

EATON VANCE CORP
Form 10-Q
September 05, 2014

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, 2014

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)

(617) 482-8260

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(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, 2014:

Voting Common Stock – 415,078 shares

Non-Voting Common Stock – 118,320,698 shares

Eaton Vance Corp.

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As of July 31, 2014 and for the

Three and Nine Month Periods Ended July 31, 2014

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

(in thousands)	July 31, 2014	October 31, 2013
Assets		
Cash and cash equivalents	\$362,017	\$461,906
Investment advisory fees and other receivables	171,403	170,220
Investments	642,475	536,323
Assets of consolidated collateralized loan obligation ("CLO") entities:		
Cash and cash equivalents	21,074	36,641
Bank loans and other investments	166,025	685,681
Other assets	2,179	5,814
Deferred sales commissions	16,966	17,923
Deferred income taxes	53,014	61,139
Equipment and leasehold improvements, net	46,247	48,746
Intangible assets, net	67,457	74,534
Goodwill	228,876	228,876
Other assets	58,355	79,446
Total assets	\$1,836,088	\$2,407,249

See notes to Consolidated Financial Statements.

Eaton Vance Corp.**Consolidated Balance Sheets (unaudited) (continued)**

(in thousands, except share data)	July 31, 2014	October 31, 2013
Liabilities, Temporary Equity and Permanent Equity		
Liabilities:		
Accrued compensation	\$142,147	\$169,953
Accounts payable and accrued expenses	69,022	58,529
Dividend payable	26,547	26,740
Debt	573,616	573,499
Liabilities of consolidated CLO entities:		
Senior and subordinated note obligations	182,725	279,127
Line of credit	-	247,789
Redeemable preferred shares	-	64,952
Other liabilities	389	124,305
Other liabilities	72,437	115,960
Total liabilities	1,066,883	1,660,854
Commitments and contingencies		
Temporary Equity:		
Redeemable non-controlling interests	99,966	74,856
Permanent Equity:		
Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 1,280,000 shares		
Issued and outstanding, 415,078 and 399,240 shares, respectively	2	2
Non-Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 190,720,000 shares		
Issued and outstanding, 118,320,698 and 121,232,506 shares, respectively	462	474
Additional paid-in capital	-	124,837
Notes receivable from stock option exercises	(7,569)	(7,122)
Accumulated other comprehensive loss	(4,508)	(177)
Appropriated retained earnings	4,557	10,249
Retained earnings	674,492	541,521
Total Eaton Vance Corp. shareholders' equity	667,436	669,784
Non-redeemable non-controlling interests	1,803	1,755
Total permanent equity	669,239	671,539
Total liabilities, temporary equity and permanent equity	\$1,836,088	\$2,407,249

See notes to Consolidated Financial Statements.

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

(in thousands, except per share data)	Three Months Ended		Nine Months Ended	
	July 31, 2014	2013	July 31, 2014	2013
Revenue:				
Investment advisory and administrative fees	\$311,756	\$293,589	\$916,605	\$833,791
Distribution and underwriter fees	21,548	22,681	64,381	67,597
Service fees	31,977	32,259	95,097	94,521
Other revenue	2,309	1,832	5,829	4,661
Total revenue	367,590	350,361	1,081,912	1,000,570
Expenses:				
Compensation and related costs	117,632	115,379	351,110	334,220
Distribution expense	35,591	35,452	105,924	104,645
Service fee expense	29,780	29,013	87,266	86,488
Amortization of deferred sales commissions	4,084	4,983	13,408	14,518
Fund-related expenses	9,380	8,230	26,288	23,728
Other expenses	39,945	38,454	117,235	109,371
Total expenses	236,412	231,511	701,231	672,970
Operating income	131,178	118,850	380,681	327,600
Non-operating income (expense):				
Gains (losses) and other investment income, net	2,917	(8,027)	2,592	2,223
Interest expense	(7,443)	(9,167)	(22,247)	(26,309)
Loss on extinguishment of debt	-	(52,886)	-	(52,886)
Other income (expense) of consolidated CLO entities:				
Gains and other investment income, net	1,434	1,704	15,247	7,881
Interest and other expense	(1,758)	(2,939)	(13,781)	(10,211)
Total non-operating expense	(4,850)	(71,315)	(18,189)	(79,302)
Income before income taxes and equity in net income of affiliates	126,328	47,535	362,492	248,298
Income taxes	(48,899)	(25,137)	(138,790)	(99,270)
Equity in net income of affiliates, net of tax	3,840	2,652	12,344	9,269
Net income	81,269	25,050	236,046	158,297
Net income attributable to non-controlling and other beneficial interests	(3,334)	(1,847)	(11,852)	(21,608)
Net income attributable to Eaton Vance Corp. shareholders	\$77,935	\$23,203	\$224,194	\$136,689
Earnings per share:				
Basic	\$0.66	\$0.19	\$1.86	\$1.12
Diluted	\$0.63	\$0.18	\$1.78	\$1.07
Weighted average shares outstanding:				
Basic	116,145	117,594	117,248	116,399
Diluted	121,013	123,872	122,550	122,155
Dividends declared per share	\$0.22	\$0.20	\$0.66	\$1.60

