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EATON VANCE CORP
Form 8-K
August 18, 2004

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): August 18, 2004

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

| | | |
|--|---|---|
| Maryland ----- (State or other jurisdiction of incorporation) | 1-8100 ----- (Commission File Number) | 04-2718215 ----- (IRS Employer Identification No.) |
| 255 State Street, Boston, Massachusetts ----- (Address of principal executive offices) | | 02109 ----- (Zip Code) |

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

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INFORMATION INCLUDED IN THE REPORT

ITEM 5. OTHER EVENTS AND REQUIRED FD DISCLOSURE

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Registrant has reported its results of operations for the three months and nine months ended July 31, 2004, as described in Registrant's news release dated August 18, 2004, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

This information is being filed pursuant to Item 5. Other Events and Required FD Disclosure and is being provided under Item 12. Results of Operations and Financial Condition.

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

(c) Exhibits.

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| Exhibit No. ----- | Document ----- |
|----------------------|---|
| 99.1 | Press release issued by the Registrant dated August 18, 2004. |

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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.
(Registrant)

Date: August 18, 2004

/s/ William M. Steul

William M. Steul, Chief Financial Officer

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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 August 18, 2004. |

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EXHIBIT 99.1

NEWS RELEASE

{LOGO} Eaton Vance Corp.
The Eaton Vance Building
255 State Street, Boston, MA 02109
(617) 482-8260
Contact: William M. Steul

August 18, 2004

FOR IMMEDIATE RELEASE

EATON VANCE CORP.
REPORT FOR THE THREE MONTHS AND NINE MONTHS ENDED
JULY 31, 2004

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BOSTON, MA--Eaton Vance Corp. reported diluted earnings per share of \$0.50 in the third quarter of fiscal 2004 compared to diluted earnings per share of \$0.38 in the third quarter of fiscal 2003, an increase of 32 percent. Eaton Vance earned \$1.44 per diluted share in the first nine months of fiscal 2004, an increase of 31 percent compared to earnings of \$1.10 per diluted share in the first nine months of fiscal 2003.

Assets under management of \$89.4 billion at the end of the third quarter of fiscal 2004 were \$25.1 billion or 39 percent greater than the \$64.3 billion at the end of the third quarter last year. In the 12-month period ended July 31, 2004, the Company's assets under management were positively affected by long-term fund and separate account net inflows of \$13.2 billion, the acquisition of Parametric Portfolio Associates which added \$5.3 billion of assets under management in September 2003, the acquisition of \$2.0 billion of assets under management from Deutsche Bank's Scudder Private Investment Counsel Boston office in July 2004, and market price appreciation of \$4.7 billion. Gross sales and inflows of long-term funds and separate accounts in the last 12 months were \$24.0 billion, including \$6.4 billion of assets raised in five successful closed-end fund offerings.

Fund and separate account net inflows in the first nine months of fiscal 2004 were \$10.6 billion, compared to net inflows of \$5.7 billion in the first nine months of fiscal 2003. This fiscal year's first nine month net inflows included \$5.1 billion of new assets raised from the successful offerings of four closed-end funds: Eaton Vance Senior Floating-Rate Trust, Eaton Vance Tax-Advantaged Global Dividend Income Fund, Eaton Vance Tax-Advantaged Global Dividend Opportunities Fund and Eaton Vance Floating-Rate Income Trust, plus the over-allotment common shares and preferred shares associated with the September 2003 offering of the Eaton Vance Tax-Advantaged Dividend Income Fund. In addition to strong closed-end fund flows, the Company experienced strong open-end fund, private fund, institutional and retail managed account net inflows of \$5.5 billion in the first nine months of fiscal 2004. Tables 1, 2 and 3 (attached) summarize assets under management and asset flows by investment objective.

