RYANS RESTAURANT GROUP INC
Form 4
November 01, 2005

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
MACKENZIE BRIAN S

(Last) (First) (Middle)

405 LANCASTER AVENUE

(Street)

GREER, SC 29650

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
RYANS RESTAURANT GROUP INC [RYAN]

3. Date of Earliest Transaction (Month/Day/Year)
10/31/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security	2. Conversion or Exercise	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any	4. Transaction Code	5. Number of Derivative Securities	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)

(Instr. 3)	Price of Derivative Security		(Month/Day/Year)	(Instr. 8)		Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)					
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Options (Right to Buy)	$ 10.66	10/31/2005		A		5,000		05/01/2006	10/31/2015	Common Stock	5,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MACKENZIE BRIAN S 405 LANCASTER AVENUE GREER, SC 29650	X			

Signatures

Brian S. MacKenzie	11/01/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Total liabilities
594.7

Total equity
47.6

Total liabilities and equity
642.3

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Explanation of Responses:

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The following tables reflect the impact of consolidation of investment products into the Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011, and the Condensed Consolidated Statements of Income for the six months ended June 30, 2012 and 2011.

Condensed Consolidating Balance Sheets

$ in millions	Before Consolidation[1]	CLOs-VIEs	Other VIEs	VOEs	Adjustments[2]	Subtotal - Impact of Consolidated Investment Products	Total
As of June 30, 2012							
Current assets	3,190.3	410.5	3.4	97.4	(28.6)	482.7	3,673.0
Non-current assets	8,974.1	5,163.9	40.2	846.8	(85.1)	5,965.8	14,939.9
Total assets	12,164.4	5,574.4	43.6	944.2	(113.7)	6,448.5	18,612.9
Current liabilities	2,546.2	189.3	0.4	3.5	(14.7)	178.5	2,724.7
Long-term debt of consolidated investment products	—	5,133.3	—	—	(63.6)	5,069.7	5,069.7
Other non-current liabilities	1,699.7	—	—	—	—	—	1,699.7
Total liabilities	4,245.9	5,322.6	0.4	3.5	(78.3)	5,248.2	9,494.1
Retained earnings appropriated for investors in consolidated investment products	—	251.8	—	—	—	251.8	251.8
Other equity attributable to common shareholders	7,914.0	—	0.1	35.3	(35.4)	—	7,914.0
Equity attributable to noncontrolling interests in consolidated entities	4.5	—	43.1	905.4	—	948.5	953.0
Total liabilities and equity	12,164.4	5,574.4	43.6	944.2	(113.7)	6,448.5	18,612.9

$ in millions	Before Consolidation[1]	CLOs-VIEs	Other VIEs	VOEs	Adjustments[2]	Subtotal - Impact of Consolidated Investment Products	Total
As of December 31, 2011							
Current assets	3,352.7	394.5	3.1	113.7	(29.9)	481.4	3,834.1
Non-current assets	8,976.5	5,682.3	42.8	903.8	(92.5)	6,536.4	15,512.9
Total assets	12,329.2	6,076.8	45.9	1,017.5	(122.4)	7,017.8	19,347.0
Current liabilities	2,818.9	179.2	0.4	5.8	(29.9)	155.5	2,974.4
Long-term debt of consolidated investment products	—	5,563.3	—	—	(50.4)	5,512.9	5,512.9
Other non-current liabilities	1,722.1	—	—	—	—	—	1,722.1
Total liabilities	4,541.0	5,742.5	0.4	5.8	(80.3)	5,668.4	10,209.4
Retained earnings appropriated for investors in consolidated investment products	—	334.3	—	—	—	334.3	334.3

Other equity attributable to common shareholders	7,783.7	—	0.1	43.1	(42.1	)	1.1	7,784.8
Equity attributable to noncontrolling interests in consolidated entities	4.5	—	45.4	968.6	—		1,014.0	1,018.5
Total liabilities and equity	12,329.2	6,076.8	45.9	1,017.5	(122.4	)	7,017.8	19,347.0

(1) The Before Consolidation column includes the company's equity interest in the investment products subsequently consolidated, accounted for as equity method and available-for-sale investments.

(2) Adjustments include the elimination of intercompany transactions between the company and its consolidated investment products, primarily the elimination of the company's equity at risk recorded as investments by the company (before

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consolidation) against either the equity (private equity and real estate partnership funds) or subordinated debt (CLOs) of the funds.

Condensed Consolidating Statements of Income

$ in millions	Before Consolidation[1]	CLOs-VIEs	Other VIEs	VOEs	Adjustments[1][2]	Subtotal - Impact of Consolidated Investment Products	Total
Three months ended June 30, 2012							
Total operating revenues	1,019.5	—	—	—	(10.5)	(10.5)	1,009.0
Total operating expenses	791.4	13.9	0.2	11.1	(10.5)	14.7	806.1
Operating income	228.1	(13.9)	(0.2)	(11.1)	—	(25.2)	202.9
Equity in earnings of unconsolidated affiliates	9.7	—	—	—	(2.8)	(2.8)	6.9
Interest and dividend income	5.7	68.7	—	—	(3.5)	65.2	70.9
Other investment income/(losses)	(7.7)	28.2	1.8	53.3	(6.1)	77.2	69.5
Interest expense	(13.4)	(50.4)	—	—	3.5	(46.9)	(60.3)
Income before income taxes	222.4	32.6	1.6	42.2	(8.9)	67.5	289.9
Income tax provision	(62.3)	—	—	—	—	—	(62.3)
Net income	160.1	32.6	1.6	42.2	(8.9)	67.5	227.6
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	—	(32.6)	(1.6)	(39.5)	—	(73.7)	(73.7)
Net income attributable to common shareholders	160.1	—	—	2.7	(8.9)	(6.2)	153.9

$ in millions	Before Consolidation[1]	CLOs-VIEs	Other VIEs	VOEs	Adjustments[1][2]	Subtotal - Impact of Consolidated Investment Products	Total
Three months ended June 30, 2011							
Total operating revenues	1,082.1	—	—	0.1	(12.2)	(12.1)	1,070.0
Total operating expenses	833.4	12.1	0.2	3.5	(12.2)	3.6	837.0
Operating income	248.7	(12.1)	(0.2)	(3.4)	—	(15.7)	233.0
Equity in earnings of unconsolidated affiliates	10.5	—	—	—	0.3	0.3	10.8
Interest and dividend income	4.0	79.8	—	—	(1.6)	78.2	82.2
Other investment income/(losses)	6.0	(73.8)	0.6	3.4	5.1	(64.7)	(58.7)
Interest expense	(16.0)	(48.1)	—	—	1.6	(46.5)	(62.5)
Income before income taxes	253.2	(54.2)	0.4	—	5.4	(48.4)	204.8
Income tax provision	(75.4)	—	—	—	—	—	(75.4)
Net income	177.8	(54.2)	0.4	—	5.4	(48.4)	129.4
	—	54.2	(0.4)	(0.2)	—	53.6	53.6

Net (income)/loss attributable to noncontrolling interests in consolidated entities, net							
Net income attributable to common shareholders	177.8	—	—	(0.2)	5.4	5.2	183.0

(1) The Before Consolidation column includes the company's equity interest in the investment products accounted for as equity method (private equity and real estate partnership funds) and available-for-sale investments (CLOs). Upon consolidation of the CLOs, the company's and the CLOs' accounting policies are effectively aligned, resulting in the reclassification of the company's loss for the three months ended June 30, 2012 of $6.1 million (representing the decrease in the market value of the company's holding in the consolidated CLOs) from other comprehensive income into other gains/losses (three months ended June 30, 2011: $5.1 million gain). The company's loss (gain) on its investments in the CLOs (before consolidation) eliminates with the company's share of the offsetting gain (loss) on the CLOs' debt. The net income arising from consolidation of CLOs is therefore completely attributed to other investors in these CLOs, as the company's share has been eliminated through consolidation.

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(2) Adjustments include the elimination of intercompany transactions between the company and its consolidated investment products, primarily the elimination of management fees expensed by the funds and recorded as operating revenues (before consolidation) by the company.

$ in millions	Before Consolidation[1]	CLOs-VIEs	Other VIEs	VOEs	Adjustments[1][2]	Subtotal - Impact of Consolidated Investment Products	Total
Six months ended June 30, 2012							
Total operating revenues	2,063.6	—	—	—	(20.9)	(20.9)	2,042.7
Total operating expenses	1,589.2	24.1	0.5	17.1	(20.9)	20.8	1,610.0
Operating income	474.4	(24.1)	(0.5)	(17.1)	—	(41.7)	432.7
Equity in earnings of unconsolidated affiliates	16.0	—	—	—	0.6	0.6	16.6
Interest and dividend income	11.5	137.7	—	—	(6.9)	130.8	142.3
Other investment income/(losses)	10.8	(40.6)	0.9	(3.0)	(1.9)	(44.6)	(33.8)
Interest expense	(27.0)	(99.4)	—	—	6.9	(92.5)	(119.5)
Income before income taxes	485.7	(26.4)	0.4	(20.1)	(1.3)	(47.4)	438.3
Income tax provision	(135.9)	—	—	—	—	—	(135.9)
Net income	349.8	(26.4)	0.4	(20.1)	(1.3)	(47.4)	302.4
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	—	26.4	(0.4)	19.4	—	45.4	45.4
Net income attributable to common shareholders	349.8	—	—	(0.7)	(1.3)	(2.0)	347.8

$ in millions	Before Consolidation[1]	CLOs-VIEs	Other VIEs	VOEs	Adjustments[1][2]	Subtotal - Impact of Consolidated Investment Products	Total
Six months ended June 30, 2011							
Total operating revenues	2,120.5	—	—	0.1	(23.3)	(23.2)	2,097.3
Total operating expenses	1,631.3	24.3	0.5	5.8	(23.3)	7.3	1,638.6
Operating income	489.2	(24.3)	(0.5)	(5.7)	—	(30.5)	458.7
Equity in earnings of unconsolidated affiliates	18.4	—	—	—	(0.9)	(0.9)	17.5
Interest and dividend income	7.3	154.0	—	—	(2.8)	151.2	158.5
Other investment income/(losses)	13.9	(210.6)	0.9	44.5	15.0	(150.2)	(136.3)
Interest expense	(32.2)	(89.3)	—	—	2.8	(86.5)	(118.7)
Income before income taxes	496.6	(170.2)	0.4	38.8	14.1	(116.9)	379.7
Income tax provision	(151.0)	—	—	—	—	—	(151.0)
Net income	345.6	(170.2)	0.4	38.8	14.1	(116.9)	228.7

Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	0.1	170.2	(0.4)	(38.1)	—	131.7	131.8
Net income attributable to common shareholders	345.7	—	—	0.7	14.1	14.8	360.5

(1) The Before Consolidation column includes the company’s equity interest in the investment products accounted for as equity method (private equity and real estate partnership funds) and available-for-sale investments (CLOs). Upon consolidation of the CLOs, the company’s and the CLOs’ accounting policies are effectively aligned, resulting in the reclassification of the company’s loss for the six months ended June 30, 2012 of $1.9 million (representing the decrease in the market value of the company’s holding in the consolidated CLOs) from other comprehensive income into other gains/losses (six months ended June 30, 2011: $15 million gain). The company’s loss (gain) on its investments in the CLOs (before consolidation) eliminates with the company’s share of the offsetting gain (loss) on the CLOs’ debt. The net income arising from consolidation of CLOs is therefore completely attributed to other investors in these CLOs, as the company’s share has been eliminated through consolidation.

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(2) Adjustments include the elimination of intercompany transactions between the company and its consolidated investment products, primarily the elimination of management fees expensed by the funds and recorded as operating revenues (before consolidation) by the company.

The carrying value of investments held, derivative contracts, and notes issued by consolidated investment products is also their fair value. The following table presents the fair value hierarchy levels of investments held, derivative contracts, and notes issued by consolidated investment products, which are measured at fair value as of June 30, 2012 and December 31, 2011:

	As of June 30, 2012			
$ in millions	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
CLO collateral assets:				
Bank loans	4,846.9	—	4,846.9	—
Bonds	292.9	—	292.9	—
Equity securities	24.1	—	24.1	—
CLO-related derivative assets	7.6	—	7.6	—
Private equity fund assets:				
Equity securities	149.1	23.3	—	125.8
Debt securities	11.9	—	—	11.9
Investments in other private equity funds	564.3	—	—	564.3
Debt securities issued by the U.S. Treasury	9.0	9.0	—	—
Real estate investments	152.6	—	—	152.6
Total assets at fair value	6,058.4	32.3	5,171.5	854.6
Liabilities:				
CLO notes	(5,069.7)	—	—	(5,069.7)
CLO-related derivative liabilities	(9.2)	—	(9.2)	—
Total liabilities at fair value	(5,078.9)	—	(9.2)	(5,069.7)

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$ in millions	As of December 31, 2011			
	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
CLO collateral assets:				
Bank loans	5,354.3	—	5,354.3	—
Bonds	292.8	—	292.8	—
Equity securities	35.3	—	35.3	—
CLO-related derivative assets	10.8	—	10.8	—
Private equity fund assets:				
Equity securities	138.2	11.4	0.1	126.7
Debt securities	10.0	—	—	10.0
Investments in other private equity funds	559.5	—	—	559.5
Debt securities issued by the U.S. Treasury	6.0	6.0	—	—
Real estate investments	232.9	—	—	232.9
Total assets at fair value	6,639.8	17.4	5,693.3	929.1
Liabilities:				
CLO notes	(5,512.9)	—	—	(5,512.9)
CLO-related derivative liabilities	(5.8)	—	(5.8)	—
Total liabilities at fair value	(5,518.7)	—	(5.8)	(5,512.9)

The following table shows a reconciliation of the beginning and ending fair value measurements for level 3 assets and liabilities using significant unobservable inputs:

$ in millions	Three months ended June 30, 2012		Six months ended June 30, 2012	
	Level 3 Assets	Level 3 Liabilities	Level 3 Assets	Level 3 Liabilities
Beginning balance	837.8	(5,345.0)	929.1	(5,512.9)
Purchases	—	—	0.5	—
Sales	(24.9)	—	(55.7)	—
Issuances	—	—	—	(325.2)
Settlements	—	105.0	—	195.7
Deconsolidation of consolidated investment products	—	—	—	573.4
Gains and losses included in the Condensed Consolidated Statements of Income*	52.2	23.7	(8.8)	(158.7)
Foreign exchange	(10.5)	146.6	(10.5)	158.0
Ending balance	854.6	(5,069.7)	854.6	(5,069.7)

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$ in millions	Three months ended June 30, 2011		Six months ended June 30, 2011	
	Level 3 Assets	Level 3 Liabilities	Level 3 Assets	Level 3 Liabilities
Beginning balance	950.3	(6,291.0)	972.8	(5,865.4)
Purchases	17.7	—	26.9	—
Sales	(58.1)	—	(131.5)	—
Issuances	—	—	—	—
Settlements	—	160.8	—	260.0
Gains and losses included in the Condensed Consolidated Statements of Income*	5.7	(52.8)	47.4	(433.7)
Foreign exchange	(5.8)	(109.7)	(5.8)	(253.6)
Ending balance	909.8	(6,292.7)	909.8	(6,292.7)

* Included in gains and losses of consolidated investment products in the Condensed Consolidated Statement of Income for the three and six months ended June 30, 2012 are $55.6 million in net unrealized gains and $3.1 million in net unrealized losses attributable to investments still held at June 30, 2012 by consolidated investment products (three and six months ended June 30, 2011: $6.9 million in net unrealized losses and $11.0 million in net unrealized gains attributable to investments still held at June 30, 2011).

Fair value of consolidated CLOs

The company elected the fair value option for collateral assets held and notes issued by its consolidated CLOs to eliminate the measurement and recognition inconsistency that would otherwise arise from measuring assets and liabilities and recognizing the related gains and losses on different accounting bases.

The collateral assets held by consolidated CLOs are primarily invested in senior secured bank loans, bonds, and equity securities. Bank loan investments, which comprise the majority of consolidated CLO portfolio collateral, are senior secured corporate loans from a variety of industries, including but not limited to the aerospace and defense, broadcasting, technology, utilities, household products, healthcare, oil and gas, and finance industries. Bank loan investments mature at various dates between 2012 and 2027, pay interest at Libor or Euribor plus a spread of up to 14.0%, and typically range in S&P credit rating categories from BBB down to unrated. At June 30, 2012 the unpaid principal balance exceeded the fair value of the senior secured bank loans and bonds by approximately $483.0 million (December 31, 2011: $701.0 million excess). Approximately 2% of the collateral assets are in default as of June 30, 2012 (December 31, 2011: less than 1% of the collateral assets were in default). CLO investments are valued based on price quotations provided by an independent third-party pricing source. These third party sources aggregate indicative price quotations daily to provide the company with a price for the CLO investments. The company has developed internal controls to review the reasonableness and completeness of theses price quotations on a daily basis. If necessary, price quotations are challenged through the third-party pricing source challenge process. As of June 30, 2012, there have been no price quotation challenges by the company.

In addition, an internal valuation committee conducts an annual due diligence review of all independent third-party pricing sources to review the provider's valuation methodology as well as ensure internal controls exist over the valuation of the CLO investments. In the event that the third-party pricing source is unable to price an investment, other relevant factors, data and information are considered, including: i) information relating to the market for the investment, including price quotations for and trading in the investment, interest in similar investments, the market environment, investor attitudes towards the investment and interests in similar investments; ii) the characteristics of and fundamental analytical data relating to the investment, including, for senior secured corporate loans, the cost, current interest rate, period until next interest rate reset, maturity and base lending rate, the terms and conditions of the senior secured corporate loan and any related agreements, and the position of the senior secured corporate loan in the borrower’s debt structure; iii) the nature, adequacy and value of the senior secured corporate loan’s collateral, including the CLO’s rights, remedies and interests with respect to the collateral; iv) for senior secured corporate loans, the

creditworthiness of the borrower, based on an evaluation of its financial condition, financial statements and information about the business, cash flows, capital structure and future prospects; v) the reputation and financial condition of the agent and any intermediate participants in the senior secured corporate loan; and vi) general economic and market conditions affecting the fair value of the senior secured corporate loan.

Notes issued by consolidated CLOs mature at various dates between 2015 and 2024 and have a weighted average maturity of 9.2 years. The notes are issued in various tranches with different risk profiles. The interest rates are generally variable rates based on Libor or Euribor plus a pre-defined spread, which varies from 0.21% for the more senior tranches to 7.25% for the more subordinated tranches. At June 30, 2012, the outstanding balance on the notes issued by consolidated CLOs exceeds their

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fair value by approximately $0.7 billion (December 31, 2011: $1.0 billion excess). The investors in this debt are not affiliated with the company and have no recourse to the general credit of the company. Notes issued by CLOs are recorded at fair value using an income approach. Fair value is determined using current information, notably market yields and projected cash flows of collateral assets, which are impacted by forecasted default and recovery rates. Market yields, default rates and recovery rates used in the company's estimate of fair value vary based on the nature of the investments in the underlying collateral pools. In periods of rising market yields, default rates and lower debt recovery rates, the fair value, and therefore the carrying value, of the notes may be adversely affected. The current liquidity constraints within the market for CLO products require the use of certain unobservable inputs for CLO valuation. Once the undiscounted cash flows of the collateral assets have been determined, the company applies appropriate discount rates that a market participant would use to determine the discounted cash flow valuation of the notes.

Certain consolidated CLOs with Euro-denominated debt have entered into swap agreements with various counterparties to hedge economically interest rate and foreign exchange risk related to CLO collateral assets with non-Euro interest rates and currencies. These swap agreements are not designated as qualifying as hedging instruments. The fair value of derivative contracts in an asset position is included in the company's Condensed Consolidated Balance Sheet in other current assets, and the fair value of derivative contracts in a liability position is included in the company's Condensed Consolidated Balance Sheet in other current liabilities. These derivative contracts are valued under an income approach using forecasted interest rates and are classified within level 2 of the valuation hierarchy. Changes in fair value of $3.0 million and $6.7 million are reflected as losses in gains/(losses) of consolidated investment products, net on the company's Condensed Consolidated Statement of Income for the three and six months ended June 30, 2012 (three and six months ended June 30, 2011: $1.9 million and $5.7 million, reflected as losses in gains/ (losses) of consolidated investment products). As of June 30, 2012, there were 60 open swap agreements with a notional value of $98.1 million (December 31, 2011: 70 open swap agreements with a notional value of $123.3 million). Swap maturities are tied to the maturity of the underlying collateral assets.

Fair value of consolidated private equity funds

Consolidated private equity funds are generally structured as partnerships. Generally, the investment strategy of underlying holdings in these partnerships is to seek capital appreciation through direct investments in public or private companies with compelling business models or ideas or through investments in partnership investments that also invest in similar private or public companies. Various strategies may be used. Companies targeted could be distressed organizations, targets of leveraged buyouts or fledgling companies in need of venture capital. Investees of these consolidated investment products may not redeem their investment until the partnership liquidates. Generally, the partnerships have a life that range from seven to twelve years unless dissolved earlier. The general partner may extend the partnership term up to a specified period of time as stated in the Partnership Agreement. Some partnerships allow the limited partners to cause an earlier termination upon the occurrence of certain events as specified in the Partnership Agreement.

For private equity partnerships, fair value is determined by reviewing each investment for the sale of additional securities of an issuer to sophisticated investors or for investee financial conditions and fundamentals. Publicly traded portfolio investments are carried at market value as determined by their most recent quoted sale, or if there is no recent sale, at their most recent bid price. For these investments held by consolidated investment products, level 1 classification indicates that fair values have been determined using unadjusted quoted prices in active markets for identical assets that the partnership has the ability to access. Level 2 classification may indicate that fair values have been determined using quoted prices in active markets but give effect to certain lock-up restrictions surrounding the holding period of the underlying investments.

The fair value of level 3 investments held by consolidated investment products are derived from inputs that are unobservable and which reflect the limited partnerships' own determinations about the assumptions that market participants would use in pricing the investments, including assumptions about risk. These inputs are developed based on the partnership's own data, which is adjusted if information indicates that market participants would use different assumptions. The partnerships which invest directly into private equity portfolio companies (direct private equity funds) take into account various market conditions, subsequent rounds of financing, liquidity, financial condition,

purchase multiples paid in other comparable third-party transactions, the price of securities of other companies comparable to the portfolio company, and operating results and other financial data of the portfolio company, as applicable.

The partnerships which invest into other private equity funds (funds-of-funds) take into account information received from those underlying funds, including their reported net asset values and evidence as to their fair value approach, including consistency of their fair value application. These investments do not trade in active markets and represent illiquid long-term investments that generally require future capital commitments. While the partnerships' reported share of the underlying net asset values of the underlying funds is usually the most significant input in arriving at fair value and is generally representative of fair value, other information may also be used to value such investments at a premium or discount to the net asset values as reported by the funds, including allocations of priority returns within the funds as well as any specific conditions and events affecting the funds.

