

EATON VANCE CORP
Form 8-K
February 28, 2007

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): February 28, 2007

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

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 months ended January 31, 2007, as described in Registrant's news release dated February 28, 2007, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

Exhibit No.

99.1

Document

Press release issued by the Registrant dated February 28, 2007.

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:

February 28,
2007

/s/ William M. Steul

William M. Steul, 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:

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|------------------------------------------------------------|
| 99.1 | Copy of Registrant's news release dated February 28, 2007. |

Exhibit 99.1

February 28, 2007

FOR IMMEDIATE RELEASE

**EATON VANCE CORP.
REPORT FOR THE THREE MONTHS ENDED
JANUARY 31, 2007**

Boston, MA -- Two unusual events, which Eaton Vance Corp. believes will have a strong positive impact on its longer-term financial performance, reduced diluted earnings per share by \$0.34 to \$0.02 in the first three months of fiscal 2007. For comparison, diluted earnings per share were \$0.28 in the first three months of fiscal 2006. First, earnings in the first quarter were reduced by \$52.2 million or \$0.24 per diluted share by one-time payments made to terminate certain closed-end fund compensation agreements of the Company with Merrill Lynch and AG Edwards. The termination of those agreements by a onetime payment will have the result of increasing the Company's operating income each year in the future by approximately \$9.0 million, the amount of the compensation that it would otherwise have paid to the two parties under those agreements. Second, Eaton Vance Corp. paid one-time structuring fees of \$17.1 million and marketing incentives of \$4.7 million in the first quarter in conjunction with the \$2.8 billion public offering of a new closed-end fund, Eaton Vance Tax-Managed Diversified Equity Income Fund. These fees and incentives reduced earnings in the quarter by \$21.8 million or \$0.10 per diluted share. The Company expects to earn significant management fees from this fund.

Assets under management of \$135.5 billion at the end of the first quarter of fiscal 2007 were \$22.2 billion or 20 percent greater than the \$113.3 billion at the end of the first fiscal quarter last year. In the 12-month period ended January 31, 2007, the Company's assets under management were positively affected by long-term fund and separate account net inflows of \$13.7 billion, market price appreciation of \$8.1 billion and a net increase in money market assets of \$0.5 billion. Gross inflows into long-term funds and separate accounts during the 12 months ended January 31, 2007, were a record \$32.2 billion.

Assets under management increased \$6.6 billion or 5 percent to \$135.5 billion in the first quarter from \$128.9 billion on October 31, 2006. Open-end fund net inflows increased 230 percent to \$2.2 billion in the first quarter of fiscal 2007 from \$0.7 billion in the same period last year. Closed-end fund inflows were \$2.8 billion in the first quarter of fiscal 2007 and \$0.1 billion in the first quarter of fiscal 2006. Net inflows of private funds, including structured products for institutional investors and funds for high-net-worth investors, were \$0.9 billion in the first quarter of fiscal 2007 compared to net outflows of \$0.5

billion in the first quarter last year. Gross fund flows increased 162 percent to \$9.7 billion in the first quarter of fiscal 2007 from \$3.7 billion in the first quarter of fiscal 2006.

Retail managed account net inflows increased 92 percent to \$632 million in the first quarter of fiscal 2007 from \$330 million in the same period last year. The Company had institutional and high-net-worth separate account net outflows of \$595 million in the first quarter of fiscal 2007, compared to net outflows totaling \$951 million in the first quarter of fiscal 2006. Net outflows in the recently concluded quarter were primarily due to withdrawals from a bank loan institutional account and a relatively low-fee equity institutional account managed by one of the Company's subsidiaries. Attached tables 1- 4 summarize assets under management and asset flows by investment objective.

As a result of higher average assets under management, revenue in the first quarter of fiscal 2007 increased \$36.7 million or 18 percent to \$243.2 million from \$206.5 million in the first quarter of fiscal 2006. Investment adviser and administration fees increased 19 percent to \$169.4 million, in line with a 19 percent increase in average assets under management. Distribution and underwriter fees increased 3 percent, reflecting the continuing shift in sales and assets from class B mutual fund shares to other fund share classes and managed assets with low or no distribution fees. Service fee revenue increased 23 percent due to the increase in average fund assets that pay these fees. Other revenue increased 315 percent primarily due to an increase in shareholder servicing fees and gains on trading securities.

Operating expenses in the first quarter of fiscal 2007 increased 69 percent to \$241.2 million compared to operating expense of \$142.5 million in the first quarter of fiscal 2006, primarily because of the two unusual events in the first quarter of fiscal 2007 referred to in the first paragraph—the \$52.2 million of one-time payments to terminate annual compensation agreements of the Company and the \$21.8 million of fees and incentives paid in connection with the offering of the new \$2.8 billion closed-end fund—together totaling \$74.0 million.

