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EATON VANCE CORP
Form 10-Q
June 04, 2010

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 April 30, 2010

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
(State or other jurisdiction of
incorporation or organization)

04-2718215
(I.R.S. Employer Identification No.)

Two International Place, Boston, Massachusetts 02110
(Address of principal executive offices) (zip code)

(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)

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 April 30, 2010:
Voting Common Stock 417,863 shares
Non-Voting Common Stock 118,143,629 shares

Eaton Vance Corp.
Form 10-Q
As of April 30, 2010 and for the
Three and Six Month Periods Ended April 30, 2010

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Part I Financial Information

Item 1. Consolidated Financial Statements

Eaton Vance Corp.
Consolidated Balance Sheets (unaudited)

<i>(in thousands)</i>	April 30, 2010	October 31, 2009
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 323,715	\$ 310,586
Short-term investments		49,924
Investments advisory fees and other receivables	118,048	107,975
Note receivable from affiliate	2,500	
Other current assets	40,823	19,677
Total current assets	485,086	488,162
Other Assets:		
Deferred sales commissions	51,469	51,966
Goodwill	135,786	135,786

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Other intangible assets, net	76,926	80,834
Long-term investments	191,206	133,536
Deferred income taxes	112,447	97,044
Equipment and leasehold improvements, net	73,022	75,201
Note receivable from affiliate		8,000
Other assets	4,313	4,538
Total other assets	645,169	586,905
Total assets	\$ 1,130,255	\$ 1,075,067

See notes to Consolidated Financial Statements.

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

<i>(in thousands, except share figures)</i>	April 30, 2010	October 31, 2009
Liabilities, Temporary Equity and Permanent Equity		
Current Liabilities:		
Accrued Compensation	\$ 60,138	\$ 85,273
Accounts payable and accrued expenses	58,003	51,881
Dividend payable	18,976	18,812
Deferred income taxes	19,757	15,580
Contingent purchase price liability	5,079	13,876
Other current liabilities	3,873	2,902
Total current liabilities	165,826	188,324
Long-Term Liabilities:		
Long-term debt	500,000	500,000
Other long-term liabilities	44,170	35,812
Total long-term liabilities	544,170	535,812
Total liabilities	709,996	724,136
Commitments and contingencies (See Note 19)		
Temporary Equity:		
Redeemable non-controlling interests	54,841	43,871
Permanent Equity:		
Voting Common Stock, par value \$0.00390625 per share:		
Authorized, 1,280,000 shares		
Issued and outstanding, 417,863 and 431,790 shares, respectively	2	2
Non-Voting Common Stock, par value \$0.00390625 per share:		

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Authorized, 190,720,000 shares

Issued and outstanding, 118,143,629 and 117,087,810 shares,
respectively

	461	457
Additional paid in capital	56,346	44,786
Notes receivable from stock option exercises	(2,558)	(3,078)
Accumulated other comprehensive loss	(576)	(1,394)
Retained earnings	311,327	266,196
Total Eaton Vance Corp. shareholders' equity	365,002	306,969
Non-redeemable non-controlling interests	416	91
Total permanent equity	365,418	307,060
Total liabilities, temporary equity and permanent equity	\$ 1,130,255	\$ 1,075,067

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.
Consolidated Statements of Income (unaudited)

<i>(in thousands, except per share figures)</i>	Three Months Ended		Six Months Ended	
	2010	2009	2010	2009
Revenue:				
Investment advisory and administration fees	\$212,141	\$153,158	\$422,528	\$313,670
Distributions and underwriter fees	24,666	18,719	49,700	39,802
Service fees	34,453	25,641	68,443	53,241
Other revenue	1,693	871	4,317	1,147
Total revenue	272,953	198,389	544,988	407,860
Expenses:				
Compensation of officers and employees	88,089	67,237	174,963	136,863
Distribution expense	30,598	21,451	59,709	43,507
Service fee expense	29,593	20,827	57,729	43,876
Amortization of deferred sales commissions	8,376	9,523	16,335	19,080
Fund expenses	5,103	4,384	9,396	9,416
Other expenses	30,105	29,844	58,420	57,996
Total expenses	191,864	153,266	376,552	310,738
Operating income	81,089	45,123	168,436	97,122
Other Income (Expense):				
Interest income	716	828	1,486	2,099
Interest expense	(8,411)	(8,407)	(16,827)	(16,823)
Realized gains (losses) on investments	(251)	(1,256)	1,497	(2,386)
Unrealized gains on investments	1,802	2,839	2,595	3,153

