EATON VANCE CORP
Form 8-K
May 21, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 21, 2008

EATON VANCE CORP.
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| Maryland | 1-8100 | 04-2718215 |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|---|
| 255 State Street, Boston, Massachusetts | 02109 |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code: (617) 482-8260

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a -12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d -2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e -4(c))

## INFORMATION INCLUDED IN THE REPORT

**Item 9.01. Financial Statements and Exhibits**

Registrant has reported its results of operations for the three and six months ended April 30, 2008, as described in Registrant s news release dated May 21, 2008, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

| Exhibit No. | Document |
| --- | --- |
| 99.1 | Press release issued by the Registrant dated May 21, 2008. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

| | | |
|---|---|---|
| | | **EATON VANCE CORP.**<br>(Registrant) |
| Date: | May 21, 2008 | /s/ Robert J. Whelan<br>Robert J. Whelan, Chief Financial Officer |

EXHIBIT INDEX

Each exhibit is listed in this index according to the number assigned to it in the exhibit table set forth in Item 601 of Regulation S-K. The following exhibit is filed as part of this Report:

| Exhibit No. | Description |
|---|---|
| 99.1 | Copy of Registrant's news release dated May 21, 2008. |

**Exhibit 99.1**

May 21, 2008

**FOR IMMEDIATE RELEASE**

**EATON VANCE CORP.**

**REPORT FOR THE THREE MONTHS AND SIX MONTHS ENDED April 30, 2008**

**Boston, MA** Eaton Vance reported earnings per diluted share of $0.43 in the second quarter of fiscal 2008 compared to earnings per diluted share of $0.17 in the second quarter of fiscal 2007. Second quarter fiscal 2007 earnings were reduced approximately $0.25 per diluted share by closed-end fund related expenses. Net inflows of $4.9 billion in the second quarter of fiscal 2008 compare to net inflows of $10.5 billion, or $4.7 billion excluding closed-end fund flows, in the second quarter of fiscal 2007, and net inflows of $3.6 billion in the first quarter of fiscal 2008. Assets under management increased $6.2 billion, or 4 percent, to $159.1 billion on April 30, 2008 from $152.9 billion on January 31, 2008 due to strong net flows and modest market appreciation in the quarter.

The Company earned $0.89 per diluted share in the first six months of fiscal 2008 compared to earnings of $0.19 per diluted share in the first six months of fiscal 2007. Earnings per diluted share for the first six months of fiscal 2007 were reduced $0.58 by closed-end fund related expenses.

We are pleased with the Company s solid performance in the midst of a difficult environment for asset managers, said Thomas E. Faust Jr., Chairman and Chief Executive Officer. In the second quarter of fiscal 2008 we maintained high profitability despite pressure on revenues from market price weakness and saw good underlying growth in our business franchise. The quarter s net inflows of $4.9 billion were among the best in the Company s history and equate to a 13% annualized internal growth rate. We believe we are positioned to achieve improved financial performance as market conditions stabilize.

Assets under management increased $9.1 billion, or 6 percent, to $159.1 billion on April 30, 2008 from $150.0 billion on April 30, 2007. The growth in assets under management over the past twelve months reflects long-term fund and separate account net inflows of $14.9 billion and a net increase in cash management fund assets of $0.2 billion, offset by net price declines on managed assets of $6.0 billion. Gross sales and other inflows into long-term funds and separate accounts during the twelve months ended April 30, 2008 totaled $43.0 billion.