Compensation expense (including closed-end fund related compensation expenses) increased 27 percent primarily because of significantly higher sales-based marketing incentives and increases in employee headcount, base salaries, stock option expense and higher management bonus accruals. Amortization of deferred sales commissions declined 2 percent in the first quarter of fiscal 2007 compared to the first quarter of fiscal 2006 primarily because of the continuing decline in class B fund share sales and class B fund assets under management. Service fee expense increased 19 percent, in line with the increase in fund assets paying service fees. Distribution expense increased 278 percent as a result of the terminated compensation agreements, the fees and incentives paid in connection with the successful closed-end fund offering in the first quarter of fiscal 2007, an increase in sales support expenses, and an increase in class A and C share fund distribution fees. Other expenses increased 32 percent primarily because of higher information technology, facilities and travel expenses.

The combination of one-time closed-end fund expenses and significantly higher sales-based marketing incentives and other operating expenses reduced operating income to \$2.0 million in the first quarter of fiscal 2007 compared to \$64.1 million in the first quarter of fiscal 2006.

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 (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.

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

Reconciliation of Operating Income to Adjusted Operating Income

| <i>(in thousands)</i> | For the Three Months Ended January 31, | | % Change |
|------------------------------------------------------------------|-------------------------------------------|-----------|----------|
| | 2007 | 2006 | |
| Operating income | \$ 1,997 | \$ 64,079 | -97% |
| Closed-end fund structuring fees | 17,115 | - | NM |
| Payments to terminate closed-end fund compensation agreements | 52,178 | - | NM |
| Stock-based compensation | 14,223 | 12,522 | 14% |
| Adjusted operating income | \$ 85,513 | \$ 76,601 | 12% |

Net income decreased 93 percent to \$2.6 million. Interest income increased 32 percent, reflecting higher interest rates on the Company's cash and short-term investments. Interest expense declined by 93 percent as the Company retired all of its long-term debt in the fourth quarter of fiscal 2006. The Company's provision for income taxes was 38 percent in both the first quarter of fiscal 2007 and fiscal 2006.

Cash, cash equivalents and short-term investments were \$151.0 million on January 31, 2007, compared to \$252.4 million on January 31, 2006. The Company's strong operating cash flow in the last 12 months enabled it to pay \$156.0 million to repurchase 5.5 million shares or 4 percent of its non-voting common stock, \$86.2 million to retire its long-term debt, and \$53.6 million in dividends to shareholders. There were no outstanding borrowings against the Company's \$180.0 million credit facility as of January 31, 2007.

During the first three months of fiscal 2007, the Company repurchased and retired 0.9 million shares of its non-voting common stock at an average price of \$32.35 per share under its repurchase authorization. Approximately 5.4 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.

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 amounts)

| | Three Months Ended | |
|-------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| | January 31, 2007 | January 31, 2006 |
| Revenue: | | |
| Investment adviser and administration fees | \$ 169,397 | \$ 142,06 |
| Distribution and underwriter fees | 36,578 | 35,36 |
| Service fees | 35,346 | 28,65 |
| Other revenue | 1,855 | 447 |
| Total revenue | 243,176 | 206,54 |
| Expenses: | | |
| Compensation of officers and employees | 77,982 | 61,44 |
| Amortization of deferred sales commissions | 13,419 | 13,74 |
| Service fee expense | 27,218 | 22,86 |
| Distribution expense | 99,510 | 26,31 |
| Fund expenses | 4,219 | 3,86 |
| Other expenses | 18,831 | 14,23 |
| Total expenses | 241,179 | 142,46 |
| Operating Income | 1,997 | 64,07 |
| Other Income/(Expense): | | |
| Interest income | 2,277 | 1,72 |
| Interest expense | (27) | (36 |
| Gain on investments | 708 | 662 |
| Foreign currency loss | (72) | (5 |
| Impairment loss on investments | - | (59 |
| Income Before Income Taxes, Minority Interest, Equity in Net Income of Affiliates and Cumulative | | |