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Average assets under management increased 43 percent to \$83.4 billion in the first nine months of fiscal 2004 from \$58.3 billion in the first nine months of the last fiscal year. As a result of higher average assets under management, revenue in the first nine months of fiscal 2004 increased by \$108.5 million or 29 percent to \$488.2 million, compared to revenue in the first nine months of fiscal 2003 of \$379.7 million. Investment adviser and administration fees increased 41 percent to \$300.4 million, consistent with the increase in average assets under management. Distribution and underwriter fees increased 6 percent, reflecting an increase in Class A and Class C share and private fund assets and an increase in Class A share underwriter commissions that offset in part, lower distribution fees from Class B fund assets. Distribution fees from Class B share assets declined because of lower Class B share sales and the second quarter implementation of an automatic conversion of Class B shares to Class A shares after eight years of ownership for certain of the Company's mutual funds which reduced Class B share fund assets. Service fee revenue increased 25 percent, consistent with the increase in average Class A and Class C share and private equity fund assets that pay these fees. Other revenue increased 23 percent primarily as a result of consolidating two investment companies in which Eaton Vance is the majority shareholder.

Operating expenses in the first nine months of fiscal 2004 increased 25 percent to \$326.5 million compared to \$261.8 million in the same period last year,

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primarily because of higher compensation, service fee and distribution expenses. Compensation expense increased 38 percent principally due to increased marketing incentives associated with higher sales, the inclusion of Parametric Portfolio Associates' employee compensation, the compensation of employees who joined Eaton Vance from Deutsche Bank's Scudder Private Counsel Boston office and higher operating income-based bonus accruals.

Amortization of deferred sales commissions declined 3 percent in the first nine months of fiscal 2004 compared to the first nine months of fiscal 2003 because of the decline in Class B share assets. Service fee expense increased 22 percent, in line with the increase in service fee revenue. Eaton Vance collects asset-based service fees from many of its funds and pays them to the appropriate broker/dealers on fund assets in place more than one year. Distribution expense increased 55 percent as a result of increases in closed-end fund fees, sales support expense, certain Class A share fund sales commissions and Class C share fund distribution fees. Other expense increased 14 percent primarily because of higher travel, facilities, information technology, communications, legal, recruiting and miscellaneous expense offset by lower fund related expense.

In the first nine months of fiscal 2004, operating income increased 37 percent to \$161.7 million and net income increased 30 percent to \$101.0 million over the first nine months of fiscal 2003. Interest income declined by \$1.9 million to \$2.3 million, primarily because of the inclusion of interest income from two consolidated investment companies in other revenue. Interest expense in both periods was \$4.3 million. The first nine months of fiscal 2003 included \$2.0 million of gains on the sale of investments that were not repeated in the first nine months of fiscal 2004. Equity in net income of affiliates increased \$1.3 million in the first nine months of fiscal 2004 compared to the same period last year primarily because of an increase in the earnings of Lloyd George Management in which the Company has a 20 percent ownership position. The Company's provision for income taxes was 36 percent in the first nine months of fiscal 2004 and 35 percent in the first nine months of fiscal 2003.

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Cash, cash equivalents and short-term investments were \$339.1 million (\$291.8 million excluding \$47.3 million of minority shareholder investments in two consolidated investment companies) on July 31, 2004, \$242.8 million on October 31, 2003 and \$270.7 million on July 31, 2003. The Company's strong operating cash flow in the last 12 months allowed it to reduce its long-term debt by \$5.8 million to \$120.1 million and to pay \$56.3 million in income taxes, \$68.4 million in sales commissions, \$89.5 million to repurchase 2.5 million shares of its non-voting common stock and \$32.7 million in dividends to shareholders. There are no outstanding borrowings against the Company's \$170.0 million credit facility.

The year-over-year increases in other current assets and deferred income taxes resulted primarily from a recent change in IRS regulations allowing mutual fund sponsors to deduct Class B share sales commissions when paid. These commissions were previously capitalized and amortized for tax purposes.

During the first nine months of fiscal 2004, the Company repurchased and retired 1,829,000 shares of its non-voting common stock at an average price of \$37.12 per share under its repurchase authorization. Approximately 2.1 million shares remain to be repurchased under the current 4.0 million-share authorization.