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Fair value of consolidated real estate funds
Consolidated real estate funds are structured as limited liability companies. These limited liability companies invest in other real estate funds, and these investments are carried at fair value and presented as investments in consolidated investment products. The net asset value of the underlying funds, which primarily consists of the real estate investment value and mortgage loans, is adjusted to fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Real estate fund assets are classified within the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement. Due to the illiquid nature of investments made in real estate companies, all of the real estate assets are classified as level 3. The real estate investment vehicles use one or more valuation techniques (e.g., the market approach, the income approach, or the cost approach) for which sufficient and reliable data is available to value investments classified within level 3. The income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.
The inputs used by the real estate funds in estimating the value of level 3 investments include the original transaction price, recent transactions in the same or similar instruments, as well as completed or pending third-party transactions in the underlying investment or comparable investments. Level 3 investments may also be adjusted to reflect illiquidity and/or non-transferability. Other inputs used include discount rates, cap rates and income and expense assumptions. The fair value measurement of level 3 investments does not include transaction costs and acquisition fees that may have been capitalized as part of the investment's cost basis. Due to the lack of observable inputs, the assumptions used may significantly impact the resulting fair value and therefore the real estate funds' results of operations.
Quantitative Information about Level 3 Fair Value Measurements

The following table shows significant unobservable inputs used in the fair value measurement of level 3 assets and liabilities:

Assets and Liabilities *	Fair Value at June 30, 2012 ($ in millions)	Valuation Technique	Unobservable Inputs	Range
Private Equity Funds --Equity Securities	125.8	Market Comparable	EBITDA Multiple	30 - 40x
			Revenue Multiple	5 - 15x
			Discount	20% - 50%
Real Estate Investments	152.6	Discounted Cash Flow	In-Place & Market Rent Rates	JPY 250 - JPY 700 per sq ft
			Revenue Growth Rate	0.0% - 2.0%
			Discount Rate	5.75% - 8.00%
			Exit Capitalization Rate	6.00% - 8.25%
			Stabilized Occupancy Rate	92.0% - 96.0%
			Expense Growth Rate	1.00%
		Market Comparable	In-Place & Market Rent Rates	JPY 250 - JPY 700 per sq ft
			Exit Capitalization Rate	6.00% - 8.25%
CLO Notes	(5,069.7)	Discounted Cash Flow- Euro	Probability of Default	1% - 5%
			Spread over Euribor **	300 - 2850 bps
		Discounted Cash Flow- USD	Probability of Default	1% - 4%
			Spread over Libor **	200 - 1800 bps

* Certain equity securities held by consolidated private equity funds are valued using third-party pricing information and/or recent private market transactions. Quantitative unobservable inputs for such valuations were not developed or adjusted by the company. Debt securities held by consolidated private equity funds of $11.9 million are excluded from the table above as they are valued using a cost valuation technique. Investments in other private equity funds of $564.3 million are also excluded from the table above as they are valued using the NAV practical expedient.

** Lower spreads relate to the more senior tranches in the CLO note structure; higher spreads relate to the less senior tranches.

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The following narrative will indicate the sensitivity of inputs illustrating the impact of significant increases to the inputs. A directionally-opposite impact would apply for significant decreases in these inputs:

- For investments held by consolidated private equity funds, significant increases in discounts in isolation would result in significantly lower fair value measurements, while significant increases in EBITDA and revenue multiple assumptions in isolation would result in significantly higher fair value measurements. An increase in discount assumptions would result in a directionally opposite change in the assumptions for EBITDA and revenue multiple resulting in lower fair value measurements.
- For real estate investments, a change in the revenue growth rate generally would be accompanied by a directionally-similar change in the assumptions for in-place and market rent rates and stabilized occupancy rates. Significant increases in any of the unobservable inputs for in-place and market rent rates and stabilized occupancy rates in isolation would result in significantly higher fair values. An increase in these assumptions would result in a directionally-opposite change in the assumptions for discount rate, exit capitalization rate, and expense growth rate. Significant increases in the assumptions for discount rate, exit capitalization rate, and expense growth rate in isolation would result in significantly lower fair value measurements.
- For CLO Notes, a change in the assumption used for spreads is generally accompanied by a directionally similar change in default rate. Significant increases in any of these inputs in isolation would result in a significantly lower fair value measurements.

12. GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Invesco Holding Company Limited, the Issuer and a subsidiary of Invesco Ltd. (the Parent), issued 5.375% $350.0 million senior notes due 2013, and 5.375% $200.0 million senior notes due 2014. (See Note 4, "Debt," for outstanding balances at June 30, 2012 and March 31, 2012.) These senior notes, are fully and unconditionally guaranteed as to payment of principal, interest and any other amounts due thereon by the Parent, together with the following 100% owned subsidiaries: Invesco Management Group, Inc., Invesco Advisers, Inc., IVZ Inc., and Invesco North American Holdings, Inc. (the Guarantors). The company’s remaining consolidated subsidiaries do not guarantee this debt. The guarantees of each of the Guarantors are joint and several. Presented below are Condensed Consolidating Balance Sheets as of June 30, 2012, and December 31, 2011, Condensed Consolidating Statements of Income and Comprehensive Income for the three and six months ended June 30, 2012 and 2011, and Condensed Consolidating Statements of Cash Flows for the six months ended June 30, 2012 and 2011.

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Condensed Consolidating Balance Sheets						
$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
As of June 30, 2012						
ASSETS						
Current assets:						
Cash and cash equivalents	12.6	703.3	2.4	0.1	—	718.4
Cash and cash equivalents of consolidated investment products	—	380.5	—	—	—	380.5
Unsettled fund receivables	—	487.1	—	—	—	487.1
Accounts receivable	152.3	246.1	—	—	—	398.4
Accounts receivable of consolidated investment products	—	114.7	—	—	—	114.7
Investments	4.1	338.8	—	1.6	—	344.5
Prepaid assets	11.8	39.4	—	0.2	—	51.4
Other current assets	51.0	56.3	2.1	—	(21.0)	88.4
Deferred tax asset, net	17.5	6.7	—	—	—	24.2
Assets held for policyholders	—	1,065.4	—	—	—	1,065.4
Intercompany receivables	16.5	38.3	328.9	—	(383.7)	—
Total current assets	265.8	3,476.6	333.4	1.9	(404.7)	3,673.0
Non-current assets:						
Investments	55.1	152.6	7.9	3.2	—	218.8
Investments of consolidated investment products	—	6,050.9	—	—	—	6,050.9
Security deposit assets and receivables	—	75.0	—	—	—	75.0
Other non-current assets	10.0	5.5	2.9	—	—	18.4
Deferred sales commissions	10.0	33.8	—	—	—	43.8
Property and equipment, net	138.7	175.9	—	—	—	314.6
Intangible assets, net	1,192.2	110.1	—	—	—	1,302.3
Goodwill	2,583.5	3,900.0	432.6	—	—	6,916.1
Deferred tax assets,net	—	30.1	—	—	(30.1)	—
Intercompany receivables	564.8	1,791.4	607.4	—	(2,963.6)	—
Investment in subsidiaries	458.2	276.7	5,143.4	8,515.6	(14,393.9)	—
Total non-current assets	5,012.5	12,602.0	6,194.2	8,518.8	(17,387.6)	14,939.9
Total assets	5,278.3	16,078.6	6,527.6	8,520.7	(17,792.3)	18,612.9
LIABILITIES AND EQUITY						
Current liabilities:						
Current maturities of total debt	—	—	333.5	—	—	333.5
Unsettled fund payables	—	472.7	—	—	—	472.7
Income taxes payable	—	61.8	9.3	—	(21.0)	50.1
Other current liabilities	124.7	481.9	8.7	0.7	—	616.0
Other current liabilities of consolidated investment products	—	187.0	—	—	—	187.0
Policyholder payables	—	1,065.4	—	—	—	1,065.4
Intercompany payables	—	42.3	4.1	337.3	(383.7)	—
Total current liabilities	124.7	2,311.1	355.6	338.0	(404.7)	2,724.7
Non-current liabilities:						
Long-term debt	589.0	—	419.1	—	—	1,008.1
Long-term debt of consolidated investment products	—	5,069.7	—	—	—	5,069.7

Deferred tax liabilities, net	337.9	—	—	—	(30.1)	307.8
Security deposits payable	—	75.0	—	—	—	75.0
Other non-current liabilities	56.1	252.7	—	—	—	308.8
Intercompany payables	1,774.2	604.4	568.1	16.9	(2,963.6)	—
Total non-current liabilities	2,757.2	6,001.8	987.2	16.9	(2,993.7)	6,769.4
Total liabilities	2,881.9	8,312.9	1,342.8	354.9	(3,398.4)	9,494.1
Equity:						
Total equity attributable to common shareholders	2,396.4	6,812.7	5,184.8	8,165.8	(14,393.9)	8,165.8
Equity attributable to noncontrolling interests in consolidated entities	—	953.0	—	—	—	953.0
Total equity	2,396.4	7,765.7	5,184.8	8,165.8	(14,393.9)	9,118.8
Total liabilities and equity	5,278.3	16,078.6	6,527.6	8,520.7	(17,792.3)	18,612.9

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Condensed Consolidating Balance Sheets (continued)

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
As of December 31, 2011						
ASSETS						
Current assets:						
Cash and cash equivalents	20.6	703.0	3.1	0.7	—	727.4
Cash and cash equivalents of consolidated investment products	—	382.3	—	—	—	382.3
Unsettled fund receivables	—	444.4	—	—	—	444.4
Accounts receivable	163.6	260.8	—	—	—	424.4
Accounts receivable of consolidated investment products	—	98.5	—	—	—	98.5
Investments	4.2	266.2	—	13.3	—	283.7
Prepaid assets	9.7	41.5	—	—	—	51.2
Other current assets	39.3	120.5	1.1	—	(10.9)	150.0
Deferred tax asset, net	18.9	9.8	—	—	—	28.7
Assets held for policyholders	—	1,243.5	—	—	—	1,243.5
Intercompany receivables	37.9	38.0	29.0	—	(104.9)	—
Total current assets	294.2	3,608.5	33.2	14.0	(115.8)	3,834.1
Non-current assets:						
Investments	50.0	144.4	3.4	3.0	—	200.8
Investments of consolidated investment products	—	6,629.0	—	—	—	6,629.0
Security deposit assets and receivables	—	81.2	—	—	—	81.2
Other non-current assets	8.5	6.6	2.8	—	—	17.9
Deferred sales commissions	13.9	26.6	—	—	—	40.5
Property and equipment, net	145.3	167.5	—	—	—	312.8
Intangible assets, net	420.6	902.2	—	—	—	1,322.8
Goodwill	2,312.8	4,161.8	433.3	—	—	6,907.9
Intercompany receivables	772.1	1,834.0	573.5	—	(3,179.6)	—
Investment In Subsidiaries	1,228.2	5.6	5,116.3	8,465.0	(14,815.1)	—
Total non-current assets	4,951.4	13,958.9	6,129.3	8,468.0	(17,994.7)	15,512.9
Total assets	5,245.6	17,567.4	6,162.5	8,482.0	(18,110.5)	19,347.0
LIABILITIES AND EQUITY						
Current liabilities:						
Current maturities of total debt	—	—	215.1	—	—	215.1
Unsettled fund payables	—	439.6	—	—	—	439.6
Income taxes payable	—	63.1	7.4	—	(10.9)	59.6
Other current liabilities	144.3	685.4	11.1	0.7	—	841.5
Other current liabilities of consolidated investment products	—	175.1	—	—	—	175.1
Policyholder payables	—	1,243.5	—	—	—	1,243.5
Intercompany payables	—	62.8	29.9	12.2	(104.9)	—
Total current liabilities	144.3	2,669.5	263.5	12.9	(115.8)	2,974.4
Non-current liabilities:						
Long-term debt	539.0	—	530.6	—	—	1,069.6
Long-term debt of consolidated investment products	—	5,512.9	—	—	—	5,512.9
Deferred tax liabilities, net	29.6	244.4	—	—	—	274.0

Security deposits payable	—	81.2	—	—	—	81.2
Other non-current liabilities	55.1	242.2	—	—	—	297.3
Intercompany payables	1,728.3	444.8	656.5	350.0	(3,179.6)	—
Total non-current liabilities	2,352.0	6,525.5	1,187.1	350.0	(3,179.6)	7,235.0
Total liabilities	2,496.3	9,195.0	1,450.6	362.9	(3,295.4)	10,209.4
Equity:						
Total equity attributable to common shareholders	2,749.3	7,353.9	4,711.9	8,119.1	(14,815.1)	8,119.1
Equity attributable to noncontrolling interests in consolidated entities	—	1,018.5	—	—	—	1,018.5
Total equity	2,749.3	8,372.4	4,711.9	8,119.1	(14,815.1)	9,137.6
Total liabilities and equity	5,245.6	17,567.4	6,162.5	8,482.0	(18,110.5)	19,347.0

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Condensed Consolidating Statements of Income and Comprehensive Income

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
For the three months ended June 30, 2012						
Operating Revenues:						
Investment management fees	300.0	480.6	—	—	—	780.6
Service and distribution fees	23.4	163.7	—	—	—	187.1
Performance fees	0.7	14.7	—	—	—	15.4
Other	0.5	25.4	—	—	—	25.9
Intercompany Revenues	7.9	(7.9)	—	—	—	—
Total operating revenues	332.5	676.5	—	—	—	1,009.0
Operating expenses:						
Employee compensation	87.9	215.4	—	1.3	—	304.6
Third-party distribution, service and advisory	20.2	296.4	—	—	—	316.6
Marketing	1.1	25.5	—	—	—	26.6
Property, office and technology	28.6	39.8	—	0.1	—	68.5
General and administrative	20.1	68.0	—	0.6	—	88.7
Transaction and integration	—	1.1	—	—	—	1.1
Intercompany Expenses	58.7	(59.1)	—	0.4	—	—
Total operating expenses	216.6	587.1	—	2.4	—	806.1
Operating income/(loss)	115.9	89.4	—	(2.4)	—	202.9
Other income/(expense):						
Equity in earnings of unconsolidated affiliates	1.6	5.0	85.4	157.7	(242.8)	6.9
Interest and dividend income	0.3	21.6	12.9	0.1	(32.7)	2.2
Interest income of consolidated investment products	—	68.7	—	—	—	68.7
Other gains/(losses) of consolidated investment products, net	—	77.2	—	—	—	77.2
Interest expense	(33.5)	(0.6)	(10.7)	(1.2)	32.6	(13.4)
Interest expense of consolidated investment products	—	(46.9)	—	—	—	(46.9)
Other gains and losses, net	(1.4)	(4.6)	(1.4)	(0.3)	—	(7.7)
Income before income taxes	82.9	209.8	86.2	153.9	(242.9)	289.9
Income tax provision	(32.3)	(28.0)	(2.0)	—	—	(62.3)
Net income	50.6	181.8	84.2	153.9	(242.9)	227.6
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	—	(73.7)	—	—	—	(73.7)
Net income attributable to common shareholders	50.6	108.1	84.2	153.9	(242.9)	153.9
Total comprehensive income	49.9	66.7	43.8	62.7	(109.9)	113.2
Comprehensive loss (income) attributable to noncontrolling interests in consolidated entities	—	(50.5)	—	—	—	(50.5)
	49.9	16.2	43.8	62.7	(109.9)	62.7

Comprehensive income attributable to
common shareholders

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Condensed Consolidating Statements of Income and Comprehensive Income (continued)

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
For the three months ended June 30, 2011						
Operating Revenues:						
Investment management fees	301.5	517.6	—	—	—	819.1
Service and distribution fees	25.7	185.7	—	—	—	211.4
Performance fees	0.1	7.5	—	—	—	7.6
Other	4.3	27.6	—	—	—	31.9
Intercompany Revenues	6.9	(6.9)	—	—	—	—
Total operating revenues	338.5	731.5	—	—	—	1,070.0
Operating expenses:						
Employee compensation	85.6	227.2	—	5.5	—	318.3
Third-party distribution, service and advisory	12.6	329.2	—	—	—	341.8
Marketing	10.3	15.8	—	—	—	26.1
Property, office and technology	26.3	35.3	—	0.3	—	61.9
General and administrative	23.5	51.9	0.2	2.0	—	77.6
Transaction and integration	—	11.3	—	—	—	11.3
Intercompany Expenses	50.4	(50.4)	—	—	—	—
Total operating expenses	208.7	620.3	0.2	7.8	—	837.0
Operating income/(loss)	129.8	111.2	(0.2)	(7.8)	—	233.0
Other income/(expense):						
Equity in earnings of unconsolidated affiliates	2.3	8.1	94.9	185.9	(280.4)	10.8
Interest and dividend income	0.6	21.4	12.1	0.3	(32.0)	2.4
Interest income of consolidated investment products	—	79.8	—	—	—	79.8
Other gains/(losses) of consolidated investment products, net	—	(64.7)	—	—	—	(64.7)
Interest expense	(34.3)	(0.5)	(12.6)	(0.6)	32.0	(16.0)
Interest expense of consolidated investment products	—	(46.5)	—	—	—	(46.5)
Other gains and losses, net	0.2	0.7	(0.1)	5.2	—	6.0
Income before income taxes	98.6	109.5	94.1	183.0	(280.4)	204.8
Income tax provision	(40.0)	(34.5)	(0.9)	—	—	(75.4)
Net income	58.6	75.0	93.2	183.0	(280.4)	129.4
Net (income)/loss attributable to the noncontrolling interests in consolidated entities, net of tax	—	53.6	—	—	—	53.6
Net income attributable to common shareholders	58.6	128.6	93.2	183.0	(280.4)	183.0
Total comprehensive income	58.6	101.0	111.6	211.8	(327.8)	155.2
Comprehensive loss (income) attributable to noncontrolling interests in consolidated entities	—	56.6	—	—	—	56.6
Comprehensive income attributable to common shareholders	58.6	157.6	111.6	211.8	(327.8)	211.8

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Condensed Consolidating Statements of Income and Comprehensive Income (continued)

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
For the six months ended June 30, 2012						
Operating Revenues:						
Investment management fees	599.9	972.1	—	—	—	1,572.0
Service and distribution fees	46.1	330.0	—	—	—	376.1
Performance fees	8.4	27.5	—	—	—	35.9
Other	7.6	51.1	—	—	—	58.7
Intercompany Revenues	12.2	(12.2)	—	—	—	—
Total operating revenues	674.2	1,368.5	—	—	—	2,042.7
Operating expenses:						
Employee compensation	181.9	437.8	—	3.4	—	623.1
Third-party distribution, service and advisory	43.0	590.7	—	—	—	633.7
Marketing	2.4	50.9	—	—	—	53.3
Property, office and technology	56.8	78.4	—	0.1	—	135.3
General and administrative	39.6	120.2	—	2.2	—	162.0
Transaction and integration	—	2.6	—	—	—	2.6
Intercompany Expenses	117.1	(117.6)	—	0.5	—	—
Total operating expenses	440.8	1,163.0	—	6.2	—	1,610.0
Operating income/(loss)	233.4	205.5	—	(6.2)	—	432.7
Other income/(expense):						
Equity in earnings of unconsolidated affiliates	2.7	13.5	177.6	355.3	(532.5)	16.6
Interest and dividend income	1.7	43.3	25.0	0.2	(65.6)	4.6
Interest income of consolidated investment products	—	137.7	—	—	—	137.7
Other gains/(losses) of consolidated investment products, net	—	(44.7)	—	—	—	(44.7)
Interest expense	(67.1)	0.3	(23.3)	(2.5)	65.6	(27.0)
Interest expense of consolidated investment products	—	(92.5)	—	—	—	(92.5)
Other gains and losses, net	4.3	6.8	(1.1)	0.9	—	10.9
Income before income taxes	175.0	269.9	178.2	347.7	(532.5)	438.3
Income tax provision	(67.0)	(67.1)	(1.9)	0.1	—	(135.9)
Net income	108.0	202.8	176.3	347.8	(532.5)	302.4
Net (income)/loss attributable to the noncontrolling interests in consolidated entities, net of tax	—	45.4	—	—	—	45.4
Net income attributable to common shareholders	108.0	248.2	176.3	347.8	(532.5)	347.8
Total comprehensive income	109.0	193.5	174.5	364.4	(547.0)	294.4
Comprehensive loss (income) attributable to noncontrolling interests in consolidated entities	—	70.0	—	—	—	70.0
Comprehensive income attributable to common shareholders	109.0	263.5	174.5	364.4	(547.0)	364.4

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Explanation of Responses:

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Condensed Consolidating Statements of Income and Comprehensive Income (continued)

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
For the six months ended June 30, 2011						
Operating Revenues:						
Investment management fees	596.7	1,014.7	—	—	—	1,611.4
Service and distribution fees	49.4	360.7	—	—	—	410.1
Performance fees	0.2	11.2	—	—	—	11.4
Other	4.8	59.6	—	—	—	64.4
Intercompany Revenues	17.6	(17.6)	—	—	—	—
Total operating revenues	668.7	1,428.6	—	—	—	2,097.3
Operating expenses:						
Employee compensation	173.6	442.9	—	7.7	—	624.2
Third-party distribution, service and advisory	25.1	641.2	—	—	—	666.3
Marketing	20.5	31.3	—	—	—	51.8
Property, office and technology	53.4	72.1	—	0.4	—	125.9
General and administrative	41.3	105.5	—	4.4	—	151.2
Transaction and integration	—	19.2	—	—	—	19.2
Intercompany Expenses	101.1	(101.1)	—	—	—	—
Total operating expenses	415.0	1,211.1	—	12.5	—	1,638.6
Operating income/(loss)	253.7	217.5	—	(12.5)	—	458.7
Other income/(expense):						
Equity in earnings of unconsolidated affiliates	0.6	16.3	217.2	367.7	(584.3)	17.5
Interest and dividend income	0.8	42.1	24.9	0.4	(63.7)	4.5
Interest income of consolidated investment products	—	154.0	—	—	—	154.0
Other gains/(losses) of consolidated investment products, net	—	(150.2)	—	—	—	(150.2)
Interest expense	(68.4)	(1.0)	(25.1)	(1.4)	63.7	(32.2)
Interest expense of consolidated investment products	—	(86.5)	—	—	—	(86.5)
Other gains and losses, net	1.1	7.3	(0.8)	6.3	—	13.9
Income before income taxes	187.8	199.5	216.2	360.5	(584.3)	379.7
Income tax provision	(70.1)	(68.7)	(12.2)	—	—	(151.0)
Net income	117.7	130.8	204.0	360.5	(584.3)	228.7
Net (income)/loss attributable to the noncontrolling interests in consolidated entities, net of tax	—	131.8	—	—	—	131.8
Net income attributable to common shareholders	117.7	262.6	204.0	360.5	(584.3)	360.5
Total comprehensive income	120.0	285.7	269.0	509.5	(799.9)	384.3
Comprehensive loss (income) attributable to noncontrolling interests in consolidated entities	—	125.2	—	—	—	125.2
Comprehensive income attributable to common shareholders	120.0	410.9	269.0	509.5	(799.9)	509.5

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Condensed Consolidating Statements of Cash Flows

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
For the six months ended June 30, 2012						
Operating activities:						
Net cash provided by/(used in) operating activities	400.0	227.6	(14.3)	312.0	(678.1)	247.2
Investing activities:						
Purchase of investments by consolidated investment products	—	(1,584.6)	—	—	—	(1,584.6)
Proceeds from sale of investments by consolidated investment products	—	1,537.0	—	—	—	1,537.0
Returns of capital in investments of consolidated investment products	—	(44.9)	—	—	—	(44.9)
Purchase of other investments	(4.3)	(3.3)	(1.6)	(54.2)	—	(63.4)
Other net increases/(decreases) in investing activities	(17.1)	(35.3)	8.3	13.1	—	(31.0)
Net cash (used in)/provided by investing activities	(21.4)	(131.1)	6.7	(41.1)	—	(186.9)
Financing activities:						
Purchases of treasury shares	—	—	—	(150.0)	—	(150.0)
Dividends paid	(436.6)	(241.5)	—	(133.7)	678.1	(133.7)
Capital invested into consolidated investment products	—	19.4	—	—	—	19.4
Capital distributed by consolidated investment products	—	(35.5)	—	—	—	(35.5)
Repayments of debt of consolidated investment products	—	145.7	—	—	—	145.7
Net borrowings/(repayments) under credit facility	50.0	—	222.0	—	—	272.0
Repayments of senior notes	—	—	(215.1)	—	—	(215.1)
Other net increases/(decreases) in financing activities	—	11.9	—	12.2	—	24.1
Net cash used in financing activities	(386.6)	(100.0)	6.9	(271.5)	678.1	(73.1)
(Decrease)/increase in cash and cash equivalents	(8.0)	(3.5)	(0.7)	(0.6)	—	(12.8)
Foreign exchange movement on cash and cash equivalents	—	3.8	—	—	—	3.8
Cash and cash equivalents, beginning of year	20.6	703.0	3.1	0.7	—	727.4
Cash and cash equivalents, end of period	12.6	703.3	2.4	0.1	—	718.4

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Condensed Consolidating Statements of Cash Flows (continued)

$ in millions	Guarantors	Non-Guarantors	Issuer	Parent	Adjustments	Consolidated
For the six months ended June 30, 2011						
Operating activities:						
Net cash provided by/(used in) operating activities	(243.0)	77.5	63.8	440.0	(192.3)	146.0
Investing activities:						
Purchase of investments by consolidated investment products	—	(2,075.3)	—	—	—	(2,075.3)
Proceeds from sale of investments by consolidated investment products	—	2,300.9	—	—	—	2,300.9
Returns of capital in investments of consolidated investment products	—	75.5	—	—	—	75.5
Purchase of other investments	(1.2)	81.3	(116.0)	(25.5)	—	(61.4)
Other net increases/(decreases) in investing activities	(20.9)	(57.1)	51.4	19.3	(2.5)	(9.8)
Net cash (used in)/provided by investing activities	(22.1)	325.3	(64.6)	(6.2)	(2.5)	229.9
Financing activities:						
Purchases of treasury shares	—	—	—	(333.0)	—	(333.0)
Dividends paid	—	(194.9)	—	(108.4)	194.8	(108.5)
Capital invested into consolidated investment products	—	32.5	—	—	—	32.5
Capital distributed by consolidated investment products	—	(134.9)	—	—	—	(134.9)
Repayments of debt of consolidated investment products	—	(246.3)	—	—	—	(246.3)
Net borrowings/(repayments) under credit facility	268.0	—	—	—	—	268.0
Other net increases/(decreases) in financing activities	—	2.8	—	9.9	—	12.7
Net cash used in financing activities	268.0	(540.8)	—	(431.5)	194.8	(509.5)
(Decrease)/increase in cash and cash equivalents	2.9	(138.0)	(0.8)	2.3	—	(133.6)
Foreign exchange movement on cash and cash equivalents	—	14.6	—	—	—	14.6
Cash and cash equivalents, beginning of year	12.4	725.9	1.1	1.1	—	740.5
Cash and cash equivalents, end of period	15.3	602.5	0.3	3.4	—	621.5

13. SUBSEQUENT EVENTS

On July 26, 2012, the company announced a second quarter 2012 dividend of $0.1725 per share, payable on September 7, 2012, to shareholders of record at the close of business on August 22, 2012.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes thereto, which appear

elsewhere in this Report. Except for the historical financial information, this Report may include statements that constitute “forward-looking statements” under the United States securities laws. Forward-looking statements include information concerning possible or assumed future results of our operations, expenses, earnings, liquidity, cash flows and capital expenditures, industry or market conditions, assets under management, acquisition activities and the effect of completed acquisitions, debt levels and our ability to obtain additional financing or make payments on our debt, regulatory developments, demand for and pricing of our products and other aspects of our business or general economic conditions. In addition, when used in this Report, the documents incorporated by reference herein or such other documents or statements, words such as “believes,” “expects,” “anticipates,”

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"intends," "plans," "estimates," "projects," "forecasts," and future or conditional verbs such as "will," "may," "could," "should "would," and any other statement that necessarily depends on future events, are intended to identify forward-looking statements.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although we make such statements based on assumptions that we believe to be reasonable, there can be no assurance that actual results will not differ materially from our expectations. We caution investors not to rely unduly on any forward-looking statements and urge you to carefully consider the risks described in our most recent Form 10-K and subsequent Forms 10-Q, filed with the Securities and Exchange Commission.

