousands) sets forth the condensed consolidating summary financial information of the parent and guarantors, which guarantee the 7 7/8% Senior Subordinated Notes, and the nonguarantors. The guarantors are wholly owned and the guarantees are full, unconditional, joint and several.

As of September 30, 2011	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$ 47,904	$ 6	$ 30,836	$ -	$ 78,746
Trade accounts receivable	43,516	30	37,015	-	80,561
Inventories	26,017	20,025	52,041	(2,768)	95,315
Other current assets	6,103	439	5,801	549	12,892
Total current assets	123,540	20,500	125,693	(2,219)	267,514
Property, plant, and equipment, net	33,768	11,423	15,653	-	60,844
Goodwill and other intangibles, net	40,937	31,025	49,260	-	121,222
Intercompany	(31,067)	93,014	(61,154)	(793)	-
Other non-current assets	2,246	4,156	25,761	-	32,163
Investment in subsidiaries	206,678	-	-	(206,678)	-
Total assets	$ 376,102	$ 160,118	$ 155,213	$ (209,690)	$ 481,743
Current liabilities	33,497	17,456	41,881	(3,012)	89,822
Long-term debt, less current portion	148,004	2,102	2,098	-	152,204
Other non-current liabilities	24,436	8,456	36,660	-	69,552
Total liabilities	205,937	28,014	80,639	(3,012)	311,578
Shareholders' equity	170,165	132,104	74,574	(206,678)	170,165
Total liabilities and shareholders' equity	$ 376,102	$ 160,118	$ 155,213	$ (209,690)	$ 481,743

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For the Three months ended September 30, 2011

	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Net sales	$ 55,119	$ 44,889	$ 65,034	$ (15,179)	$ 149,863
Cost of products sold	40,415	39,705	45,691	(15,179)	110,632
Gross profit	14,704	5,184	19,343	-	39,231
Selling, general and administrative expenses	9,420	3,352	13,636	-	26,408
Restructuring charges	-	-	-	-	-
Amortization of intangibles	27	-	482	-	509
	9,447	3,352	14,118	-	26,917
Income from operations	5,257	1,832	5,225	-	12,314
Interest and debt expense	3,398	65	94	-	3,557
Other (income) and expense, net	(254)	11	(144)	-	(387)
Income before income tax expense and equity in income of subsidiaries	2,113	1,756	5,275	-	9,144
Income tax expense	1,229	200	1,448	-	2,877
Equity in income from continuing operations of subsidiaries	5,383	-	-	(5,383)	-
Income (loss) from continuing operations	6,267	1,556	3,827	(5,383)	6,267
Income from discontinued operations	409	-	-	-	409
Net income (loss)	$ 6,676	$ 1,556	$ 3,827	$ (5,383)	$ 6,676

For the Six months ended September 30, 2011

	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Net sales	$103,541	$86,860	$126,371	$ (27,149)	$ 289,623
Cost of products sold	77,803	75,418	88,678	(27,149)	214,750
Gross profit	25,738	11,442	37,693	-	74,873
Selling, general and administrative expenses	16,793	9,752	27,341	-	53,886
Restructuring charges	12	-	418	-	430
Amortization of intangibles	54	-	976	-	1,030
	16,859	9,752	28,735	-	55,346
Income from operations	8,879	1,690	8,958	-	19,527
Interest and debt expense	6,478	406	177	-	7,061
Other (income) and expense, net	(406)	18	(424)	-	(812)
Income before income tax expense and equity in income of subsidiaries	2,807	1,266	9,205	-	13,278
Income tax expense	1,364	169	2,699	-	4,232
Equity in income from continuing operations of subsidiaries	7,603	-	-	(7,603)	-
Income (loss) from continuing operations	9,046	1,097	6,506	(7,603)	9,046
Income from discontinued operations	409	-	-	-	409
Net income (loss)	$9,455	$1,097	$6,506	$ (7,603)	$ 9,455

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For the Six months ended September 30, 2011	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used for) operating activities	$5,597	$569	$(1,748)	$ -	$ 4,418
Investing activities:					
Purchase of marketable securities, net	-	-	440	-	440
Capital expenditures	(6,006)	(454)	(765)	-	(7,225)
Net cash used for investing activities from continuing operations	(6,006)	(454)	(325)	-	(6,785)
Net cash provided by investing activities from discontinued operations	409	-	-	-	409
Net cash used for investing activities	(5,597)	(454)	(325)	-	(6,376)
Financing activities:					
Proceeds from stock options exercised	1,733	-	-	-	1,733
Net payments under lines-of-credit	-	-	(202)	-	(202)
Other	217	(116)	(343)	-	(242)
Net cash provided by (used for) financing activities	1,950	(116)	(545)	-	1,289
Effect of exchange rate changes on cash	-	-	(724)	-	(724)
Net change in cash and cash equivalents	1,950	(1)	(3,342)	-	(1,393)
Cash and cash equivalents at beginning of period	45,954	7	34,178	-	80,139
Cash and cash equivalents at end of period	$47,904	$6	$30,836	$ -	$ 78,746