Subsequent to the end of the third quarter, on August 13, 2004, Eaton Vance Management, the Company's principal operating subsidiary, in response to some of its note holders exercising third anniversary put options, repurchased \$46.0 million (\$68.9 million principal amount at maturity) or 38 percent of its 30-year zero-coupon senior exchangeable notes. The notes were repurchased using

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cash on hand. The amount of the repurchase is classified as a current liability on the Company's July 31, 2004 balance sheet. The notes remaining after the repurchase have an accreted value of \$74.1 million on July 31, 2004 (\$110.9 million principal amount at maturity). The Company will expense \$1.0 million of previously capitalized debt offering costs associated with the repurchase in its fiscal 2004 fourth quarter.

Eaton Vance Corp., a Boston-based investment management firm, is traded on the New York Stock Exchange under the symbol EV.

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.

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

| | Three Months Ended | | | July 200 |
|--|--------------------|------------------|-------------|-------------|
| | July 31, 2004 | July 31, 2003 | % Change | |
| Revenue: | | | | |
| Investment adviser and administration fees | \$ 105,489 | \$ 75,687 | 39 % | \$ 300 |
| Distribution and underwriter fees | 35,585 | 37,605 | (5) | 115 |
| Service fees | 23,197 | 19,179 | 21 | 68 |
| Other revenue | 1,672 | 1,433 | 17 | 4 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 165,943 | 133,904 | 24 | 488 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Compensation of officers and employees | 37,676 | 30,735 | 23 | 111 |
| Amortization of deferred sales commissions | 19,919 | 21,139 | (6) | 62 |
| Service fee expense | 19,418 | 16,658 | 17 | 56 |
| Distribution expense | 21,120 | 14,054 | 50 | 59 |
| Other expenses | 12,412 | 10,446 | 19 | 35 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 110,545 | 93,032 | 19 | 326 |
| | ----- | ----- | ----- | ----- |
| Operating Income | 55,398 | 40,872 | 36 | 161 |
| | ----- | ----- | ----- | ----- |
| Other Income/(Expense): | | | | |
| Interest income | 826 | 1,252 | (34) | 2 |
| Interest expense | (1,315) | (1,430) | (8) | (4) |
| Gain on investments | 356 | 353 | 1 | 1 |
| Foreign currency gain (loss) | (15) | 2 | NM | 1 |
| Equity in net income (loss) of affiliates | 584 | 160 | 265 | 1 |
| | ----- | ----- | ----- | ----- |
| Income Before Income Taxes and Minority Interest | 55,834 | 41,209 | 35 | 161 |

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| | | | | |
|--------------------------------------|------------------|------------------|------------|---------------|
| Income Taxes | 20,100 | 14,423 | 39 | 57 |
| Minority Interest, Net of Tax | 701 | 259 | 171 | 2 |
| Net Income | <u>\$ 35,033</u> | <u>\$ 26,527</u> | <u>32</u> | <u>\$ 101</u> |
| Earnings Per Share: | | | | |
| Basic | <u>\$ 0.52</u> | <u>\$ 0.39</u> | <u>33</u> | <u>\$</u> |
| Diluted | <u>\$ 0.50</u> | <u>\$ 0.38</u> | <u>32</u> | <u>\$</u> |
| Dividends Declared, Per Share | <u>\$ 0.15</u> | <u>\$ 0.12</u> | <u>25</u> | <u>\$</u> |
| Weighted Average Shares Outstanding: | | | | |
| Basic | <u>67,211</u> | <u>68,876</u> | <u>(2)</u> | <u>67</u> |
| Diluted | <u>69,390</u> | <u>70,465</u> | <u>(2)</u> | <u>69</u> |

