

EATON VANCE CORP
Form 10-K
December 22, 2010

**UNITED STATES SECURITIES AND EXCHANGE
COMMISSION
Washington, D.C. 20549
FORM 10-K**

(Mark One)

x

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended October 31, 2010

or
o

Transition Report Pursuant to Section 13 or 15(d) of the Securities and 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

(State of incorporation)

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)

Securities registered pursuant to Section 12(b) of the Act:

Non-Voting Common Stock (\$0.00390625 par value per share)

(Title of each class)

New York Stock Exchange

(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

EATON VANCE CORP.

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Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 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

Smaller reporting company

☐ (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 ☒

Aggregate market value of Non-Voting Common Stock held by non-affiliates of the Registrant, based on the closing price of \$35.24 on April 30, 2010 on the New York Stock Exchange was \$4,073,320,052. Calculation of holdings by non-affiliates is based upon the assumption, for these purposes only, that executive officers, directors, and persons holding 5 percent or more of the registrant's Non-Voting Common Stock are affiliates.

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

Class:	Outstanding at October 31, 2010
Non-Voting Common Stock, \$0.00390625 par value	117,927,054
Voting Common Stock, \$0.00390625 par value	399,240

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, intentions or strategies regarding the future. All statements, other than statements of historical facts, included in this Form 10-K regarding our financial position, business strategy and other plans and objectives for future operations are forward-looking statements. The terms may, will, could, anticipate, plan, continue, project, intend, estimate, believe, expect and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that they will prove to have been correct or that we will take any actions that may now be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in Item 1A, Risk Factors. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.

Item 1. Business

General

Our principal business is managing investment funds and providing investment management and counseling services to high-net-worth individuals and institutions. Our core strategy is to develop and sustain management expertise across a range of investment disciplines and to offer leading investment products and services through multiple distribution channels. In executing this strategy, we have developed a broadly diversified product line and a powerful marketing, distribution and customer service capability. Although we manage and distribute a wide range of products and services, we operate in one business segment, namely as an investment adviser to funds and separate accounts.

We are a market leader in a number of investment areas, including tax-managed equity, value equity, equity income, emerging market equity, floating-rate bank loan, municipal bond, investment grade, global and high-yield bond investing. Our diversified product line offers fund shareholders, retail managed account investors, institutional investors and high-net-worth clients a wide range of products and services designed and managed to generate attractive risk-adjusted returns over the long term. Our equity strategies encompass a diversity of investment objectives, risk profiles, income levels and geographic representation. Our income investment strategies cover a broad duration and credit quality range and encompass both taxable and tax-free investments. As of October 31, 2010, we had \$185.2 billion in assets under management.

Our principal retail marketing strategy is to distribute funds and separately managed accounts through financial intermediaries in the advice channel. We have a broad reach in this marketplace, with distribution partners including national and regional broker/dealers, independent broker/dealers, independent financial advisors, banks and insurance companies. We support these distribution partners with a team of more than 130 sales professionals covering U.S. and international markets.

We also commit significant resources to serving institutional and high-net-worth clients who access investment management services on a direct basis. Through our wholly owned affiliates and consolidated subsidiaries we manage investments for a broad range of clients in the institutional and high-net-worth marketplace, including corporations, endowments, foundations, family offices and public and private employee retirement plans. Specialized sales teams at our affiliates develop relationships in this market and deal directly with these clients.

We conduct our investment management business through five wholly owned affiliates, Eaton Vance Management (EVM), Boston Management and Research (BMR), Eaton Vance Investment Counsel (EVIC), Eaton Vance (Ireland) Limited (EVAI) and Eaton Vance Trust Company (EVTC), and four other consolidated subsidiaries, Atlanta Capital Management Company, LLC (Atlanta Capital), Fox Asset Management LLC (Fox Asset

In fiscal 2007, Parametric Portfolio Associates merged Parametric Risk Advisors, a newly formed Parametric Portfolio Associates affiliate, with Managed Risk Advisors, LLC, an investment management and derivatives investment advisory firm based in Westport, Connecticut. The merger extended Parametric Portfolio Associates offerings for the wealth management market to include investment programs utilizing equity and equity index options and other derivatives.