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As of March 31, 2011	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Current assets:					
Cash and cash equivalents	$45,954	$7	$34,178	$ -	$ 80,139
Trade accounts receivable	41,395	32	36,317	-	77,744
Inventories	25,937	18,497	47,597	(2,000)	90,031
Other current assets	(4,407)	698	16,404	1,599	14,294
Total current assets	108,879	19,234	134,496	(401)	262,208
Property, plant, and equipment, net	30,451	11,866	17,043	-	59,360
Goodwill and other intangibles, net	40,953	31,025	52,166	-	124,144
Intercompany	(56,929)	130,125	(72,773)	(423)	-
Other non-current assets	4,278	4,152	26,492	(1,762)	33,160
Investment in subsidiaries	241,387	-	-	(241,387)	-
Total assets	$369,019	$196,402	$157,424	$ (243,973)	$ 478,872
Current liabilities	$35,792	$15,774	$44,523	$ (824)	$ 95,265
Long-term debt, less current portion	147,867	2,235	2,714	-	152,816
Other non-current liabilities	23,214	8,506	37,678	(753)	68,645
Total liabilities	206,873	26,515	84,915	(1,577)	316,726
Shareholders' equity	162,146	169,887	72,509	(242,396)	162,146
Total liabilities and shareholders' equity	$369,019	$196,402	$157,424	$ (243,973)	$ 478,872

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For the Three months ended September 30, 2010	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Net sales	$ 51,998	$38,179	$51,735	$ (9,600)	$ 132,312
Cost of products sold	43,227	30,930	36,464	(9,550)	101,071
Gross profit	8,771	7,249	15,271	(50)	31,241
Selling, general and administrative expenses	6,066	7,607	11,602	-	25,275
Restructuring charges	310	-	37	-	347
Amortization of intangibles	29	1	404	-	434
	6,405	7,608	12,043	-	26,056
Income (loss) from operations	2,366	(359)	3,228	(50)	5,185
Interest and debt expense	2,915	363	93	-	3,371
Other (income) and expense, net	(710)	48	(481)	-	(1,143)
Income (loss) before income tax expense (benefit) and equity in income of subsidiaries	161	(770)	3,616	(50)	2,957
Income tax expense (benefit)	438	(365)	1,111	38	1,222
Equity in income from continuing operations of subsidiaries	2,012	-	-	(2,012)	-
Income (loss) from continuing operations	1,735	(405)	2,505	(2,100)	1,735
Income from discontinued operations	- 133	-	-	-	133
Net income (loss)	$ 1,868	$(405)	$2,505	$ (2,100)	$ 1,868

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For the Six months ended September 30, 2010	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Net sales	$99,371	$71,054	$99,569	$ (18,595)	$ 251,399
Cost of products sold	83,060	57,961	69,867	(18,745)	192,143
Gross profit	16,311	13,093	29,702	150	59,256
Selling, general and administrative expenses	16,543	10,685	23,047	-	50,275
Restructuring charges	1,760	-	37	-	1,797
Amortization of intangibles	57	1	805	-	863
	18,360	10,686	23,889	-	52,935
Income (loss) from operations	(2,049)	2,407	5,813	150	6,321
Interest and debt expense	5,715	735	154	-	6,604
Other (income) and expense, net	(1,183)	(33)	(464)	-	(1,680)
Income (loss) from continuing operations before income tax (benefit) expense and equity in income of subsidiaries	(6,581)	1,705	6,123	150	1,397
Income tax expense (benefit)	(2,040)	755	1,573	96	384
Equity in income from continuing operations of subsidiaries	5,554	-	-	(5,554)	-
Income (loss) from continuing operations	1,013	950	4,550	(5,500)	1,013
Income from discontinued operations	133	-	-	-	133
Net income (loss)	$1,146	$950	$4,550	$ (5,500)	$ 1,146

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For the Six months ended September 30, 2010	Parent	Guarantors	Non Guarantors	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used for) operating activities	$(5,048)	$1,409	$(4,212)	$ -	$ (7,851)
Investing activities:					
Purchase of marketable securities, net	746	-	4,377	-	5,123
Capital expenditures	(2,272)	(1,322)	(972)	-	(4,566)
Proceeds from sale of assets	1,182	-	-	-	1,182
Net cash (used for) provided by investing activities from continuing operations	(344)	(1,322)	3,405	-	1,739
Net cash provided by investing activities from discontinued operations	133	-	-	-	133
Net cash provided by (used for) investing activities	(211)	(1,322)	3,405	-	1,872
Financing activities:					
Net payments under lines-of-credit	-	-	(199)	-	(199)
Other	224	(102)	(363)	-	(241)
Net cash provided by (used for) financing activities	224	(102)	(562)	-	(440)
Effect of exchange rate changes on cash	-	-	272	-	272
Net change in cash and cash equivalents	(5,035)	(15)	(1,097)	-	(6,147)
Cash and cash equivalents at beginning of period	33,081	24	30,863	-	63,968
Cash and cash equivalents at end of period	$28,046	$9	$29,766	$ -	$ 57,821

