

EATON VANCE CORP
Form 10-Q
March 09, 2018

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 January 31, 2018

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 Number: 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
(Registrant's telephone number, including area code)

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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 x 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No "

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
(Do not check if a smaller reporting company)			
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class:</u>	<u>Outstanding as of January 31, 2018</u>
Non-Voting Common Stock, \$0.00390625 par value	120,070,801 shares
Voting Common Stock, \$0.00390625 par value	442,932 shares

Eaton Vance Corp.

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As of January 31, 2018 and for the

Three Month Period Ended January 31, 2018

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Part I - Financial Information

Item 1. Consolidated Financial Statements

Eaton Vance Corp.

Consolidated Balance Sheets (unaudited)

(in thousands)	January 31, 2018	October 31, 2017
Assets		
Cash and cash equivalents	\$533,316	\$610,555
Management fees and other receivables	213,477	200,453
Investments	1,029,738	898,192
Assets of consolidated collateralized loan obligation (CLO) entity:		
Cash	454	-
Bank loan investments	76,554	31,348
Other assets	5,183	-
Deferred sales commissions	39,908	36,423
Deferred income taxes	37,052	67,100
Equipment and leasehold improvements, net	49,692	48,989
Intangible assets, net	87,573	89,812
Goodwill	259,681	259,681
Loan to affiliate	5,000	5,000
Other assets	59,381	83,348
Total assets	\$2,397,009	\$2,330,901

See notes to Consolidated Financial Statements.

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

(in thousands, except share data)	January 31, 2018	October 31, 2017
Liabilities, Temporary Equity and Permanent Equity		
Liabilities:		
Accrued compensation	\$ 79,016	\$ 207,330
Accounts payable and accrued expenses	73,671	68,115
Dividend payable	44,411	44,634
Debt	619,052	618,843
Liabilities of consolidated CLO entity:		
Line of credit	36,534	12,598
Other liabilities	25,283	-
Other liabilities	114,439	116,298
Total liabilities	992,406	1,067,818
Commitments and contingencies (Note 17)		
Temporary Equity:		
Redeemable non-controlling interests	304,449	250,823
Permanent Equity:		
Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 1,280,000 shares	2	2
Issued and outstanding, 442,932 and 442,932 shares, respectively		
Non-Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 190,720,000 shares	469	461
Issued and outstanding, 120,070,801 and 118,077,872 shares, respectively		
Additional paid-in capital	182,502	148,284
Notes receivable from stock option exercises	(10,518)	(11,112)
Accumulated other comprehensive loss	(34,694)	(47,474)
Retained earnings	961,492	921,235
Total Eaton Vance Corp. shareholders' equity	1,099,253	1,011,396
Non-redeemable non-controlling interests	901	864
Total permanent equity	1,100,154	1,012,260
Total liabilities, temporary equity and permanent equity	\$ 2,397,009	\$ 2,330,901

See notes to Consolidated Financial Statements.

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

(in thousands, except per share data)	Three Months Ended January 31,	
	2018	2017
Revenue:		
Management fees	\$ 366,367	\$ 304,653
Distribution and underwriter fees	20,493	18,959
Service fees	30,844	28,911
Other revenue	3,708	2,436
Total revenue	421,412	354,959
Expenses:		
Compensation and related costs	155,048	135,135
Distribution expense	35,640	31,117
Service fee expense	28,562	26,927
Amortization of deferred sales commissions	4,277	3,854
Fund-related expenses	14,846	10,875
Other expenses	47,239	41,615
Total expenses	285,612	249,523
Operating income	135,800	105,436
Non-operating income (expense):		
Gains and other investment income, net	2,598	494
Interest expense	(5,907)	(7,347)
Other income (expense) of consolidated CLO entity:		
Gains and other investment income, net	1,717	-
Interest expense	(94)	-
Total non-operating expense	(1,686)	(6,853)
Income before income taxes and equity in net income of affiliates	134,114	98,583
Income taxes	(48,617)	(36,748)
Equity in net income of affiliates, net of tax	3,014	2,506
Net income	88,511	64,341
Net income attributable to non-controlling and other beneficial interests	(10,455)	(3,630)
Net income attributable to Eaton Vance Corp. shareholders	\$ 78,056	\$ 60,711
Earnings per share:		
Basic	\$0.68	\$0.55
Diluted	\$0.63	\$0.53
Weighted average shares outstanding:		
Basic	115,282	110,267
Diluted	123,941	114,671
Dividends declared per share	\$0.31	\$0.28

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)	Three Months Ended January 31,	
	2018	2017
Net income	\$ 88,511	\$ 64,341
Other comprehensive income (loss):		
Amortization of net gains (losses) on cash flow hedges, net of tax	(25)	4
Unrealized gains on available-for-sale investments and reclassification adjustments, net of tax	720	327
Foreign currency translation adjustments, net of tax	12,085	5,797
Other comprehensive income, net of tax	12,780	6,128
Total comprehensive income	101,291	70,469
Comprehensive income attributable to non-controlling and other beneficial interests	(10,455)	(3,630)
Total comprehensive income attributable to Eaton Vance Corp. shareholders	\$ 90,836	\$ 66,839