References

In this Report, unless otherwise specified, the terms "we," "our," "us," "company," "Invesco," and "Invesco Ltd." refer to Inve Ltd., a company incorporated in Bermuda, and its subsidiaries.

Executive Overview

The following executive overview summarizes the significant trends affecting our results of operations and financial condition for the periods presented. This overview and the remainder of this management's discussion and analysis supplements, and should be read in conjunction with the Condensed Consolidated Financial Statements of Invesco Ltd. and its subsidiaries and the notes thereto contained elsewhere in this Report.

Invesco is a leading independent global investment manager with offices in more than 20 countries. As of June 30, 2012, we managed $646.6 billion in assets for retail, institutional and high-net-worth investors around the world. By delivering the combined power of our distinctive worldwide investment management capabilities, Invesco provides a comprehensive array of enduring solutions for our clients. We have a significant presence in the institutional and retail segments of the investment management industry in North America, U.K., Europe and Asia-Pacific, serving clients in more than 100 countries.

During the second quarter, most global equity markets gave up a portion of the significant gains earned during the first quarter as fears over the European sovereign debt crisis re-escalated ahead of the Greek election and the recapitalization of the Spanish banking sector. Further, the rating agency Moody's downgraded a number of global banks multiple notches, which served to increase volatility in the equity markets. Additionally, economic data out of China and the US pointed to a slowdown which contributed to the negative sentiment during the quarter. Reflecting the more negative tone in global equity markets, investors increased holdings of high quality, low yielding government debt as reflected in the increase in long-dated U.S. Treasury bonds. The U.S. treasury 10-year bond returns increased 5.8% and the 30-year bond returns increased 12.6%.

The table below summarizes the returns of several major market indices for the three and six months ended June 30, 2012 and 2011:

Index	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
S&P 500	(3.3)%	(0.4)%	8.3%	5.0%
FTSE 100	(3.4)%	0.6%	0.0%	0.8%
Nikkei 225	(10.7)%	0.6%	6.5%	(4.0)%
MSCI Emerging Markets	(10.0)%	(2.1)%	2.3%	(0.4)%

A significant portion of our business and AUM is based outside of the U.S. The strengthening or weakening of the U.S. dollar against other currencies, primarily the Pound Sterling, Canadian dollar, Yen and Euro, will impact our reported revenues and expenses from period to period. Additionally, our revenues are directly influenced by the level and composition of our AUM. Therefore, movements in global capital market levels, net new business inflows (or outflows) and changes in the mix of investment products between asset classes and geographies may materially affect our revenues from period to period.

Over the past six years, we have focused on our multi-year strategy to grow and strengthen our business. Our commitment to investment excellence enables us to deliver strong, long-term investment performance to our clients. We have worked to enhance the depth and breadth of our investment capabilities and made successful strategic acquisitions that further expanded our capabilities. We also worked to further enhance the effectiveness of our global operating platform. The depth, breadth and strength of our business have put us in a position to evolve our capital

management priorities, as further discussed in the "Liquidity and Capital Resources" and "Dividends" sections of this Management's Discussion and Analysis.

As it has been in the past, our first priority is to reinvest in our business in ways that enhance our ability to deliver strong investment performance to our clients. In addition, dividends are now featured more prominently among our priorities, which will provide a more committed level of return to our shareholders. We will also continue our program of repurchasing shares. Furthermore, as we have said in the past, our goal is to achieve a cash buffer of approximately $1 billion in excess of regulatory requirements. These priorities reflect our confidence in our ability to grow our business organically by meeting client needs

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and to further strengthen our capital position over time.

Presentation of Management’s Discussion and Analysis of Financial Condition and Results of Operations

The company provides investment management services to, and has transactions with, various private equity, real estate, fund-of-funds, collateralized loan obligation products (CLOs), and other investment entities sponsored by the company for the investment of client assets in the normal course of business. The company serves as the investment manager, making day-to-day investment decisions concerning the assets of the products. Certain of these entities are consolidated under variable interest or voting interest entity consolidation guidance and are referred to as “consolidated investment products.” See Part I, Item 1, Financial Statements — Note 11, “Consolidated Investment Products,” for additional details.

The majority of the company’s consolidated investment products balances are CLO-related. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company’s minimal direct investments in, and management fees generated from, the CLOs. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Conversely, if the CLOs were to liquidate, their investors would have no recourse to the general credit of the company. The company therefore does not consider this debt to be a company liability.

The impact of consolidation of investment products is so significant to the presentation of the company’s financial statements (but not to the underlying financial condition or results of operations of the company) that the company has elected to deconsolidate these products in its non-GAAP disclosures. The following discussion therefore combines the results presented under U.S. generally accepted accounting principles (GAAP) with the company’s non-GAAP presentation. There are four distinct sections within this Management’s Discussion and Analysis of Financial Condition and Results of Operations after the Assets Under Management discussion:

- Results of Operations (for the three and six months ended June 30, 2012 compared with the three and six months ended June 30, 2011);
- Schedule of Non-GAAP Information;
- Balance Sheet Discussion; and
- Liquidity and Capital Resources.

Each of the financial statement summary sections (Results of Operations, Balance Sheet Discussion, and Liquidity and Capital Resources) begins with a table illustrating the impact of the consolidation of investment products. The narrative that follows each of these sections separately provides discussion of the underlying financial statement activity for the company, before consolidation of investment products, as well as of the financial statement activity of consolidated investment products. Additionally, wherever a non-GAAP measure is referenced, a disclosure will follow in the narrative or in the note referring the reader to the Schedule of Non-GAAP Information, where additional details regarding the use of the non-GAAP measure by the company are disclosed, along with reconciliations of the most directly comparable U.S. GAAP measures to the non-GAAP measures. To further enhance the readability of the Results of Operations section, separate tables for each of the revenue, expense, and non-operating income/expense sections of the income statement introduce the narrative that follows, providing a section-by-section review of the company’s income statements for the periods presented.

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Summary Operating Information

Summary operating information is presented in the table below:

$ in millions, other than per share amounts, operating margins, ratios and AUM	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
U.S. GAAP Financial Measures Summary				
Operating revenues	$1,009.0	$1,070.0	$2,042.7	$2,097.3
Operating income	$202.9	$233.0	$432.7	$458.7
Operating margin	20.1 %	21.8 %	21.2 %	21.9 %
Net income attributable to common shareholders	$153.9	$183.0	$347.8	$360.5
Diluted EPS	$0.34	$0.39	$0.76	$0.77
Debt/equity ratio (%)	70.3 %	85.6 %	70.3 %	85.6 %
Non-GAAP Financial Measures Summary				
Net revenues(1)	$712.1	$751.2	$1,448.4	$1,475.5
Adjusted operating income(2)	$249.0	$284.8	$518.2	$556.9
Adjusted operating margin(2)	35.0 %	37.9 %	35.8 %	37.7 %
Adjusted net income attributable to common shareholders(3)	$184.7	$207.1	$385.7	$398.8
Adjusted diluted EPS(3)	$0.41	$0.44	$0.85	$0.85
Debt/equity ratio excluding consolidated investment products(%)(4)	16.9 %	20.2 %	16.9 %	20.2 %
Assets Under Management				
Ending AUM (billions)	$646.6	$653.7	$646.6	$653.7
Average AUM (billions)	$651.2	$652.8	$654.7	$641.5

(1) Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of the net revenues of our joint venture investments, plus management and performance fees earned from, less other revenue recorded by, consolidated investment products. See “Schedule of Non-GAAP Information” for the reconciliation of operating revenues to net revenues.

(2) Adjusted operating margin is adjusted operating income divided by net revenues. Adjusted operating income includes operating income plus our proportional share of the operating income of our joint venture investments, transaction and integration charges, amortization of acquisition-related prepaid compensation and other intangibles, compensation expense related to market valuation changes in deferred compensation plans, the operating income impact of the consolidation of investment products, European infrastructure expenses and other reconciling items. See “Schedule of Non-GAAP Information” for the reconciliation of operating income to adjusted operating income.

(3) Adjusted net income attributable to common shareholders is net income attributable to common shareholders adjusted to add back transaction and integration charges, amortization of acquisition-related prepaid compensation and other intangibles, and the tax cash flow benefits resulting from tax amortization of goodwill and indefinite-lived intangible assets. Adjusted net income attributable to common shareholders excludes the net income of consolidated investment products, and the net income impact of deferred compensation plans, European infrastructure expenses and other reconciling items. By calculation, adjusted diluted EPS is adjusted net income attributable to common shareholders divided by the weighted average number of diluted shares outstanding. See “Schedule of Non-GAAP Information” for the reconciliation of net income to adjusted net income.

(4) The debt-to-equity ratio excluding consolidated investment products is a non-GAAP financial measure. See the "Liquidity and Capital Resources" section for a recalculation of this ratio and the "Balance Sheet Discussion" section for a reconciliation of debt and equity balances before and after the consolidation of investment products.

Investment Capabilities Performance Overview

Invesco's first strategic priority is to achieve strong investment performance over the long-term for our clients. Long-term performance in our equities capabilities, as measured by the percentage of AUM ahead of benchmark and ahead of peer median, is generally strong with certain capabilities demonstrating outstanding performance. Within our equity asset class, U.S. Core, U.S. Value, U.K., and Global Ex-U.S. and Emerging Markets funds have strong long-term performance, with over 70% of assets ahead of benchmarks and peer group medians on a 5- year basis. Our Balanced asset class also reflects solid long-

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term performance, with over 70% of assets ahead of benchmarks and peers on a 5-year basis. Within our fixed income asset class our Global and U.S. fixed income products have achieved strong long-term performance with 70% or more of AUM ahead of peers on a 5- year basis.

		Benchmark Comparison % of AUM Ahead of Benchmark			Peer Group Comparison % of AUM In Top Half of Peer Group		
		1yr	3yr	5yr	1yr	3yr	5yr
Equities	U.S. Core	25%	20%	96%	43%	21%	73%
	U.S. Growth	2%	22%	31%	23%	39%	70%
	U.S. Value	15%	58%	96%	99%	94%	96%
	Sector	25%	59%	66%	23%	29%	39%
	U.K.	100%	98%	96%	100%	97%	96%
	Canadian	73%	50%	53%	50%	50%	52%
	Asian	26%	40%	41%	27%	35%	37%
	Continental European	50%	66%	94%	41%	56%	56%
	Global	65%	71%	59%	65%	78%	22%
	Global Ex U.S. and Emerging Markets	80%	82%	94%	81%	81%	85%
Other	Alternatives	64%	32%	64%	61%	36%	25%
	Balanced	27%	47%	80%	72%	91%	77%
Money Market	Money Market	35%	38%	71%	96%	96%	93%
Fixed Income	U.S. Fixed Income	93%	94%	66%	88%	77%	79%
	Global Fixed Income	27%	60%	75%	19%	36%	81%
	Stable Value	100%	100%	100%	100%	100%	100%

Note: AUM measured in the one-, three-, and five-year peer group rankings represents 59%, 58%, and 57% of total Invesco AUM, respectively, and AUM measured versus benchmark on a one-, three-, and five-year basis represents 70%, 69%, and 66% of total Invesco AUM, respectively, as of June 30, 2012. Peer group rankings are sourced from a widely-used third party ranking agency in each fund's market (Lipper, Morningstar, Russell, Mercer, eVestment Alliance, SITCA) and are asset-weighted in USD. Rankings are as of prior quarter-end for most institutional products and preceding month-end for Australian retail funds due to their late release by third parties. Rankings for the most representative fund in each GIPS composite are applied to all products within each GIPS composite. Excludes passive products, closed-end funds, private equity limited partnerships, non-discretionary direct real estate, unit investment trusts, CLOs, alternative and stable value products. Certain funds and products were excluded from the analysis because of limited benchmark or peer group data. Had these been available, results may have been different. These results are preliminary and subject to revision. Performance assumes the reinvestment of dividends. Past performance is not indicative of future results and may not reflect an investor's experience.

Assets Under Management movements for the three months ended June 30, 2012 compared with the three months ended June 30, 2011

AUM at June 30, 2012, were $646.6 billion (March 31, 2012: $672.8 billion; June 30, 2011: $653.7 billion). During the three months ended June 30, 2012, long-term net outflows decreased AUM by $4.9 billion, while market movements decreased AUM by $15.5 billion. We experienced net outflows in institutional money market funds of $3.4 billion, and decreases in AUM of $2.4 billion due to changes in foreign exchange rates during the three months ended June 30, 2012. During the three months ended June 30, 2011, long-term net inflows increased AUM by $3.8 billion, while positive market movements increased AUM by $3.2 billion. We experienced net inflows in institutional money market funds of $3.5 billion and increases in AUM of $1.3 billion due to changes in foreign exchange rates

during the three months ended June 30, 2011. Average AUM during the three months ended June 30, 2012, were $651.2 billion compared to $652.8 billion for the three months ended June 30, 2011.

The discussion below includes presentation of AUM as Passive and Active. Passive AUM includes ETFs, UITs, non-fee earning leverage, foreign exchange overlays and other passive mandates. Active AUM is total AUM less Passive AUM.

Long-term net outflows during the three months ended June 30, 2012 were $4.9 billion and included net outflows of passive AUM of $1.7 billion. Net long-term flows were split between outflows from our retail distribution channel of $3.0 billion and outflows from our institutional channel of $2.1 billion, which were primarily in the equity and alternatives asset classes. Our balanced asset class experienced net inflows of $2.3 billion, including approximately $3 billion in positive flows related to our balanced risk allocation strategies, for which we continue to see strong demand. These inflows were partially offset by outflows of traditional balanced products. The Invesco Balanced Risk Allocation Fund established its three-year track record during the

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three months ended June 30, 2012, raising its profile in the market. This quarterly period marks the eleventh consecutive quarter of positive flows into the balanced risk allocation strategies.

As discussed in the "Executive Overview" section of this Management's Discussion and Analysis, during the three months ended June 30, 2012, the S&P 500 Index declined 3.3%, the FTSE declined 3.4%, the Nikkei 225 declined 10.7%, while the MSCI Emerging Markets index was down 10%. Of the $15.5 billion decrease in AUM resulting from market losses during the three months ended June 30, 2012, $13.7 billion of this decrease was due to the change in value of our equity asset class, with balanced and alternative asset classes also experiencing losses. Of the $3.2 billion increase in AUM resulting from market gains during the three months ended June 30, 2011, $2.4 billion of this increase was due to the change in value of our fixed income asset class.

The impact of the change in foreign exchange rates in the three months ended June 30, 2012, was driven primarily by the weakening of the Pound Sterling, the Euro and the Canadian Dollar relative to the U.S. Dollar, which was reflected in the translation of our Sterling-based, Euro-based, and Canadian Dollar-based AUM into U.S. Dollars, partially offset by the strengthening of the Japanese Yen relative to the U.S. Dollar, which was reflected in the translation of our Japanese Yen-based AUM into U.S. Dollars. The impact of the change in foreign exchange rates in the three months ended June 30, 2011, was driven by the strengthening of the Japanese Yen, the Pound Sterling, the Canadian Dollar, and the Euro relative to the U.S. Dollar.

The table below illustrates the spot foreign exchange rates for translation into the U.S. Dollar, the reporting currency of the company, at June 30, 2012 and 2011, as compared with the rates that existed at March 31, 2012 and 2011:

	June 30, 2012	March 31, 2012	June 30, 2011	March 31, 2011
Pound Sterling ($ per £)	1.57	1.60	1.61	1.60
Canadian Dollar (CAD per $)	1.02	1.00	0.96	0.97
Japan (¥ per $)	79.82	82.33	80.66	82.94
Euro ($ per €)	1.27	1.33	1.45	1.42

Net revenue yield decreased 2.3 basis points to 43.7 basis points in the three months ended June 30, 2012, from the three months ended June 30, 2011 level of 46.0 basis points. Market driven changes in our asset mix significantly impact our net revenue yield calculation. Our equity AUM generally earn a higher net revenue rate than money market AUM. At June 30, 2012, equity AUM were $283.8 billion, representing 43.9% of our total AUM at that date; whereas at June 30, 2011, equity AUM were $301.9 billion, representing 46.2% of our total AUM at that date. With the mix of AUM less weighted in equity AUM at June 30, 2012, compared to June 30, 2011, net revenue yield decreased. Furthermore, strong sales in our passive ETF products have contributed to passive AUM representing 16.6% of total AUM as at June 30, 2012, compared to 14.0% at June 30, 2011. The net revenue yield on passive AUM was approximately 9 basis points compared to approximately 51 basis points from active AUM (before performance fees) during the three months ended June 30, 2012, contributing to the overall yield reduction.

Gross revenue yield on AUM decreased 3.6 basis points to 62.3 basis points in the three months ended June 30, 2012, from the three months ended June 30, 2011, level of 65.9 basis points. Management does not consider gross revenue yield, the most comparable U.S. GAAP-based measure to net revenue yield, to be a meaningful effective fee rate measure. The numerator of the gross revenue yield measure, operating revenues, excludes the management and performance fees earned from consolidated investment products; however the denominator of the measure includes the AUM of these investment products. Therefore, the gross revenue yield measure is not considered representative of the company's true effective fee rate from AUM. See "Schedule of Non-GAAP Information" for a reconciliation of operating revenues (gross revenues) to net revenues.

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Changes in AUM were as follows:

$ in billions	2012 Total AUM	Active	Passive	2011 Total AUM	Active	Passive
March 31	672.8	560.2	112.6	641.9	550.2	91.7
Long-term inflows	37.1	24.6	12.5	42.7	28.0	14.7
Long-term outflows	(42.0)	(27.8)	(14.2)	(38.9)	(25.1)	(13.8)
Long-term net flows	(4.9)	(3.2)	(1.7)	3.8	2.9	0.9
Net flows in institutional money market funds	(3.4)	(3.4)	—	3.5	3.5	—
Market gains and (losses)/reinvestment	(15.5)	(12.1)	(3.4)	3.2	4.1	(0.9)
Foreign currency translation	(2.4)	(2.5)	0.1	1.3	1.2	0.1
June 30	646.6	539.0	107.6	653.7	561.9	91.8
Average long-term AUM	583.1	474.8	108.3	583.0	489.5	93.5
Average institutional money market AUM	68.1	68.1	—	69.8	69.8	—
Average AUM	651.2	542.9	108.3	652.8	559.3	93.5
Gross revenue yield on AUM(1)	62.3bps	73.0bps	8.7bps	65.9bps	75.1bps	11.3bps
Gross revenue yield on AUM before performance fees(1)	61.3bps	72.0bps	8.7bps	65.4bps	74.6bps	11.3bps
Net revenue yield on AUM(2)	43.7bps	50.7bps	8.7bps	46.0bps	51.8bps	11.3bps
Net revenue yield on AUM before performance fees(2)	42.8bps	50.1bps	8.7bps	45.6bps	51.3bps	11.3bps

(1) Gross revenue yield on AUM is equal to annualized total operating revenues divided by average AUM, excluding joint venture (JV) AUM. Our share of the average AUM in the three months ended June 30, 2012, for our JVs in China was $3.1 billion (three months ended June 30, 2011: $3.5 billion). It is appropriate to exclude the average AUM of our JVs for purposes of computing gross revenue yield on AUM, because the revenues resulting from these AUM are not presented in our operating revenues. Under U.S. GAAP, our share of the pre-tax earnings of the JVs is recorded as equity in earnings of unconsolidated affiliates on our Condensed Consolidated Statements of Income.

(2) Net revenue yield on AUM is equal to annualized net revenues divided by average AUM. See “Schedule of Non-GAAP Information” for a reconciliation of operating revenues to net revenues.

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Our AUM by channel, by asset class, and by client domicile were as follows:

Total AUM by Channel[1]

$ in billions	Total	Retail	Institutional	Private Wealth Management
March 31, 2012 AUM	672.8	414.8	238.6	19.4
Long-term inflows	37.1	30.6	5.6	0.9
Long-term outflows	(42.0)	(33.6)	(7.7)	(0.7)
Long-term net flows	(4.9)	(3.0)	(2.1)	0.2
Net flows in institutional money market funds	(3.4)	—	(3.4)	—
Market gains and (losses)/reinvestment	(15.5)	(13.0)	(1.8)	(0.7)
Foreign currency translation	(2.4)	(2.1)	(0.3)	—
June 30, 2012 AUM	646.6	396.7	231.0	18.9
March 31, 2011 AUM	641.9	396.2	228.3	17.4
Long-term inflows	42.7	33.2	8.6	0.9
Long-term outflows	(38.9)	(30.3)	(7.9)	(0.7)
Long-term net flows	3.8	2.9	0.7	0.2
Net flows in institutional money market funds	3.5	—	3.5	—
Market gains and (losses)/reinvestment	3.2	2.2	1.1	(0.1)
Foreign currency translation	1.3	0.4	0.9	—
June 30, 2011 AUM	653.7	401.7	234.5	17.5

Passive AUM by Channel[1]

$ in billions	Total	Retail	Institutional	Private Wealth Management
March 31, 2012 AUM	112.6	92.2	20.4	—
Long-term inflows	12.5	11.7	0.8	—
Long-term outflows	(14.2)	(13.8)	(0.4)	—
Long-term net flows	(1.7)	(2.1)	0.4	—
Net flows in institutional money market funds	—	—	—	—
Market gains and (losses)/reinvestment	(3.4)	(3.2)	(0.2)	—
Foreign currency translation	0.1	—	0.1	—
June 30, 2012 AUM	107.6	86.9	20.7	—
March 31, 2011 AUM	91.7	78.2	13.5	—
Long-term inflows	14.7	12.7	2.0	—
Long-term outflows	(13.8)	(13.3)	(0.5)	—
Long-term net flows	0.9	(0.6)	1.5	—
Net flows in institutional money market funds	—	—	—	—
Market gains and (losses)/reinvestment	(0.9)	(0.9)	—	—
Foreign currency translation	0.1	—	0.1	—
June 30, 2011 AUM	91.8	76.7	15.1	—

See accompanying notes to these AUM tables on the following page.