14. Effects of New Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08 Testing Goodwill for Impairment, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would not be necessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted. We are currently evaluating the impact this update will have on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”), effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The issuance of ASU 2011-5 is intended to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance in ASU 2011-5 supersedes the presentation options in ASC Topic 220 and facilitates convergence of U.S. generally accepted accounting principles and International Financial Reporting Standards by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity and requiring that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We are currently evaluating the impact of adopting ASU No. 2011-05 on our financial statements.

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In May 2011 the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (“IFRS”) (“ASU 2011-04”). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (the “Boards”) on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect that the adoption of ASU 2011-04 will have a significant impact on the Company’s consolidated financial statements.

In March 2011, the SEC issued Staff Accounting Bulletin (SAB) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB’s Codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 was March 28, 2011. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

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

Executive Overview

We are a leading worldwide designer, manufacturer and marketer of material handling products, systems and services which efficiently and safely move, lift, position and secure material. Key products include hoists, actuators, cranes and lifting and rigging tools. The Company is focused on commercial and industrial applications that require the safety and quality provided by its superior design and engineering know-how.

Founded in 1875, we have grown to our current size and leadership position through organic growth and acquisitions. We developed our leading market position over our 136-year history by emphasizing technological innovation, manufacturing excellence and superior after-sale service. In addition, acquisitions significantly broadened our product lines and services and expanded our geographic reach, end-user markets and customer base. Ongoing initiatives include improving our productivity and increasing penetration of the Asian, Latin American and European marketplaces. In accordance with our strategy, we have been investing in our directed sales and marketing activities, new product development and “Lean” efforts across the Company. Shareholder value will be enhanced through continued emphasis on improvement of the fundamentals including market expansion, a high degree of customer satisfaction, new product development, manufacturing efficiency, cost containment, and efficient capital investment.

Over the course of our history, we have managed through many business cycles and our strong cash flow profile has helped us grow and expand globally. We stand with a strong capital structure which includes sufficient cash reserves, significant revolver availability with an expiration of December 2013, fixed-rate long-term debt which expires in 2019 and a strong cash flow business profile. During fiscal 2010 we initiated projects to strategically reorganize our North American hoist and rigging operations, which were essentially completed during the first quarter of fiscal 2011. The projects included the closure of two manufacturing facilities and the significant downsizing of a third facility. The closures and downsizing resulted in a reduction of approximately 500,000 square feet of manufacturing space (or approximately 25% of total manufacturing space) and we expect to generate annual savings estimated at approximately $15,000,000.

Additionally our revenue base is now more geographically diverse than at any time in our Company’s history, with approximately 47% derived from customers outside the U.S. for the six months ended September 30, 2011. We believe this will help balance the impact of changes that will occur in local economies as well as benefit the Company from growth in emerging markets. As in the past, we monitor both U.S. and Eurozone Industrial Capacity Utilization statistics as indicators of anticipated demand for our product. Since their June 2009 trough, these statistics have improved through September 2011. In addition, we continue to monitor the potential impact of other global and U.S. trends including industrial production, energy costs, steel price fluctuations, interest rates, currency exchange and activity of end-user markets around the globe.

From a strategic perspective, we are investing in global markets and new products as we focus on our greatest opportunities for growth. We maintain a strong North American market share with significant leading market positions in hoists, lifting and sling chain, forged attachments and actuators. We seek to maintain and enhance our market share by focusing our sales and marketing activities toward select North American and global market sectors including energy, construction, entertainment, mining and food processing.

Regardless of the economic climate and point in the economic cycle, we constantly explore ways to manage our operating margins as well as further improve our productivity and competitiveness. We have specific initiatives related to improved customer satisfaction, reduction of defects, shortened lead times, improved inventory turns and on-time deliveries, reduction of warranty costs, and improved working capital utilization. The initiatives are being driven by the continued implementation of our “Lean” efforts which are fundamentally changing our manufacturing and business processes to be more responsive to customer demand and improving on-time delivery and productivity. In addition to “Lean,” we are working to achieve these strategic initiatives through product simplification, the creation of centers of excellence, and improved supply chain management.

