

EATON VANCE CORP
Form 10-Q
September 06, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended July 31, 2013

or

Transition Report Pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file no. 1-8100

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland 04-2718215
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

Two International Place, Boston, Massachusetts 02110

(Address of principal executive offices) (zip code)

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(617) 482-8260

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company) Smaller reporting company

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

Shares outstanding as of July 31, 2013:

Voting Common Stock – 399,240 shares

Non-Voting Common Stock – 120,938,397 shares

Eaton Vance Corp.

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As of July 31, 2013 and for the

Three and Nine Month Periods Ended July 31, 2013

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Part I - Financial Information**Item 1. Consolidated Financial Statements****Eaton Vance Corp.****Consolidated Balance Sheets (unaudited)**

(in thousands)	July 31, 2013	October 31, 2012
Assets		
Cash and cash equivalents	\$379,414	\$462,076
Investment advisory fees and other receivables	161,237	133,589
Investments	545,474	486,933
Assets of consolidated collateralized loan obligation ("CLO") entity:		
Cash and cash equivalents	58,300	36,758
Bank loans and other investments	245,991	430,583
Other assets	2,237	1,107
Deferred sales commissions	18,859	19,336
Deferred income taxes	57,422	51,234
Equipment and leasehold improvements, net	49,713	54,889
Intangible assets, net	76,892	59,228
Goodwill	228,876	154,636
Other assets	85,942	89,122
Total assets	\$1,910,357	\$1,979,491

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Balance Sheets (unaudited) (continued)

(in thousands, except share data)	July 31, 2013	October 31, 2012
Liabilities, Temporary Equity and Permanent Equity		
Liabilities:		
Accrued compensation	\$ 133,686	\$ 145,338
Accounts payable and accrued expenses	58,645	59,397
Dividend payable	24,273	23,250
Debt	573,460	500,000
Liabilities of consolidated CLO entity:		
Senior and subordinated note obligations	291,175	446,605
Other liabilities	421	766
Other liabilities	77,411	91,785
Total liabilities	1,159,071	1,267,141
Commitments and contingencies		
Temporary Equity:		
Redeemable non-controlling interests	97,051	98,765
Permanent Equity:		
Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 1,280,000 shares		
Issued and outstanding, 399,240 and 413,167 shares, respectively	2	2
Non-Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 190,720,000 shares		
Issued and outstanding, 120,938,397 and 115,878,384 shares, respectively	472	453
Additional paid-in capital	134,464	26,730
Notes receivable from stock option exercises	(6,861)	(4,155)
Accumulated other comprehensive income	686	3,923
Appropriated retained earnings	13,107	18,699
Retained earnings	511,034	566,420
Total Eaton Vance Corp. shareholders' equity	652,904	612,072
Non-redeemable non-controlling interests	1,331	1,513
Total permanent equity	654,235	613,585
Total liabilities, temporary equity and permanent equity	\$ 1,910,357	\$ 1,979,491

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.

Consolidated Statements of Income (unaudited)

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	July 31, 2013	2012	July 31, 2013	2012
Revenue:				
Investment advisory and administrative fees	\$293,589	\$244,655	\$833,791	\$732,995
Distribution and underwriter fees	22,681	22,066	67,597	67,132
Service fees	32,259	30,760	94,521	95,124
Other revenue	1,832	1,290	4,661	3,896
Total revenue	350,361	298,771	1,000,570	899,147
Expenses:				
Compensation and related costs	115,379	94,700	334,220	288,949
Distribution expense	35,452	32,670	104,645	97,958
Service fee expense	29,013	28,165	86,488	84,926
Amortization of deferred sales commissions	4,983	4,593	14,518	15,946
Fund-related expenses	8,230	7,205	23,728	20,446
Other expenses	38,454	36,422	109,371	104,275
Total expenses	231,511	203,755	672,970	612,500
Operating income	118,850	95,016	327,600	286,647
Non-operating income (expense):				
(Losses) gains and other investment income, net	(8,027)	1,927	2,223	12,900
Interest expense	(9,167)	(8,525)	(26,309)	(25,350)
Loss on extinguishment of debt	(52,886)	-	(52,886)	-
Other income (expense) of consolidated CLO entity:				
Gains and other investment income, net	1,704	12,872	7,881	32,047
Interest expense	(2,939)	(4,399)	(10,211)	(12,844)
Total non-operating (expense) income	(71,315)	1,875	(79,302)	6,753
Income before income taxes and equity in net income of affiliates	47,535	96,891	248,298	293,400
Income taxes	(25,137)	(34,379)	(99,270)	(104,730)
Equity in net income of affiliates, net of tax	2,652	175	9,269	1,657
Net income	25,050	62,687	158,297	190,327
Net income attributable to non-controlling and other beneficial interests	(1,847)	(12,481)	(21,608)	(39,980)
Net income attributable to Eaton Vance Corp. shareholders	\$23,203	\$50,206	\$136,689	\$150,347
Earnings per share:				
Basic	\$0.19	\$0.44	\$1.12	\$1.30
Diluted	\$0.18	\$0.43	\$1.07	\$1.27
Weighted average shares outstanding:				
Basic	117,594	112,110	116,399	112,354
Diluted	123,872	114,591	122,155	115,031
Dividends declared per share	\$0.20	\$0.19	\$1.60	\$0.57

See notes to Consolidated Financial Statements.