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Total AUM by Asset Class[2]

$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives[3]
March 31, 2012 AUM	672.8	305.2	155.0	50.5	74.5 [4]	87.6
Long-term inflows	37.1	19.5	8.1	4.6	1.1	3.8
Long-term outflows	(42.0)	(25.6)	(8.0)	(2.3)	(0.9)	(5.2)
Long-term net flows	(4.9)	(6.1)	0.1	2.3	0.2	(1.4)
Net flows in institutional money market funds	(3.4)	—	—	—	(3.4)	—
Market gains and (losses)/reinvestment	(15.5)	(13.7)	0.8	(0.9)	(0.3)	(1.4)
Foreign currency translation	(2.4)	(1.6)	(0.3)	(0.4)	—	(0.1)
June 30, 2012 AUM	646.6	283.8	155.6	51.5	71.0 [4]	84.7
March 31, 2011 AUM	641.9	303.0	139.7	44.7	71.0	83.5
Long-term inflows	42.7	22.9	8.8	2.7	0.3	8.0
Long-term outflows	(38.9)	(25.5)	(5.3)	(2.2)	(0.5)	(5.4)
Long-term net flows	3.8	(2.6)	3.5	0.5	(0.2)	2.6
Net flows in institutional money market funds	3.5	—	—	—	3.5	—
Market gains and (losses)/reinvestment[6]	3.2	0.8	2.4	(0.8)	0.1	0.7
Foreign currency translation	1.3	0.7	0.2	0.1	—	0.3
June 30, 2011 AUM	653.7	301.9	145.8	44.5	74.4	87.1

Passive AUM by Asset Class[2]

$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives[3]
March 31, 2012 AUM	112.6	59.0	32.5	—	—	21.1
Long-term inflows	12.5	9.8	2.0	—	—	0.7
Long-term outflows	(14.2)	(11.6)	(0.8)	—	—	(1.8)
Long-term net flows	(1.7)	(1.8)	1.2	—	—	(1.1)
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	(3.4)	(2.6)	0.2	—	—	(1.0)
Foreign currency translation	0.1	—	—	—	—	0.1
June 30, 2012 AUM	107.6	54.6	33.9	—	—	19.1
March 31, 2011 AUM	91.7	47.3	23.7	—	—	20.7
Long-term inflows	14.7	10.0	3.0	—	—	1.7
Long-term outflows	(13.8)	(10.9)	(0.3)	—	—	(2.6)
Long-term net flows	0.9	(0.9)	2.7	—	—	(0.9)
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	(0.9)	(0.7)	0.3	—	—	(0.5)
Foreign currency translation	0.1	—	—	—	—	0.1
June 30, 2011 AUM	91.8	45.7	26.7	—	—	19.4

See accompanying notes to these AUM tables on the following page.

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Total AUM by Client Domicile[5]

$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
March 31, 2012 AUM	672.8	462.9	24.8	98.0	35.7	51.4
Long-term inflows	37.1	25.8	0.8	3.0	4.7	2.8
Long-term outflows	(42.0)	(28.5)	(1.2)	(4.4)	(4.1)	(3.8)
Long-term net flows	(4.9)	(2.7)	(0.4)	(1.4)	0.6	(1.0)
Net flows in institutional money market funds	(3.4)	(3.2)	—	(0.2)	0.1	(0.1)
Market gains and (losses)/reinvestment	(15.5)	(9.7)	(0.4)	(1.6)	(1.6)	(2.2)
Foreign currency translation	(2.4)	—	(0.5)	(2.0)	(0.4)	0.5
June 30, 2012 AUM	646.6	447.3	23.5	92.8	34.4	48.6
March 31, 2011 AUM	641.9	435.2	28.2	94.2	36.2	48.1
Long-term inflows	42.7	26.8	0.7	4.3	4.9	6.0
Long-term outflows	(38.9)	(27.0)	(1.5)	(3.2)	(4.1)	(3.1)
Long-term net flows	3.8	(0.2)	(0.8)	1.1	0.8	2.9
Net flows in institutional money market funds	3.5	3.7	—	(0.2)	0.1	(0.1)
Market gains and (losses)/reinvestment	3.2	1.2	(0.1)	2.0	0.5	(0.4)
Foreign currency translation	1.3	—	0.2	—	0.3	0.8
June 30, 2011 AUM	653.7	439.9	27.5	97.1	37.9	51.3

Passive AUM by Client Domicile[5]

$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
March 31, 2012 AUM	112.6	105.7	—	—	1.5	5.4
Long-term inflows	12.5	12.3	—	—	0.1	0.1
Long-term outflows	(14.2)	(14.1)	—	—	(0.1)	—
Long-term net flows	(1.7)	(1.8)	—	—	—	0.1
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	(3.4)	(3.2)	—	—	(0.1)	(0.1)
Foreign currency translation	0.1	—	—	—	—	0.1
June 30, 2012 AUM	107.6	100.7	—	—	1.4	5.5
March 31, 2011 AUM	91.7	88.0	—	—	1.4	2.3
Long-term inflows	14.7	14.6	—	—	0.1	—
Long-term outflows	(13.8)	(13.7)	—	—	(0.1)	—
Long-term net flows	0.9	0.9	—	—	—	—
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	(0.9)	(0.9)	—	—	—	—
Foreign currency translation	0.1	—	—	—	—	0.1
June 30, 2011 AUM	91.8	88.0	—	—	1.4	2.4

(1) Channel refers to the distribution channel from which the AUM originated. Retail AUM arose from client investments into funds available to the public with shares or units. Institutional AUM originated from individual

corporate clients, endowments, foundations, government authorities, universities, or charities. Private Wealth Management AUM arose from high net worth client investments.

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(2) Asset classes are descriptive groupings of AUM by common type of underlying investments.

(3) The alternatives asset class includes absolute return, real estate, commodities, currencies, financial structures, Global Macro, REITS, private capital, and Risk Premia Capture.

(4) Ending Money Market AUM includes $67.0 billion in institutional money market AUM and $4.0 billion in retail money market AUM.

(5) Client domicile disclosure groups AUM by the domicile of the underlying clients.

(6) As a result of fund mergers in the second quarter of 2011, the market gains and losses / reinvestment line includes $0.9 billion transferred from the balanced to the equity asset class.

Results of Operations for the three months ended June 30, 2012 compared with the three months ended June 30, 2011
Adoption of Guidance now encompassed in Accounting Standards Codification (ASC) Topic 810, "Consolidation"
The company provides investment management services to, and has transactions with, various private equity, real estate, fund-of-funds, collateralized loan obligation products (CLOs), and other investment entities sponsored by the company for the investment of client assets in the normal course of business. The company serves as the investment manager, making day-to-day investment decisions concerning the assets of the products. Certain of these entities are consolidated under variable interest or voting interest entity consolidation guidance. See Part I, Item 1, Financial Statements — Note 11, "Consolidated Investment Products," for additional details.
The majority of the company's consolidated investment products balances were CLO-related as of June 30, 2012. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company's minimal direct investments in, and management fees generated from, the CLOs. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Conversely, if the CLOs were to liquidate, their investors would have no recourse to the general credit of the company. The company therefore does not consider this debt to be a company liability. The discussion that follows will separate consolidated investment product results of operations from the company's investment management operations through the use of non-GAAP financial measures. See "Schedule of Non-GAAP Information" for additional details and reconciliations of the most directly comparable U.S. GAAP measures to the non-GAAP measures.
Condensed Consolidating Statements of Income

$ in millions	Before Consolidation[1]	Impact of Consolidated Investment Products	Total
Three months ended June 30, 2012			
Total operating revenues	1,019.5	(10.5)	1,009.0
Total operating expenses	791.4	14.7	806.1
Operating income	228.1	(25.2)	202.9
Equity in earnings of unconsolidated affiliates	9.7	(2.8)	6.9
Interest and dividend income	5.7	65.2	70.9
Other investment income/(losses)	(7.7)	77.2	69.5
Interest expense	(13.4)	(46.9)	(60.3)
Income before income taxes	222.4	67.5	289.9
Income tax provision	(62.3)	—	(62.3)
Net income	160.1	67.5	227.6
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	—	(73.7)	(73.7)
Net income attributable to common shareholders	160.1	(6.2)	153.9

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$ in millions	Before Consolidation[1]	Impact of Consolidated Investment Products	Total
Three months ended June 30, 2011			
Total operating revenues	1,082.1	(12.1)	1,070.0
Total operating expenses	833.4	3.6	837.0
Operating income	248.7	(15.7)	233.0
Equity in earnings of unconsolidated affiliates	10.5	0.3	10.8
Interest and dividend income	4.0	78.2	82.2
Other investment income/(losses)	6.0	(64.7)	(58.7)
Interest expense	(16.0)	(46.5)	(62.5)
Income before income taxes	253.2	(48.4)	204.8
Income tax provision	(75.4)	—	(75.4)
Net income	177.8	(48.4)	129.4
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	—	53.6	53.6
Net income attributable to common shareholders	177.8	5.2	183.0

(1) The Before Consolidation column includes Invesco's equity interest in the investment products accounted for as equity method (private equity and real estate partnership funds) and available-for-sale investments (CLOs). Upon consolidation of the CLOs, the company's and the CLOs' accounting policies were effectively aligned, resulting in the reclassification of the company's loss for the three months ended June 30, 2012 of $6.1 million (representing the decrease in the market value of the company's holdings in the consolidated CLOs) from other comprehensive income into other gains/losses (three months ended June 30, 2011: $5.1 million gain). The company's loss (gain) on its investments in the CLOs (before consolidation) eliminates with the company's share of the offsetting gain (loss) on the CLOs' debt. The net income arising from consolidation of CLOs is therefore completely attributed to other investors in these CLOs, as the company's share has been eliminated through consolidation.

Operating Revenues and Net Revenues

The main categories of revenues, and the dollar and percentage change between the periods, were as follows:

	Three months ended June 30,				
$ in millions	2012		2011	$ Change	% Change
Investment management fees	780.6		819.1	(38.5)	(4.7)%
Service and distribution fees	187.1		211.4	(24.3)	(11.5)%
Performance fees	15.4		7.6	7.8	102.6%
Other	25.9		31.9	(6.0)	(18.8)%
Total operating revenues	1,009.0		1,070.0	(61.0)	(5.7)%
Third-party distribution, service and advisory expenses	(316.6)		(341.8)	25.2	(7.4)%
Proportional share of revenues, net of third-party distribution expenses, from joint venture investments	9.2		10.8	(1.6)	(14.8)%
Management fees earned from consolidated investment products	10.4		12.2	(1.8)	(14.8)%
Performance fees earned from consolidated investment products	0.1	12,300,000	—	0.1	N/A
Net revenues	712.1		751.2	(39.1)	(5.2)%

Operating revenues decreased by $61.0 million (5.7%) in the three months ended June 30, 2012 to $1,009.0 million (three months ended June 30, 2011: $1,070.0 million). Net revenues decreased by $39.1 million (5.2%) in the three

months ended June 30, 2012 to $712.1 million (three months ended June 30, 2011: $751.2 million). Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of net revenues from joint venture arrangements, plus management and performance fees earned from, less other revenues recorded by, consolidated investment products. See “Schedule of Non-GAAP Information” for additional important disclosures regarding the use of net revenues.

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A significant portion of our business and managed AUM are based outside of the U.S. The income statements of foreign currency subsidiaries are translated into U.S. dollars, the reporting currency of the company, using average foreign exchange rates. Foreign exchange rate movements accounted for $17.2 million (28.2%) of the decrease and was 1.7% of total operating revenues, during the three months June 30, 2012 when compared to the three months ended June 30, 2011. Additionally, our revenues are directly influenced by the level and composition of our AUM as more fully discussed above. Movements in global capital market levels, net new business inflows (or outflows) and changes in the mix of investment products between asset classes and geographies may materially affect our revenues from period to period.

Investment management fees

Investment management fees decreased by $38.5 million (4.7%) in the three months ended June 30, 2012 to $780.6 million (three months ended June 30, 2011: $819.1 million) due primarily to changes in the mix of AUM between asset classes together with the impact of foreign exchange rate movement. Foreign exchange rate movements accounted for $15.2 million of decrease in investment management fees during the three months ended June 30, 2012, compared to the three months ended June 30, 2011. As discussed above, the net revenue yield is lower in the current period due to changes in the composition of our AUM. The weighting of AUM flows out of active and into passive products has lowered the net revenue yield, despite the average AUM staying fairly flat. In addition, management fees have reduced due to the acquisition integration-related U.S. mutual fund mergers that commenced in June 2011, some of which lapsed in mid-2012. As previously discussed, acquisition integration-related fee waivers amounted to approximately $30 million on an annualized basis. See the company's disclosures regarding the changes in AUM during the three months ended June 30, 2012 in the "Assets Under Management" section above for additional information regarding the movements in AUM. Investment management fees were also impacted by foreign exchange rate movement in AUM.

Service and distribution fees

In the three months ended June 30, 2012, service and distribution fees decreased by $24.3 million (11.5%) to $187.1 million, (three months ended June 30, 2011: $211.4 million) due to decreases in transfer agent fees of $8.7 million, distribution and redemption fees of $8.4 million, and administration fees of $5.8 million. The fee reductions are attributable to the fund mergers and fee waivers associated with the U.S. mutual fund product realignment, the continued conversion of B-share fee structures to class A-shares that generate a lower annual service fee, and other changes in the AUM mix as a larger percentage of AUM charges no or lower distribution fees. The impact of foreign exchange rate movements accounted for $1.4 million of decrease in service and distribution fees during the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Performance fees

Of our $646.6 billion in AUM at June 30, 2012, approximately $50.3 billion, or 7.8%, have the potential to earn performance fees. In the three months ended June 30, 2012 recognized performance fees were $15.4 million, an increase of $7.8 million from the comparative period (three months ended June 30, 2011: $7.6 million). The performance fees generated in the three months ended June 30, 2012 arose primarily from a bank loan partnership managed by our fixed income group. The performance fees generated in the three months ended June 30, 2011 arose primarily due to products managed by the private equity group and the UK group.

Other revenues

In the three months ended June 30, 2012, other revenues decreased by $6.0 million (18.8%) to $25.9 million (three months ended June 30, 2011: $31.9 million). Other revenues were driven by a decrease in UIT revenues of $2.7 million, mutual fund front end fees of $2.2 million, other revenues of $1.4 million, offset by increases in real estate portfolio acquisition and disposition fees of $0.9 million during the period. The impact of foreign exchange rate movements accounted for $0.5 million of the decrease in other revenues during the three months ended June 30, 2012, compared to the three months ended June 30, 2011.

Third-party distribution, service and advisory expenses

Third-party distribution, service and advisory expenses decreased by $25.2 million (7.4%) in the three months ended June 30, 2012 to $316.6 million (three months ended June 30, 2011: $341.8 million). The decrease in third-party distribution, service and advisory expenses is closely linked to the reduction in service and distribution fees and

investment management fees over this period. The reduced expenses include decreases in distribution fees of $7.2 million, transfer agent fees of $4.7 million, renewal commissions of $3.7 million, external commissions of $1.9 million, and sub advisory fees of $1.6 million. The impact of foreign exchange rate movements accounted for $6.1 million of the decrease in third-party distribution, service and advisory expenses during the the three months ended June 30, 2012 as compared to the three months ended June 30, 2011.

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Proportional share of revenues, net of third-party distribution expenses, from joint venture investments
Management believes that the addition of our proportional share of revenues, net of third-party distribution expenses, from joint venture arrangements should be added to operating revenues to arrive at net revenues, as it is important to evaluate the contribution to the business that our joint venture arrangements are making. See "Schedule of Non-GAAP Information" for additional disclosures regarding the use of net revenues.
Our proportional share of revenues, net of third-party distribution expenses decreased by $1.6 million (14.8%) to $9.2 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $10.8 million). Our share of the Invesco Great Wall joint venture's average AUM in the three months ended June 30, 2012 was $3.1 billion (three months ended June 30, 2011: $3.5 billion).

Management and performance fees earned from consolidated investment products
Management believes that the consolidation of investment products may impact a reader's analysis of our underlying results of operations and could result in investor confusion or the production of information about the company by analysts or external credit rating agencies that is not reflective of the underlying results of operations and financial condition of the company. Accordingly, management believes that it is appropriate to adjust operating revenues for the impact of consolidated investment products in calculating net revenues. As management and performance fees earned by Invesco from the consolidated products are eliminated upon consolidation of the investment products, management believes that it is appropriate to add these operating revenues back in the calculation of net revenues. Such fees were $10.5 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $12.2 million). See "Schedule of Non-GAAP Information" for additional disclosures regarding the use of net revenues.

Operating Expenses
The main categories of operating expenses, and the dollar and percentage changes between periods, are as follows:

	Three months ended June 30,					
$ in millions	2012	2011	$ Change		% Change	
Employee compensation	304.6	318.3	(13.7	)	(4.3	)%
Third-party distribution, service and advisory	316.6	341.8	(25.2	)	(7.4	)%
Marketing	26.6	26.1	0.5		1.9	%
Property, office and technology	68.5	61.9	6.6		10.7	%
General and administrative	88.7	77.6	11.1		14.3	%
Transaction and integration	1.1	11.3	(10.2	)	(90.3	)%
Total operating expenses	806.1	837.0	(30.9	)	(3.7	)%

The table below sets forth these cost categories as a percentage of total operating expenses and operating revenues, which we believe provides useful information as to the relative significance of each type of expense:

Three months ended: $ in millions	June 30, 2012	% of Total Operating Expenses		% of Operating Revenues		June 30, 2011	% of Total Operating Expenses		% of Operating Revenues	
Employee compensation	304.6	37.8	%	30.2	%	318.3	38.0	%	29.7	%
Third-party distribution, service and advisory	316.6	39.3	%	31.4	%	341.8	40.8	%	31.9	%
Marketing	26.6	3.3	%	2.6	%	26.1	3.1	%	2.4	%
Property, office and technology	68.5	8.5	%	6.8	%	61.9	7.4	%	5.8	%
General and administrative	88.7	11.0	%	8.8	%	77.6	9.3	%	7.3	%
Transaction and integration	1.1	0.1	%	0.1	%	11.3	1.4	%	1.1	%
Total operating expenses	806.1	100.0	%	79.9	%	837.0	100.0	%	78.2	%

During the three months ended June 30, 2012, operating expenses decreased by $30.9 million (3.7%) to $806.1 million (three months ended June 30, 2011 $837.0 million). The impact of foreign exchange rate movements accounted for $16.7 million of the decrease in operating expenses during the three months ended June 30, 2012 as

compared to the three months ended June 30, 2011.

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Employee Compensation
Employee compensation decreased $13.7 million (4.3%) to $304.6 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $318.3 million). Base salaries and variable compensation decreased by $11.7 million, due primarily to lower discretionary bonus expenses compared to the prior period. Employee compensation was also reduced by a decrease in staff benefits expense of $4.0 million due primarily to $5.0 million prepaid compensation amortized expenses related to the 2006 acquisition of W.L. Ross & Co which was fully amortized in the third quarter of 2011. The decrease in employee compensation was offset by increases in staff related costs, principally due to higher termination costs and payroll taxes of $1.9 million during the three months ended June 30, 2012 from the three months ended June 30, 2011. Additionally, included in compensation expenses are share-based compensation costs, which increased $6.8 million during the three months ended June 30, 2012 compared to the three months ended June 30, 2011. The increase in share-based compensation costs during the period reflects a previous change in our vesting service period from three to four years, which results in 2012 being the first year with four award tranches being expensed, as compared to three award tranches in previous years. The impact of foreign exchange rate movements accounted for $6.7 million of the decrease in employee compensation expense during the three months ended June 30, 2012 compared to the three months ended June 30, 2011.
Headcount at June 30, 2012 was 6,141 (June 30, 2011: 6,189).

Third-Party Distribution, Service and Advisory Expenses
Third-party distribution, service and advisory expenses are discussed above in the operating and net revenues section.

Marketing
Marketing expenses increased by $0.5 million (1.9%) in the three months ended June 30, 2012 to $26.6 million (three months ended June 30, 2011: $26.1 million). The increase during the three months ended June 30, 2012 is primarily driven by an increase in advertising of $1.9 million, offset by a decrease of $1.3 million in corporate sponsorship expenses as compared to the three months ended June 30, 2011.

Property, Office and Technology
Property, office and technology expenses increased by $6.6 million (10.7%) to $68.5 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $61.9 million). Property and office expenses increased $4.4 million over the comparable 2011 period, due to an increase of $2.8 million in leased property rental expense, depreciation and improvements of $1.2 million, and property management fees and service charges of $0.4 million. The increase in rent expense includes a $1.7 million exit charge for leased space, related to consolidation of office space. Technology and communications expenses increased $3.6 million compared to the three months ended June 30, 2011, primarily due to continued investment in portfolio management and client engagement technology initiatives, which also contributed to increases in outsourced administration expenses of $1.4 million, depreciation and maintenance expenses of $1.0 million and $1.2 million in other property, office and technology costs, including software purchases and telephone communications. The impact of foreign exchange rate movements offset the increase in property, office and technology expenses by $1.4 million during the three months ended June 30, 2012 as compared to the three months ended June 30, 2011.

General and Administrative
General and administrative expenses increased by $11.1 million (14.3%) to $88.7 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $77.6 million). Increase in general and administrative expense is driven by expenses of our consolidated investment products, including legal and fund launch costs recorded by the consolidated products, which added $10.8 million for the quarter ended June 30, 2012 as compared to the quarter ended June 30, 2011. U.K. value added tax decreased by $0.8 million in the three months ended June 30, 2012 compared to the three June 30, 2011 period. The impact of foreign exchange rate movements reduced general and administrative expenses by $1.8 million during the three months ended June 30, 2012.

Transaction and integration
Transaction and integration charges were $1.1 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $11.3 million) and relate to the business acquired in 2010. Transaction and integration expenses during the three months ended June 30, 2012 relate to the final round of open-ended fund mergers and include professional services and shareholder communications costs. Transaction and integration expenses for the three months ended

June 30, 2011 included $2.1 million of employee compensation costs, $0.2 million of property and office costs, $0.3 million of technology and communication costs and $8.6 million of professional services costs, principally legal, proxy solicitation, consultancy, mutual fund and insurance.