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 Option Exercises	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Redeemable Non-Controlling Interests	Redeemable Non-Controlling Interests	
Balance, November 1, 2017	\$2	\$461	\$148,284	\$(11,112)	\$(47,474)	\$921,235	\$864	\$1,012,260	\$250,823
Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-09)	-	-	675	-	-	(523)	-	152	-
Net income	-	-	-	-	-	78,056	742	78,798	9,713
Other comprehensive income	-	-	-	-	12,780	-	-	12,780	-
Dividends declared (\$0.31 per share)	-	-	-	-	-	(37,276)	-	(37,276)	-
Issuance of Non-Voting Common Stock:									
On exercise of stock options	-	6	42,690	(393)	-	-	-	42,303	-
Under employee stock purchase plans	-	-	1,549	-	-	-	-	1,549	-
Under employee stock purchase incentive plan	-	-	427	-	-	-	-	427	-
Under restricted stock plan, net of forfeitures	-	5	-	-	-	-	-	5	-
Stock-based compensation	-	-	23,729	-	-	-	-	23,729	-
Tax benefit of non-controlling interest repurchases	-	-	2,118	-	-	-	-	2,118	-
Repurchase of Non-Voting Common Stock	-	(3)	(36,340)	-	-	-	-	(36,343)	-
Principal repayments on notes receivable from stock	-	-	-	987	-	-	-	987	-

option exercises										
Net subscriptions										
(redemptions/distributions)	-	-	-	-	-	-	(739)	(739)	52,244
of non-controlling interest										
holders										
Net consolidations										
(deconsolidations) of	-	-	-	-	-	-	-	-		(488)
sponsored investment funds										
and CLO entities										
Reclass to temporary equity	-	-	-	-	-	-	34	34		(34)
Purchase of non-controlling	-	-	-	-	-	-	-	-		(8,439)
interests										
Changes in redemption										
value of non-controlling	-	-	(630)	-	-	-	(630)	630
interests redeemable at fair										
value										
Balance, January 31, 2018	\$2	\$469	\$182,502	\$(10,518)	\$(34,694)	\$961,492	\$901	\$1,100,154		\$304,449

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 (Loss)	Retained Earnings	Non-Redeemable Non-Controlling Interests	Total Permanent Equity	Redeemable Non-Controlling Interests
Balance, November 1, 2016	\$2	\$444	\$-	\$(12,074)	\$(57,583)	\$773,000	\$786	\$704,575	\$109,028
Net income	-	-	-	-	-	60,711	892	61,603	2,738
Other comprehensive income	-	-	-	-	6,128	-	-	6,128	-
Dividends declared (\$0.28 per share)	-	-	-	-	-	(32,260)	-	(32,260)	-
Issuance of Non-Voting Common Stock:									
On exercise of stock options	-	3	26,215	(330)	-	-	-	25,888	-
Under employee stock purchase plans	-	-	1,516	-	-	-	-	1,516	-
Under employee stock purchase incentive plan	-	-	324	-	-	-	-	324	-
Under restricted stock plan, net of forfeitures	-	6	-	-	-	-	-	6	-
Stock-based compensation	-	-	20,178	-	-	-	-	20,178	-
Tax benefit of stock option exercises and vesting of restricted stock awards	-	-	4,858	-	-	-	-	4,858	-
Tax benefit of non-controlling interest repurchases	-	-	3,659	-	-	-	-	3,659	-
Repurchase of Non-Voting Common Stock	-	(5)	(53,596)	-	-	-	-	(53,601)	-
Principal repayments on notes receivable from stock option exercises	-	-	-	2,263	-	-	-	2,263	-

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Net subscriptions (redemptions/distributions) of non-controlling interest holders	-	-	-	-	-	-	(874)	(874)	44,152	
Reclass to temporary equity	-	-	-	-	-	-	(64)	(64)	64
Purchase of non-controlling interests	-	-	-	-	-	-	-	-		(6,941)
Changes in redemption value of non-controlling interests redeemable at fair value	-	-	(377)	-	-	-	(377)	377	
Balance, January 31, 2017	\$2	\$448	\$2,777	\$(10,141)	\$(51,455)	\$801,451	\$740	\$743,822		\$149,418	

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Cash Flows (unaudited)

(in thousands)	Three Months Ended January 31,	
	2018	2017
Cash Flows From Operating Activities:		
Net income	\$ 88,511	\$ 64,341
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	5,272	4,494
Amortization of deferred sales commissions	4,277	3,855
Stock-based compensation	23,730	20,178
Deferred income taxes	30,820	11,101
Net (gains) losses on investments and derivatives	(977)	3,935
Loss on write-off of Hexavest option	6,523	