In December 2008, we 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. Subsequent to closing,

Open-end funds represented 40 percent of our total assets under management on October 31, 2010, while closed-end and private funds represented 13 percent and 9 percent, respectively. High-net-worth and institutional separate account assets and retail managed account assets represented 25 percent and 13 percent of total assets under

higher performance volatility in pursuit of stronger returns. Assets under management in open-end taxable income funds totaled \$17.7 billion on October 31, 2010.

We introduced our first bank loan fund in 1989 and have consistently ranked as one of the largest managers of retail bank loan funds. Assets under management in open-end floating-rate bank loan funds totaled \$9.0 billion on October 31, 2010.

In fiscal 2000, we introduced The U.S. Charitable Gift Trust (Trust) and its Pooled Income Funds, which are designed to simplify the process of donating to qualified charities and to provide professional management of

Private Funds

The private fund category includes privately offered equity funds designed to meet the diversification and tax-management needs of qualifying high-net-worth investors and equity, floating-rate bank loan and fixed income funds offered to institutional investors. We are recognized as a market leader in the types of privately offered equity funds in which we specialize, with \$10.9 billion in assets under management as of October 31, 2010. Assets under management in institutional equity, bank loan and fixed income funds, which include cash instrument collateralized debt obligation (CDO) entities, collective trusts and leveraged and unleveraged loan funds, totaled \$6.6 billion as of October 31, 2010, including \$2.4 billion of assets in CDO entities.

ranks as the fifth largest manager of retail managed account assets. Retail managed account assets totaled \$23.7 billion at October 31, 2010.

Investment Management and Administrative Activities

Our wholly owned subsidiaries EVM and BMR are investment advisers for all but five of the Eaton Vance funds. Lloyd George Management (LGM), an independent investment management company based in Hong Kong in which we own a 20 percent equity position, is the investment adviser for three of our emerging market equity funds, Eaton Vance Asian Small Companies Fund, Eaton Vance Greater China Growth Fund and Eaton Vance Greater India Fund. OrbiMed Advisors LLC (OrbiMed), an independent investment management company

agreements and management agreements, which may provide for both advisory and administrative services. Although the specifics of these agreements vary, the basic terms are similar. Pursuant to the advisory agreements, EVM or BMR provides overall investment management services to each internally advised fund, subject, in the case of Registered Funds, to the supervision of the fund's board of trustees in accordance with the fund's investment objectives and policies. Our investment advisory agreements with the funds provide for fees ranging from 10 to 100

EVMI through certain dealer firms to investors who are citizens of member nations of the European Union and other countries outside the United States. The Eaton Vance International (Cayman Islands) Funds, are Cayman Island domiciled funds distributed by EVMI and EVD for non-U.S. investors.

Although the firms in our domestic retail distribution network have each entered into selling agreements with EVD, these agreements (which generally are terminable by either party) do not legally obligate the firms to sell any specific amount of our investment products. EVD currently maintains a sales force of more than 130 external and internal

EVM, BMR, EVIC, Atlanta Capital, Fox Asset Management, Parametric Portfolio Associates and Parametric Risk Advisors are each registered with the SEC under the Advisers Act. The Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary duties, recordkeeping requirements, operational requirements and disclosure obligations. Most Eaton Vance funds are registered with the SEC under the 1940 Act. Except for privately offered funds exempt from registration, each U.S. fund is also required to make notice filings with all states where it is offered for sale. Virtually all aspects of our investment management business are subject to various federal and state laws and regulations. These laws and regulations are primarily intended to benefit shareholders of the funds and separate account clients and generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict us from carrying on our investment management business in the event we fail