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Operating Income, Adjusted Operating Income, Operating Margin and Adjusted Operating Margin
Operating income decreased by $30.1 million (12.9%) to $202.9 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $233.0 million). Operating margin (operating income divided by operating revenues), decreased from 21.8% in the three months ended June 30, 2011 to 20.1% in the three months ended June 30, 2012. The decrease in operating income and margin resulted from a greater relative decrease in operating revenues (5.7%) than in operating expenses (3.7%). Adjusted operating income decreased by $35.8 million (12.6%) to $249.0 million in the three months ended June 30, 2012 from $284.8 million in the three months ended June 30, 2011. Adjusted operating margin decreased to 35.0% in the three months ended June 30, 2012 from 37.9% in the three months ended June 30, 2011. See "Schedule of Non-GAAP Information" for definitions of these measures and a reconciliation of operating revenues to net revenues, a reconciliation of operating income to adjusted operating income and additional important disclosures regarding net revenues, adjusted operating income and adjusted operating margin.
Other Income and Expenses
The main categories of other income and expenses, and the dollar and percentage changes between periods are as follows:

	Three months ended June 30,			
$ in millions	2012	2011	$ Change	% Change
Equity in earnings of unconsolidated affiliates	6.9	10.8	(3.9)	(36.1)%
Interest and dividend income	2.2	2.4	(0.2)	(8.3)%
Interest income of consolidated investment products	68.7	79.8	(11.1)	(13.9)%
Other gains/(losses) of consolidated investment products, net	77.2	(64.7)	141.9	N/A
Interest expense	(13.4)	(16.0)	2.6	(16.3)%
Interest expense of consolidated investment products	(46.9)	(46.5)	(0.4)	0.9%
Other gains and losses, net	(7.7)	6.0	(13.7)	N/A
Total other income and expenses	87.0	(28.2)	115.2	N/A

Equity in earnings of unconsolidated affiliates
Equity in earnings of unconsolidated affiliates decreased by $3.9 million (36.1%) to $6.9 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $10.8 million). The decrease in equity in earnings is impacted by a decrease of $2.6 million in our share of the market-driven valuation changes in the underlying holdings of certain partnership investments, including our investment in Invesco Mortgage Capital Inc. and a net decrease of $1.3 million in the joint venture investments in China from the comparative period.
Interest and dividend income and interest expense
Interest and dividend income decreased by $0.2 million (8.3%) to $2.2 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $2.4 million). The decrease in interest and dividend income for the three months ended June 30, 2012 is due to a decrease of $0.2 million in dividend income on investments held to hedge economically deferred compensation plans. Interest expense decreased by $2.6 million (16.3%) to $13.4 million in the three months ended June 30, 2012 (three months ended June 30, 2011: $16.0 million) due to a combination of lower average debt balances and lower borrowing costs versus the comparative period.
Other gains and losses, net
Other gains and losses, net were a net loss of $7.7 million in the three months ended June 30, 2012 as compared to a net gain of $6.0 million in the three months ended June 30, 2011. Included in other gains and losses is a net loss of $5.0 million resulting from the depreciation of investments held for our deferred compensation plans (three months ended June 30, 2011: $3.1 million net gain), and a net loss of $1.2 million related to the mark-to-market of 12-month foreign exchange put option contracts intended to provide protection against the impact of a significant decline in the pound sterling/U.S dollar foreign exchange rate, offset by net gains from seed investments and other net realized gains of $0.6 million (three months ended June 30, 2011: $3.1 million net realized gains). We incurred $0.9 million in other-than-temporary impairment charges related to seed money investments during the three months ended June 30,

2012 (three months ended June 30, 2011: none). In the three months ended June 30, 2012, we incurred $1.3 million in net foreign exchange losses on inter-group loans (three months ended June 30, 2011: $0.3 million in net foreign exchange losses).

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Non-operating income and expense of consolidated investment products

In the three months ended June 30, 2012, interest income of consolidated investment products decreased by $11.1 million (13.9%) to $68.7 million (three months ended June 30, 2011: $79.8 million) primarily due to lower fee income associated with CLO collateral asset restructuring in the second quarter of 2012 versus the second quarter of 2011 and the impact of CLOs deconsolidated as of March 31, 2012. Interest expense of consolidated investment products increased by $0.4 million (0.9%) to $46.9 million (three months ended June 30, 2011: $46.5 million) primarily due to interest expense payments on junior tranches of the CLO notes that do not bear interest at a stated rate.

Included in other gains/(losses) of consolidated investment products, net, are realized and unrealized gains and losses on the underlying investments and debt of consolidated investment products. In the three months ended June 30, 2012, other gains/(losses) of consolidated investment products were a net gain of $77.2 million, as compared to a net loss of $64.7 million in the three months ended June 30, 2011. The net gain in the 2012 period is primarily due to gains associated with private equity investments and the loss in market value long-term debt of CLOs. The net loss in the 2011 period is primarily due to an increase in the market value of long term debt of consolidated investment products which exceeded the increase in the market value of investments of consolidated investment products.

Net impact of consolidated investment products and related noncontrolling interests in noncontrolling entities

As illustrated in the Condensed Consolidating Statements of Income for the three months ended June 30, 2012 and 2011 at the beginning of this Results of Operations section, the consolidation of investment products during the three months ended June 30, 2012 resulted in an increase to net income of $67.5 million before attribution to noncontrolling interests (three months ended June 30, 2011: $48.4 million decrease to net income). Invesco invests in only a portion of these products, and as a result this net gain is offset by noncontrolling interests of $73.7 million (three months ended June 30, 2011: $53.6 million), resulting in a net decrease in net income of the company of $6.1 million (three months ended June 30, 2011: $5.1 million net increase).

Noncontrolling interests in consolidated entities represent the profit or loss amounts attributed to third party investors in consolidated investment products. Movements in amounts attributable to noncontrolling interests in consolidated entities on the company’s Consolidated Statements of Income generally offset the gains and losses, interest income and interest expense of consolidated investment products.

Additionally, consolidated investment products represent approximately 1% of the company's AUM. Therefore, the net gains or losses of consolidated investment products is not indicative of the performance of the company's aggregate assets under management.

Income Tax Expense

The company's subsidiaries operate in several taxing jurisdictions around the world, each with its own statutory income tax rate. As a result, the blended average statutory tax rate will vary from year to year depending on the mix of the profits and losses of the company's subsidiaries. The majority of our profits are earned in the U.S., the U.K., and Canada.

The enacted U.K. statutory tax rate, for U.S. GAAP purposes, was 25% as of June 30, 2012. On March 26, 2012, the U.K. Parliament approved a rate reduction to 24%, effective April 1, 2012, and a further rate reduction to 23% effective April 1, 2013. However, the measures are not enacted for U.S. GAAP purposes (and cannot be accounted for) until Royal Assent is received, which did not occur until July 17, 2012. An additional reduction to the rate has been proposed as part of the U.K. Budget to reduce the rate to 22% beginning April 1, 2014.

On June 20, 2012, the Ontario government successfully introduced and passed Bill 114, which repealed the enacted general corporate income tax rate reductions scheduled to take effect in 2012 and 2013. The Canadian federal and provincial statutory tax rate increased to 26.5% in June from the previous rate of 26.25%. The U.S. Federal statutory tax rate was 35%.

Our effective tax rate, excluding noncontrolling interests in consolidated entities, for the three months ended June 30, 2012 was 28.8%, down from 29.2% for the three months ended June 30, 2011. The three months ended June 30, 2012 rate reflects a favorable profit mix and the impact of U.K. statutory tax rate reductions that was enacted in 2011 and effective for 2012.

Assets Under Management movements for the six months ended June 30, 2012 compared with the six months ended June 30, 2011

AUM at June 30, 2012 were $646.6 billion (June 30, 2011: $653.7 billion). During the six months ended June 30, 2012, long-term net inflows increased AUM by $2.1 billion, while positive market movements increased AUM by $21.8 billion. We experienced net outflows in institutional money market funds of $2.3 billion, and decreases in AUM of $0.3 billion due to changes in foreign exchange rates during the six months ended June 30, 2012. During the six months ended June 30, 2011, long-term net inflows increased AUM by $10.4 billion, while positive market movements increased AUM by $16.1 billion. We experienced net inflows in institutional money market funds of $6.1 billion and increases in AUM of $4.6 billion due to

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changes in foreign exchange rates during the six months ended June 30, 2011. Average AUM during the six months ended June 30, 2012 were $654.7 billion compared to $641.5 billion for the six months ended June 30, 2011.
The discussion below includes presentation of AUM as Passive and Active. Passive AUM includes ETFs, UITs, non-fee earning leverage, foreign exchange overlays and other passive mandates. Active AUM is total AUM less Passive AUM.
Long-term net inflows during the six months ended June 30, 2012 were $2.1 billion and included net inflows of Passive AUM of $6.2 billion, offset by outflows of Active AUM of $4.1 billion. Net long-term flows were driven by net inflows into our Retail and high net worth distribution channels of $4.5 billion and $0.8 billion, respectively, while our Institutional distribution channel experienced net outflows of $3.2 billion. On an asset class basis, the inflows were primarily in the balanced and fixed income asset classes, offset by outflows in equities and alternatives. Our balanced asset class experienced net inflows of $5.4 billion, including approximately $6.4 billion in positive flows related to our balanced risk allocation strategies, for which we continue to see strong demand, which was partially offset by outflows from traditional balanced products. The Invesco Balanced Risk Allocation Fund established its three-year track record during the six months ended June 30, 2012, raising its profile in the market. The three months ended June 30, 2012 marks the eleventh consecutive quarter of positive flows into the balanced risk allocation strategies.
Net flows in the six months ended June 30, 2011 included net inflows into our Retail and Institutional distribution channels of $7.0 billion and $3.1 billion, respectively.
As discussed in the "Executive Overview" section of this Management's Discussion and Analysis, the S&P 500, the Nikkei 225 and the MSCI Emerging Markets index increased 8.3%, 6.5% and 2.3%, respectively during the six months ended June 30, 2012, while the FTSE 100 was flat. During the six months ended June 30, 2012, our equity AUM increased in line with equity markets globally. Of the $21.8 billion increase in AUM resulting from market gains during the six months ended June 30, 2012, $15.6 billion of this increase was due to the change in value of our equity asset class. Our other asset classes were also impacted positively by the change in market valuations during the period. Of the $16.1 billion increase in AUM resulting from market movements during the six months ended June 30, 2011, $10.5 billion of this increase was due to the change in value of our equity asset class.
The impact of the change in foreign exchange rates in the six months ended June 30, 2012 was driven primarily by the weakening of the Euro relative to the U.S. Dollar, which was reflected in the translation of our Euro-based AUM into U.S. Dollars, as well as the weakening of the Japanese Yen relative to the U.S. Dollar, which was reflected in the translation of our Yen-based AUM into U.S. Dollars. These impacts were offset by the the strengthening of the Pound Sterling relative to the U.S. Dollar, which was reflected in the translation of our Sterling-based AUM into U.S. Dollars. The impact of the change in foreign exchange rates in the six months ended June 30, 2011 was driven by the weakening of the U.S. Dollar relative to the the Pound Sterling, the Euro, the Canadian Dollar and the Japanese Yen.
The table below illustrates the spot foreign exchange rates for translation into the U.S. Dollar, the reporting currency of the company, at June 30, 2012 and 2011, as compared with the rates that existed at December 31, 2011 and 2010:

	June 30, 2012	December 31, 2011	June 30, 2011	December 31, 2010
Pound Sterling ($ per £)	1.57	1.56	1.61	1.56
Canadian Dollar (CAD per $)	1.02	1.02	0.96	0.99
Japan (¥ per $)	79.82	76.95	80.66	81.08
Euro ($ per €)	1.27	1.30	1.45	1.34

Net revenue yield decreased to 44.2 basis points in the six months ended June 30, 2012 from the six months ended June 30, 2011 level of 46.0 basis points. Market driven changes in our asset mix significantly impact our net revenue yield calculation. Our equity AUM generally earn a higher net revenue rate than money market AUM. At June 30, 2012 equity AUM were $283.8 billion, representing 43.9% of our total AUM at that date; whereas at June 30, 2011 equity AUM were $301.9 billion, representing 46.2% of our total AUM at that date. With the mix of AUM less weighted in equity AUM at June 30, 2012 compared to June 30, 2011, net revenue yield decreased. Furthermore, strong sales in our passive ETF products have contributed to passive AUM representing 16.6% of total AUM as at

June 30, 2012, compared to 14.0% at June 30, 2011. The net revenue yield on passive AUM was approximately 9 basis points compared to approximately 51 basis points from active AUM (before performance fees) during the six months ended June 30, 2012, contributing to the overall yield reduction.

Gross revenue yield on AUM decreased 3.0 basis points to 62.7 basis points in the six months ended June 30, 2012 from the six months ended June 30, 2011 level of 65.7 basis points. Management does not consider gross revenue yield, the most comparable U.S. GAAP-based measure to net revenue yield, to be a meaningful effective fee rate measure. The numerator of the gross revenue yield measure, operating revenues, excludes the management and performance fees earned from consolidated

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investment products; however the denominator of the measure includes the AUM of these investment products. Therefore, the gross revenue yield measure is not considered representative of the company's true effective fee rate from AUM. See “Schedule of Non-GAAP Information” for a reconciliation of operating revenues (gross revenues) to net revenues.

Changes in AUM were as follows:

	2012			2011		
$ in billions	Total AUM	Active	Passive	Total AUM	Active	Passive
January 1	625.3	529.0	96.3	616.5	535.7	80.8
Long-term inflows	80.0	51.2	28.8	90.7	57.0	33.7
Long-term outflows	(77.9)	(55.3)	(22.6)	(80.3)	(55.6)	(24.7)
Long-term net flows	2.1	(4.1)	6.2	10.4	1.4	9.0
Net flows in institutional money market funds	(2.3)	(2.3)	—	6.1	6.1	—
Market gains and (losses)/reinvestment	21.8	16.6	5.2	16.1	14.2	1.9
Foreign currency translation	(0.3)	(0.2)	(0.1)	4.6	4.5	0.1
June 30	646.6	539.0	107.6	653.7	561.9	91.8
Average long-term AUM	585.6	478.6	107.0	573.6	483.5	90.1
Average institutional money market AUM	69.1	69.1	—	67.9	67.9	—
Average AUM	654.7	547.7	107.0	641.5	551.4	90.1
Gross revenue yield on AUM(1)	62.7bps	73.3bps	8.8bps	65.7bps	74.7bps	11.1bps
Gross revenue yield on AUM before performance fees(1)	61.6bps	72.0bps	8.8bps	65.4bps	74.3bps	11.1bps
Net revenue yield on AUM(2)	44.2bps	51.2bps	8.8bps	46.0bps	51.7bps	11.1bps
Net revenue yield on AUM before performance fees(2)	43.1bps	50.1bps	8.8bps	45.6bps	51.3bps	11.1bps

(1) Gross revenue yield on AUM is equal to annualized total operating revenues divided by average AUM, excluding joint venture (JV) AUM. Our share of the average AUM in the six months ended June 30, 2012 for our JVs in China was $3.0 billion (six months ended June 30, 2011: $3.5 billion). It is appropriate to exclude the average AUM of our JVs for purposes of computing gross revenue yield on AUM, because the revenues resulting from these AUM are not presented in our operating revenues. Under U.S. GAAP, our share of the pre-tax earnings of the JVs is recorded as equity in earnings of unconsolidated affiliates on our Condensed Consolidated Statements of Income.

(2) Net revenue yield on AUM is equal to annualized net revenues divided by average AUM. See “Schedule of Non-GAAP Information” for a reconciliation of operating revenues to net revenues.

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Our AUM by channel, by asset class, and by client domicile were as follows:

Total AUM by Channel[1]

$ in billions	Total	Retail	Institutional	Private Wealth Management
January 1, 2012 AUM	625.3	373.9	233.5	17.9
Long-term inflows	80.0	65.7	12.4	1.9
Long-term outflows	(77.9)	(61.2)	(15.6)	(1.1)
Long-term net flows	2.1	4.5	(3.2)	0.8
Net flows in institutional money market funds	(2.3)	—	(2.3)	—
Market gains and (losses)/reinvestment	21.8	17.8	3.8	0.2
Foreign currency translation	(0.3)	0.5	(0.8)	—
June 30, 2012 AUM	646.6	396.7	231.0	18.9
January 1, 2011 AUM	616.5	378.1	221.4	17.0
Long-term inflows	90.7	69.7	19.3	1.7
Long-term outflows	(80.3)	(62.7)	(16.2)	(1.4)
Long-term net flows	10.4	7.0	3.1	0.3
Net flows in institutional money market funds	6.1	—	6.1	—
Market gains and (losses)/reinvestment	16.1	13.5	2.4	0.2
Foreign currency translation	4.6	3.1	1.5	—
June 30, 2011 AUM	653.7	401.7	234.5	17.5

Passive AUM by Channel[1]

$ in billions	Total	Retail	Institutional	Private Wealth Management
January 1, 2012 AUM	96.3	76.9	19.4	—
Long-term inflows	28.8	26.7	2.1	—
Long-term outflows	(22.6)	(21.8)	(0.8)	—
Long-term net flows	6.2	4.9	1.3	—
Net flows in institutional money market funds	—	—	—	—
Market gains and (losses)/reinvestment	5.2	5.1	0.1	—
Foreign currency translation	(0.1)	—	(0.1)	—
June 30, 2012 AUM	107.6	86.9	20.7	—
January 1, 2011 AUM	80.8	70.6	10.2	—
Long-term inflows	33.7	28.1	5.6	—
Long-term outflows	(24.7)	(24.0)	(0.7)	—
Long-term net flows	9.0	4.1	4.9	—
Net flows in institutional money market funds	—	—	—	—
Market gains and (losses)/reinvestment	1.9	2.0	(0.1)	—
Foreign currency translation	0.1	—	0.1	—
June 30, 2011 AUM	91.8	76.7	15.1	—

See accompanying notes to these AUM tables on the following page.

Total AUM by Asset Class[2]

$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives[3]
January 1, 2012 AUM	625.3	271.0	149.0	44.6	74.0	86.7
Long-term inflows	80.0	42.2	17.7	9.5	1.4	9.2
Long-term outflows	(77.9)	(45.0)	(15.2)	(4.1)	(1.8)	(11.8)
Long-term net flows	2.1	(2.8)	2.5	5.4	(0.4)	(2.6)
Net flows in institutional money market funds	(2.3)	—	—	—	(2.3)	—
Market gains and (losses)/reinvestment	21.8	15.6	4.1	1.4	(0.3)	1.0
Foreign currency translation	(0.3)	—	—	0.1	—	(0.4)
June 30, 2012 AUM	646.6	283.8	155.6	51.5	71.0 [5]	84.7
January 1, 2011 AUM	616.5	294.0	132.0	43.5	68.3	78.7
Long-term inflows	90.7	47.9	22.1	4.8	0.7	15.2
Long-term outflows	(80.3)	(53.3)	(12.0)	(4.6)	(0.9)	(9.5)
Long-term net flows	10.4	(5.4)	10.1	0.2	(0.2)	5.7
Net flows in institutional money market funds	6.1	—	—	—	6.1	—
Market gains and (losses)/reinvestment[6]	16.1	10.5	3.1	0.1	0.2	2.2
Foreign currency translation	4.6	2.8	0.6	0.7	—	0.5
June 30, 2011 AUM	653.7	301.9	145.8	44.5	74.4	87.1

Passive AUM by Asset Class[2]

$ in billions	Total	Equity	Fixed Income	Balanced	Money Market	Alternatives[3]
January 1, 2012 AUM	96.3	45.6	30.0	—	—	20.7
Long-term inflows	28.8	21.6	4.8	—	—	2.4
Long-term outflows	(22.6)	(17.7)	(1.2)	—	—	(3.7)
Long-term net flows	6.2	3.9	3.6	—	—	(1.3)
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	5.2	5.1	0.3	—	—	(0.2)
Foreign currency translation	(0.1)	—	—	—	—	(0.1)
June 30, 2012 AUM	107.6	54.6	33.9	—	—	19.1
January 1, 2011 AUM	80.8	42.8	19.8	—	—	18.2
Long-term inflows	33.7	21.2	7.5	—	—	5.0
Long-term outflows	(24.7)	(19.7)	(0.8)	—	—	(4.2)
Long-term net flows	9.0	1.5	6.7	—	—	0.8
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	1.9	1.4	0.2	—	—	0.3
Foreign currency translation	0.1	—	—	—	—	0.1
June 30, 2011 AUM	91.8	45.7	26.7	—	—	19.4

See accompanying notes to these AUM tables on the following page.

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Total AUM by Client Domicile[5]

$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
January 1, 2012 AUM	625.3	430.0	23.4	89.8	32.0	50.1
Long-term inflows	80.0	54.9	1.7	6.7	10.2	6.5
Long-term outflows	(77.9)	(51.2)	(2.6)	(8.1)	(8.0)	(8.0)
Long-term net flows	2.1	3.7	(0.9)	(1.4)	2.2	(1.5)
Net flows in institutional money market funds	(2.3)	(2.2)	0.1	0.1	0.1	(0.4)
Market gains and (losses)/reinvestment	21.8	15.8	0.9	4.0	0.1	1.0
Foreign currency translation	(0.3)	—	—	0.3	—	(0.6)
June 30, 2012 AUM	646.6	447.3	23.5	92.8	34.4	48.6
January 1, 2011 AUM	616.5	415.4	27.9	92.1	35.3	45.8
Long-term inflows	90.7	60.3	1.4	7.8	9.7	11.5
Long-term outflows	(80.3)	(53.6)	(3.2)	(7.5)	(9.5)	(6.5)
Long-term net flows	10.4	6.7	(1.8)	0.3	0.2	5.0
Net flows in institutional money market funds	6.1	6.4	0.1	(0.5)	0.1	—
Market gains and (losses)/reinvestment	16.1	11.4	0.5	3.0	1.3	(0.1)
Foreign currency translation	4.6	—	0.8	2.2	1.0	0.6
June 30, 2011 AUM	653.7	439.9	27.5	97.1	37.9	51.3

Passive AUM by Client Domicile[5]

$ in billions	Total	U.S.	Canada	U.K.	Continental Europe	Asia
January 1, 2012 AUM	96.3	89.6	—	—	1.3	5.4
Long-term inflows	28.8	28.5	—	—	0.2	0.1
Long-term outflows	(22.6)	(22.4)	—	—	(0.2)	—
Long-term net flows	6.2	6.1	—	—	—	0.1
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	5.2	5.0	—	—	0.1	0.1
Foreign currency translation	(0.1)	—	—	—	—	(0.1)
June 30, 2012 AUM	107.6	100.7	—	—	1.4	5.5
January 1, 2011 AUM	80.8	77.3	—	—	1.2	2.3
Long-term inflows	33.7	33.4	—	—	0.3	—
Long-term outflows	(24.7)	(24.5)	—	—	(0.2)	—
Long-term net flows	9.0	8.9	—	—	0.1	—
Net flows in institutional money market funds	—	—	—	—	—	—
Market gains and (losses)/reinvestment	1.9	1.8	—	—	0.1	—
Foreign currency translation	0.1	—	—	—	—	0.1
June 30, 2011 AUM	91.8	88.0	—	—	1.4	2.4

(1)

Channel refers to the distribution channel from which the AUM originated. Retail AUM arose from client investments into funds available to the public with shares or units. Institutional AUM originated from individual corporate clients, endowments, foundations, government authorities, universities, or charities. Private Wealth Management AUM arose from high net worth client investments.

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(2) Asset classes are descriptive groupings of AUM by common type of underlying investments.

(3) The alternatives asset class includes absolute return, real estate, commodities, currencies, financial structures, Global Macro, REITS, private capital, and Risk Premia Capture.

(4) Ending Money Market AUM includes $67.0 billion in institutional money market AUM and $4.0 billion in retail money market AUM.

(5) Client domicile disclosure groups AUM by the domicile of the underlying clients.

(6) As a result of fund mergers in the second quarter of 2011, the market gains and losses / reinvestment line includes $0.9 billion transferred from the balanced to the equity asset class.

Results of Operations for the six months ended June 30, 2012 compared with the six months ended June 30, 2011
Adoption of Guidance now encompassed in Accounting Standards Codification (ASC) Topic 810, “Consolidation”
The company provides investment management services to, and has transactions with, various private equity, real estate, fund-of-funds, collateralized loan obligation products (CLOs), and other investment entities sponsored by the company for the investment of client assets in the normal course of business. The company serves as the investment manager, making day-to-day investment decisions concerning the assets of the products. Certain of these entities are consolidated under variable interest or voting interest entity consolidation guidance. See Part I, Item 1, Financial Statements — Note 11, “Consolidated Investment Products,” for additional details.
The guidance now encompassed in ASC Topic 810, which was effective January 1, 2010, had a significant impact on the presentation of the company’s financial statements, as its provisions required the company to consolidate certain CLOs that were not previously consolidated.
The majority of the company’s consolidated investment products balances were CLO-related as of June 30, 2012. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company’s minimal direct investments in, and management fees generated from, the CLOs. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Conversely, if the CLOs were to liquidate, their investors would have no recourse to the general credit of the company. The company therefore does not consider this debt to be a company liability. The discussion that follows will separate consolidated investment product results of operations from the company’s investment management operations through the use of non-GAAP financial measures. See “Schedule of Non-GAAP Information” for additional details and reconciliations of the most directly comparable U.S. GAAP measures to the non-GAAP measures.