*Second Quarter Highlights*

Net inflows in the second quarter of fiscal 2008 of $4.9 billion compare to $10.5 billion, or $4.7 billion excluding closed-end fund flows, in the second quarter of fiscal 2007. Open-end fund net inflows decreased by $0.6 billion to $2.2 billion in the second quarter of fiscal 2008 from $2.8 billion a year earlier, reflecting an increase in net inflows into open-end equity funds of $1.1 billion offset by decreases in open-end fixed income and floating-rate bank loan funds net flows of $1.1 billion and $0.6 billion, respectively. Retail managed account net inflows increased 55 percent to $1.7 billion in the second quarter of fiscal 2008 from $1.1 billion in the same period last fiscal year. The increase reflects continued strong net sales of Parametric Portfolio Associates  overlay and tax-efficient core equity products and Eaton Vance Management s large-cap value product. Institutional and high-net-worth separate account net inflows increased 233 percent to $1.0 billion in the second quarter of fiscal 2008 from $0.3 billion in the second quarter of fiscal 2007, primarily reflecting strong high-net-worth net inflows at Parametric Portfolio Associates and a positive contribution from Eaton Vance Management s institutional initiative. Tables 1-4 on page 7 summarize the Company s assets under management and asset flows by investment category.

In evaluating operating performance, the Company considers operating income and net income, which are calculated on a basis consistent with accounting principles generally accepted in the United States of America ( GAAP ), as well as adjusted operating income, a non-GAAP performance measure. Adjusted operating income is defined as operating income plus closed-end fund structuring fees and one-time payments, stock-based compensation and the write-off of any intangible assets associated with the Company s acquisitions. The Company believes that adjusted operating income is a key indicator of the Company s ongoing profitability and therefore uses this measure as the basis for calculating performance-based management incentives. Adjusted operating income is not, and should not be construed to be, a substitute for operating income computed in accordance with GAAP. However, in assessing the performance of the business, management and the Board of Directors look at adjusted operating income as a measure of underlying performance, since amounts resulting from one-time events (e.g., the offering of a closed-end fund) do not necessarily represent normal results of operations. In addition, when assessing performance, management and the Board look at performance both with and without stock-based compensation.

Adjusted operating income increased 16 percent to $105.1 million in the second quarter of fiscal 2008 compared to $90.9 million in the second quarter of fiscal 2007.

The following table provides a reconciliation of operating income to adjusted operating income:

***Reconciliation of Operating Income to Adjusted Operating Income***

| | For the Three Months Ended April 30, | | | For the Six Months Ended April 30, | | |
|---|---|---|---|---|---|---|
| *(in thousands)* | **2008** | **2007** | **% Change** | **2008** | **2007** | **% Change** |
| Operating income | $ 96,145 | $36,292 | 165% | $195,312 | $ 38,289 | 410% |
| Closed-end fund structuring fees | - | 46,321 | NM | - | 63,436 | NM |
| Payments to terminate closed-end fund compensation agreements | - | - | - | - | 52,178 | NM |
| Stock-based compensation | 8,938 | 8,252 | 8% | 20,668 | 22,476 | (8%) |
| Adjusted operating income | $105,083 | $90,865 | 16% | $215,980 | $176,379 | 22% |

Revenue in the second quarter of fiscal 2008 increased $13.2 million, or 5 percent, to $273.4 million compared to revenue in the second quarter of fiscal 2007 of $260.2 million. Investment advisory and administration fees increased 9 percent to $201.7 million, reflecting a 7 percent increase in average assets under management and a higher effective management fee rate. Distribution and underwriter fees decreased 10 percent due to a decrease in average fund assets that pay these fees. Service fee revenue increased 2 percent due to the increase in average fund assets that pay these fees.

Operating expenses in the second quarter of fiscal 2008 decreased 21 percent to $177.3 million compared to operating expenses of $223.9 million in the second quarter of fiscal 2007, largely due to one-time distribution expenses in the second quarter of fiscal 2007. These expenses consisted of structuring fee payments of $46.3 million and sales-based compensation of $8.1 million incurred in connection with $5.8 billion of closed-end fund sales during the second quarter of fiscal 2007.

Compensation expense decreased 5 percent in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007, primarily due to sales-based incentives related to closed-end fund sales incurred in the second quarter of fiscal 2007. There were no closed-end fund sales during the second quarter of fiscal 2008. Distribution expense decreased 63 percent in the second quarter of fiscal 2008 over the same period a year earlier, reflecting the closed-end fund structuring fee payments in the second quarter of fiscal 2007 described in the previous paragraph. Excluding these payments, distribution expense decreased approximately 8 percent in the second quarter of fiscal 2008 compared to the same period a year earlier due primarily to a decrease in commissions paid on certain sales of Class A shares. Service fee expense increased 10 percent, in line with the increase in assets subject to service fees. Fund expenses increased 33 percent due to growth in fund assets for which the Company employs and pays a subadvisor. Other expenses increased 15 percent, primarily due to increases in information technology and facilities expenses.