Competition

The investment management business is a highly competitive global industry and we are subject to substantial competition in each of our principal product categories and distribution channels. There are few barriers to entry for new firms and consolidation within the industry continues to alter the competitive landscape. According to the Investment Company Institute, there were more than 680 investment managers at the end of calendar 2009 that

We are subject to substantial competition in all aspects of our investment management business and there are few barriers to entry. Our funds and separate accounts compete against a large number of investment products and services sold to the public by investment management companies, investment dealers, banks, insurance companies and others. Many institutions we compete with have greater financial resources than us. We compete with these firms on the basis of investment performance, diversity of products, distribution capability, scope and quality of services, fees charged, reputation and the ability to develop new investment strategies and products to meet the changing needs of investors. Our ability to market investment products is highly dependent on access to the various distribution systems of national and regional securities dealer firms, which generally offer competing affiliated and externally managed investment products that could limit the distribution of our investment products. There can be no assurance that we will be able to retain access to these channels. The inability to have such access

officers. Our key employees generally do not have employment contracts and may voluntarily terminate their employment at any time. Certain senior executives and directors are subject to our mandatory retirement policy. The loss of the services of key personnel or our failure to attract replacement or additional qualified personnel could negatively affect our financial performance. An increase in compensation to attract or retain personnel could result in a decrease in net income.

Item 4. Removed and Reserved

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			securities reflected in column (a))
Equity compensation plans approved by security holders	28,712,103	\$ 25.16	3,750,944
Equity compensation plans not approved by security holders			
Total	28,712,103	\$ 25.16	3,750,944

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The amount appearing under the Number of securities to be issued upon the exercise of outstanding options, (1) warrants and rights represents 28,712,103 shares related to our 2008 Omnibus Incentive Plan, as amended and restated, and predecessor plans.

The amount appearing under Number of securities remaining available for future issuance under equity compensation plans includes 1,274,537 shares related to our 1986 Employee Stock Purchase Plan, 1,181,904 (2) shares related to our 1992 Incentive Stock Alternative Plan and 1,294,503 shares related to our 2008 Omnibus Incentive Plan, as amended and restated, which provides for the issuance of stock options, restricted stock and phantom stock.

Performance Graph

The graph below compares the cumulative total return on our Non-Voting Common Stock for the period from November 1, 2005 through October 31, 2010 to that of the Morningstar Financial Services Sector Index and the Standard & Poor's 500 Stock Index over the same period. The comparison assumes \$100 was invested on October 31, 2005 in our Non-Voting Common Stock and the foregoing indices at the closing price on that day and assumes reinvestments of all dividends paid over the period.

Comparison of Five Year Cumulative Total Return

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Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The table below sets forth information regarding purchases by the Company of our Non-Voting Common Stock on a monthly basis during the fourth quarter of fiscal 2010:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) ⁽¹⁾ Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
August 1, 2010 through August 31, 2010	300,000	\$ 28.31	300,000	5,962,281
September 1, 2010 through September 30, 2010	358,020	\$ 28.74	358,020	5,604,261
October 1, 2010 through October 31, 2010	803,165	\$ 29.42	803,165	4,801,096
Total	1,461,185	\$ 29.03	1,461,185	4,801,096

We announced a share repurchase program on January 15, 2010, which authorized the repurchase of up to (1)8,000,000 shares of our Non-Voting Common Stock in the open market and in private transactions in accordance with applicable securities laws. This repurchase plan is not subject to an expiration date.

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non-controlling interests. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

We test our investments in affiliates and goodwill in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. There have been no significant changes in financial condition in fiscal 2010 that would indicate that an impairment loss exists at October 31, 2010.

funds subject to service fees.

certain Class A sales on which we pay a commission. Payments made

November 1, 2009. The standard requires that redeemable non-controlling interests be carried at estimated redemption value each reporting period, and that the net change in the estimated redemption