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Condensed Consolidating Statements of Income

$ in millions	Before Consolidation[1]	Subtotal - Impact of Consolidated Investment Products	Total
Six months ended June 30, 2012			
Total operating revenues	2,063.6	(20.9)	2,042.7
Total operating expenses	1,589.2	20.8	1,610.0
Operating income	474.4	(41.7)	432.7
Equity in earnings of unconsolidated affiliates	16.0	0.6	16.6
Interest and dividend income	11.5	130.8	142.3
Other investment income/(losses)	10.8	(44.6)	(33.8)
Interest expense	(27.0)	(92.5)	(119.5)
Income before income taxes	485.7	(47.4)	438.3
Income tax provision	(135.9)	—	(135.9)
Net income	349.8	(47.4)	302.4
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	—	45.4	45.4
Net income attributable to common shareholders	349.8	(2.0)	347.8

$ in millions	Before Consolidation[1]	Subtotal - Impact of Consolidated Investment Products	Total
Six months ended June 30, 2011			
Total operating revenues	2,120.5	(23.2)	2,097.3
Total operating expenses	1,631.3	7.3	1,638.6
Operating income	489.2	(30.5)	458.7
Equity in earnings of unconsolidated affiliates	18.4	(0.9)	17.5
Interest and dividend income	7.3	151.2	158.5
Other investment income/(losses)	13.9	(150.2)	(136.3)
Interest expense	(32.2)	(86.5)	(118.7)
Income before income taxes	496.6	(116.9)	379.7
Income tax provision	(151.0)	—	(151.0)
Net income	345.6	(116.9)	228.7
Net (income)/loss attributable to noncontrolling interests in consolidated entities, net	0.1	131.7	131.8
Net income attributable to common shareholders	345.7	14.8	360.5

(1) The Before Consolidation column includes Invesco's equity interest in the investment products accounted for as equity method (private equity and real estate partnership funds) and available-for-sale investments (CLOs). Upon consolidation of the CLOs, the company's and the CLOs' accounting policies were effectively aligned, resulting in the reclassification of the company's loss for the six months ended June 30, 2012 of $1.9 million (representing the decrease in the market value of the company's holdings in the consolidated CLOs) from other comprehensive income into other gains/losses (six months ended June 30, 2011: $15.0 million). The company's loss (gain) on its investments in the CLOs (before consolidation) eliminates with the company's share of the offsetting gain (loss) on the CLOs' debt. The net income arising from consolidation of CLOs is therefore completely attributed to other

investors in these CLOs, as the company's share has been eliminated through consolidation.

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Operating Revenues and Net Revenues

The main categories of revenues, and the dollar and percentage change between the periods, were as follows:

	Six months ended June 30,				
$ in millions	2012		2011	$ Change	% Change
Investment management fees	1,572.0		1,611.4	(39.4)	(2.4)%
Service and distribution fees	376.1		410.1	(34.0)	(8.3)%
Performance fees	35.9		11.4	24.5	214.9 %
Other	58.7		64.4	(5.7)	(8.9)%
Total operating revenues	2,042.7		2,097.3	(54.6)	(2.6)%
Third-party distribution, service and advisory expenses	(633.7)		(666.3)	32.6	(4.9)%
Proportional share of revenues, net of third-party distribution expenses, from joint venture investments	18.5		21.2	(2.7)	(12.7)%
Management fees earned from consolidated investment products	20.1		23.3	(3.2)	(13.7)%
Performance fees earned from consolidated investment products	0.8	35,600,000	—	0.8	N/A
Net revenues	1,448.4		1,475.5	(27.1)	(1.8)%

Operating revenues decreased by $54.6 million (2.6%) in the six months ended June 30, 2012 to $2,042.7 million (six months ended June 30, 2011: $2,097.3 million). Net revenues decreased by $27.1 million (1.8%) in the six months ended June 30, 2012 to $1,448.4 million (six months ended June 30, 2011: $1,475.5 million). Net revenues are operating revenues less third-party distribution, service and advisory expenses, plus our proportional share of net revenues from joint venture arrangements, plus management and performance fees earned from, less other revenues recorded by, consolidated investment products. See “Schedule of Non-GAAP Information” for additional important disclosures regarding the use of net revenues. A significant portion of our business and managed AUM are based outside of the U.S. The income statements of foreign currency subsidiaries are translated into U.S. dollars, the reporting currency of the company, using average foreign exchange rates. The impact of foreign exchange rate movements accounted for $21.7 million (39.7%) of the decrease in operating revenues, and was 1.1% of total operating revenues, during the six months ended June 30, 2012 when compared to the six months ended June 30, 2011. Additionally, our revenues are directly influenced by the level and composition of our AUM as more fully discussed above. Movements in global capital market levels, net new business inflows (or outflows) and changes in the mix of investment products between asset classes and geographies may materially affect our revenues from period to period.

Investment management fees

Investment management fees decreased by $39.4 million (2.4%) in the six months ended June 30, 2012 to $1,572.0 million (six months ended June 30, 2011: $1,611.4 million) due primarily to changes in the mix of AUM between asset classes, together with the impact of foreign exchange rate movement. The impact of foreign exchange rate movements accounted for $19.1 million (48.5%) of the decrease in investment management fees during the six months ended June 30, 2012, compared to the six months ended June 30, 2011. As discussed above, the net revenue yield is lower in the current period due to changes in the composition of our AUM. The weighting of AUM flows out of active and into passive products has lowered the net revenue yield, despite the increase in average AUM. In addition, management fees have reduced due to the acquisition integration-related U.S. mutual fund mergers that commenced in June 2011, some of which lapsed in mid-2012. As previously discussed, acquisition integration-related fee waivers amounted to approximately $30 million on an annualized basis. See the company's disclosures regarding the changes in AUM and revenue yields during the six months ended June 30, 2012 in the “Assets Under Management” section above for additional information regarding the movements in AUM. Investment management fees were also impacted by foreign exchange rate movement in AUM.

Service and distribution fees

In the six months ended June 30, 2012, service and distribution fees decreased by $34.0 million (8.3%) to $376.1 million, (six months ended June 30, 2011: $410.1 million) due primarily to decreases in distribution and redemption fees of $12.9 million, transfer agency fees of $11.3 million and administration and custodial fees of $8.0 million. The fee reductions are attributable to the fund mergers and fee waivers associated with the U.S. mutual fund product realignment, the continued conversion of B-share fee structures to class A-shares that generate a lower annual service fee, and other changes in the AUM mix as a larger percentage of AUM charges no or lower distribution fees. The impact of foreign exchange rate movements accounted for $1.8 million of decrease in service and distribution fees during the six months ended June 30, 2012 compared to the six months ended June 30, 2012.

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Performance fees

Of our $646.6 billion in AUM at June 30, 2012, only approximately $50.3 billion, or 7.8%, could potentially earn performance fees. In the six months ended June 30, 2012 recognized performance fees were $35.9 million, an increase of $24.5 million from the comparative period (six months ended June 30, 2011: $11.4 million). The performance fees generated in the six months ended June 30, 2012 arose primarily from a bank loan partnership managed by our fixed income group, products managed in the U.K, and the real estate group. The performance fees generated in the six months ended June 30, 2011 arose primarily due to products managed in the U.K., in our private equity group and in Asia Pacific.

Other revenues

In the six months ended June 30, 2012, other revenues decreased by $5.7 million (8.9%) to $58.7 million (six months ended June 30, 2011: $64.4 million). Other revenues included an increase of $6.1 million in acquisition and disposition fees, offset by decreases in mutual funds front end fees of $5.1million, UIT revenues of $3.8 million, other revenues of $1.7 million and transaction commissions of $0.5 million during the six months ended June 30, 2012 compared to six months ended June 30, 2011. The impact of foreign exchange rate movements accounted for $0.7 million (12.3%) of the decrease in other revenues during the six months ended June 30, 2012, compared to the six months ended June 30, 2011.

Third-party distribution, service and advisory expenses

Third-party distribution, service and advisory expenses decreased by $32.6 million (4.9%) in the six months ended June 30, 2012 to $633.7 million (six months ended June 30, 2011: $666.3 million). The decrease in third-party distribution, service and advisory expenses is closely linked to the reduction in service and distribution fees and investment management fees over this period. The reduction in third-party distribution, service and advisory expenses expenses include decreases in distribution fees of $9.6 million, renewal commissions of $7.0 million, external commissions of $5.0 million, sub advisory fees of $2.8 million and transfer agent fees of $0.5 million. The impact of foreign exchange rate movements accounted for $7.7 million of the decrease in third-party distribution, service and advisory expenses

Proportional share of revenues, net of third-party distribution expenses, from joint venture investments

Management believes that the addition of our proportional share of revenues, net of third-party distribution expenses, from joint venture arrangements should be added to operating revenues to arrive at net revenues, as it is important to evaluate the contribution to the business that our joint venture arrangements are making. See “Schedule of Non-GAAP Information” for additional disclosures regarding the use of net revenues.

Our proportional share of revenues, net of third-party distribution expenses decreased by $2.7 million (12.7%) to $18.5 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $21.2 million). Our share of the Invesco Great Wall joint venture’s average AUM in the six months ended June 30, 2012 was $3.0 billion (six months ended June 30, 2011: $3.5 billion).

Management and performance fees earned from consolidated investment products

Management believes that the consolidation of investment products may impact a reader’s analysis of our underlying results of operations and could result in investor confusion or the production of information about the company by analysts or external credit rating agencies that is not reflective of the underlying results of operations and financial condition of the company. Accordingly, management believes that it is appropriate to adjust operating revenues for the impact of consolidated investment products in calculating net revenues. As management and performance fees earned by Invesco from the consolidated products are eliminated upon consolidation of the investment products, management believes that it is appropriate to add these operating revenues back in the calculation of net revenues. See “Schedule of Non-GAAP Information” for additional disclosures regarding the use of net revenues.

Management and performance fees earned from consolidated investment products decreased by $2.4 million (10.3%) to $20.9 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $23.3 million), primarily due to the impact of funds deconsolidated as of March 31, 2012.

Other revenues recorded by consolidated investment products

Operating revenues of consolidated investment products are included in U.S. GAAP operating revenues resulting from the consolidation of investment products into the company’s results of operations. Management believes that this

consolidation could impact a reader's analysis of our underlying results of operations. Therefore, management believes that it is appropriate to deduct operating revenues of consolidated investment products in calculating net revenues. See "Schedule of Non-GAAP Information" for additional disclosures regarding the use of net revenues.

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Operating Expenses

The main categories of operating expenses, and the dollar and percentage changes between periods, are as follows:

$ in millions	Six months ended June 30, 2012	2011	$ Change	% Change
Employee compensation	623.1	624.2	(1.1)	(0.2)%
Third-party distribution, service and advisory	633.7	666.3	(32.6)	(4.9)%
Marketing	53.3	51.8	1.5	2.9%
Property, office and technology	135.3	125.9	9.4	7.5%
General and administrative	162.0	151.2	10.8	7.1%
Transaction and integration	2.6	19.2	(16.6)	(86.5)%
Total operating expenses	1,610.0	1,638.6	(28.6)	(1.7)%

The table below sets forth these cost categories as a percentage of total operating expenses and operating revenues, which we believe provides useful information as to the relative significance of each type of expense:

Six months ended:

$ in millions	June 30, 2012	% of Total Operating Expenses	% of Operating Revenues	June 30, 2011	% of Total Operating Expenses	% of Operating Revenues
Employee compensation	623.1	38.7%	30.5%	624.2	38.1%	29.8%
Third-party distribution, service and advisory	633.7	39.4%	31.0%	666.3	40.6%	31.8%
Marketing	53.3	3.3%	2.6%	51.8	3.2%	2.5%
Property, office and technology	135.3	8.4%	6.6%	125.9	7.7%	6.0%
General and administrative	162.0	10.1%	7.9%	151.2	9.2%	7.2%
Transaction and integration	2.6	0.1%	0.2%	19.2	1.2%	0.9%
Total operating expenses	1,610.0	100.0%	78.8%	1,638.6	100.0%	78.2%

During the six months ended June 30, 2012, operating expenses decreased by $28.6 million (1.7%) to $1,610.0 million (six months ended June 30, 2011: $1,638.6 million). The impact of foreign exchange rate movements accounted for $20.6 million (72.0%) of the decrease in operating expenses, and was 1.3% of total operating expenses, during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

Employee Compensation

Employee compensation decreased $1.1 million (0.2%) to $623.1 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $624.2 million). Employee compensation was reduced by a decrease in staff benefits expense of $8.9 million due primarily to $10.0 million prepaid compensation amortized expenses related to the 2006 acquisition of W.L. Ross & Co which was fully amortized in 2011. Staff related costs, including payroll taxes and termination costs, decreased $0.9 million, offset by increases in base salaries and variable compensation of $6.2 million during the six months ended June 30, 2012 from the six months ended June 30, 2011. Also included in compensation expenses are share-based costs which had an increase of $10.7 million during the six months ended June 30, 2012 compared to six months ended June 30, 2011. The increase in share-based compensation costs during the period reflects a previous change in our vesting service period from three to four years, which results in 2012 being the first year with four award tranches being expensed, as compared to three award tranches in previous years. The impact of foreign exchange rate movements reduced employee compensation by $8.2 million, during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

Headcount at June 30, 2012 was 6,141 (June 30, 2011: 6,189).

Third-Party Distribution, Service and Advisory Expenses

Third-party distribution, service and advisory expenses are discussed above in the operating and net revenues section.

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Marketing

Marketing expenses increased by $1.5 million (2.9%) in the six months ended June 30, 2012 to $53.3 million (six months ended June 30, 2011: $51.8 million). The increase during the six months ended June 30, 2012 includes an increase in advertising expense of $3.4 million, an increase in client event expense of $1.3 million, and other marketing costs of $1.5 million, offset by decreases in corporate sponsorships of $3.0 million, sales literature and research of $0.5 million, and marketing-related travel expense of $0.3 million, as compared to the six months ended June 30, 2011. The impact of foreign exchange rate movements reduced marketing expenses by $0.9 million during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

Property, Office and Technology

Property, office and technology expenses increased by $9.4 million (7.5%) to $135.3 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $125.9 million). Property and office expenses increased $5.5 million over the comparable 2011 period, due to increases in rent expense of $3.3 million, depreciation and improvement repairs of $1.8 million, and property management and service charges of $0.4 million. The increase in rent expense includes a $1.7 million exit charge for leased space, related to consolidation of office space. Technology and communications expenses increased $5.7 million due to increases in depreciation and maintenance expenses of $3.7 million, outsourced administration of $1.0 million, and other property, office and technology costs, to include software purchases and telephone communications of $1.2 million, offset by a decrease in programing and consulting costs of $0.2 million compared to the six months ended June 30, 2011. The impact of foreign exchange rate movements reduced the increase in property, office and technology expenses by $1.8 million during the six months ended June 30, 2012 as compared to the six months ended June 30, 2011.

General and Administrative

General and administrative expenses increased by $10.8 million (7.1%) to $162.0 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $151.2 million). Increase in general and administrative expense is driven by expenses of our consolidated investment products, including legal and fund launch costs recorded by the consolidated products, which added $10.8 million for the six months ended June 30, 2012, as compared to the six months ended June 30, 2011.

Transaction and integration

Transaction and integration charges were $2.6 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $19.2 million) and relate to the business acquired in 2010. Transaction and integration expenses during the six months ended June 30, 2012 include $2.3 million relating to the final round of open-ended fund mergers and include professional services and shareholder communications costs and $0.3 million in marketing and property, office and technology costs. Transaction and integration expenses for the six months ended June 30, 2011 include $2.4 million of employee compensation costs, $1.1 million of property and office, $1.0 million of technology and communication costs and $14.4 million of professional services, principally legal, proxy solicitation, consultancy and insurance.

Operating Income, Adjusted Operating Income, Operating Margin and Adjusted Operating Margin

Operating income decreased by $26.0 million (5.7%) to $432.7 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $458.7 million). Operating margin (operating income divided by operating revenues), decreased from 21.9% in the six months ended June 30, 2011 to 21.2% in the six months ended June 30, 2012. The decrease in operating income and margin resulted from a greater relative increase in operating revenues (2.6%) than in operating expenses (1.7%) during the period. Adjusted operating income, decreased by $38.7 million (6.9%) to $518.2 million in the six months ended June 30, 2012 from $556.9 million in the six months ended June 30, 2011. Adjusted operating margin is equal to adjusted operating income divided by net revenues. Adjusted operating margin decreased to 35.8% in the six months ended June 30, 2012 from 37.7% in the six months ended June 30, 2011. See “Schedule of Non-GAAP Information” for definitions of these measures and a reconciliation of operating revenues to net revenues, a reconciliation of operating income to adjusted operating income and additional important disclosures regarding net revenues, adjusted operating income and adjusted operating margin.

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Other Income and Expenses

The main categories of other income and expenses, and the dollar and percentage changes between periods are as follows:

	Six months ended June 30,			
$ in millions	2012	2011	$ Change	% Change
Equity in earnings of unconsolidated affiliates	16.6	17.5	(0.9)	(5.1)%
Interest and dividend income	4.6	4.5	0.1	2.2%
Interest income of consolidated investment products	137.7	154.0	(16.3)	(10.6)%
Other gains/(losses) of consolidated investment products, net	(44.7)	(150.2)	105.5	(70.2)%
Interest expense	(27.0)	(32.2)	5.2	(16.1)%
Interest expense of consolidated investment products	(92.5)	(86.5)	(6.0)	6.9%
Other gains and losses, net	10.9	13.9	(3.0)	(21.6)%
Total other income and expenses	5.6	(79.0)	84.6	(107.1)%

Equity in earnings of unconsolidated affiliates

Equity in earnings of unconsolidated affiliates decreased by $0.9 million (5.1%) to $16.6 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $17.5 million). The decrease in equity in earnings is primarily driven from the declines in our pre-tax earnings of our joint venture investments in China of $1.8 million, offset by an increase of $0.9 million in our share of the market-driven valuation changes in the underlying holdings of certain partnership investments, including our investment in Invesco Mortgage Capital Inc.

Interest and dividend income and interest expense

Interest and dividend income increased by $0.1 million (2.2%) to $4.6 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $4.5 million). The six months ended June 30, 2012 increase in interest and dividend income includes an increase in income earned on investments of $0.4 million, offset by a decrease in dividend income of $0.3 million on investments held to hedge economically deferred compensation plans. This dividend income is passed through to employee participants in the deferred compensation plans. See “Schedule of Non-GAAP Information” for additional details. Interest expense decreased by $5.2 million (16.1%) to $27.0 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $32.2 million) due to a combination of lower average debt balances and lower borrowing costs versus the comparative period.

Other gains and losses, net

Other gains and losses, net were a net gain of $10.9 million in the six months ended June 30, 2012 as compared to a net gain of $13.9 million in the six months ended June 30, 2011. Included in other gains and losses for the six months ended June 30, 2012 is a net gain of $7.7 million resulting from the appreciation of investments held for our deferred compensation plans (six months ended June 30, 2011: $7.4 million net gain), a $3.5 million gain on an acquisition related loan note held to hedge the company's net interest in a consolidated investment products, and net realized gains on seed and other investments of $1.5 million (six months ended June 30, 2011: $6.3 million net gains). These gains in other gains and losses net were offset by a net loss of $1.2 million related to the mark-to-market of 12-month foreign exchange put option contracts intended to provide protection against the impact of a significant decline in the pound sterling/U.S dollar foreign exchange rate. We incurred $0.9 million in other-than-temporary impairment charges related to seed money investments during the six months ended June 30, 2012 (six months ended June 30, 2011: none).

Non-operating income and expense of consolidated investment products

In the six months ended June 30, 2012, interest income of consolidated investment products decreased by $16.3 million (10.6%) to $137.7 million (six months ended June 30, 2011: $154.0 million) primarily due to lower fee income associated with CLO collateral asset restructuring in 2012 versus 2011 and the impact of CLO deconsolidation as of the beginning of the first quarter of 2012. Interest expense of consolidated investment products increased by $6.0 million (6.9%) to $92.5 million (six months ended June 30, 2011: $86.5 million) primarily due to interest expense payments on junior tranches of the CLO notes that do not bear interest at a stated rate.

Included in other gains/(losses) of consolidated investment products, net, are realized and unrealized gains and losses on the underlying investments and debt of consolidated investment products. In the six months ended June 30, 2012, other gains/(losses) of consolidated investment products were a net loss of $44.7 million, as compared to a net loss of $150.2 million in the six months ended June 30, 2011. The net loss in the 2012 period is primarily due to losses associated with real estate investments and increases in the market value long-term debt of CLOs that more than offset gains in the market value of investments held by CLOs. The net loss in the 2011 period is primarily due to an increase in the market value of long term debt

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of consolidated investment products which exceeded the increase in the market value of investments of consolidated investment products.

Net impact of consolidated investment products and related noncontrolling interests in noncontrolling entities

As illustrated in the Condensed Consolidating Statements of Income for the six months ended June 30, 2012 and 2011 at the beginning of this Results of Operations section, the consolidation of investment products during the six months ended June 30, 2012 resulted in a decrease to net income of $47.4 million before attribution to noncontrolling interests (six months ended June 30, 2011: $116.9 million decrease to net income). Invesco invests in only a portion of these products, and as a result this net loss is offset by noncontrolling interests of $45.4 million (six months ended June 30, 2011: $131.7 million offset to net loss), resulting in a decrease in net income of the company of $1.9 million (six months ended June 30, 2011: $15.0 million net increase).

Noncontrolling interests in consolidated entities represent the profit or loss amounts attributed to third party investors in consolidated investment products. Movements in amounts attributable to noncontrolling interests in consolidated entities on the company's Consolidated Statements of Income generally offset the gains and losses, interest income and interest expense of consolidated investment products.

Additionally, consolidated investment products represent approximately 1% of the company's AUM. Therefore, the net gains or losses of consolidated investment products is not indicative of the performance of the company's aggregate assets under management.

Income Tax Expense

The company's subsidiaries operate in several taxing jurisdictions around the world, each with its own statutory income tax rate. As a result, the blended average statutory tax rate will vary from year to year depending on the mix of the profits and losses of the company's subsidiaries. The majority of our profits are earned in the U.S., the U.K., and Canada.

The enacted U.K. statutory tax rate, for U.S. GAAP purposes, was 25% as of June 30, 2012. On March 26, 2012, the U.K. Parliament approved a rate reduction to 24%, effective April 1, 2012, and a further rate reduction to 23% effective April 1, 2013. However, the measures are not enacted for U.S. GAAP purposes (and cannot be accounted for) until Royal Assent is received, which did not occur until July 17, 2012. An additional reduction to the rate has been proposed as part of the U.K. Budget to reduce the rate to 22% beginning April 1, 2014.

On June 20, 2012, the Ontario government successfully introduced and passed Bill 114, which repealed the enacted general corporate income tax rate reductions scheduled to take effect in 2012 and 2013. The Canadian federal and provincial statutory tax rate increased to 26.5% in June from the previous rate of 26.25%. The U.S. Federal statutory tax rate was 35%.

Our effective tax rate, excluding noncontrolling interests in consolidated entities, for the six months ended June 30, 2012 was 28.1%, down from 29.5% for the six months ended June 30, 2011. The six months ended June 30, 2012 rate reflects a favorable profit mix and the impact of U.K. statutory tax rate reductions that was enacted in 2011 and effective for 2012.

Schedule of Non-GAAP Information

We are presenting the following non-GAAP performance measures: net revenue (and by calculation, net revenue yield on AUM), adjusted operating income (and by calculation, adjusted operating margin), adjusted net income attributable to common shareholders (and by calculation, adjusted diluted earnings per share (EPS)). We believe these non-GAAP measures provide greater transparency into our business and allow more appropriate comparisons with industry peers. Management uses these performance measures to evaluate the business, and they are consistent with internal management reporting. The most directly comparable U.S. GAAP measures are operating revenues (and by calculation, gross revenue yield on AUM), operating income (and by calculation, operating margin), net income (and by calculation, diluted EPS). Each of these measures is discussed more fully below.

These non-GAAP measures should not be considered as substitutes for any measures derived in accordance with U.S. GAAP and may not be comparable to other similarly titled measures of other companies. Additional reconciling items may be added in the future to these non-GAAP measures if deemed appropriate. The Schedule of Non-GAAP Information contained in the company’s most recent annual report on Form 10-K contains expanded definitions of

reconciling items from U.S. GAAP to non-GAAP information, including the reasons why management believes that the presentation of our non-GAAP measures provides useful information to investors.