We continuously monitor market prices of steel. We purchase approximately $30,000,000 to $40,000,000 of steel annually in a variety of forms including rod, wire, bar, structural and others. Generally, as we experience fluctuations in our costs, we reflect them as price increases or surcharges to our customers with the goal of being margin neutral. Some of our steel costs have increased during this quarter as the result of higher scrap and alloy surcharges.

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We are also looking for opportunities for growth via strategic acquisitions or joint ventures. The focus of our acquisition strategy centers on opportunities for non-U.S. market penetration and product line expansion in alignment with our existing core product offering.

We operate in a highly competitive and global business environment. We face a variety of opportunities in those markets and geographies, including trends toward increased utilization of the global labor force and the expansion of market opportunities in Asia and other emerging markets. While we continue to execute our long-term growth strategy, we are supported by our strong capital structure, including a solid cash position and flexible cost base. We are also aggressively addressing costs and restructuring opportunities to enhance future margin opportunities.

Results of Operations

Three Months and Six Months Ended September 30, 2011 and September 30, 2010

Net sales in the fiscal 2012 quarter ended September 30, 2011 were $149,863,000, up $17,551,000 or 13.3% from the fiscal 2011 quarter ended September 30, 2010 net sales of $132,312,000. Net sales for the six month period ended September 30, 2011 were $289,623,000, up $38,224,000 or 15.2% from the six months ended September 30, 2010 net sales of $251,399,000. For the three month period ended September 30, 2011, net sales was positively impacted $8,924,000 by volume and mix of products sold, $3,262,000 by price increases, and $5,365,000 by foreign currency translation. For the six month period ended September 30, 2011 net sales was positively impacted $19,947,000 by volume and mix of products sold, $5,762,000 by price increases, and $12,515,000 by foreign currency translation.

Gross profit in the fiscal 2012 quarter ended September 30, 2011 was $39,231,000, up $7,990,000 or 25.6% from the fiscal 2011 quarter ended September 30, 2010 gross profit of $31,241,000. Gross profit margin increased to 26.2% in the fiscal 2012 quarter from 23.6% in the fiscal 2011 quarter. Gross profit in the six month period ended September 30, 2011 was $74,873,000, up $15,617,000 or 26.4% from the six month period ended September 30, 2010 gross profit of $59,256,000. Gross profit margin for the six month period ending September 30, 2011 increased from 23.6% to 25.9%. For the quarter ended September 30, 2011, the increase in gross profit margin was due to $3,496,000 in increased volume, $1,815,000 less in product liability costs, a decrease in restructuring related costs included in cost of goods sold of $1,306,000, and favorable other manufacturing variances of $161,000 offset by $402,000 in additional costs at our forging facility due to inefficiencies. For the six months ended September 30, 2011, the increase in gross profit margin was due to $9,196,000 in increased volume, $3,006,000 in less restructuring related expenses included within cost of goods sold, $1,122,000 from lower product liability expenses, and favorable other manufacturing variances of $1,091,000 offset by $1,302,000 in additional costs at our forging facility due to inefficiencies, and a pension plan curtailment charge of $1,172,000. The translation of foreign currencies had a $1,614,000 and $3,676,000 positive impact on gross profit for the three months and six months ended September 30, 2011 respectively.

Selling expenses were $15,509,000 and $15,480,000 in the three month periods ended September 30, 2011 and 2010, respectively. Selling expenses were $31,535,000 and $30,695,000 for the six months ended September 30, 2011 and September 30, 2010, respectively. The increases are primarily related to foreign currency translation which had a $713,000 and $1,588,000 unfavorable impact on selling expenses for the three and six month periods ended September 30, 2011, respectively. This is offset by continuing efforts by the Company to reduce or eliminate costs. As a percentage of consolidated net sales, selling expenses were 10.3% and 11.7% for the three months ended September 30, 2011 and 2010, respectively and 10.9% and 12.2% for the six month periods then ended, respectively.

General and administrative expenses were $10,899,000 and $9,795,000 in the three month periods ended September 30, 2011 and 2010, respectively and $22,351,000 and $19,580,000 in the six month periods then ended, respectively. The increases are related to the expansion of the management team in Asia and Latin America, and higher variable compensation, which were somewhat offset by benefits from aggressive cost reduction activities. Additionally, foreign currency translation had a $398,000 and $935,000 unfavorable impact on general and administrative expense for the three and six month periods ended September 30, 2011. As a percentage of consolidated net sales, general and administrative expenses were 7.3% and 7.4% for the three month periods ended September 30, 2011 and 2010, respectively and 7.7% and 7.8% for the six month periods then ended, respectively.

