

EATON VANCE CORP
Form 10-Q
September 07, 2016

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, 2016

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, 2016:

Voting Common Stock – 442,932 shares

Non-Voting Common Stock – 112,709,623 shares

Eaton Vance Corp.

Form 10-Q

As of July 31, 2016 and for the

Three and Nine Month Periods Ended July 31, 2016

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

| (in thousands) | July 31, 2016 | October 31, 2015 |
|---|------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$378,156 | \$465,558 |
| Investment advisory fees and other receivables | 182,050 | 187,753 |
| Investments | 563,609 | 507,020 |
| Assets of consolidated collateralized loan obligation (“CLO”) entity: | | |
| Cash and cash equivalents | 18,278 | 162,704 |
| Bank loans and other investments | 379,988 | 304,250 |
| Other assets | 21,976 | 128 |
| Deferred sales commissions | 26,114 | 25,161 |
| Deferred income taxes | 26,046 | 42,164 |
| Equipment and leasehold improvements, net | 45,194 | 44,943 |
| Intangible assets, net | 48,944 | 55,433 |
| Goodwill | 248,091 | 237,961 |
| Loan to affiliate | 5,000 | - |
| Other assets | 55,910 | 83,396 |
| Total assets | \$1,999,356 | \$2,116,471 |

See notes to Consolidated Financial Statements.

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

| (in thousands, except share data) | July 31, 2016 | October 31, 2015 |
|--|------------------|------------------------|
| Liabilities, Temporary Equity and Permanent Equity | | |
| Liabilities: | | |
| Accrued compensation | \$127,888 | \$178,875 |
| Accounts payable and accrued expenses | 67,364 | 65,249 |
| Dividend payable | 33,934 | 32,923 |
| Debt | 573,928 | 573,811 |
| Liabilities of consolidated CLO entity: | | |
| Senior and subordinated note obligations | 387,783 | 397,039 |
| Other liabilities | 21,852 | 70,814 |
| Other liabilities | 72,300 | 86,891 |
| Total liabilities | 1,285,049 | 1,405,602 |
| Commitments and contingencies (Note 18) | | |
| Temporary Equity: | | |
| Redeemable non-controlling interests | 90,576 | 88,913 |
| Permanent Equity: | | |
| Voting Common Stock, par value \$0.00390625 per share: | | |
| Authorized, 1,280,000 shares | | |
| Issued and outstanding, 442,932 and 415,078 shares, respectively | 2 | 2 |
| Non-Voting Common Stock, par value \$0.00390625 per share: | | |
| Authorized, 190,720,000 shares | | |
| Issued and outstanding, 112,709,623 and 115,470,485 shares, respectively | 440 | 451 |
| Additional paid-in capital | - | - |
| Notes receivable from stock option exercises | (9,673) | (11,143) |
| Accumulated other comprehensive loss | (49,767) | (48,586) |
| Appropriated retained earnings (deficit) | 6,671 | (5,338) |
| Retained earnings | 674,236 | 684,845 |
| Total Eaton Vance Corp. shareholders' equity | 621,909 | 620,231 |
| Non-redeemable non-controlling interests | 1,822 | 1,725 |
| Total permanent equity | 623,731 | 621,956 |
| Total liabilities, temporary equity and permanent equity | \$1,999,356 | \$2,116,471 |