| | | |
|---------------------------------------------------------------------------------------|----------|----------|
| Effect of Change in Accounting Principle | 4,883 | 65,44 |
| Income Taxes | (1,873) | (25,14 |
| Minority Interest | (1,456) | (1,54 |
| Equity in Net Income of Affiliates, Net of Tax | 1,005 | 1,00 |
| Net Income Before Cumulative Effect of Change in Accounting Principle | 2,559 | 39,75 |
| Cumulative Effect of Change in Accounting Principle, Net of Tax | - | (62 |
| Net Income | \$ 2,559 | \$ 39,13 |
| Earnings Per Share Before Cumulative Effect of Change in Accounting Principle: | | |
| Basic | \$ 0.02 | \$ 0.3 |
| Diluted | \$ 0.02 | \$ 0.2 |
| Earnings Per Share: | | |
| Basic | \$ 0.02 | \$ 0.3 |
| Diluted | \$ 0.02 | \$ 0.2 |
| Dividends Declared, Per Share | \$ 0.12 | \$ 0.1 |
| Weighted Average Shares Outstanding: | | |
| Basic | 126,255 | 129,27 |
| Diluted | 134,339 | 139,34 |

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

| | January 31, 2007 | October 31, 2006 | January 31, 2006 |
|-----------------------------------------------|---------------------|---------------------|---------------------|
| <hr/> | | | |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 132,535 | \$ 206,705 | \$ 125,349 |
| Short-term investments | 18,477 | 20,669 | 127,091 |
| Investment adviser fees and other receivables | 103,851 | 94,669 | 87,984 |
| Other current assets | 8,610 | 7,324 | 7,665 |
| | <hr/> | | |
| Total current assets | 263,473 | 329,367 | 348,089 |
| <hr/> | | | |
| Other Assets: | | | |
| Deferred sales commissions | 110,415 | 112,314 | 118,709 |
| Goodwill | 96,837 | 96,837 | 89,634 |
| Other intangible assets, net | 33,908 | 34,549 | 41,170 |
| Long-term investments | 77,411 | 73,075 | 66,899 |
| Equipment and leasehold improvements, net | 21,640 | 21,495 | 13,730 |
| Other assets | 549 | 558 | 2,092 |
| | <hr/> | | |
| Total other assets | 340,760 | 338,828 | 332,234 |
| <hr/> | | | |
| Total assets | \$ 604,233 | \$ 668,195 | \$ 680,323 |
| <hr/> | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accrued compensation | \$ 29,454 | \$ 80,975 | \$ 24,436 |
| Accounts payable and accrued expenses | 30,876 | 33,660 | 26,571 |
| Dividend payable | 15,169 | 15,187 | 12,933 |
| Other current liabilities | 11,703 | 9,823 | 5,383 |
| | <hr/> | | |
| Total current liabilities | 87,202 | 139,645 | 69,323 |
| <hr/> | | | |
| Long-Term Liabilities: | | | |
| Long-term debt | - | - | 75,749 |
| Deferred income taxes | 21,290 | 22,520 | 30,175 |

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| | | | |
|-----------------------------------------------------------------------|------------|------------|------------|
| Total long-term liabilities | 21,290 | 22,520 | 105,924 |
| Total liabilities | 108,492 | 162,165 | 175,247 |
| Minority interest | 9,958 | 9,545 | 11,120 |
| Commitments and contingencies | - | - | - |
| Shareholders' Equity: | | | |
| Common stock, par value \$0.00390625 per share: | | | |
| Authorized, 1,280,000 shares | | | |
| Issued, 309,760 shares | 1 | 1 | 1 |
| Non-voting common stock, par value \$0.00390625 per share: | | | |
| Authorized, 190,720,000 shares | | | |
| Issued, 126,069,085, 126,125,717 and 128,940,999 shares, respectively | 492 | 493 | 504 |
| Notes receivable from stock option exercises | (2,667) | (1,891) | (2,609) |
| Accumulated other comprehensive income | 5,762 | 4,383 | 3,840 |
| Retained earnings | 482,195 | 493,499 | 492,220 |
| Total shareholders' equity | 485,783 | 496,485 | 493,956 |
| Total liabilities and shareholders' equity | \$ 604,233 | \$ 668,195 | \$ 680,323 |

Table 1
Asset Flows (in millions)
Twelve Months Ended January 31, 2007

| | | |
|-----------------------------------------|----|----------|
| Assets 1/31/2006 - Beginning of Period | \$ | 113,253 |
| Long-term fund sales and inflows | | 25,937 |
| Long-term fund redemptions and outflows | | (12,195) |
| Long-term fund net exchanges | | (52) |
| Long-term fund mkt. value change | | 5,333 |
| Institutional and HNW account inflows | | 2,275 |
| Institutional and HNW account outflows | | (4,041) |
| Retail managed account inflows | | 3,953 |
| Retail managed account outflows | | (2,247) |
| Separate account mkt. value change | | 2,811 |
| Change in money market funds | | 464 |
| <hr/> | | |
| Net change | | 22,238 |
| <hr/> | | |
| Assets 1/31/2007 - End of Period | \$ | 135,491 |
| <hr/> | | |