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Restructuring charges were $0 and $347,000 for the three months ended September 30, 2011 and 2010, respectively and $430,000 and $1,797,000 for the six month periods then ended, respectively. During the six month period ended September 30, 2011, the Company initiated and completed employee workforce reductions at one of its European facilities. These reductions resulted in approximately $413,000 in restructuring costs recorded during the six month period ended September 30, 2011. The fiscal 2011 restructuring charges primarily related to the consolidation of the Company's North American Hoist and Rigging operations which were initially started in fiscal 2010 and largely completed by the end of fiscal 2011. Offsetting restructuring charges for the three and six month periods ended September 30, 2010 was a gain on the sale of one of our closed facilities in the amount of approximately $500,000.

There were no significant changes in amortization of intangibles for the three and six months ended September 30, 2011 compared to the three and six months ended September 30, 2010 other than the impacts of foreign currency translation. Amortization of intangibles was $509,000 and $434,000 for the three months ended September 30, 2011 and 2010, respectively and $1,030,000 and $863,000 for the six month periods then ended, respectively.

Interest and debt expense was $3,557,000 and $3,371,000 for the three months ended September 30, 2011 and 2010, respectively and $7,061,000 and $6,604,000 for the six month periods then ended, respectively. The increases in interest expense in the periods ended September 30, 2011 as compared to the periods ended September 30, 2010 relate to the Company's $150,000,000 7 7/8 Notes outstanding as of September 30, 2011, compared to the $124,855,000 8 7/8 Notes outstanding as of September 30, 2010.

Income tax expense as a percentage of income from continuing operations before income tax expense was 31% and 41% for the three month periods ended September 30, 2011 and 2010, respectively and 32% and 27% for the six-month periods then ended, respectively. Typically these percentages vary from the U.S. statutory rate primarily due to varying effective tax rates at the Company's foreign subsidiaries, and the jurisdictional mix of taxable income for these subsidiaries. During the quarter ended September 30, 2011, the Company received notice of a tax assessment related to a prior period for one of its foreign subsidiaries. Income tax expense for the three and six month periods ended September 30, 2011 includes approximately $900,000 in past due taxes, interest, and penalties related to the assessment. The effective tax rate for the six months ended September 30, 2010 was favorably impacted by the recording of a Mexican manufacturing zone tax benefit.

We estimate that the effective tax rate including discrete items related to continuing operations will be approximately 25% to 30% for fiscal 2012 based on the forecasted jurisdictional mix of taxable income.

Income from discontinued operations, net of tax, was $409,000 and $133,000 for both the three and six month periods ended September 2011 and 2010, respectively.

Liquidity and Capital Resources

Cash and cash equivalents totaled $78,746,000 at September 30, 2011, a decrease of $1,393,000 from the March 31, 2011 balance of $80,139,000.

Net cash provided for operating activities was $4,418,000 for the six months ended September 30, 2011 compared with cash used for operating activities of $7,851,000 for the six months ended September 30, 2010. The net cash provided by operating activities for the six months ended September 30, 2011 was primarily the result of net income from continuing operations of $9,046,000, non-cash charges for depreciation and amortization of $5,711,000, and non-cash charges for stock-based compensation of $1,447,000, offset by $12,016,000 of cash used for changes in operating assets and liabilities, driven by a $6,037,000 increase in inventories, a $3,421,000 increase in accounts receivable and a $4,470,000 decrease in accrued and non-current liabilities partially offset by a $1,288,000 decrease in prepaid expenses, $481,000 increase in accounts payable and $143,000 decrease in other assets.

The net cash used for operating activities for the six months ended September 30, 2010 was primarily the result of net income from continuing operations of $1,013,000, non-cash charges for depreciation and amortization of $5,656,000, and non-cash charges for stock-based compensation of $898,000, offset by a $330,000 negative cash impact from deferred income taxes and $14,376,000 of cash used by changes in operating assets and liabilities driven by a $14,868,000 increase in inventories, a $5,636,000 increase in accounts receivable, a $3,611,000 increase in prepaid expenses, and a $3,293,000 decrease in accrued expenses and other non-current liabilities partially offset by a $12,881,000 increase in accounts payable and a $151,000 decrease in other assets.

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The changes in operating assets and liabilities in fiscal 2012 and fiscal 2011 were primarily due to increases in inventories to align levels with increased order volume partially offset by increases in trade accounts payable as a result of increases in inventories.

Net cash used by investing activities was $6,376,000 for the six months ended September 30, 2011 compared with cash provided by investing activities of $1,872,000 for the six months ended September 30, 2010. The net cash used by investing activities for the six months ended September 30, 2011 was primarily the result of $7,225,000 in capital expenditures partially offset by $440,000 in net proceeds from the sales of marketable equity securities in the period. The net cash provided by investing activities for the six months ended September 30, 2010 was primarily the result of $5,123,000 in net proceeds from the sales of marketable equity securities and a gain from the sale of fixed assets of $1,182,000 partially offset by capital expenditures of $4,566,000 for the period.