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The following are reconciliations of operating revenues, operating income (and by calculation, operating margin), and net income (and by calculation, diluted EPS) on a U.S. GAAP basis to net revenues, adjusted operating income (and by calculation, adjusted operating margin), and adjusted net income attributable to common shareholders (and by calculation, adjusted EPS):

	Three months ended June 30,		Six months ended June 30,	
$ in millions, except per share data	2012	2011	2012	2011
Operating revenues, U.S. GAAP basis	1,009.0	1,070.0	2,042.7	2,097.3
Third-party distribution, service and advisory expenses[1]	(316.6)	(341.8)	(633.7)	(666.3)
Proportional share of net revenues from joint venture arrangements[2]	9.2	10.8	18.5	21.2
Management fees earned from consolidated investment products eliminated upon consolidation[3]	10.4	12.2	20.1	23.3
Performance fees earned from consolidated investment products eliminated upon consolidation[3]	0.1	—	0.8	—
Net revenues	712.1	751.2	1,448.4	1,475.5
Operating income, U.S. GAAP basis	202.9	233.0	432.7	458.7
Proportional share of operating income from joint venture investments[2]	3.5	5.0	8.0	10.2
Transaction and integration charges[4]	1.1	11.3	2.6	19.2
Amortization of acquisition-related prepaid compensation[4]	—	5.0	—	10.0
Amortization of other intangibles[4]	10.9	12.9	19.4	21.9
Change in contingent consideration estimates[4]	(0.2)	(6.4)	(2.3)	(6.4)
Compensation expense related to market valuation changes in deferred compensation plans[5]	(0.2)	2.5	6.3	6.6
Consolidation of investment products[3]	25.2	15.7	41.6	30.5
Other reconciling items[6]	5.8	5.8	9.9	6.2
Adjusted operating income	249.0	284.8	518.2	556.9
Operating margin*	20.1%	21.8%	21.2%	21.9%
Adjusted operating margin**	35.0%	37.9%	35.8%	37.7%
Net income attributable to common shareholders, U.S. GAAP basis	153.9	183.0	347.8	360.5
Transaction and integration charges, net of tax[4]	0.7	6.9	1.6	11.9
Amortization of acquisition-related prepaid compensation[4]	—	5.0	—	10.0
Amortization of other intangibles, net of tax[4]	10.1	11.8	17.6	19.6
Change in contingent consideration estimates[4]	(0.2)	(6.4)	(2.3)	(6.4)
Deferred compensation plan market valuation changes and dividend income less compensation expense, net of tax[5]	2.4	(1.5)	(2.7)	(2.2)
Deferred income taxes on intangible assets[4]	6.5	8.3	13.0	14.7
Consolidation of investment products[3]	6.2	(5.2)	2.0	(14.8)
Other reconciling items[6]	5.1	5.2	8.7	5.5
Adjusted net income attributable to common shareholders	184.7	207.1	385.7	398.8
Average shares outstanding — diluted	455.3	467.4	455.6	469.7
Diluted EPS	$0.34	$0.39	$0.76	$0.77
Adjusted diluted EPS***	$0.41	$0.44	$0.85	$0.85

*Operating margin is equal to operating income divided by operating revenues.

** Adjusted operating margin is equal to adjusted operating income divided by net revenues.

*** Adjusted diluted EPS is equal to adjusted net income attributable to common shareholders divided by the weighted average shares outstanding amount used in the calculation of diluted EPS.

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(1) Third-party distribution, service and advisory expenses
Third-party distribution, service and advisory expenses include renewal commissions, management fee rebates and distribution costs (12b-1 and marketing support) paid to brokers and independent financial advisors. While the terms used for these types of expense vary by geography, they are all expense items that are closely linked to the value of AUM and the revenue earned by Invesco from AUM. Since the company has been deemed to be the principal in the third-party arrangements, the company must reflect these expenses gross of operating revenues under U.S. GAAP. Management believes that the deduction of third-party distribution, service and advisory expenses from operating revenues in the computation of net revenues (and by calculation, net revenue yield on AUM) and the related computation of adjusted operating income (and by calculation, adjusted operating margin) appropriately reflects the nature of these expenses as revenue-sharing activities, as these costs are passed through to external parties who perform functions on behalf of, and distribute, the company's managed funds. Further, these expenses vary extensively by geography due to the differences in distribution channels. The net presentation assists in identifying the revenue contribution generated by the business, removing distortions caused by the differing distribution channel fees and allowing for a fair comparison with U.S. peer investment managers and within Invesco's own investment units. Additionally, management evaluates net revenue yield on AUM, which is equal to net revenues divided by average AUM during the reporting period. This financial measure is an indicator of the basis point net revenues we receive for each dollar of AUM we manage and is useful when evaluating the company's performance relative to industry competitors and within the company for capital allocation purposes.
(2) Proportional share of net revenues and operating income from joint venture investments
The company has two joint venture investments in China. Enhancing our operations in China is one effort that we believe could improve our competitive position over time. Accordingly, we believe that it is appropriate to evaluate the contribution of our joint venture investments to the operations of the business.
(3) Consolidated investment products
See Part I, Item 1, Financial Statements, Note 11, "Consolidated Investment Products" for a detailed analysis of the impact to the company's Condensed Consolidated Financial Statements from the consolidation of investment products. The reconciling items add back the management and performance fees earned by Invesco from the consolidated products and remove the revenues and expenses recorded by the consolidated products that have been included in the U.S. GAAP Condensed Consolidated Statements of Income.
(4) Acquisition-related reconciling items
Acquisition-related adjustments include transaction and integration expenses and intangible asset amortization related to acquired assets, amortization of prepaid compensation related to the 2006 acquisition of W.L. Ross & Co., and tax cash flow benefits resulting from tax amortization of goodwill and indefinite-lived intangible assets. These charges reflect the legal, regulatory, advisory, valuation, integration-related employee incentive awards and other professional or consulting fees, general and administrative costs, including travel costs related to the transaction and the costs of temporary staff involved in executing business combinations, and the post closing costs of integrating acquired businesses into the company's existing operations including incremental costs associated with achieving synergy savings. Transaction and integration expenses include legal costs related to the defense of auction rate preferred securities complaints raised in the pre-acquisition period with respect to various closed-end funds included in the acquisition. See Part I, Item 1, Financial Statements, Note 10, "Commitments and Contingencies" for additional information. Additionally, acquisition-related reconciling items include changes in estimates of acquisition earn-out liabilities booked from prior acquisitions, which is offset in the period by increased amortization related to the write-off of related management contract intangible assets.
(5) Market movement on deferred compensation plan liabilities
Certain deferred compensation plan awards involve a return to the employee linked to the appreciation (depreciation) of specified investments, typically the funds managed by the employee. Invesco hedges economically the exposure to market movements by holding these investments on its balance sheet. U.S. GAAP requires the appreciation (depreciation) in the compensation liability to be expensed over the award vesting period in proportion to the vested amount of the award as part of compensation expense. The full value of the investment appreciation (depreciation) is immediately recorded below operating income in other gains and losses. This creates a timing

difference between the recognition of the compensation expense and the investment gain or loss impacting net income attributable to common shareholders and diluted EPS which will reverse over the life of the award and net to zero at the end of the multi-year vesting period. During periods of high market volatility these timing differences impact compensation expense, operating income and operating margin in a manner which, over the life of the award, will ultimately be offset by gains and losses recorded below operating income on the Condensed Consolidated Statements

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of Income. The non-GAAP measures exclude the mismatch created by differing U.S. GAAP treatments of the market movement on the liability and the investments.
Additionally, dividend income from investments held to hedge economically deferred compensation plans is recorded as dividend income and as compensation expense on the company's Condensed Consolidated Statements of Income on the record dates. This dividend income is passed through to the employee participants in the plan and is not retained by the company. The non-GAAP measures exclude this dividend income and related compensation expense.
(6) Other reconciling items

- European infrastructure transformational initiative: As announced in 2011, the company is outsourcing its European transfer agency and is making certain structural changes to product and distribution platforms. Expenses incurred related to the European infrastructure activities are excluded in arriving at the non-GAAP financial information. For the second quarter 2012, this adjustment includes $1.2 million in compensation expenses, primarily due to severance costs (first quarter 2012: $1.2 million; second quarter 2011: $3.1 million); $2.5 million in general and administrative costs, primarily related to professional contractor services and mutual fund costs(first quarter 2012: $1.3 million; second quarter 2011: $2.5 million); $0.6 million in shareholder communication-related costs (first quarter 2012: $0.3 million; second quarter 2011: none); and $1.5 million of property, office and technology costs (first quarter 2012: $1.3 million; second quarter 2011: $0.2 million). The company's income tax provision included tax benefits of $1.5 million in the second quarter 2012 relating to this charge (first quarter 2012: $0.5 million; second quarter 2011: $0.6 million).
- Included within other gains and losses, net is a loss of $1.0 million related to the mark-to-market of four foreign exchange put option contracts intended to provide protection against the impact of a significant decline in the pound sterling/U.S dollar foreign exchange rate. The cost to the company of these contracts was $2.5 million at their inception date, which represents the company's maximum exposure to loss from the contracts over the 12-month cumulative contract period, and contract maturity ranges from September 25, 2012 to June 25, 2013. The adjustment from U.S. GAAP to non-GAAP earnings removes the impact of market volatility; therefore, the company's non-GAAP results include only the amortization of the cost of the contracts during the contract period. The company's income tax provision included tax benefits of $0.2 million in the second quarter 2012 relating to this loss.
- Included within general and administrative expenses in the first quarter of 2011 was an additional charge of $0.4 million relating to a levy from the U.K. Financial Services Compensation Scheme. Assessments were levied upon all Financial Services Authority (FSA)-registered investment management companies in proportion to their "eligible income" (as defined by the FSA) to cover claims resulting from failures of non-affiliated investment firms. The company's income tax provision included tax benefits of $0.1 million in the first quarter of 2011 relating to this charge.

Due to the unique character and/or magnitude of these items, their impact has been excluded in calculating the non-GAAP financial measures.

Balance Sheet Discussion
Condensed Consolidating Balance Sheets are presented below and reflect the consolidation of investment products. The majority of the company's consolidated investment products ("CIP") were CLOs as of June 30, 2012. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company's minimal direct investments in, and management fees generated from, CLOs. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Conversely, if the CLOs were to liquidate, their investors would have no recourse to the general credit of the company. The company therefore does not consider this debt to be a company liability. In the condensed consolidating balance sheets that follow, the Before Consolidation column includes Invesco's equity interest in the investment products, accounted for as equity method and available-for-sale investments and does not include any other adjustments related to non-GAAP financial measure presentation.

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Condensed Consolidating Balance Sheets

$ in millions	June 30, 2012			December 31, 2011			June 30, 2011		
	Before Consolidation	Impact of Consolidated investment products	Total	Before Consolidation	Impact of Consolidated investment products	Total	Before Consolidation	Impact of Consolidated investment products	Total
ASSETS									
Current assets									
Cash and cash equivalents	718.4	—	718.4	727.4	—	727.4	621.5	—	621.5
Cash and cash equivalents of CIP	—	380.5	380.5	—	382.3	382.3	—	622.2	622.2
Unsettled fund receivables	487.1	—	487.1	444.4	—	444.4	674.2	—	674.2
Accounts receivable	404.5	(6.1)	398.4	434.6	(10.2)	424.4	481.5	(16.4)	465.1
Accounts receivable of CIP	—	114.7	114.7	—	98.5	98.5	—	130.1	130.1
Investments	358.5	(14.0)	344.5	283.7	—	283.7	352.0	—	352.0
Prepaid assets	51.4	—	51.4	51.2	—	51.2	62.7	—	62.7
Other current assets	80.8	7.6	88.4	139.2	10.8	150.0	108.2	16.4	124.6
Deferred tax asset, net	24.2	—	24.2	28.7	—	28.7	33.1	—	33.1
Assets held for policyholders	1,065.4	—	1,065.4	1,243.5	—	1,243.5	1,373.2	—	1,373.2
Total current assets	3,190.3	482.7	3,673.0	3,352.7	481.4	3,834.1	3,706.4	752.3	4,458.7
Non-current assets									
Investments	303.9	(85.1)	218.8	293.4	(92.6)	200.8	284.0	(89.9)	194.1
Investments of CIP	—	6,050.9	6,050.9	—	6,629.0	6,629.0	—	7,349.7	7,349.7
Security deposit assets and receivables	75.0	—	75.0	81.2	—	81.2	152.0	—	152.0
Other non-current assets	18.4	—	18.4	17.9	—	17.9	26.9	—	26.9
Deferred sales commissions	43.8	—	43.8	40.5	—	40.5	43.2	—	43.2
Property and equipment, net	314.6	—	314.6	312.8	—	312.8	281.8	—	281.8
Intangible assets, net	1,302.3	—	1,302.3	1,322.8	—	1,322.8	1,318.6	—	1,318.6
Goodwill	6,916.1	—	6,916.1	6,907.9	—	6,907.9	7,090.6	—	7,090.6
Total non-current assets	8,974.1	5,965.8	14,939.9	8,976.5	6,536.4	15,512.9	9,197.1	7,259.8	16,456.9
Total assets	12,164.4	6,448.5	18,612.9	12,329.2	7,017.8	19,347.0	12,903.5	8,012.1	20,915.6

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Condensed Consolidating Balance Sheets (continued)

$ in millions	June 30, 2012 Before Consolidation	June 30, 2012 Impact of Consolidated investment products	June 30, 2012 Total	December 31, 2011 Before Consolidation	December 31, 2011 Impact of Consolidated investment products	December 31, 2011 Total	June 30, 2011 Before Consolidation	June 30, 2011 Impact of Consolidated investment products	June 30, 2011 Total
LIABILITIES AND EQUITY									
Current liabilities									
Current maturities of total debt	333.5	—	333.5	215.1	—	215.1	215.1	—	215.1
Unsettled fund payables	472.7	—	472.7	439.6	—	439.6	667.4	—	667.4
Income taxes payable	50.1	—	50.1	59.6	—	59.6	45.4	—	45.4
Other current liabilities	624.5	(8.5)	616.0	861.1	(19.6)	841.5	689.6	(18.9)	670.7
Other current liabilities of CIP	—	187.0	187.0	—	175.1	175.1	—	392.8	392.8
Policyholder payables	1,065.4	—	1,065.4	1,243.5	—	1,243.5	1,373.2	—	1,373.2
Total current liabilities	2,546.2	178.5	2,724.7	2,818.9	155.5	2,974.4	2,990.7	373.9	3,364.6
Non-current liabilities									
Long-term debt	1,008.1	—	1,008.1	1,069.6	—	1,069.6	1,368.6	—	1,368.6
Long-term debt of CIP	—	5,069.7	5,069.7	—	5,512.9	5,512.9	—	6,292.7	6,292.7
Deferred tax liabilities, net	307.8	—	307.8	274.0	—	274.0	269.6	—	269.6
Security deposits payable	75.0	—	75.0	81.2	—	81.2	152.0	—	152.0
Other non-current liabilities	308.8	—	308.8	297.3	—	297.3	270.3	—	270.3
Total non-current liabilities	1,699.7	5,069.7	6,769.4	1,722.1	5,512.9	7,235.0	2,060.5	6,292.7	8,353.2
Total liabilities	4,245.9	5,248.2	9,494.1	4,541.0	5,668.4	10,209.4	5,051.2	6,666.6	11,717.8
Equity									
Equity attributable to common shareholders									
Common shares	98.1	—	98.1	98.1	—	98.1	98.1	—	98.1
Additional paid-in-capital	6,100.2	—	6,100.2	6,180.6	—	6,180.6	6,152.6	—	6,152.6
Treasury shares	(1,301.5)	—	(1,301.5)	(1,280.4)	—	(1,280.4)	(1,203.5)	—	(1,203.5)
Retained earnings	2,597.3	30.0	2,627.3	2,381.3	31.9	2,413.2	2,129.7	26.7	2,156.4

Retained earnings appropriated for investors in CIP	—	251.8	251.8	—	334.3	334.3	—	340.2	340.2
Accumulated other comprehensive income, net of tax	419.9	(30.0)	389.9	404.1	(30.8)	373.3	670.7	(26.2)	644.5
Total equity attributable to common shareholders	7,914.0	251.8	8,165.8	7,783.7	335.4	8,119.1	7,847.6	340.7	8,188.3
Equity attributable to noncontrolling interests in consolidated entities	4.5	948.5	953.0	4.5	1,014.0	1,018.5	4.7	1,004.8	1,009.5
Total equity	7,918.5	1,200.3	9,118.8	7,788.2	1,349.4	9,137.6	7,852.3	1,345.5	9,197.8
Total liabilities and equity	12,164.4	6,448.5	18,612.9	12,329.2	7,017.8	19,347.0	12,903.5	8,012.1	20,915.6

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The company's Condensed Consolidated Statement of Changes in Equity in Part I, Item 1, "Financial Statements," contains a detailed analysis of the changes in balance sheet equity line items. The following discussion presents a comparative analysis of significant balance sheet assets and liabilities.

Cash and Cash Equivalents

See "Liquidity and Capital Resources — Cash Flows Discussion" for details of the movements in the company's cash and cash equivalents balances in the periods presented.

Unsettled Fund Receivables

Unsettled fund receivables increased by $42.7 million from $444.4 million at December 31, 2011 to $487.1 million at June 30, 2012, due primarily to higher transaction activity between funds and investors in June 2012 when compared to December 2011 in our U.K. and offshore funds, together with $13.6 million of unsettled balances associated with the unit investment trust (UIT) products.

Investments (current and non-current)

As of June 30, 2012, we had $563.3 million in investments, of which $344.5 million were current investments and $218.8 million were non-current investments. Included in current investments are $109.4 million of seed money investments in affiliated funds used to seed funds as we launch new products, and $200.2 million of investments related to assets held for deferred compensation plans, which are also held primarily in affiliated funds. Seed investments increased by $45.9 million during the six months to June 30, 2012, due primarily to seed money investment additions and market increases, offset by disposals of seed money investments. Investments held to hedge deferred compensation awards increased by $15.8 million during the six month period, primarily attributable to additional investments in affiliated funds to hedge economically new employee plan awards. Included in non-current investments are $198.2 million in equity method investments in our Chinese joint ventures and in certain of the company's private equity partnerships, real estate partnerships and other investments (December 31, 2011: $193.1 million). The increase of $5.1 million in equity method investments is primarily driven by an increase of $8.2 million in co-investment in the Asian real estate funds with the remaining $1.6 million increase in partnership investments due to various other capital calls and valuation improvements, offset by distributions and capital returns during the period. The value of the joint venture investments has decreased by $4.7 million during the period as a result of current year earnings of $7.3 million, $0.4 million in positive impact of foreign exchange rate movements, offset by dividends paid of $12.4 million.

Assets Held for Policyholders and Policyholder Payables

The decrease in the balance of assets held for policyholders and the offsetting policyholder payables from $1,243.5 million at December 31, 2011, to $1,065.4 million at June 30, 2012 was the result of a third party transfer of administration contracts to another provider, offset by the increase in the market values of these assets and liabilities.

Intangible assets, net

Intangible assets reflect a net decrease of $20.5 million from $1,322.8 million at December 31, 2011, to $1,302.3 million at June 30, 2012. The decrease is due to amortization of $19.5 million and decrease in foreign currency translation of $1.0 million primarily related to Yen-denominated balances.

Goodwill

Goodwill increased by $8.2 million from $6,907.9 million at December 31, 2011, to $6,916.1 million at June 30, 2012. The increase is due to the impact of foreign currency translation for certain subsidiaries whose functional currency differs from that of the Parent.

Current Portion of total debt

The current portion of total debt increased by $118.4 million from December 31, 2011 as a result of the reclassification of the $333.5 million 5.375% senior notes that mature on February 27, 2013 out of long-term and into current, net of the April 2012 repayment of the $215.1 million of outstanding 5.625% Senior Notes.

Long-term debt

The non-current portion of our total debt was $1,008.1 million at June 30, 2012 (December 31, 2011: $1,069.6 million). The decrease during the six months ended June 30, 2012 is due to the reclassification of the $333.5 million 5.375% senior notes that mature on February 27, 2013 out of long term into current, offset by a net draw on the credit facility of $272.0 million.

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Liquidity and Capital Resources

Our capital structure, together with available cash balances, cash flows generated from operations, existing capacity under our credit facility, proceeds from public offering of our shares and further capital market activities, if necessary, should provide us with sufficient resources to meet present and future cash needs, including operating, debt and other obligations as they come due and anticipated future capital requirements. On April 17, 2012, the company repaid the $215.1 million of outstanding 5.625% senior notes that matured on that date. The repayment was funded from the credit facility and existing cash on hand. The company's 5.375% senior notes, which have a carrying value of $333.5 million at June 30, 2012, mature on February 27, 2013. We have reduced our leverage at June 30, 2012, from a year ago, as illustrated by the change in our debt-to-equity ratios in the table below.

As discussed in the "Executive Overview" of this Management's Discussion and Analysis, our capital management priorities have evolved with the growth and success of our business and include:

- reinvestment in the business;
- steady annual growth of dividends (as illustrated and further discussed in the "Dividends" section below);
- share repurchase; and
- establishment of an approximate $1 billion cash buffer in excess of regulatory requirements.

These priorities are executed in a manner consistent with our desire to maintain a strong, investment-grade credit rating.

During the three and six months ended June 30, 2012 there were 3.2 million and 6.3 million, respectively, of common shares purchased in the market at a cost of $150.0 million.

Our ability to continue to access the capital markets in a timely manner depends on a number of factors, including our Moody’s and Standard & Poor’s credit ratings of A3/Stable and A-/Stable, respectively, the condition of the global economy, investors’ willingness to purchase our securities, interest rates, credit spreads and the valuation levels of equity markets. If we are unable to access capital markets in a timely manner, our business could be adversely impacted.

Certain of our subsidiaries are required to maintain minimum levels of capital. These and other similar provisions of applicable law may have the effect of limiting withdrawals of capital, repayment of intercompany loans and payment of dividends by such entities. A sub-group of Invesco subsidiaries, including all of our regulated EU subsidiaries, is subject to consolidated capital requirements under applicable European Union (EU) directives, and capital is maintained within this sub-group to satisfy these regulations. These requirements mandate the retention of liquid resources in those jurisdictions, which we meet in part by holding cash and cash equivalents. This retained cash can be used for general business purposes in the European sub-group or in the countries where it is located. Due to the capital restrictions, the ability to transfer cash between certain jurisdictions may be limited. In addition, transfers of cash between international jurisdictions may have adverse tax consequences that may substantially limit such activity. At June 30, 2012, the European sub-group had cash and cash equivalent balances of $445.7 million (December 31, 2011: $440.0 million), much of which is used to satisfy these regulatory requirements. We are in compliance with all regulatory minimum net capital requirements. In addition, the company is required to hold cash deposits with clearing organizations or to otherwise segregate cash to maintain compliance with federal and other regulations in connection with its UIT broker dealer entity, which was included in the acquired business. At June 30, 2012 these cash deposits totaled $11.3 million.

The consolidation of $5.6 billion and $5.1 billion of total assets and long-term debt of certain CLO products as of June 30, 2012, respectively, did not impact the company’s liquidity and capital resources. The collateral assets of the CLOs are held solely to satisfy the obligations of the CLOs. The company has no right to the benefits from, nor does it bear the risks associated with, the collateral assets held by the CLOs, beyond the company’s minimal direct investments in, and management fees generated from, these products, which are eliminated upon consolidation. If the company were to liquidate, the collateral assets would not be available to the general creditors of the company, and as a result, the company does not consider them to be company assets. Conversely, if the CLOs were to liquidate, their investors would have no recourse to the general credit of the company. The company therefore does not consider this debt to be an obligation of the company. See Part I, Item 1, “Financial Statements — Note 11, “Consolidated Investment Products,” for additional details.