Interest income in the second quarter of fiscal 2008 increased 33 percent from the second quarter of fiscal 2007 due to an increase in average cash and short-term investment balances. Interest expense in the second quarter of fiscal 2008 increased $8.3 million from the second quarter of fiscal 2007 due to the debt offering completed in the fourth quarter of fiscal 2007. The Company s effective tax rate, calculated as a percentage of income before minority interest and equity in net income of affiliates, was 37.4 percent and 38.5 percent in the second quarter of fiscal 2008 and fiscal 2007, respectively. The decrease in the Company s effective tax rate in the second quarter of fiscal 2008 can be attributed to the adjustment to the minority interest in the Company s earnings as more fully described below.

Minority interest increased by $2.6 million and $2.5 million in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier, primarily due to a $2.8 million adjustment recorded in the second quarter of fiscal 2008 to reverse stock-based compensation previously allocated to minority shareholders of our majority-owned subsidiaries. We have determined that the allocation of stock-based compensation expense to minority shareholders reduces our liability to minority shareholders in a manner that is not consistent with the agreements governing partnership distributions to those individuals. The $2.8 million adjustment recognized in the second quarter represents the reversal of accumulated stock-based compensation expense allocated to minority shareholders from the date of acquisition; stock-based compensation expense allocated to minority shareholders was neither quantitatively nor qualitatively material to our consolidated financial statements in any of our previously reported fiscal years or periods.

Net income in the second quarter of fiscal 2008 was $53.2 million compared to $23.1 million in the second quarter of fiscal 2007.

*Six Month Highlights*

Revenue in the first six months of fiscal 2008 increased $59.8 million, or 12 percent, to $563.2 million compared to revenue in the first six months of fiscal 2007 of $503.4 million. Investment advisory and administration fees increased 16 percent to $412.4 million, reflecting a 13 percent increase in average assets under management and a higher effective management fee rate. Distribution and underwriter fees decreased 3 percent due to a decrease in average fund assets that pay these fees. Service fee revenue increased 8 percent due to the increase in average fund assets that pay these fees.

Operating expenses in the first six months of fiscal 2008 decreased 21 percent to $367.9 million compared to operating expenses of $465.1 million in the first six months of fiscal 2007, largely due to one-time distribution expenses in the first six months of fiscal 2007. These expenses consisted of structuring fee payments of $63.4 million and sales-based compensation of $12.6 million incurred in connection with $8.6 billion of closed-end fund sales during the first six months of fiscal 2007 and one-time payments of $52.2 million made to terminate the Company s compensation agreements with Merrill Lynch and AG Edwards related to certain closed-end funds offered in 2007 and prior years.

Compensation expense in the first six months of fiscal 2008 was flat as increases in employee headcount, base salaries and higher bonus accruals were offset by lower sales-based incentives in fiscal 2008 compared to fiscal 2007 due to the closed-end fund sales in the first six months of the prior fiscal year. Distribution expense decreased 65 percent in the first six months of fiscal 2008, reflecting the closed-end fund structuring fees and compensation agreement termination payments in the first six months of fiscal 2007 described in the previous paragraph. Excluding these payments, distribution expense was flat in the first six months of fiscal 2008. Service fee expense increased 14 percent, in line with the increase in assets subject to service fees. Fund expenses increased 43 percent due to growth in fund assets for which the Company employs and pays a subadvisor. Other expenses increased 19 percent, primarily due to increases in information technology and facilities expenses.