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Foreign currency gains (losses)	200	(25)	334	36
Impairment losses on investments		(1,162)		(1,268)
Income before income taxes and equity in net income (loss) of affiliates	75,145	37,940	157,521	81,933
Income taxes	(28,880)	(10,866)	(60,525)	(28,326)
Equity in net income (loss) of affiliates, net of tax	(281)	(108)	533	(1,341)
Net income	45,984	26,966	97,529	52,266
Net income attributable to non-controlling interests	(9,984)	(1,213)	(15,287)	(1,816)
Net income attributable to Eaton Vance Corp. shareholders	\$ 36,000	\$ 25,753	\$ 82,242	\$ 50,450
Earnings Per Share:				
Basic	\$ 0.30	\$ 0.22	\$ 0.69	\$ 0.43
Diluted	\$ 0.29	\$ 0.21	\$ 0.66	\$ 0.42
Weighted Average Shares Outstanding:				
Basic	116,565	115,965	116,557	115,936
Diluted	123,515	119,432	123,218	119,075
Dividends Declared Per Share	\$ 0.160	\$ 0.155	\$ 0.320	\$ 0.310

See notes to Consolidated Financial Statements.

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

<i>(in thousands)</i>	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Net income	\$ 45,984	\$ 26,966	\$ 97,529	\$ 52,266
Other comprehensive income (loss):				
Amortization of loss on derivative instrument, net of income tax expense of \$40, \$40, \$79 and \$79, respectively	72	73	144	145
Unrealized holding gains on investments, net of income tax expense of \$953, \$985, \$644 and \$54, respectively	1,535	1,689	926	308
Foreign currency translation adjustments, net of income tax benefit (expense) of \$97, \$(27), \$164 and \$133, respectively	(157)	59	(252)	(204)
Total comprehensive income	47,434	28,787	98,347	52,515
Comprehensive income attributable to non-controlling interests	(9,984)	(1,213)	(15,287)	(1,816)
Total comprehensive income attributable to Eaton Vance Corp. shareholders	\$ 37,450	\$ 27,574	\$ 83,060	\$ 50,699

See notes to Consolidated Financial Statements.

Eaton Vance Corp.
Consolidated Statements of Shareholder s Equity (unaudited)

	Permanent Equity			
	Voting Common Stock	Non-Voting Common Stock	Additional Paid-In Capital	Notes Receivable From Stock Option Exercises
<i>(in thousands, except per share data)</i>				
Balance, November 1, 2009	\$ 2	\$457	\$ 44,786	\$(3,078)
Net income				
Other comprehensive income				
Dividends declared (\$0.32 per share)				
Issuance of Non-Voting Common Stock:				
On exercise of stock options		5	23,252	(491)
Under employee stock purchase plan			1,992	
Under employee incentive plan			1,729	
Under restricted stock plan		4		
Stock-based compensation			25,045	
Tax benefit of stock option exercises			4,240	
Repurchase of Voting Common Stock			(41)	
Repurchase of Non-Voting Common Stock		(5)	(44,558)	
Principal repayments				1,011
Subscriptions (redemptions/distributions) of non-controlling interest holders				
Deconsolidation				
Reclass to temporary equity				
Other changes in non-controlling interests			(99)	
Balance, April 30, 2010	\$ 2	\$461	\$ 56,346	\$(2,558)
Balance, November 1, 2008	\$ 2	\$451	\$	\$(4,704)
Net income				
Other comprehensive income				
Dividends declared (\$0.31 per share)				
Issuance of Voting Common Stock			86	
Issuance of Non-Voting Common Stock:				
On exercise of stock options		1	5,801	(851)
Under employee stock purchase plan			2,223	
Under employee incentive plan		1	2,874	
Under restricted stock plan		4		
Stock-based compensation			20,565	
Tax benefit of stock option exercises			8,626	
Repurchase of Non-Voting Common Stock		(1)	(7,651)	
Principal repayments				2,305

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Subscriptions (redemptions/distributions) of non-controlling interest holders				
Deconsolidation				
Other changes in non-controlling interests				
Balance, April 30, 2009	\$ 2	\$456	\$ 32,524	\$(3,250)

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.
Consolidated Statements of Shareholders Equity (unaudited) (continued)