Eaton Vance Corp.**Consolidated Statements of Comprehensive Income (unaudited)**

(in thousands)	Three Months Ended July 31,		Nine Months Ended July 31,	
	2013	2012	2013	2012
Net income	\$25,050	\$62,687	\$158,297	\$190,327
Other comprehensive income (loss):				
Change in unrealized gains on derivative instruments, net of income taxes of \$788, \$0, \$788 and \$0, respectively	1,227	-	1,227	-
Amortization of net (gains) losses on derivatives, net of income taxes of \$320, \$39, \$399 and \$118, respectively	698	73	842	217
Unrealized holding gains (losses) on available-for-sale investments, net of income taxes of \$(229), \$95, \$874 and \$(932), respectively	370	(156)	(1,426)	1,526
Foreign currency translation adjustments, net of income taxes of \$1,760, \$233, \$2,386 and \$252, respectively	(2,860)	(384)	(3,880)	(453)
Other comprehensive (loss) income, net of tax	(565)	(467)	(3,237)	1,290
Total comprehensive income	24,485	62,220	155,060	191,617
Comprehensive income attributable to non-controlling and other beneficial interests	(1,847)	(12,481)	(21,608)	(39,980)
Total comprehensive income attributable to Eaton Vance Corp. shareholders	\$22,638	\$49,739	\$133,452	\$151,637

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Shareholders' Equity (unaudited)

(in thousands)	Permanent Equity							Non-Redeemable Non-Controlling Interests	Total Permanent Equity	Temporary Equity
	Voting Common Stock	Non-Voting Common Stock	Additional Paid-In Capital	Notes Receivable from Stock Option Exercises	Accumulated Other Comprehensive Income	Appropriated Retained Earnings	Retained Earnings			
Balance, November 1, 2012	\$2	\$453	\$26,730	\$(4,155)	\$3,923	\$18,699	\$566,420	\$1,513	\$613,585	\$98,765
Net income	-	-	-	-	-	(5,592)	136,689	3,964	135,061	23,236
Other comprehensive loss	-	-	-	-	(3,237)	-	-	-	(3,237)	-
Dividends declared	-	-	-	-	-	-	(192,075)	-	(192,075)	-
Issuance of Non-Voting Common Stock:										
On exercise of stock options	-	18	98,968	(4,734)	-	-	-	-	94,252	-
Under employee stock purchase plan	-	1	3,516	-	-	-	-	-	3,517	-
Under employee incentive plan	-	-	2,079	-	-	-	-	-	2,079	-
Under restricted stock plan, net of forfeitures	-	5	-	-	-	-	-	-	5	-
Stock-based compensation	-	-	40,446	-	-	-	-	-	40,446	-
Tax benefit of stock option exercises	-	-	15,682	-	-	-	-	-	15,682	-
Repurchase of Voting Common Stock	-	-	(73)	-	-	-	-	-	(73)	-
Repurchase of Non-Voting Common Stock	-	(5)	(48,157)	-	-	-	-	-	(48,162)	-
Principal repayments on notes receivable from stock option exercises	-	-	-	2,028	-	-	-	-	2,028	-
Net subscriptions (redemptions/distributions) of non-controlling interest holders	-	-	-	-	-	-	-	(3,922)	(3,922)	63,796
Deconsolidation	-	-	-	-	-	-	-	-	-	(61,023)
Reclass to temporary equity	-	-	-	-	-	-	-	(224)	(224)	224
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	(46,601)
Issuance of subsidiary equity	-	-	-	-	-	-	-	-	-	13,927

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Other changes in non-controlling interests	-	-	(4,727)	-	-	-	-	-	(4,727)	4,727
Balance, July 31, 2013	\$2	\$472	\$134,464	\$(6,861)	\$686	\$13,107	\$511,034	\$1,331	\$654,235	\$97,051

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Shareholders' Equity (unaudited) (continued)

(in thousands)	Permanent Equity							Temporary Equity		
	Voting Common Stock	Non-Voting Common Stock	Additional Paid-In Capital	Notes Receivable from Stock Option Exercises	Accumulated Other Comprehensive Income	Appropriated Retained (Deficit) Earnings	Retained Earnings	Non- Redeemable Non- Controlling Interests	Total Permanent Equity	Redeemable Non- Controlling Interests
Balance, November 1, 2011	\$2	\$450	\$-	\$(4,441)	\$1,340	\$(3,867)	\$466,931	\$889	\$461,304	\$100,824
Net income	-	-	-	-	-	16,352	150,347	2,747	169,446	20,881
Other comprehensive income	-	-	-	-	1,290	-	-	-	1,290	-
Dividends declared	-	-	-	-	-	-	(65,867)	-	(65,867)	-
Issuance of Voting Common Stock	-	-	56	-	-	-	-	-	56	-
Issuance of Non-Voting Common Stock:										
On exercise of stock options	-	4	17,328	(211)	-	-	-	-	17,121	-
Under employee stock purchase plan	-	1	3,653	-	-	-	-	-	3,654	-
Under employee incentive plan	-	-	2,068	-	-	-	-	-	2,068	-
Under restricted stock plan, net of forfeitures	-	5	-	-	-	-	-	-	5	-
Stock-based compensation	-	-	42,819	-	-	-	-	-	42,819	-
Tax benefit of stock option exercises	-	-	2,228	-	-	-	-	-	2,228	-
Repurchase of Non-Voting Common Stock	-	(12)	(65,210)	-	-	-	(11,364)	-	(76,586)	-
Principal repayments on notes receivable from stock option exercises	-	-	-	764	-	-	-	-	764	-
Net subscriptions (redemptions/distributions) of non-controlling interest holders										