Net cash provided by financing activities was $1,289,000 for the six months ended September 30, 2011 compared with net cash used for financing activities of $440,000 for the six months ended September 30, 2010. The net cash provided by financing activities for the six months ended September 30, 2011 consisted of $1,733,000 of proceeds from exercises of stock options and a $217,000 change in the ESOP guarantee, offset by $202,000 of net payments under revolving lines of credit and $459,000 in repayments of debt. The net cash used for financing activities for the six months ended September 30, 2010 consisted primarily of $199,0000 of net payments under revolving lines of credit, $465,000 in repayments of debt partially offset by $224,000 change in the ESOP guarantee.

We believe that our cash on hand, cash flows, and borrowing capacity under our Revolving Credit Facility will be sufficient to fund our ongoing operations and budgeted capital expenditures for at least the next twelve months. This belief is dependent upon successful execution of our current business plan and effective working capital utilization. No material restrictions exist in accessing cash held by our non-U.S. subsidiaries. Additionally we expect to meet our U.S. funding needs without repatriating non-U.S. cash and incurring the incremental U.S. taxes. As of September 30, 2011, $30,562,000 of cash and cash equivalents were held by foreign subsidiaries.

We entered into an amended, restated and expanded revolving credit facility dated December 31, 2009. The Revolving Credit Facility provides availability up to a maximum of $85,000,000 and expires December 31, 2013.

Provided there is no default, we may, on a one-time basis, request an increase in the availability of the Revolving Credit Facility by an amount not exceeding $65,000,000, subject to lender approval. The unused portion of the Revolving Credit Facility totalled $68,695,000, net of outstanding borrowings of $0 and outstanding letters of credit of $16,305,000 as of September 30, 2011. The outstanding letters of credit at September 30, 2011 consisted of $6,322,000 in documentary letters of credit (including a significant letter of credit related to a large customer order, amounting to $2,788,000 which will mature in April 2012) and $9,983,000 of standby letters of credit.

Interest on the revolver is payable at varying Eurodollar rates based on LIBOR or prime plus a spread determined by our total leverage ratio amounting to 225 or 125 basis points, respectively, at September 30, 2011. The Revolving Credit Facility is secured by all domestic inventory, receivables, equipment, real property, subsidiary stock (limited to 65% of foreign subsidiaries) and intellectual property.

The corresponding credit agreement associated with the Revolving Credit Facility places certain debt covenant restrictions on us, including certain financial requirements and restrictions on dividend payments, with which we were in compliance as of September 30, 2011. Key financial covenants include a minimum fixed charge coverage ratio of 1.25x, a maximum total leverage ratio, net of cash, of 3.50x and maximum annual capital expenditures of $18,000,000 excluding capital expenditures for a global ERP system.

During the fourth quarter of fiscal year 2011, the Company refinanced its 8 7/8% Notes through the issuance of $150,000,000 principal amount of 7 7/8% Senior Subordinated Notes due 2019 in a private placement pursuant to Rule 144A under the Securities Act of 1933, as amended (“Unregistered 7 7/8% Notes”). The proceeds from the sale of the Unregistered 7 7/8% Notes were used to repurchase or redeem all of the outstanding 8 7/8% Notes amounting to $124,855,000 and to fund working capital and other corporate activities. The offering price of the Unregistered 7 7/8% Notes was 98.545% after adjustment for the original issue discount. Provisions of the Unregistered 7 7/8% Notes include, without limitation, restrictions on indebtedness, asset sales, and dividends and other restrictive payments. Until February 1, 2014, the Company may redeem up to 35% of the outstanding Unregistered 7 7/8% Notes at a redemption price of 107.875% with the proceeds of equity offerings, subject to certain restrictions. On or after February 1, 2015, the Unregistered 7 7/8% Notes are redeemable at the option of the Company, in whole or in part, at a redemption price of 103.938%, reducing to 100% on February 1, 2017. In the event of a Change of Control (as defined in the indenture for such notes), each holder of the Unregistered 7 7/8% Notes may require us to repurchase all or a portion of such holder’s Unregistered 7 7/8% Notes at a purchase price equal to 101% of the principal amount thereof. The Unregistered 7 7/8% Notes are guaranteed by certain existing and future U.S. subsidiaries and are not subject to any sinking fund requirements.

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During the six months ended September 30, 2011, the Company exchanged its $150,000,000 outstanding Unregistered 7 7/8% Notes for a like principal amount of 7 7/8% Senior Subordinated Notes due 2019 registered under the Securities Act of 1933, as amended (“7 7/8% Notes”). All of the Unregistered 7 7/8% Notes were exchanged in the transaction. The 7 7/8% Notes contain identical terms and provisions as the Unregistered 7 7/8% Notes.