	Permanent Equity				Temporary Equity
	Accumulated Other Comprehensive Loss	Retained Earnings	Non-Redeemable Non-Controlling Interests	Total Permanent Equity	Redeemable Non-Controlling Interests
<i>(in thousands, except per share data)</i>					
Balance, November 1, 2009	\$ (1,394)	\$266,196	\$ 91	\$307,060	\$43,871
Net income		82,242	581	82,823	14,706
Other comprehensive income	818			818	
Dividends declared (\$0.32 per share)		(37,933)		(37,933)	
Issuance of Non-Voting Common Stock:					
On exercise of stock options				22,766	
Under employee stock purchase plan				1,992	
Under employee incentive plan				1,729	
Under restricted stock plan				4	
Stock-based compensation				25,045	
Tax benefit of stock option exercises				4,240	
Repurchase of Voting Common Stock				(41)	
Repurchase of Non-Voting Common Stock				(44,563)	
Principal repayments				1,011	
Subscriptions (redemptions/distributions) of non-controlling interest holders			(251)	(251)	(2,601)
Deconsolidation					(417)
Reclass to temporary equity			(5)	(5)	5
Other changes in non-controlling interests		822		723	(723)
Balance, April 30, 2010	\$ (576)	\$311,327	\$ 416	\$365,418	\$54,841
Balance, November 1, 2008	\$ (5,135)	\$187,904	\$	\$178,518	\$72,137
Net income		50,450	25	50,475	1,791
Other comprehensive income	249			249	
Dividends declared (\$0.31 per share)		(36,271)		(36,271)	
Issuance of Voting Common Stock				86	
Issuance of Non-Voting Common Stock:					
On exercise of stock options				4,951	

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Under employee stock purchase plan				2,223	
Under employee incentive plan				2,875	
Under restricted stock plan				4	
Stock-based compensation				20,565	
Tax benefit of stock option exercises				8,626	
Repurchase of Non-Voting Common Stock				(7,652)	
Principal repayments				2,305	
Subscriptions (redemptions/distributions) of non-controlling interest holders					(4,438)
Deconsolidation					(4,461)
Other changes in non-controlling interests		2,292		2,292	(2,292)
Balance, April 30, 2009	\$ (4,886)	\$ 204,375	\$ 25	\$ 229,246	\$ 62,737

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.
Consolidated Statements of Cash Flows (unaudited)

<i>(in thousands)</i>	Six Months Ended	
	2010	April 30,
	2009	
Cash and cash equivalents, beginning of period	\$ 310,586	\$ 196,923
Cash Flows From Operating Activities:		
Net income	97,529	52,266
Adjustments to reconcile net income attributable to net cash provided by operating activities:		
(Gains) losses on investments	(5,728)	549
Amortization of long-term investments	245	1,581
Equity in net (income) loss of affiliates	(861)	2,091
Dividends received from affiliates	954	2,268
Amortization of debt issuance costs	507	456
Deferred income taxes	(11,789)	(18,812)
Stock-based compensation	25,045	20,677
Depreciation and other amortization	11,303	9,712
Amortization of deferred sales commissions	16,325	19,080
Payment of capitalized sales commissions	(18,379)	(9,215)
Contingent deferred sales charges received	2,547	4,761
Proceeds from the sale of trading investments	61,684	27,167
Purchase of trading investments	(52,457)	(28,453)
Changes in other assets and liabilities:		
Investment advisory fees and other receivables	(8,943)	19,784
Other current assets	(187)	(702)
Other assets	(68)	(2)
Accrued compensation	(25,081)	(53,039)
Accounts payable and accrued expenses	5,894	(8,320)
Taxes payable current	(12,944)	(6,545)

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Other current liabilities	973	(519)
Other long-term liabilities	192	7,001
Net cash provided by operating activities	86,761	41,786
Cash Flows From Investing Activities:		
Additions to equipment and leasehold improvements	(5,614)	(35,855)
Net cash paid in acquisition	(8,797)	(30,398)
Payment received on note receivable to affiliate	5,500	
Issuance of note receivable to affiliate		(5,000)
Proceeds from the sale of available-for-sale investments and investments in affiliates	10,208	120,761
Purchase of available-for-sale investments and investments in affiliates	(21,208)	(1,179)
Net cash (used for) provided by investing activities	(19,911)	48,329

See notes to Consolidated Financial Statements.

