

## Tax Receivable Agreement Letter

**Circulated on April 19, 2010 to the Holders.**

This Tax Receivable Agreement Letter is not tax advice, tax analysis or a “tax opinion” concerning any issue arising in connection with any of the business operations or transactions, involving Apollo Global Management, LLC and its subsidiaries. Any statements contained in this Tax Receivable Agreement (“**TRA**”) Letter are not intended or written to be used and cannot be used by any party, for purposes of avoiding penalties that may be imposed under the Internal Revenue Code, as amended, or applicable State and Local income tax provisions.

### **The Transaction**

On July 13, 2007, Apollo Global Management, LLC contributed to APO Corp., a corporation for US Federal income tax purposes, and APO Asset Co., an entity that has elected to be disregarded for US Federal income tax purposes, (collectively, the “**Intermediate Holdings Companies**”) \$1.2 billion in proceeds from the sale of convertible securities. The Intermediate Holding Companies used these proceeds to purchase a 20% interest in Apollo Management Holdings, L.P., Apollo Principal Holdings I, L.P., Apollo Principal Holdings II, L.P., Apollo Principal Holdings III, L.P., and Apollo Principal Holdings IV, L.P. (collectively, the “**Apollo Operating Group**”). The Apollo Operating Group, through underlying partnership interests, operates the business.

### **Increase to the Federal income tax basis of the tangible and intangible assets of the applicable Apollo Operating Group**

As a result of the Transaction (as described above), Apollo Management Holdings, L.P. and its underlying partnership investments (hereinafter referred to as the “**Electing Section 754 Entities**”) made an election under Section<sup>1</sup> 754 of the U.S. Internal Revenue Code (“**IRC**”), as amended, which resulted in an adjustment to the tax basis of the assets owned by the Electing Section 754 Entities.

As the Electing Section 754 Entities have made valid IRC Section 754 elections for the taxable years ending during 2007, APO Corp. has recorded an initial US Federal income tax basis adjustment under IRC Section 743(b) of \$972,725,890 (the “**Step Up**”). See Appendix A for the initial IRC Section 743(b) calculation.

The Step Up results in additional tax deductions which reduce the amount of tax that APO Corp. would otherwise be required to pay. Additionally, each future Payment (as defined in Section 3.01 of the Tax Receivable Agreement) made with respect to the Transaction result in additional step ups in tax basis and in additional future tax deductions. A further Exchange (as defined in Section 1.01 of the Tax Receivable

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<sup>1</sup> Unless otherwise specified, all references to “Section” are to the Internal Revenue Code of 1986, as amended (the “Code”), and references to “Treas. Reg. Section” are to Treasury Regulations issued thereunder (the “Regulations”). Furthermore, references to the “Service” are to the Internal Revenue Service.

Agreement) of interests by the Holders (as defined in Section 1.01 of the Tax Receivable Agreement) may also result in additional adjustments to the tax basis of the APO Corp. assets, resulting in additional future tax deductions that may reduce the amount of tax that APO Corp. should otherwise be required to pay.

In connection with the 2007 and 2008 income tax filings for APO Corp, APO Corp. recognized income tax savings of approximately \$4.3M and \$10.6M, respectively based on the calculation provided in the TRA. The 2007 tax savings resulted in a \$3.6M TRA payment being made on December 31, 2008. The 2008 tax savings resulted in a \$9.6M TRA payment being made on September 11, 2009. As a result, the original \$972,725,890 Step Up was increased by approximately \$3.6M and \$9.6M which provides for additional tax deductions for future years.

### **2009**

In connection with the 2009 income tax filings for APO Corp, APO Corp. recognized income tax savings of approximately \$17.7M. The tax savings resulted in a \$15.0M TRA payment (85% of \$17.7M) being made on or about April 1, 2010. As a result, the Step Up was increased by approximately \$13.1M which will result in additional deductions in 2010 and the future years through 2022 (the remaining life of the tax asset) and \$1.9M of imputed interest. The imputed interest results from discounting the \$15.0M to \$13.1M and will be reflected as additional interest expense for tax purposes in 2010.