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Eaton Vance Corp.
Balance Sheet
(in thousands, except per share figures)

| | July 31, 2004 | October 31, 2003 | July 31, 2003 |
|---|-------------------|---------------------|------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 182,525 | \$ 138,328 | \$130, |
| Short-term investments | 156,579 | 104,484 | 139, |
| Investment adviser fees and other receivables | 32,011 | 25,922 | 22, |
| Other current assets | 14,139 | 3,583 | 4, |
| | ----- | ----- | ----- |
| Total current assets | 385,254 | 272,317 | 298, |
| | ----- | ----- | ----- |
| Other Assets: | | | |
| Deferred sales commissions | 174,011 | 199,322 | 210, |
| Goodwill | 89,281 | 88,879 | 69, |
| Other intangible assets, net | 44,751 | 46,193 | 37, |
| Long-term investments | 35,870 | 36,490 | 32, |
| Equipment and leasehold improvements, net | 12,558 | 12,411 | 12, |
| Other assets | 2,851 | 3,090 | 3, |
| | ----- | ----- | ----- |
| Total other assets | 359,322 | 386,385 | 364, |
| | ----- | ----- | ----- |
| Total assets | <u>\$ 744,576</u> | <u>\$ 658,702</u> | <u>\$662,</u> |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |

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| | | | |
|---|------------|------------|--------|
| Accrued compensation | \$ 38,527 | \$ 35,339 | \$ 23, |
| Accounts payable and accrued expenses | 23,389 | 23,822 | 21, |
| Dividend payable | 10,042 | 8,189 | 8, |
| Current portion of long-term debt | 46,002 | 7,143 | 7, |
| Other current liabilities | 2,872 | 8,302 | 8, |
| | ----- | ----- | ----- |
| Total current liabilities | 120,832 | 82,795 | 69, |
| | ----- | ----- | ----- |
| Long-Term Liabilities: | | | |
| Long-term debt | 74,071 | 118,736 | 118, |
| Deferred income taxes | 63,270 | 33,203 | 35, |
| | ----- | ----- | ----- |
| Total long-term liabilities | 137,341 | 151,939 | 153, |
| | ----- | ----- | ----- |
| Total liabilities | 258,173 | 234,734 | 223, |
| | ----- | ----- | ----- |
| Minority interest | 51,367 | 7,691 | 23, |
| | ----- | ----- | ----- |
| Commitments and contingencies | - | - | |
| | ----- | ----- | ----- |
| Shareholders' Equity: | | | |
| Common stock, par value \$0.0078125 per share: | | | |
| Authorized, 640,000 shares | | | |
| Issued, 154,880 shares | 1 | 1 | |
| Non-voting common stock, par value \$0.0078125 per share: | | | |
| Authorized, 95,360,000 shares | | | |
| Issued, 66,937,934, 68,250,464 and 68,813,555 shares, respectively | 523 | 533 | |
| Notes receivable from stock option exercises | (3,010) | (2,995) | (3, |
| Deferred compensation | (2,800) | (1,000) | (1, |
| Accumulated other comprehensive income | 1,556 | 1,245 | |
| Retained earnings | 438,766 | 418,493 | 418, |
| | ----- | ----- | ----- |
| Total shareholders' equity | 435,036 | 416,277 | 415, |
| | ----- | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 744,576 | \$ 658,702 | \$662, |
| | ===== | ===== | ===== |

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Table 1
Asset Flows (in millions)
Twelve Months Ended July 31, 2004

| | |
|---|-----------|
| Assets7/31/2003 - Beginning of Period | \$ 64,322 |
| Long-term fund sales and inflows | 18,883 |
| Long-term fund redemptions and outflows | (7,864) |
| Long-term fund net exchanges | (27) |
| Long-term fund mkt. value change | 2,826 |
| Long-term fund assets acquired 1 | 660 |
| Institutional and HNW account inflows | 3,203 |
| Institutional and HNW account outflows | (1,937) |
| Institutional and HNW assets acquired 1 2 | 4,768 |
| Retail managed account inflows | 1,868 |
| Retail managed account outflows | (950) |
| Retail managed account assets acquired 1 | 1,850 |
| Separate account mkt. value change | 1,861 |
| Change in money market funds | (21) |
| Net change | 25,120 |

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Assets 7/31/2004 - End of Period