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Eaton Vance Corp.
Consolidated Statements of Cash Flows (unaudited) (continued)

<i>(in thousands)</i>	Six Months Ended April 30,	
	2010	2009
Cash Flows From Financing Activities:		
Distributions to non-controlling interest holders	(4,969)	(2,818)
Excess tax benefit of stock option exercises	4,240	8,626
Proceeds from issuance of Voting Common Stock		86
Proceeds from issuance of Non-Voting Common Stock	26,491	10,053
Repurchase of Voting Common Stock	(41)	
Repurchase of Non-Voting Common Stock	(44,563)	(7,652)
Principal repayments on notes receivable from stock option exercises	1,011	2,305
Dividends paid	(37,770)	(36,068)
Proceeds from the issuance of mutual fund subsidiaries capital stock	2,136	2,034
Redemption of mutual fund subsidiaries capital stock	(19)	(3,654)
Net cash used for financing activities	(53,484)	(27,088)
Effect of currency rate changes on cash and cash equivalents	(237)	(38)
Net increase in cash and cash equivalents	13,129	62,989
Cash and cash equivalents, end of period	\$ 323,715	\$ 259,912
Supplemental Cash Flow Information:		
Interest paid	\$ 16,320	\$ 16,321

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Income taxes paid	\$ 81,335	\$ 46,621
Supplemental Non-Cash Flow Information:		
<i>Supplemental Non-Cash Flow Information from Investing Activities:</i>		
Decrease in investments due to net deconsolidations of sponsored investment funds	\$ (262)	\$ (4,442)
Decrease in non-controlling interests due to net deconsolidations of sponsored investment funds	\$ (417)	\$ (4,461)
Increase in fixed assets due to non-cash fixed asset additions	\$ 2,861	\$ 6,249
<i>Supplemental Non-Cash Flow Information from Financing Activities:</i>		
Exercise of stock options through issuance of notes receivable	\$ 491	\$ 851

See notes to Consolidated Financial Statements.

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Eaton Vance Corp. Notes to Consolidated Financial Statements (unaudited)

1. Basis of Presentation

In the opinion of management, the accompanying unaudited interim Consolidated Financial Statements of Eaton Vance Corp. (the Company) include all adjustments necessary to present fairly the results for the interim periods in accordance with accounting principles generally accepted in the United States of America (GAAP). Such financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures have been omitted pursuant to such rules and regulations. As a result, these financial statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in the Company s latest annual report on Form 10-K and the Company s current report on Form 8-K filed with the SEC on June 2, 2010, which updated the financial information in the Company s annual report on Form 10-K for the year ended October 31, 2009.

2. Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its controlled subsidiaries. The equity method of accounting is used for investments in non-controlled affiliates in which the Company s ownership ranges from 20 to 50 percent, or in instances in which the Company is able to exercise significant influence but not control (such as representation on the investee s Board of Directors). The Company consolidates all investments in affiliates in which the Company s ownership exceeds 50 percent or where the Company has control. In addition, the Company consolidates any variable interest entity (VIE) for which the Company is considered the primary beneficiary. The Company provides for non-controlling interests in consolidated subsidiaries for which the Company s ownership is less than 100 percent. All intercompany accounts and transactions have been eliminated.

A VIE is an entity in which either (a) the equity investment at risk is not sufficient to permit the entity to finance its own activities without additional financial support or (b) the voting rights of the equity investors are not proportional to their obligations to absorb the expected losses of the entity or their rights to receive the expected residual returns of the entity. The Company evaluates whether entities in which it has an interest are VIEs and whether the Company qualifies as the primary beneficiary of any VIEs identified in its analysis.

3. Revisions to Amounts Previously Presented

Certain prior year amounts have been revised or reclassified to conform to the current year presentation, including those required by the retrospective adoption of new authoritative accounting guidance related to earnings per share and non-controlling interests in subsidiaries. Cash flow activity for the six months ended April 30, 2009 has been corrected to reclassify activity related to the note receivable from affiliate from a financing activity to an investing activity. This resulted in revised cash provided by investing activities of \$48.3 million (\$53.3 million previously reported) and revised cash used for financing activities of \$27.1 million (\$32.1 million previously reported).

4. Adoption of New Accounting Standards

The Company adopted the following accounting standards in the six months ended April 30, 2010:

Earnings per Share

On November 1, 2009, the Company adopted a new accounting standard relating to the computation of earnings per share. The standard specified that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in

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the computation of earnings per share pursuant to the two-class method. The adoption of this new accounting standard reduced diluted earnings per share for the three months ended April 30, 2009 by \$0.01 from the \$0.22 that was previously reported to \$0.21 and reduced basic earnings per share for the six months ended April 30, 2009 by \$0.01 from the \$0.44 that was previously reported to \$0.43.