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, 2016 | 2015 | July 31, 2016 | 2015 |
| Revenue: | | | | |
| Investment advisory and administrative fees | \$292,814 | \$303,625 | \$852,739 | \$906,062 |
| Distribution and underwriter fees | 18,883 | 20,285 | 56,216 | 61,369 |
| Service fees | 27,150 | 29,265 | 80,203 | 87,573 |
| Other revenue | 2,321 | 2,336 | 6,856 | 7,101 |
| Total revenue | 341,168 | 355,511 | 996,014 | 1,062,105 |
| Expenses: | | | | |
| Compensation and related costs | 121,827 | 124,400 | 365,856 | 364,667 |
| Distribution expense | 31,616 | 31,300 | 88,338 | 167,649 |
| Service fee expense | 24,831 | 26,978 | 73,036 | 81,116 |
| Amortization of deferred sales commissions | 3,861 | 3,767 | 11,862 | 11,187 |
| Fund-related expenses | 8,939 | 9,446 | 26,133 | 27,084 |
| Other expenses | 43,369 | 42,887 | 127,671 | 120,888 |
| Total expenses | 234,443 | 238,778 | 692,896 | 772,591 |
| Operating income | 106,725 | 116,733 | 303,118 | 289,514 |
| Non-operating income (expense): | | | | |
| Gains (losses) and other investment income, net | 3,137 | (850) | 9,766 | 2,299 |
| Interest expense | (7,342) | (7,344) | (22,024) | (22,017) |
| Other income (expense) of consolidated CLO entities: | | | | |
| Gains and other investment income, net | 4,467 | 1,771 | 21,654 | 5,284 |
| Interest expense | (4,393) | (1,161) | (9,107) | (2,966) |
| Total non-operating income (expense) | (4,131) | (7,584) | 289 | (17,400) |
| Income before income taxes and equity in net income of affiliates | 102,594 | 109,149 | 303,407 | 272,114 |
| Income taxes | (39,781) | (43,435) | (112,793) | (104,101) |
| Equity in net income of affiliates, net of tax | 2,961 | 3,260 | 7,847 | 9,363 |
| Net income | 65,774 | 68,974 | 198,461 | 177,376 |
| Net income attributable to non-controlling and other beneficial interests | (2,875) | (265) | (22,209) | (9,280) |
| Net income attributable to Eaton Vance Corp. shareholders | \$62,899 | \$68,709 | \$176,252 | \$168,096 |
| Earnings per share: | | | | |
| Basic | \$0.57 | \$0.60 | \$1.60 | \$1.45 |
| Diluted | \$0.55 | \$0.57 | \$1.55 | \$1.39 |
| Weighted average shares outstanding: | | | | |
| Basic | 109,533 | 113,406 | 110,275 | 113,890 |
| Diluted | 113,810 | 118,281 | 114,044 | 119,013 |
| Dividends declared per share | \$0.265 | \$0.250 | \$0.795 | \$0.750 |

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, | |
|--|--------------------------------|-----------|-------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$65,774 | \$68,974 | \$198,461 | \$177,376 |
| Other comprehensive income (loss): | | | | |
| Amortization of net gains (losses) on derivatives, net of tax | 3 | 3 | 10 | 10 |
| Unrealized holding gains (losses) on available-for-sale investments and reclassification adjustments, net of tax | 422 | (1,965) | 369 | (1,650) |
| Foreign currency translation adjustments, net of tax | (9,336) | (12,858) | (1,560) | (27,556) |
| Other comprehensive loss, net of tax | (8,911) | (14,820) | (1,181) | (29,196) |
| Total comprehensive income | 56,863 | 54,154 | 197,280 | 148,180 |
| Comprehensive income attributable to non-controlling and other beneficial interests | (2,875) | (265) | (22,209) | (9,280) |
| Total comprehensive income attributable to Eaton Vance Corp. shareholders | \$53,988 | \$53,889 | \$175,071 | \$138,900 |

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Shareholders' Equity (unaudited)

| (in thousands) | Permanent Equity | | | | | | | Temporary Equity | | |
|--|---------------------|-------------------------|----------------------------|---------------------------------------|--------------------------------------|--|-------------------|--|------------------------|--------------------------------------|
| | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Exercises | Accumulated Other Comprehensive Loss | Appropriated Retained Earnings (Deficit) | Retained Earnings | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Redeemable Non-Controlling Interests |
| Balance, November 1, 2015 | \$2 | \$451 | \$- | \$(11,143) | \$(48,586) | \$(5,338) | \$684,845 | \$1,725 | \$621,956 | \$88,913 |
| Net income | - | - | - | - | - | 12,009 | 176,252 | 2,969 | 191,230 | 7,231 |
| Other comprehensive loss | - | - | - | - | (1,181) | - | - | - | (1,181) | - |
| Dividends declared (\$0.795 per share) | - | - | - | - | - | - | (90,469) | - | (90,469) | - |
| Issuance of Voting Common Stock | - | - | 232 | - | - | - | - | - | - | - |