Our capital lease obligations related to property and equipment leases amounted to $5,431,000 at September 30, 2011. Capital lease obligations are included in senior debt in the consolidated balance sheets.

Unsecured and uncommitted lines of credit are available to meet short-term working capital needs for certain of our subsidiaries operating outside of the U.S. The lines of credit are available on an offering basis, meaning that transactions under the line of credit will be on such terms and conditions, including interest rate, maturity, representations, covenants and events of default, as mutually agreed between our subsidiaries and the local bank at the time of each specific transaction. As of September 30, 2011, significant unsecured credit lines totaled approximately $8,974,000 of which $271,000 was drawn.

Capital Expenditures

In addition to keeping our current equipment and plants properly maintained, we are committed to replacing, enhancing, and upgrading our property, plant, and equipment to support new product development, improve productivity and customer responsiveness, reduce production costs, increase flexibility to respond effectively to market fluctuations and changes, meet environmental requirements, enhance safety, and promote ergonomically correct work stations. Consolidated capital expenditures for the six months ended September 30, 2011 and September 30, 2010 were $7,225,000 and $4,566,000, respectively. We expect capital spending for fiscal 2012 to be approximately $13,000,000 to $15,000,000 compared with $12,543,000 in fiscal 2011.

Inflation and Other Market Conditions

Our costs are affected by inflation in the U.S. economy and, to a lesser extent, in non-U.S. economies including those of Europe, Canada, Mexico, South America, and Asia Pacific. We have been impacted by fluctuations in steel costs, which vary by type of steel and we continue to monitor them and address our pricing policies accordingly. In addition, U.S. employee benefits costs such as health insurance and pension, as well as energy costs have exceeded general inflation levels. Otherwise, we do not believe that general inflation has had a material effect on results of operations over the periods presented primarily due to overall low inflation levels over such periods and our ability to generally pass on rising costs through price increases or surcharges. In the future, we may be further affected by inflation that we may not be able to offset with price increases or surcharges. Additionally, we are impacted by fluctuations in currency exchange rates which are primarily translational, but transactional fluctuations could also impact our financial results.

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Critical Accounting Policies

Goodwill Impairment Testing

We test goodwill for impairment at least annually, and more frequently whenever events occur or circumstances change that indicate there may be impairment. These events or circumstances could include a significant long-term adverse change in the business climate, poor indicators of operating performance, or a sale or disposition of a significant portion of a reporting unit.

The goodwill impairment test consists of comparing the fair value of a reporting unit, determined using discounted cash flows, with its carrying amount including goodwill. If the carrying amount of the reporting unit is less than the reporting unit's fair value no impairment is recognized and Step Two of the goodwill impairment testing is not necessary.

We test goodwill at the reporting unit level, which is one level below our operating segment. We identify our reporting units by assessing whether the components of our operating segment constitute businesses for which discrete financial information is available and segment management regularly reviews the operating results of those components. We also aggregate components that have similar economic characteristics into single reporting units (for example, similar products and/or services, similar long-term financial results, product processes, classes of customers, etc.). We have four reporting units, only two of which have goodwill. Our Duff Norton reporting unit and Rest of Products reporting unit have goodwill totalling $9,826,000 and $95,127,000 at September 30, 2011, respectively.

We currently do not believe that we have any significant impairment indicators or that any of our reporting units with goodwill are at risk of failing Step One of the goodwill impairment test. However if the projected long-term revenue growth rates, profit margins, or terminal rates are significantly lower, and/or the estimated weighted-average cost of capital is considerably higher, future testing may indicate impairment of one or more of the Company's reporting units and, as a result, the related goodwill may be impaired.

Deferred Tax Asset Valuation Allowance

During the fiscal year ended March 31, 2011, the Company recorded a non-cash charge of $42,983,000 included within its provision for income taxes. This charge primarily relates to the Company's determination that a full valuation allowance against its deferred tax assets generated in the U.S. was necessary. The deferred tax assets in the U.S. relate principally to liabilities related to employee benefit plans and insurance reserves and U.S. net operating loss carryforwards. The U.S. net operating loss carryforwards have been generated primarily as a result of restructuring costs in fiscal years 2010 and 2011. Accounting rules require a reduction of the carrying amounts of deferred tax assets by a valuation allowance if, based on the available and objectively verifiable evidence, it is more likely than not that such assets will not be realized. The existence of cumulative losses for a certain threshold period is a significant form of negative evidence used in the assessment. During the third quarter ended December 31, 2010, the Company determined that it would be in a three-year cumulative pretax loss position in the U.S. at March 31, 2011 primarily due to restructuring-related charges incurred in the U.S. to-date in fiscal 2011, despite our expectations of future profitability. If a cumulative loss threshold is met, the accounting rules indicate that forecasts of future profitability are generally not sufficient positive evidence to overcome the presumption that a valuation allowance is necessary.