Non-controlling Interests

A new accounting standard on non-controlling interests in consolidated financial statements was adopted in the first quarter of 2010. The new accounting standard is intended to establish accounting and reporting standards for non-controlling interests in subsidiaries and for the deconsolidation of subsidiaries. The new accounting standard clarifies that a non-controlling interest in a subsidiary is an ownership interest in that entity that should be reported as equity, separate from the parent's equity, in the consolidated financial statements. The Company adopted the new accounting standard on November 1, 2009, which required retrospective adoption of the presentation and disclosure requirements for existing non-controlling interests. All other requirements of the new accounting standard were applied prospectively, including the provision that requires that the Company charge or credit the statement of income for an amount equal to the change in amounts redeemable by the non-controlling interest for something other than fair value.

At October 31, 2009, the Company determined that \$43.9 million of non-controlling interests related to certain majority-owned subsidiaries were redeemable for cash, resulting in temporary equity classification on the Company's Consolidated Balance Sheets.

5. Future Accounting Pronouncements

VIEs

In June 2009, the FASB issued literature introducing a new consolidation model. This new literature prescribes how enterprises account for and disclose their involvement with VIEs and other entities whose equity at risk is insufficient or lacks certain characteristics. This new accounting changes how an entity determines whether it is the primary beneficiary of a VIE and whether that VIE should be consolidated and requires additional disclosures. As a result, the Company must comprehensively review its involvements with VIEs and potential VIEs to determine the effect on its Consolidated Financial Statements and related disclosures. The new consolidation standard is effective for the Company's fiscal year that begins on November 1, 2010 and for interim periods within the first annual reporting period. Earlier application is prohibited. In February 2010, the FASB issued an amendment to this standard. For certain investments held by a reporting entity, the amendment indefinitely defers a requirement to perform a qualitative analysis to determine whether its variable interests give it a controlling financial interest in a VIE. This deferral generally applies to the reporting entities interests in entities that have the attributes of an investment company or that apply the specialized accounting guidance for investment companies. The Company is currently evaluating the potential impact on its Consolidated Financial Statements.

Derivatives

In March 2010, the FASB amended its derivatives and hedging guidance to clarify the embedded credit derivative scope exception guidance. The amended guidance clarifies that the scope exception applies to contracts that contain an embedded credit derivative that is only in the form of subordination of one financial instrument to the other. As a result, the embedded credit derivative feature within contracts may need to be separately accounted for. The amended guidance is effective at the beginning of the first fiscal quarter beginning after June 15, 2010. The Company is currently evaluating the potential impact on its Consolidated Financial Statements.

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6. Acquisitions

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On December 31, 2008, the Company acquired the Tax Advantaged Bond Strategies (TABS) business of M.D. Sass Investors Services (MD Sass), a privately held investment manager based in New York, New York. In conjunction with the purchase, the Company recorded \$44.8 million of intangible assets representing client relationship intangible assets acquired, which will be amortized over a 10 year period, and a contingent purchase price liability of \$13.9 million, which represents the difference between net cash paid at acquisition and the fair value of assets acquired and liabilities assumed. Proforma results of operations have not been presented because the results of operations would not have been materially different from those reported in the accompanying Consolidated Statements of Income.

During the second quarter of fiscal 2010, the Company made its first contingent payment of \$8.8 million to the selling group based upon prescribed multiples of TABS revenue for the twelve months ended December 31, 2009. The payment reduced the contingent purchase price liability. The Company will be obligated to make six additional annual contingent payments to the selling group based on prescribed multiples of TABS s revenue for the twelve months ending December 31, 2010, 2011, 2012, 2014, 2015 and 2016. All future payments will be in cash. These payments are not contingent upon any member of the selling group remaining an employee of the Company.