### **Tax Receivable Agreement**

On July 13, 2007, APO Corp., Apollo Principal Holdings II, LP, Apollo Principal Holdings IV, LP and Apollo Management Holdings, LP entered into a Tax Receivable Agreement with the Holders. The Tax Receivable Agreement provides to the Holders a Payment by APO Corp. of 85% of the amount of actual cash savings, if any, in US Federal, state, local and foreign income tax that APO Corp. realizes (or is deemed to realize in the case of an Early Termination (as defined in Section 4.02 of the Tax Receivable Agreement) or a Change of Control (as defined in Section 1.01 of the Tax Receivable Agreement)) as a result of the increases in US Federal income tax basis and corresponding tax deductions, as described above, associated with actual or deemed sales of interests in the Electing Section 754 Entities, as well as any Federal income tax benefits realized from the Payments, including imputed interest, made pursuant to the Tax Receivable Agreement.

APO Corp. expects to retain the remaining 15% of actual cash savings, if any, in income tax that is associated with these tax benefits. For purposes of the Tax Receivable Agreement, cash savings in income tax will be computed by comparing the actual income tax liability to the amount of income taxes that APO Corp. would have been required to pay had (i) there been no increase to the US Federal income tax basis of the tangible and intangible assets of the Electing Section 754 Entities as a result of the Transaction and had (ii) APO Corp. not entered into the Tax Receivable Agreement. The term of the Tax Receivable Agreement will continue until all such tax benefits have been utilized or expired, unless APO Corp. exercises the right to terminate the Tax Receivable Agreement

by paying an Early Termination Payment (as defined in Section 4.03 of the Tax Receivable Agreement).

Section 2.02 of the Tax Receivable Agreement requires APO Corp. to compute an Exchange Basis Schedule, which includes the following four data elements in relation to the Transaction, (i) the actual unadjusted US Federal income tax basis of the original assets as of each applicable exchange date, (ii) the US Federal income tax basis adjustment with respect to the original assets as a result of the exchanges occurring in each taxable year, (iii) the period, or periods, if any, over which the original assets are amortizable and/or depreciable, and (iv) the period or periods, if any, over which each basis adjustment is amortizable and/or depreciable. The detail for the Exchange Basis Schedule can be found in Appendix B.

### **Tax Benefit Schedule and Payment for 2009**

Section 2.03 of the Tax Receivable Agreement requires APO Corp. to calculate the realized tax benefit for each tax year. The realized tax benefit compares the non stepped-up tax liability (without amortization deductions arising out of the Transaction) against the actual tax liability (with such amortization deductions). The amortization deduction arising from the Transaction for 2009 was \$66,551,099. The taxable income for the 2009 tax year, prior to the amortization deduction, was \$41.7M. As a consequence, the realized tax benefit related to the amortization deduction was limited due to taxable income. In 2009, the realized tax benefit related to APO Corp. is \$17.9M, as shown in Appendix C. The realized tax benefit to be distributed (at 85%) related to the 2009 tax year is \$15.0M.

The Transaction is treated as an installment sale for US Federal income tax purposes. Under the installment sale rules, a portion of each TRA payment is in fact interest, as there is a present value “cost” to the Holders resulting from the fact that they did not receive full payment for the sale of their interests in 2007. In such a situation, the tax rules require APO Corp. to calculate the “imputed interest” amount related to the portion of the Payment that is deferred (*i.e.*, the present value of the future Payments to be made with respect to the current year tax return) with respect to the interests in the Electing Section 754 Entities that were sold. In 2009, the imputed interest amount is \$1.9M (results from discounting \$15.0M to \$13.1M). This amount was calculated using the Applicable Federal Rate (“AFR”) which applied to the term of the installment sale on the date of the sale (July 13, 2007). The AFR rate being used is 5.15%, which was the rate in July 2007.

### **Other Considerations**

The Internal Revenue Service (IRS) or state tax authorities could challenge any additional tax depreciation and amortization deductions or other tax benefits (including deductions for imputed interest expense associated with payments made under the tax receivable agreement) that are being claimed as a result of, or in connection with, such increases in the tax basis of such assets. If the IRS or state tax authorities were to successfully challenge a tax basis increase or tax benefits previously claimed pursuant to a Section

754 election, the Holders would not be obligated under the tax receivable agreement to reimburse APO Corp. for any payments previously made to them. IRS or state tax adjustments impacting future years' tax benefits realized (and not previously paid out) will impact the calculation of future payments.