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Selected balance sheet information is reflected in the table below:

	Excluding Consolidated Investment Products (CIP)(Non-GAAP)[1]			Including Consolidated Investment Products (CIP)(U.S. GAAP)		
	June 30, 2012	December 31, 2011	June 30, 2011	June 30, 2012	December 31, 2011	June 30, 2011
$ in millions						
Cash and cash equivalents	718.4	727.4	621.5	718.4	727.4	621.5
Investments of CIP	—	—	—	6,050.9	6,629.0	7,349.7
Total assets[1]	12,164.4	12,329.2	12,903.5	18,612.9	19,347.0	20,915.6
Current maturities of total debt	333.5	215.1	215.1	333.5	215.1	215.1
Long-term debt	1,008.1	1,069.6	1,368.6	1,008.1	1,069.6	1,368.6
Long-term debt of CIP	—	—	—	5,069.7	5,512.9	6,292.7
Total debt / Total debt plus CIP debt	1,341.6	1,284.7	1,583.7	6,411.3	6,797.6	7,876.4
Total liabilities[1]	4,245.9	4,541.0	5,051.2	9,494.1	10,209.4	11,717.8
Total equity[1]	7,918.5	7,788.2	7,852.3	9,118.8	9,137.6	9,197.8
Debt/Equity % [1] [2]	16.9 %	16.5 %	20.2 %	70.3 %	74.4 %	85.6 %

(1) The balance sheet line items excluding consolidated investment products are non-GAAP financial measures. See the "Balance Sheet Discussion" section for a fully expanded balance sheet before and after the consolidation of investment products.

(2) The debt-to-equity ratio excluding CIP is a non-GAAP financial measure. The debt-to-equity ratio is calculated as total debt divided by total equity for the balance sheet excluding CIP and total debt plus long-term debt of CIP divided by equity for the balance sheet including CIP. Management believes that it is important to illustrate for users of our financial statements that calculating a balance sheet measure, such as the debt-to-equity ratio, including the impact of CIP causes the company to appear far more indebted than is the case. As disclosed above, the debt of CIP is not the company's debt, nor do the noteholders of the CIP debt have any recourse to the company.

Cash Flows Discussion

The ability to consistently generate cash from operations in excess of capital expenditures and dividend payments is one of our company’s fundamental financial strengths. Operations continue to be financed from current earnings and borrowings. Our principal uses of cash, other than for operating expenses, include dividend payments, capital expenditures, acquisitions, purchase of our shares in the open market and investments in certain new investment products.

Cash flows of consolidated investment products (discussed in Part I, Item 1, Financial Statements — Note 11, “Consolidated Investment Products”) (CIPs) are reflected in Invesco’s cash used in operating activities, provided by investing activities and provided by financing activities. Cash held by consolidated investment products is not available for general use by Invesco, nor is Invesco cash available for general use by its consolidated investment products. Accordingly, the table below presents the cash flows of the company separately and before consolidation of investment products, as the cash flows of consolidated investment products do not form part of the company’s cash flow management processes, nor do they form part of the company’s significant liquidity evaluations and decisions for the reasons noted. The discussion that follows the table will focus on the company’s cash flows as presented in the “Before Consolidation” column of the table.

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Condensed Consolidating Statements of Cash Flows

$ in millions	Six Months Ended June 30, 2012		
	Before Consolidation	Impact of Consolidated Investment Products	Total
Operating activities			
Net income	349.8	(47.4)	302.4
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Amortization and depreciation	50.9	—	50.9
Share-based compensation expense	67.0	—	67.0
Gains on disposals of property, equipment, and software, net	(0.5)	—	(0.5)
Purchase of trading investments	(5,210.0)	—	(5,210.0)
Proceeds from sale of trading investments	5,200.8	—	5,200.8
Other gains and losses, net	(10.9)	—	(10.9)
Losses/(gains) of consolidated investment products, net	—	44.7	44.7
Tax benefit from share-based compensation	42.3	—	42.3
Excess tax benefits from share-based compensation	(12.0)	—	(12.0)
Equity in earnings of unconsolidated affiliates	(16.0)	(0.6)	(16.6)
Dividends from unconsolidated affiliates	13.1	—	13.1
Changes in operating assets and liabilities			
Decrease/(increase) in cash held by CIP	—	(45.9)	(45.9)
Decrease/(increase) in receivables	238.9	24.2	263.1
(Decrease)/increase in payables	(431.5)	(9.7)	(441.2)
Net cash provided by/(used in) operating activities	281.9	(34.7)	247.2
Investing activities			
Purchase of property and equipment	(37.2)	—	(37.2)
Disposal of property and equipment	0.6	—	0.6
Purchase of available-for-sale investments	(73.5)	6.0	(67.5)
Proceeds from available-for-sale investments	26.1	(2.3)	23.8
Purchase of investments by CIP	—	(1,584.6)	(1,584.6)
Proceeds from sale of investments by CIP	—	1,537.0	1,537.0
Returns of capital in investments of CIP	—	(44.9)	(44.9)
Purchase of other investments	(63.7)	0.3	(63.4)
Proceeds from sale of other investments	46.2	—	46.2
Returns of capital and distributions from equity method investments	15.1	(6.4)	8.7
Acquisition earn-out payments	(5.6)	—	(5.6)
Net cash provided by/(used in) investing activities	(92.0)	(94.9)	(186.9)
Financing activities			
Proceeds from exercises of share options	12.1	—	12.1
Purchases of treasury shares	(150.0)	—	(150.0)
Dividends paid	(133.7)	—	(133.7)
Excess tax benefits from share-based compensation	12.0	—	12.0
Capital invested into CIP	—	19.4	19.4
Capital distributed by CIP	—	(35.5)	(35.5)

Net borrowings/(repayments) of debt of CIP	—	145.7	145.7
Net borrowings/(repayments) under credit facility	272.0	—	272.0
Repayments of senior notes	(215.1)	—	(215.1)
Net cash (used in)/provided by financing activities	(202.7)	129.6	(73.1)
(Decrease)/increase in cash and cash equivalents	(12.8)	—	(12.8)
Foreign exchange movement on cash and cash equivalents	3.8	—	3.8
Cash and cash equivalents, beginning of period	727.4	—	727.4
Cash and cash equivalents, end of period	718.4	—	718.4

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Condensed Consolidating Statements of Cash Flows (continued)

$ in millions	Six Months Ended June 30, 2011		
	Before Consolidation	Impact of Consolidated Investment Products	Total
Operating activities			
Net income	345.6	(116.9)	228.7
Adjustments to reconcile net income to net cash (used in)/provided by operating activities:			
Amortization and depreciation	60.0	—	60.0
Share-based compensation expense	56.8	—	56.8
Gains on disposals of property, equipment, and software, net	—	—	—
Purchase of trading investments	(5,556.8)	—	(5,556.8)
Proceeds from sale of trading investments	5,516.5	—	5,516.5
Other gains and losses, net	(13.9)	—	(13.9)
Losses/(gains) of consolidated investment products, net	—	150.2	150.2
Tax benefit from share-based compensation	72.2	—	72.2
Excess tax benefits from share-based compensation	(15.1)	—	(15.1)
Equity in earnings of unconsolidated affiliates	(18.4)	0.9	(17.5)
Dividends from unconsolidated affiliates	3.0	—	3.0
Changes in operating assets and liabilities	—	—	
Decrease/(increase) in cash held by CIP	—	31.5	31.5
Decrease/(increase) in receivables	(244.8)	(15.6)	(260.4)
(Decrease)/increase in payables	(110.6)	1.4	(109.2)
Net cash provided by/(used in) operating activities	94.5	51.5	146.0
Investing activities			
Purchase of property and equipment	(40.7)	—	(40.7)
Disposal of property and equipment	—	—	—
Purchase of available-for-sale investments	(28.0)	—	(28.0)
Proceeds from available-for-sale investments	38.3	(1.7)	36.6
Purchase of investments by CIP	—	(2,075.3)	(2,075.3)
Proceeds from sale of investments by CIP	—	2,300.9	2,300.9
Returns of capital in investments of CIP	—	75.5	75.5
Purchase of other investments	(62.1)	0.7	(61.4)
Proceeds from sale of other investments	23.7	—	23.7
Returns of capital and distributions from equity method investments	21.8	(2.9)	18.9
Acquisitions of businesses	(14.9)	—	(14.9)
Acquisition earn-out payments	(5.4)	—	(5.4)
Net cash provided by/(used in) investing activities	(67.3)	297.2	229.9
Financing activities			
Proceeds from exercises of share options	9.9	—	9.9
Purchases of treasury shares	(333.0)	—	(333.0)
Dividends paid	(108.5)	—	(108.5)
Excess tax benefits from share-based compensation	15.1	—	15.1
Capital invested into CIP	—	32.5	32.5

Capital distributed by CIP	—	(134.9)	(134.9)
Net borrowings/(repayments) of debt of CIP	—	(246.3)	(246.3)
Net borrowings/(repayments) under credit facility	268.0	—	268.0
Repayments of senior notes	—	—	—
Acquisition of noncontrolling interest in CIP	(12.3)	—	(12.3)
Net cash (used in)/provided by financing activities	(160.8)	(348.7)	(509.5)
(Decrease)/increase in cash and cash equivalents	(133.6)	—	(133.6)
Foreign exchange movement on cash and cash equivalents	14.6	—	14.6
Cash and cash equivalents, beginning of period	740.5	—	740.5
Cash and cash equivalents, end of period	621.5	—	621.5

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Operating Activities

During the six months ended June 30, 2012, cash provided by operating activities increased $101.2 million to $247.2 million from cash provided by operating activities of $146.0 million during the six months ended June 30, 2011. As shown in the table above, consolidated investment products utilized $34.7 million of cash during the six months ended June 30, 2012 compared to $51.5 million of cash generated in the six months ended June 30, 2011. The sum of the operating, investing and financing cash flows of consolidated investment products offsets to a zero impact to the company's change in cash and cash equivalent balances from period to period. Excluding the impact of consolidated investment products, cash provided by operations was $281.9 million in the six months ended June 30, 2012 compared to cash provided by operations of $94.5 million in the six months ended June 30, 2011.

The $281.9 million of cash provided by operations during the six months ended June 30, 2012 included:

- net purchases of trading investments of $9.2 million. Trading investments are held to provide an economic hedge against staff deferred compensation plan awards together with investments held for a short period, often only a few days, for the purpose of creating a UIT.
- net cash provided by other operating activities of $291.1 million, representing net income, as adjusted for non-cash items, and the changes in operating assets and liabilities. This six month period included the use of $364.1 million of cash to pay the annual staff bonuses, related payroll taxes, payroll taxes on annual share award vesting, and annual pension contributions.

The $94.5 million of cash provided by operations during the six months ended June 30, 2011, included:

- net purchases of trading investments of $40.3 million, primarily to provide an economic hedge against staff deferred compensation plan awards, and
- net cash provided by other operating activities of $134.8 million, representing net income as adjusted for non-cash items and the changes in operating assets and liabilities. This six month period included the use of $352.4 million of cash to pay the annual staff bonuses, related payroll taxes, payroll taxes on then annual share award vesting, and annual pension contributions, all of which result in increased operating cash utilization in the first half of the calendar year.

Increased realization of accounts receivables into cash of $65.7 million this quarter when compared to a year ago and the receipt of the $45.0 million this period related to the legal settlement accrued in 2011 greatly contributed to the increase of $187.4 million of cash provided by operations in the six months ended June 30, 2012 from the six months ended June 30, 2011. In addition, there was a $4.2 million increase in net income this quarter compared to a year ago and $31.1 million less cash used in net purchases of trading investments. These increases were slightly offset by a decrease in other adjustments to reconcile net income to net cash of $10.7 million for a total improvement of $24.6 million in cash used in operating activities after changes in operating assets and liabilities in the six months ended June 30, 2012 from the six months ended June 30, 2011.

Investing Activities

Net cash used in investing activities totaled $186.9 million for the six months ended June 30, 2012 (six months ended June 30, 2011: net cash provided of $229.9 million). As shown in the table above, consolidated investment products, including investment purchases, sales and returns of capital, used $94.9 million of cash (six months ended June 30, 2011: $297.2 million contributed). Excluding the impact of these consolidated investment product cash flows, net cash used in investing activities was $92.0 million (six months ended June 30, 2011: net cash used of $67.3 million).

During the six months ended June 30, 2012 the company purchased available-for-sale investments and other investments of $137.2 million (six months ended June 30, 2011: $90.1 million) and had capital expenditures of $37.2 million (six months ended June 30, 2011: $40.7 million). These cash outflows were partly offset from collected proceeds of $87.4 million from sales and returns of capital of investments in the six months ended June 30, 2012 (six months ended June 30, 2011: $83.8 million).

Our capital expenditures related principally in each year to technology initiatives, including enhancements to platforms from which we maintain our portfolio management systems and fund accounting systems, improvements in computer hardware and software desktop products for employees, new telecommunications products to enhance our internal information flow, and back-up disaster recovery systems. Also, in each year, a portion of these costs related to leasehold improvements made to the various buildings and workspaces used in our offices. These projects have been

funded with proceeds from our operating cash flows.

During the six months ended June 30, 2012, net acquisition payments were $5.6 million, compared to $20.3 million during the six months ended June 30, 2011.

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Financing Activities

Net cash used in financing activities totaled $73.1 million for the six months ended June 30, 2012 (six months ended June 30, 2011: $509.5 million net cash used). As shown in the table above, the financing activities of the consolidated investment products provided cash of $129.6 million (six months ended June 30, 2011: $348.7 million used). Excluding the impact of consolidated investment products, financing activities used cash of $202.7 million in the six months ended June 30, 2012 (six months ended June 30, 2011: $160.8 million net cash used).

Other financing cash flows during the six months ended June 30, 2012 included a $215.1 million payment of a senior note (six months ended June 30, 2011: none), $272.0 million net borrowings from the credit facility (six months ended June 30, 2011: $268.0 million), $133.7 million of dividend payments for the dividends declared in January and April (six months ended June 30, 2011: dividends paid of $108.5 million), the purchase of treasury shares through market transactions totaling $150.0 million (six months ended June 30, 2011: $333.0 million), cash inflows from the exercise of options of $12.1 million (six months ended June 30, 2011: $9.9 million) and excess tax benefits cash inflows from share-based compensation of $12.0 million (six months ended June 30, 2011: $15.1 million).

Dividends

Invesco declares and pays dividends on a quarterly basis in arrears. On April 26, 2012, the company's Board of Directors declared a first quarter 2012 cash dividend of 17.25 cents per share, which was paid on June 8, 2012 to shareholders of record at the close of business on May 18, 2012. On July 26, 2012, the company announced a second quarter 2012 cash dividend of 17.25 cents per share, which is payable on September 7, 2012 to shareholders of record at the close of business on August 22, 2012.

Share Repurchase Plan

During the three and six months ended June 30, 2012, the company repurchased 3.2 million and 6.3 million common shares, respectively, in the market at a cost of $75.0 million and $150.0 million, respectively (three and six months ended June 30, 2011: 11.3 million and 13.4 million shares were repurchased at a cost of $279.9 million and $333.0 million, respectively), leaving approximately $582 million authorized at June 30, 2012 (June 30, 2011: $835.4 million). Separately, an aggregate of 1.7 million shares were withheld on vesting events during the six months ended June 30, 2012, to meet employees' tax obligations (six months ended June 30, 2011: 2.7 million). The fair value of these shares withheld at the respective withholding dates was $42.6 million (six months ended June 30, 2011: $70.8 million).

Debt

Our total indebtedness at June 30, 2012 was $1,341.6 million (December 31, 2011 is $1,284.7 million) and was comprised of the following:

$ in millions	June 30, 2012	December 31, 2011
Unsecured Senior Notes:		
5.625% — due April 17, 2012	—	215.1
5.375% — due February 27, 2013	333.5	333.5
5.375% — due December 15, 2014	197.1	197.1
Floating rate credit facility expiring June 3, 2016	811.0	539.0
Total debt	1,341.6	1,284.7
Less: current maturities of total debt	(333.5)	(215.1)
Long-term debt	1,008.1	1,069.6

For the six months ended June 30, 2012 the company's weighted average cost of debt was 3.29% (six months ended June 30, 2011: 3.47%). Total debt increased from $1,284.7 million at December 31, 2011, to $1,341.6 million at June 30, 2012, due to borrowings under our credit facility.

Financial covenants under the credit agreement include: (i) the quarterly maintenance of a debt/EBITDA ratio, as defined in the credit agreement, of not greater than 3.25:1.00 through June 30, 2014, and not greater than 3.00:1.00 thereafter, (ii) a coverage ratio (EBITDA, as defined in the credit agreement, divided by interest payable for the four consecutive fiscal quarters ended before the date of determination) of not less than 4.00:1.00. As of June 30, 2012, we were in compliance with our financial covenants. At June 30, 2012 our leverage ratio was 1.08:1.00 (December 31, 2011: 1.01:1.00), and our interest coverage ratio was 22.61:1.00 (December 31, 2011: 20.93:1.00).

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The June 30, 2012 coverage ratio calculations are as follows:

$ millions	Total	Q2 2012	Q1 2012	Q4 2011	Q3 2011
Net income attributable to common shareholders	717.0	153.9	193.9	202.3	166.9
Net (income)/loss attributable to consolidated investment products	(3.4)	6.2	(4.2)	(1.9)	(3.5)
Tax expense	271.0	62.3	73.6	76.0	59.1
Amortization/depreciation	108.3	26.6	24.3	22.1	35.3
Interest expense	56.6	13.4	13.6	14.3	15.3
Share-based compensation expense	125.3	37.0	30.0	29.1	29.2
Unrealized (gains) and losses from investments, net*	5.0	4.5	(7.1)	(3.8)	11.4
EBITDA**	1,279.8	303.9	324.1	338.1	313.7
Adjusted debt**	$1,385.8				
Leverage ratio (Debt/EBITDA — maximum 3.25:1.00)	1.08				
Interest coverage (EBITDA/Interest Expense — minimum 4.00:1.00)	22.61				

* Adjustments for unrealized gains and losses from investments, as defined in our credit facility, include non-cash gains and losses on investments to the extent that they do not represent anticipated future cash receipts or expenditures.

** EBITDA and Adjusted debt are non-GAAP financial measures; however management does not use these measures for anything other than these debt covenant calculations. The calculation of EBITDA above (a reconciliation from net income attributable to common shareholders) is defined by our credit agreement, and therefore net income attributable to common shareholders is the most appropriate GAAP measure from which to reconcile to EBITDA. The calculation of adjusted debt is defined in our credit facility and equals total long-term debt of $1,341.6 million plus $44.2 million in letters of credit.

Off Balance Sheet Commitments

See Part I, Item 1, Financial Statements - Note 10, “Commitments and Contingencies - Off Balance Sheet Commitments,” for more information regarding undrawn capital commitments and support agreements.

Contractual Obligations

We have future obligations under various contracts relating to debt and interest payments, financing and operating leases, long-term defined benefit pension and post-retirement medical plans, and acquisition contracts. During the six months ended June 30, 2012, there were no significant changes to these obligations reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

Critical Accounting Policies and Estimates

There have been no significant changes to the accounting policies that we believe are the most critical to an understanding of our results of operations and financial condition, which are disclosed in our most recent Form 10-K for the year ended December 31, 2011.

Recent Accounting Standards

See Part I, Item 1, “Financial Statements — Note 1, Accounting Policies — Accounting Pronouncements Recently Adopted and Pending Accounting Pronouncements.”

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of its business, the company is primarily exposed to market risk in the form of securities market risk, interest rate risk, and foreign exchange rate risk.

AUM Market Price Risk

The company’s investment management revenues are comprised of fees based on a percentage of the value of AUM. Declines in equity or fixed income security market prices could cause revenues to decline because of lower investment

management fees by:

- Causing the value of AUM to decrease,

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- Causing the returns realized on AUM to decrease (impacting performance fees).
- Causing clients to withdraw funds in favor of investments in markets that they perceive to offer greater opportunity and that the company does not serve,
- Causing clients to rebalance assets away from investments that the company manages into investments that the company does not manage, and/or
- Causing clients to reallocate assets away from products that earn higher revenues into products that earn lower revenues.

Underperformance of client accounts relative to competing products could exacerbate these factors.

Securities Market Risk

The company has investments in sponsored investment products that invest in a variety of asset classes. Investments are generally made to establish a track record or to hedge exposure to certain deferred compensation plans. The company's exposure to market risk arises from its investments. A 20% increase or decrease in the fair value of investments exposed to market risk is not material to the operating results of the company.

Interest Rate Risk

Interest rate risk relates to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to interest rate risk primarily through its external debt and cash and cash equivalent investments. On June 30, 2012, the interest rates on 40% of the company's borrowings were fixed for a weighted average period of 1.3 years. Borrowings under the credit facility, which represent 60% of the company's borrowings, have floating interest rates. A 1% change in the level of interest rates on current debt levels would change annualized interest expense by $8.1 million but would not have a material impact on the ability of the company to continue to service its indebtedness.

Foreign Exchange Rate Risk

The company has transactional currency exposures that occur when any of the company's subsidiaries receives or pays cash in a currency different from its functional currency. Such exposure arises from sales or purchases by operating subsidiaries in currencies other than the subsidiaries' functional currencies. These exposures are not actively managed. The company also has certain investments in foreign operations, whose net assets and results of operations are exposed to foreign currency translation risk when translated into U.S. dollars upon consolidation into Invesco Ltd. The company generally does not hedge these exposures; however, in the three months ended June 30, 2012, the company purchased four put option contracts to hedge economically foreign currency risk on the translation of its pound sterling-denominated earnings into U.S. dollars. The economic hedge is predominantly triggered upon the impact of a significant decline in the pound sterling/U.S. dollar foreign exchange rate, which could arise from a Greek Euro exit or other major European economic events. See Note 2, "Fair Value of Assets and Liabilities," for additional details.

The company is exposed to foreign exchange revaluation into the income statement on monetary assets and liabilities that are held by subsidiaries in different functional currencies than the subsidiaries' functional currencies. Net foreign exchange revaluation losses were $1.4 million for six months ended June 30, 2012 and are included in general and administrative and other gains and losses, net on the Condensed Consolidated Statements of Income. There were no material net foreign exchange revaluation gains or losses for the comparable prior year period. We continue to monitor our exposure to foreign exchange revaluation.

Item 4. Controls and Procedures

Our management is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information the company is required to disclose in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in the reports that the company files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of June 30, 2012. There are inherent limitations to the effectiveness of any

system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded

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that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.
We have evaluated any change in our internal control over financial reporting that occurred during the six months ended June 30, 2012 and have concluded that there was no change that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings
See Part I, Item 1, Note 10, “Commitments and Contingencies,” for information regarding legal proceedings.

Item 1A. Risk Factors
The company has had no significant changes in its risk factors from those previously disclosed in its Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Repurchases of Equity Securities
The following table sets forth information regarding purchases of our common shares by us and any affiliated purchases during the three months ended June 30, 2012:

Month	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Number at end of period (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs[2] (billions)
April 1-30, 2012	108,310	26.35	—	$0.7
May 1-31, 2012	3,210,220	23.38	3,208,792	$0.6
June 1-30, 2012	122,546	21.65	—	$0.6
Total	3,441,076		3,208,792	

(1) An aggregate of 232,284 shares were surrendered to us by Invesco employees to satisfy tax withholding obligations or loan repayments in connection with the vesting of equity awards.
(2) On April 23, 2008, our board of directors authorized a share repurchase authorization of up to $1.5 billion of our common shares with no stated expiration date.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
Not applicable.

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Item 6. Exhibits
Exhibit Index

3.1	Memorandum of Association of Invesco Ltd., incorporating amendments up to and including December 4, 2007, incorporated by reference to exhibit 3.1 to Invesco's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 12, 2007
3.2	Amended and Restated Bye-Laws of Invesco Ltd., incorporating amendments up to and including December 4, 2007, incorporated by reference to exhibit 3.2 to Invesco's Current Report on Form 8-K, filed with the Securities and Exchange Commission on December 12, 2007
31.1	Certification of Martin L. Flanagan pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Loren M. Starr pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Martin L. Flanagan pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Loren M. Starr pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document
101.DEF	XBRL Definition Linkbase Document

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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.

	INVESCO LTD.
August 1, 2012	/s/ MARTIN L. FLANAGAN
	Martin L. Flanagan
	President and Chief Executive Officer
August 1, 2012	/s/ LOREN M. STARR
	Loren M. Starr
	Senior Managing Director and Chief Financial Officer

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