7. Other Intangible Assets

The following is a summary of other intangible assets at April 30, 2010 and October 31, 2009:

April 30, 2010

<i>(dollars in thousands)</i>	Weighted- average amortization period (in years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizing intangible assets:				
Client relationships acquired	9.3	\$ 109,177	\$ (38,959)	\$ 70,218
Non-amortizing intangible assets:				
Mutual fund management contract acquired		6,708		6,708
Total		\$ 115,885	\$ (38,959)	\$ 76,926

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October 31, 2009

<i>(dollars in thousands)</i>	Weighted- average amortization period (in years)	Gross carrying amount	Accumulated amortization	Net carrying amount
Amortizing intangible assets:				
Client relationships acquired	9.8	\$ 109,177	\$ (35,051)	\$ 74,126
Non-amortizing intangible assets:				
Mutual fund management contract acquired		6,708		6,708
Total		\$ 115,885	\$ (35,051)	\$ 80,834

Amortization expense was \$2.0 million and \$1.9 million for the three months ended April 30, 2010 and 2009; respectively and \$3.9 million and \$3.1 million for the six months ended April 30, 2010 and 2009, respectively.

8. Investments

The following is a summary of investments at April 30, 2010 and October 31, 2009:

<i>(in thousands)</i>	April 30, 2010	October 31, 2009
Short-term investments:		
Consolidated funds:		
Commercial paper	\$	\$20,800
Debt securities		29,124
Total short-term investments	\$	\$49,924

<i>(in thousands)</i>	April 30, 2010	October 31, 2009
Long-term investments:		
Consolidated funds:		
Debt securities	\$ 15,222	\$ 15,129
Equity securities	49,529	11,913
Separately managed accounts:		
Debt securities	29,880	31,797
Equity securities	12,682	10,450
Corporate bonds	4,925	
Sponsored funds	27,416	32,405
Collateralized debt obligation entities	1,821	2,066
Investments in affiliates	42,224	22,267
Other investments	7,507	7,509
Total long-term investments	\$191,206	\$133,536

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Investments classified as trading

The following is a summary of the cost and fair value of investments held in the portfolios of consolidated funds, separately managed accounts and corporate bonds held by the Company classified as trading at April 30, 2010 and October 31, 2009:

April 30, 2010 <i>(in thousands)</i>	Cost	Fair Value
Long-term investments:		
Debt securities	\$ 45,100	\$ 50,027
Equity securities	59,772	62,211
Total long-term investments	\$104,872	\$112,238

October 31, 2009 <i>(in thousands)</i>	Cost	Fair Value
Short-term investments:		
Commercial paper	\$ 20,800	\$ 20,800
Debt securities	29,394	29,124

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Total short-term investments	\$ 50,194	\$ 49,924
Long-term investments:		
Debt securities	\$ 43,370	\$ 46,926
Equity securities	21,305	22,363
Total long-term investments	\$ 64,675	\$ 69,289

Gross unrealized gains and losses on debt and equity securities held in the portfolios of consolidated sponsored funds have been reported in income as a component of other revenue. Gross unrealized gains and losses on debt and equity securities held in the portfolios of the Company's separately managed accounts have been reported in income as a component of unrealized gains on investments (below operating income). Gross unrealized gains and losses on corporate bonds held by the Company have been reported in income as a component of unrealized gains on investments (below operating income). The specific identified cost method is used to determine the realized gain or loss on all trading securities sold.

The Company recognized \$0.7 million of realized gains and \$1.3 million of realized losses related to investments classified as trading for the three months ended April 30, 2010. The Company recognized \$1.4 million of realized gains and \$1.6 million of realized losses related to investments classified as trading for the six months ended April 30, 2010. The Company had \$8.6 million of unrealized gains and \$1.2 million of unrealized losses related to trading securities held at April 30, 2010.

During the second quarter of fiscal 2010, the Company deconsolidated its short-term investment in the Eaton Vance Short-Term Income Fund (EVSI) upon the closing of the fund. The underlying portfolio holdings were transferred to the Company as a redemption-in-kind.

Investments classified as available-for-sale

The following is a summary of the cost and fair value of investments classified as available-for-sale at April 30, 2010 and October 31, 2009:

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April 30, 2010 (in thousands)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Long-term investments:				
Sponsored funds	\$23,855	\$3,571	\$(10)	\$27,416
Total long-term investments	\$23,855	\$3,571	\$(10)	\$27,416
October 31, 2009 (in thousands)	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
Long-term investments:				
Sponsored funds	\$30,414	\$2,073	\$(82)	\$32,405
Total long-term investments	\$30,414	\$2,073	\$(82)	\$32,405

Gross unrealized gains and losses on investments in sponsored funds classified as available-for-sale have been excluded from earnings and reported as a component of accumulated other comprehensive loss, net of deferred taxes. No investment with a gross unrealized loss has been in a loss position for greater than one year.