The recording of this non-cash charge does not impact the Company's ability to realize the economic benefit of its deferred tax assets and net operating loss carryforwards on future tax returns. In future periods, the allowance could be reduced or reversed based on sufficient objectively verifiable evidence indicating that it is more likely than not that a portion or all of the Company's deferred tax assets will be realized.

The Internal Revenue Code imposes limitations on a corporation's ability to utilize NOLs if it experiences an "ownership change." In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50 percentage points over a three year period. If we were to experience an ownership change, utilization of our NOLs would be subject to an annual limitation determined by multiplying the market value of our outstanding shares of stock at the time of the ownership change by the applicable long-term tax-exempt rate. Any unused annual limitation may be carried over to later years within the allowed NOL carryforward period. The amount of the limitation may, under certain circumstances, be increased or decreased by built-in gains or losses held by us at the time of the change that are recognized in the five-year period after the change.

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Seasonality and Quarterly Results

Quarterly results may be materially affected by the timing of large customer orders, periods of high vacation and holiday concentrations, gains or losses on early retirement of bonds, gains or losses in our portfolio of marketable securities, restructuring charges, favorable or unfavorable foreign currency translation, divestitures and acquisitions. Therefore, the operating results for any particular fiscal quarter are not necessarily indicative of results for any subsequent fiscal quarter or for the full fiscal year.

Effects of New Accounting Pronouncements

In September 2011, the FASB issued ASU 2011-08 Testing Goodwill for Impairment, which permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying value before applying the two-step goodwill impairment model that is currently in place. If it is determined through the qualitative assessment that a reporting unit's fair value is more likely than not greater than its carrying value, the remaining impairment steps would not be necessary. The qualitative assessment is optional, allowing companies to go directly to the quantitative assessment. This update is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011. Early adoption is permitted. We are currently evaluating the impact this update will have on our consolidated financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income (“ASU 2011-05”), effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The issuance of ASU 2011-5 is intended to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The guidance in ASU 2011-5 supersedes the presentation options in ASC Topic 220 and facilitates convergence of U.S. generally accepted accounting principles and International Financial Reporting Standards by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity and requiring that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. We are currently evaluating the impact of adopting ASU No. 2011-05 on our financial statements.

In May 2011 the FASB issued ASU No. 2011-04, Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (“IFRS”) (“ASU 2011-04”). ASU 2011-04 represents the converged guidance of the FASB and the International Accounting Standards Board (the “Boards”) on fair value measurements. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and IFRS. The amendments in this ASU are required to be applied prospectively, and are effective for interim and annual periods beginning after December 15, 2011. The Company does not expect that the adoption of ASU 2011-04 will have a significant impact on the Company’s consolidated financial statements.

In March 2011, the SEC issued Staff Accounting Bulletin (SAB) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB’s Codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 was March 28, 2011.   The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

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Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This report may include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve known and unknown risks, uncertainties and other factors that could cause our actual results to differ materially from the results expressed or implied by such statements, including general economic and business conditions, conditions affecting the industries served by us and our subsidiaries, conditions affecting our customers and suppliers, competitor responses to our products and services, the overall market acceptance of such products and services, facility consolidations and other restructurings, our asbestos-related liability, the integration of acquisitions and other factors disclosed in our periodic reports filed with the Commission. Consequently such forward-looking statements should be regarded as our current plans, estimates and beliefs. We do not undertake and specifically decline any obligation to publicly release the results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in the market risks since the end of Fiscal 2011.

Item 4. Controls and Procedures

As of September 30, 2011, an evaluation was performed under the supervision and with the participation of the Company's management, including the chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures were effective as of September 30, 2011, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is made known to them on a timely basis, and that these disclosure controls and procedures are effective to ensure such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

There have been no changes in the Company's internal control over financial reporting during the most recent quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings – none.

Item 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in the Company's Form 10-K for the year ended March 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – none.

Item 3. Defaults upon Senior Securities – none.

Item 4. Reserved

Item 5. Other Information – none.

Item 6. Exhibits

Exhibit 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934; as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 101* The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter and six months ended September 30, 2011, formatted in XBRL, as follows:

(i) Condensed Consolidated Balance Sheets September 30, 2011 and March 31, 2011;

(ii) Condensed Consolidated Statements of Operations and Retained Earnings (Accumulated Deficit) for the three and six months ended September 30, 2011 and 2010;

(iii) Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2011 and 2010;

(iv) Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and six months ended September 30, 2011 and 2010; and

(v) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

*Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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.

	COLUMBUS McKINNON CORPORATION (Registrant)
Date: October 28, 2011	/s/ Gregory P. Rustowicz Gregory P. Rustowicz Vice President and Chief Financial Officer (Principal Financial Officer)