Interest income in the first six months of fiscal 2008 increased 64 percent from the first six months of fiscal 2007 due to an increase in average cash and short-term investment balances for the same six month period. Interest expense in the first six months of fiscal 2008 increased $16.7 million from the first six months of fiscal 2007 due to the debt offering completed in the fourth quarter of fiscal 2007. The Company s effective tax rate, calculated as a percentage of income before minority interest and equity in net income of affiliates, was 38.3 percent and 38.5 percent in the first six months of fiscal 2008 and fiscal 2007, respectively. Net income in the first six months of fiscal 2008 was $111.1 million compared to $25.7 million in the first six months of fiscal 2007.

Cash and cash equivalents and short-term investments decreased to $350.7 million on April 30, 2008 from $485.1 million on October 31, 2007. The Company s strong operating cash flows in the last twelve months, combined with the proceeds from the debt offering completed in the fourth quarter of fiscal 2007 enabled it to fund $528.4 million in share repurchases and $65.1 million in dividends to shareholders over the period. There were no outstanding borrowings against the Company s $200.0 million credit facility on April 30, 2008.

During the first six months of fiscal 2008, the Company repurchased and retired 3.7 million shares of its non-voting common stock at an average price of $43.64 per share under its repurchase authorization. Approximately 3.5 million shares remain of the current 8.0 million share authorization.

Eaton Vance Corp., a Boston-based investment management firm, is traded on the New York Stock Exchange under the symbol EV. Through its subsidiaries, Eaton Vance Corp. manages funds and separate accounts for individual and institutional clients.

This news release contains statements that are not historical facts, referred to as forward- looking statements. The Company s actual future results may differ significantly from those stated in any forward-looking statements, depending on factors such as changes in securities or financial markets or general economic conditions, the volume of sales and repurchases of fund shares, the continuation of investment advisory, administration, distribution and service contracts, and other risks discussed from time to time in the Company s filings with the Securities and Exchange Commission.

**Eaton Vance Corp.**
**Summary of Results of Operations**
**(in thousands, except per share figures)**

| | Three Months Ended | | | Six Months Ended | | |
|---|---|---|---|---|---|---|
| | April 30, 2008 | April 30, 2007 | % Change | April 30, 2008 | April 30, 2007 | % Change |
| **Revenue:** | | | | | | |
| Investment advisory and administration fees | $ 201,738 | $ 185,437 | 9 % | $ 412,424 | $ 354,834 | 16 % |
| Distribution and underwriter fees | 32,497 | 36,053 | (10) | 69,536 | 71,965 | (3) |
| Service fees | 38,057 | 37,228 | 2 | 78,860 | 73,240 | 8 |
| Other revenue | 1,134 | 1,466 | (23) | 2,402 | 3,321 | (28) |
| Total revenue | 273,426 | 260,184 | 5 | 563,222 | 503,360 | 12 |
| **Expenses:** | | | | | | |
| Compensation of officers and employees | 75,244 | 79,161 | (5) | 157,171 | 157,143 | 0 |
| Distribution expense | 29,184 | 77,884 | (63) | 61,360 | 176,537 | (65) |
| Service fee expense | 31,441 | 28,609 | 10 | 64,898 | 56,684 | 14 |
| Amortization of deferred sales commissions | 12,194 | 13,552 | (10) | 25,618 | 26,971 | (5) |
| Fund expenses | 5,910 | 4,455 | 33 | 12,426 | 8,674 | 43 |
| Other expenses | 23,308 | 20,231 | 15 | 46,437 | 39,062 | 19 |
| Total expenses | 177,281 | 223,892 | (21) | 367,910 | 465,071 | (21) |
| **Operating Income** | 96,145 | 36,292 | 165 | 195,312 | 38,289 | 410 |
| **Other Income/(Expense):** | | | | | | |
| Interest income | 2,745 | 2,058 | 33 | 7,125 | 4,335 | 64 |
| Interest expense | (8,405) | (57) | NM | (16,819) | (84) | NM |
| Gains/(losses) on investments | (118) | 965 | NM | 235 | 1,673 | (86) |
| Unrealized gains/(losses) on investments | 384 | - | NM | (437) | - | NM |
| Foreign currency losses | (12) | (61) | (80) | (32) | (133) | (76) |
| **Income Before Income Taxes, Minority Interest and** | | | | | | |