The Company has reviewed the gross unrealized losses of \$10,000 as of April 30, 2010 and determined that these losses were not other-than-temporary, primarily because the Company has both the ability and intent to hold the investments for a period of time sufficient to recover such losses. The aggregate fair value of investments associated with the unrealized losses was \$0.2 million at April 30, 2010.

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The following is a summary of the Company's realized gains and losses upon disposition of sponsored funds and certain equity securities classified as available-for-sale for the three and six months ended April 30, 2010 and 2009. The specific identified cost method is used to determine the realized gain or loss on the sale of shares of sponsored funds.

<i>(in thousands)</i>	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Gains	\$ 57	\$	\$2,082	\$
Losses	(40)		(41)	(233)
Net realized gains (losses)	\$ 17	\$	\$2,041	\$(233)

Investments in collateralized debt obligation entities

The Company did not recognize any impairment losses in fiscal 2010. The Company recognized impairment losses totaling \$1.2 million in the second quarter of fiscal 2009, representing a loss related to a cash instrument collateralized debt obligation (CDO) entity and \$1.3 million in the first six months of fiscal 2009, representing losses relating to a synthetic CDO and a cash instrument CDO entity. The impairment loss associated with the synthetic CDO entity, which reduced the Company's investment in that entity to zero, resulted from a decrease in the estimated cash flows from the entity due to higher realized default rates and lower recovery rates on the reference securities underlying the synthetic CDO entity's portfolio of credit default swaps. The impairment loss associated with the cash instrument CDO entity resulted from a decrease in the estimated future cash flows from the CDO entity due to an increase in the default rate of the underlying loan portfolio.

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Investments in affiliates

The Company has a 20 percent equity interest in Lloyd George Management (BVI) Limited (LGM), an independent investment management company based in Hong Kong that primarily manages emerging market equity funds and separate accounts, including several funds sponsored by the Company. The Company's investment in LGM was \$7.6 million and \$8.3 million at April 30, 2010 and October 31, 2009, respectively.

The Company has a 7 percent equity interest in a private equity partnership that invests in companies in the financial services industry. The Company's investment in the partnership was \$13.1 million and \$12.5 million at April 30, 2010 and October 31, 2009, respectively.

The Company has a 49.7 percent equity interest in Eaton Vance Emerging Markets Local Income Fund. The Company's \$21.0 million investment in the fund at April 30, 2010, was equal to its share of the underlying assets.

The Company had a 27 percent interest in Eaton Vance Enhanced Equity Option Income Fund as of October 31, 2009. As of April 30, 2010, the Company's interest in this fund had dropped below 20 percent and the Company's remaining investment is now classified as available-for-sale.

During the second quarter of fiscal 2010, the Company deconsolidated its investment in Eaton Vance Real Estate Fund when its ownership percentage fell below 50 percent. As of April 30, 2010, the Company's interest in the fund had dropped to 30 percent and the investment is now accounted for under the equity method of accounting. The Company's \$0.5 million investment in the fund at April 30, 2010, was equal to its share of the underlying assets.

The Company reviews its equity method investments annually for impairment in the fourth quarter of each fiscal year.

Other investments

Included in other investments are certain investments carried at cost totaling \$7.5 million for the periods ended April 30, 2010 and October 31, 2009, respectively. In the third quarter of fiscal 2009, the Company purchased a non-controlling capital interest in Atlanta Capital Management Holdings LLC (ACM Holdings), a partnership that owns the non-controlling interests of Atlanta Capital Management Company, LLC (Atlanta Capital), for \$6.6 million. The Company's interest in ACM Holdings is non-voting and entitles the Company to receive \$6.6 million when the put or call options for the non-controlling interests of Atlanta Capital are exercised. The Company's investment in ACM Holdings is included as a component of long-term investments in the Company's Consolidated Balance Sheet at April 30, 2010. Management believes that the fair value of

these investments approximates their carrying value.

9. Fair Value Measurements

Accounting standards defines fair value 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 and establishes a hierarchy that prioritizes inputs to valuation techniques to measure fair value. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value and gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Level 1	Investments valued using unadjusted quoted market prices in active markets for identical assets at the reporting date. Assets classified as Level 1 include debt and equity securities held in the portfolio of consolidated funds and separate accounts that are classified as trading and investments in sponsored mutual funds that are classified as available-for-sale.
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