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,	
	2014	2013	2014	2013
Net income	\$81,269	\$25,050	\$236,046	\$158,297
Other comprehensive income (loss):				
Change in unrealized gains on derivative instruments, net of tax	-	1,227	-	1,227
Amortization of net gains (losses) on derivatives, net of tax	4	698	10	842
Unrealized holding gains (losses) on available-for-sale investments and reclassification adjustments, net of tax	228	370	607	(1,426)
Foreign currency translation adjustments, net of tax	905	(2,860)	(4,948)	(3,880)
Other comprehensive income (loss), net of tax	1,137	(565)	(4,331)	(3,237)
Total comprehensive income	82,406	24,485	231,715	155,060
Comprehensive income attributable to non-controlling and other beneficial interests	(3,334)	(1,847)	(11,852)	(21,608)
Total comprehensive income attributable to Eaton Vance Corp. shareholders	\$79,072	\$22,638	\$219,863	\$133,452

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Shareholders' Equity (unaudited)

(in thousands)	Permanent Equity								Tempora	Equity
	Voting Common Stock	Non-Voting Common Stock	Additional Paid-In Capital	Notes Receivable from Stock Option Exercises	Accumulated Other Comprehensive Loss	Appropriated Retained Earnings	Retained Earnings	Non- Redeemable Non- Controlling Interests	Total Permanent Equity	Redeemable Non- Controlling Interests
Balance, November 1, 2013	\$2	\$474	\$124,837	\$(7,122)	\$(177)	\$10,249	\$541,521	\$1,755	\$671,539	\$74,856
Net income	-	-	-	-	-	(2,005)	224,194	4,396	226,585	9,461
Other comprehensive loss	-	-	-	-	(4,331)	-	-	-	(4,331)	-
Dividends declared	-	-	-	-	-	-	(79,626)	-	(79,626)	-
Issuance of Voting Common Stock	-	-	162	-	-	-	-	-	162	-
Issuance of Non-Voting Common Stock:										
On exercise of stock options	-	7	39,501	(2,216)	-	-	-	-	37,292	-
Under employee stock purchase plans	-	-	3,709	-	-	-	-	-	3,709	-
Under employee incentive plan	-	-	2,946	-	-	-	-	-	2,946	-
Under restricted stock plan, net of forfeitures	-	4	-	-	-	-	-	-	4	-
Stock-based compensation	-	-	46,492	-	-	-	-	-	46,492	-
Tax benefit of stock option exercises	-	-	12,723	-	-	-	-	-	12,723	-
Repurchase of Voting Common Stock	-	-	(77)	-	-	-	-	-	(77)	-
Repurchase of Non-Voting Common Stock	-	(23)	(216,294)	-	-	-	(11,597)	-	(227,914)	-
Principal repayments on notes receivable from stock option exercises	-	-	-	1,769	-	-	-	-	1,769	-
Net subscriptions (redemptions/distributions) of non-controlling interest holders	-	-	-	-	-	-	-	(3,996)	(3,996)	2,313
Deconsolidation	-	-	-	-	-	(3,687)	-	-	(3,687)	(4,111)
Reclass to temporary equity	-	-	-	-	-	-	-	(352)	(352)	352
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	-	(6,839)

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Issuance of subsidiary equity	-	-	-	-	-	-	-	-	-	9,935
Other changes in non-controlling interests	-	-	(13,999)	-	-	-	-	-	(13,999)	13,999
Balance, July 31, 2014	\$2	\$462	\$-	\$(7,569)	\$(4,508)	\$4,557	\$674,492	\$1,803	\$669,239	\$99,966

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

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

(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 Cash Flows (unaudited)**

(in thousands)	Nine Months Ended July 31,	
	2014	2013
Cash Flows From Operating Activities:		
Net income	\$236,046	\$158,297
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	15,822	19,673
Unamortized gain on derivative instrument	-	2,015
Amortization of deferred sales commissions	13,464	14,575
Stock-based compensation	46,492	40,446
Deferred income taxes	10,831	(4,117)
Net (gains) losses on investments and derivatives	2,789	(399)
Equity in net income of affiliates, net of amortization	(14,833)	(10,834)
Dividends received from affiliates	11,654	13,218
Loss on extinguishment of debt	-	52,886
Consolidated CLO entities' operating activities:		
Net (gains) losses on bank loans, other investments and note obligations	(592)	4,197
Amortization	(715)	(584)
Net decrease in other assets and liabilities, including cash	(128,945)	(23,119)
Changes in operating assets and liabilities:		
Investment advisory fees and other receivables	(1,090)	(21,852)
Investments in trading securities	(181,897)	(194,121)
Deferred sales commissions	(12,510)	(14,098)
Other assets	11,376	28,424
Accrued compensation	(27,871)	(13,547)
Accounts payable and accrued expenses	10,632	(4,587)