## Appendix A

Purchase Price for Strategic:	\$ 1,200,000,000.00
% Allocable to AMH	64.3859%
Purchase Price for AMH	\$ 772,630,800.00
AMH Liabilities	\$ 1,072,709,232.00
AMH Tax Basis	
PPE	\$ 11,148,445.00
RDUs	\$ 61,085,339.07
total tax basis	\$ 72,233,784.07
Gain on liquidation:	

### APO Corp's Basis in AMH:

Price paid	\$ 772,630,800.00
Assumption of liabilities:	\$ 214,541,846.40
<b>Total Basis</b>	<b>\$ 987,172,646.40</b>

### APO Corp's share of AMH's Basis (A) + (B)

(A) Interest in Previously taxed capital:	
Share of cash upon hyp liq	\$ 772,630,800
tax gain upon hyp liq	\$ 972,725,890
Total:	\$ (200,095,090)
(B) Share of Liabilities:	\$ 214,541,846
Total	\$ 14,446,757

743 Step Up: **\$ 972,725,890**

## Appendix B

### APO Corp Related Taxable Income Amortization of TRA Payment Tax Year 2009

	CALCULATION OF TAX BENEFIT OF STEP UP +						
		2007 (act)	2008 (act)	2009 (act)	2010	2011-2023	
	Total Tax Basis for Amortization or	Annual Amortization					
<b>TAX BENEFIT CALCULATION</b>							
Amortization of initial step-up	972,725,090	(64,848,393)	(32,424,196)	(64,848,393)	(64,848,393)	(64,848,393)	(745,756,515)
<b>Amortization of TRA Payment</b>							
Amortization of 2007 TRA Payment	3,384,501	(247,646)	-	(20,637)	(247,646)	(247,646)	(2,868,571)
Amortization of 2008 TRA Payment	7,782,575	(614,414)	-	-	(102,402)	(614,414)	(7,065,750)
Amortization of 2009 TRA Payment	13,134,571	(1,125,820)	-	-	-	(187,637)	(12,946,934)
<b>Imputed Interest Component of TRA Payment</b>							
Imputed Interest Component of 2007 TRA Payment	240,680	-	-	(240,680)	-	-	-
Imputed Interest Component of 2008 TRA Payment	1,266,097	-	-	-	(1,266,097)	-	-
Imputed Interest Component of 2009 TRA Payment	1,871,766	-	-	-	-	(1,871,766)	-
<b>Interest Amount of TRA Payment<sup>1</sup></b>							
Interest Amount of 2007 TRA Payment	121,872	-	-	(121,872)	-	-	-
Interest Amount of 2008 TRA Payment	86,551	-	-	-	(86,551)	-	-
Interest Amount of 2009 TRA Payment	21,580	-	-	-	-	(21,580)	-

## Appendix C

### APO Corp Related Taxable Income Tax Benefits Schedule Tax Year 2009

TRA Agmt Appendix C Tax Receivable Agreement (TRA) Reference (Article III)		Description	Amount	Notes
3.01(b)(1),(3)		APO Corp. 2009 Tax Year Realized Tax Benefit (Detriment)	\$ 17,654,514	
3.01(b)(2),(4)		Excess Realized Tax Benefit (Detriment)	-	
3.01(b)		Adjusted Realized Tax Benefit	17,654,514	
3.01(b)		85% Per TRA	85%	
3.01(b)		Tax Benefit Payment (includes Imputed Interest under IRC Section 483)	\$ 15,006,337	
		IRC Section 483 Imputed Interest (installment sale rules) 2008 Section 483 Interest Rate (5.15%)	\$ 1,871,766	(1)
		Present Value of Tax Benefit Payment from April 21, 2010 to July 14, 2007 = Total Sales Proceeds	\$ 13,134,571	(2)
3.01(b)		Interest Amount Per TRA (Through April 21, 2010)	21,580	(3)
3.01(b)		Total Net Tax Benefit - i.e., Tax Benefit Payment related to 2009 Tax Return	\$ 15,027,917	

#### Notes:

(1) To calculate the amount of imputed installment sale interest that is taxable on the tax return the Applicable Federal Rate (AFR) that applies to the term of the installment sale on the date of the sale (July 13, 2007) was used. The AFR was 5.15%.

(2) The present value of the Tax Benefit Payment is calculated using the following formula:

$$\frac{\text{Amount of Future Payment}}{1 + (\# \text{ of days July 15, 2007 to April 21, 2010})/365 \times \text{Annual Interest Rate}}$$

Amount of Future Payment	\$ 15,006,337
Annual Interest Rate (Long term AFR for July 2008)	5.15%
2 Year (July 14, 2007 through July 14, 2009)	2 Year
# of Days (July 15, 2009 through April 21, 2010)	280 Days

(3) Interest is calculated from the due date of the 2009 Tax Return (without extensions). Please see the attached calculation.