\$ 89,442

Table 2
Assets Under Management
By Investment Objective (in millions)

| | July 31 2004 | October 31 2003 | % | July 31, 2003 | % |
|--------------------|-----------------|--------------------|------------|------------------|------------|
| | | | Change | | Change |
| Equity Funds | \$ 35,01 | \$ 28,854 | 21% | \$ 25,407 | 38% |
| Fixed Income Fund | 17,090 | 17,801 | -4% | 17,580 | -3% |
| Bank Loan Funds | 13,777 | 9,547 | 44% | 8,419 | 64% |
| Money Market Funds | 403 | 445 | -9% | 424 | -5% |
| Separate Accounts | 23,154 | 18,397 | 26% | 12,492 | 85% |
| Total | \$ 89,44 | \$ 75,044 | 19% | \$ 64,322 | 39% |

Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Nine |
|--|--------------------|------------------|----------------|
| | July 31, 2004 | July 31, 2003 | July 3 2004 |
| Equity Fund Assets - Beginning of Period | \$ 34,539 | \$ 23,372 | \$ 28,8 |
| Sales/Inflows | 1,498 | 881 | 7,218 |
| Redemptions/Outflows | (874) | (597) | (2,442) |
| Exchanges | 4 | 32 | 97 |
| Market Value Change | (149) | 1,719 | 1,291 |
| Net Change | 479 | 2,035 | 6,164 |
| Equity Assets - End of Period | \$ 35,018 | \$ 25,407 | \$ 35,0 |
| Fixed Income Fund Assets - Beginning of Period | 17,649 | 15,573 | 17,801 |
| Sales/Inflows | 434 | 3,033 | 1,825 |
| Redemptions/Outflows | (661) | (612) | (1,904) |
| Exchanges | (114) | (69) | (263) |
| Market Value Change | (218) | (345) | (369) |
| Net Change | (559) | 2,007 | (711) |
| Fixed Income Assets - End of Period | \$ 17,090 | \$ 17,580 | \$ 17,0 |
| Bank Loan Fund Assets - Beginning of Period | 11,791 | 7,156 | 9,547 |
| Sales/Inflows | 2,570 | 1,485 | 5,768 |
| Redemptions/Outflows | (527) | (339) | (1,642) |
| Exchanges | 75 | 15 | 147 |
| Market Value Change | (132) | 102 | (43 |

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| | | | |
|---|-----------|-----------|---------|
| Net Change | 1,986 | 1,263 | 4,230 |
| Bank Loan Assets - End of Period | \$ 13,777 | \$ 8,419 | \$ 13,7 |
| Long-Term Fund Assets - Beginning of Period | 63,979 | 46,101 | 56,202 |
| Sales/Inflows | 4,502 | 5,399 | 14,811 |
| Redemptions/Outflows | (2,062) | (1,548) | (5,988) |
| Exchanges | (35) | (22) | (19) |
| Market Value Change | (499) | 1,476 | 879 |
| Net Change | 1,906 | 5,305 | 9,683 |
| Total Long-Term Fund Assets - End of Period | \$ 65,885 | \$ 51,406 | \$ 65,8 |
| Separate Accounts - Beginning of Period | 20,729 | 11,376 | 18,397 |
| Institutional/ HNW Account Inflows | 618 | 508 | 2,507 |
| Institutional/ HNW Account Outflows | (633) | (220) | (1,431) |
| Institutional/ HNW Assets Acquired 2 | 1,996 | - | 1,996 |
| Retail Managed Account Inflows | 504 | 196 | 1,530 |
| Retail Managed Account Outflows | (232) | (112) | (808) |
| Separate Accounts Market Value Change | 172 | 744 | 963 |
| Net Change | 2,425 | 1,116 | 4,757 |
| Separate Accounts - End of Period | \$ 23,154 | \$ 12,492 | \$ 23,1 |
| Money Market Fund Assets - End of Period | 403 | 424 | 403 |
| Total Assets Under Management - End of Period | \$ 89,442 | \$ 64,322 | \$ 89,4 |

1 Parametric Portfolio Associates assets acquired by Eaton Vance in September 2003

2 Deutsche Bank's Scudder Private Investment Counsel assets acquired by Eaton Vance in July 2004