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

| | January 31, 2007 | | October 31, 2006 | | % Change | January 31, 2006 | | % Change |
|--------------------|---------------------|----|---------------------|--|-------------|---------------------|--|-------------|
| Equity Funds | \$ 59,344 | \$ | 53,220 | | 11.5% | \$ 48,129 | | 23.3% |
| Fixed Income Funds | 22,873 | | 21,482 | | 6.5% | 18,619 | | 22.8% |
| Bank Loan Funds | 20,298 | | 19,982 | | 1.6% | 16,744 | | 21.2% |
| Money Market Funds | 1,283 | | 3,728 | | -65.6% | 819 | | 56.6% |
| Separate Accounts | 31,693 | | 30,494 | | 3.9% | 28,942 | | 9.5% |
| <hr/> | | | | | | | | |
| Total | \$ 135,491 | \$ | 128,906 | | 5.1% | \$ 113,253 | | 19.6% |
| <hr/> | | | | | | | | |

Table 3
Asset Flows by Investment Objective (in millions)

| Three Months Ended | |
|--------------------|-------------|
| January 31, | January 31, |

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| | 2007 | 2006 |
|-------------------------------------------------------|------------|-----------|
| Equity Fund Assets - Beginning of Period | \$ 53,220 | \$ 45,146 |
| Sales/Inflows | 6,005 | 1,681 |
| Redemptions/Outflows | (1,686) | (1,432) |
| Exchanges | 6 | 25 |
| Market Value Change | 1,799 | 2,709 |
| Net Change | 6,124 | 2,983 |
| Equity Fund Assets - End of Period | \$ 59,344 | \$ 48,129 |
| Fixed Income Fund Assets - Beginning of Period | 21,482 | 18,213 |
| Sales/Inflows | 1,940 | 840 |
| Redemptions/Outflows | (571) | (540) |
| Exchanges | 10 | (18) |
| Market Value Change | 12 | 124 |
| Net Change | 1,391 | 406 |
| Fixed Income Fund Assets - End of Period | \$ 22,873 | \$ 18,619 |
| Bank Loan Fund Assets - Beginning of Period | 19,982 | 16,816 |
| Sales/Inflows | 1,742 | 1,175 |
| Redemptions/Outflows | (1,508) | (1,398) |
| Exchanges | (17) | (9) |
| Market Value Change | 99 | 160 |
| Net Change | 316 | (72) |
| Bank Loan Fund Assets - End of Period | \$ 20,298 | \$ 16,744 |
| Long-Term Fund Assets - Beginning of Period | 94,684 | 80,175 |
| Sales/Inflows | 9,687 | 3,696 |
| Redemptions/Outflows | (3,765) | (3,370) |
| Exchanges | (1) | (2) |
| Market Value Change | 1,910 | 2,993 |
| Net Change | 7,831 | 3,317 |
| Total Long-Term Fund Assets - End of Period | \$ 102,515 | \$ 83,492 |
| Separate Accounts - Beginning of Period | 30,494 | 27,650 |

| | | |
|------------------------------------------------------|-------------------|-------------------|
| Institutional/HNW Account Inflows | 608 | 652 |
| Institutional/HNW Account Outflows | (1,203) | (1,603) |
| Institutional/HNW Asset Acquired ¹ | - | 449 |
| Retail Managed Account Inflows | 1,134 | 739 |
| Retail Managed Account Outflows | (502) | (409) |
| Separate accounts market value change | 1,162 | 1,464 |
| Net Change | 1,199 | 1,292 |
| Separate accounts - End of Period | \$ 31,693 | \$ 28,942 |
| Money market fund assets - End of Period | 1,283 | 819 |
| Total Assets Under Management - End of Period | \$ 135,491 | \$ 113,253 |

Table 4
Long-Term Fund and Separate Account Net Flows (in millions)

| | Three Months Ended | |
|--------------------------|---------------------|---------------------|
| | January 31, 2007 | January 31, 2006 |
| Long-term funds: | | |
| Open-end and other funds | \$ 2,228 | \$ 675 |
| Closed-end funds | 2,841 | 108 |
| Private funds | 853 | (457) |
| Inst/HNW accounts | (595) | (951) |
| Retail managed accounts | 632 | 330 |
| Total net flows | \$ 5,959 | \$ (295) |

¹ Voyageur Asset Management (MA) acquired by Eaton Vance in December 2005.