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EATON VANCE CORP
Form 8-K
May 19, 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): May 19, 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 six months ended April 30, 2004, as described in Registrant's news release dated May 19, 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.

| | |
|-------------------------------|----------------------------|
| ----- Exhibit No. ----- | ----- Document ----- |
|-------------------------------|----------------------------|

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99.1 Press release issued by the Registrant dated May 19, 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: May 19, 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 May 19, 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

May 19, 2004

FOR IMMEDIATE RELEASE

EATON VANCE CORP.
REPORT FOR THE THREE MONTHS AND SIX MONTHS ENDED
APRIL 30, 2004

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BOSTON, MA--Eaton Vance Corp. reported diluted earnings per share of \$0.50 in the second quarter of fiscal 2004 compared to diluted earnings per share of \$0.36 in the second quarter of fiscal 2003, an increase of 39 percent. Eaton Vance earned \$0.94 per diluted share in the first six months of fiscal 2004, an increase of 29 percent compared to earnings of \$0.73 per diluted share in the first six months of fiscal 2003.

Assets under management of \$85.1 billion at the end of the first half of fiscal 2004 were \$27.2 billion or 47 percent greater than the \$57.9 billion at the end of the first half last year. In the 12-month period ended April 30, 2004, the Company's assets under management were positively affected by long-term fund and separate account net inflows of \$14.7 billion, the acquisition of Parametric Portfolio Associates, which added assets of \$5.3 billion at the close of the transaction on September 10, 2003, and market price appreciation of \$7.2 billion. Gross sales and inflows of long-term funds and separate accounts in the last 12 months were \$24.4 billion, including \$8.6 billion of assets raised in five successful closed-end fund offerings.

Net fund and separate account inflows in the first half of fiscal 2004 were \$7.9 billion compared to net inflows of \$1.5 billion in the first half last year. This year's first half net inflows included \$4.3 billion of new assets raised from the successful initial public offering of three closed-end funds, Eaton Vance Senior Floating-Rate Trust, Eaton Vance Tax-Advantaged Global Dividend Income Fund, and Eaton Vance Tax-Advantaged Global Dividend Opportunities Fund, in addition to the over-allotment common shares and preferred shares associated with the September 2003 offering of 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 flows of \$3.6 billion in the first half of fiscal 2004. Tables 1, 2 and 3 (attached) summarize assets under management and asset flows by investment objective.

Average assets under management increased 45 percent to \$81.5 billion in the first half of fiscal 2004 from \$56.3 billion in the first half last year. As a result of higher average assets under management, fiscal 2004 first half revenue increased by \$76.5 million or 31 percent to \$322.3 million compared to fiscal 2003 first half revenue of \$245.8 million. Investment adviser and administration

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fees increased 42 percent to \$194.9 million, in line with the increase in average assets under management. Distribution and underwriter fees increased 12 percent, reflecting an increase in Class A and C share and private fund assets under management and an increase in Class A share underwriter commissions. Class B share assets declined because of lower Class B share sales and the second quarter implementation of an 8-year Class B to Class A share conversion for certain of the Company's mutual funds. Service fee revenue increased 27 percent, consistent with the increase in average Class A and C share and private equity fund assets which pay these fees. Other revenue increased 27 percent primarily as a result of consolidating two investment companies in which Eaton Vance is the majority shareholder.

Fiscal first half 2004 operating expenses increased 28 percent to \$216.0 million compared to \$168.8 million of operating expenses in fiscal first half of 2003 primarily because of higher compensation, service fee and distribution expenses. Compensation expense increased 47 percent principally due to increased marketing incentives associated with higher sales, the inclusion of Parametric Portfolio Associates' employee compensation and higher operating income-based bonus accruals.

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Amortization of deferred sales commissions declined 1 percent in the first half of fiscal 2004 compared to the first half of fiscal 2003. Service fee expense increased 24 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 58 percent as a result of increases in sales support expenses, certain Class A share fund sales commissions, Class C share fund distribution fees and closed-end fund fees. Other expenses increased 12 percent primarily because of higher travel, facilities, information technology, communications, legal and recruiting expenses offset by lower fund related expenses.

Operating income in the first half of fiscal 2004 increased 38 percent to \$106.3 million and net income increased 30 percent to \$66.0 million over the first half of fiscal 2003. Interest income declined by \$1.5 million, or 51 percent, primarily because of the inclusion of interest income from two consolidated investment companies in other revenue. Interest expense increased 4 percent, reflecting \$0.2 million of interest accrued in conjunction with settlement of the Company's IRS audits of fiscal years 1999 and 2000. The first half of fiscal 2003 included \$2.0 million of gains on the sale of investments that were not repeated in the first half of fiscal 2004. The Company's provision for income taxes was 36 percent in the first half of fiscal 2004 and 35 percent in the first half of fiscal 2003.

Cash, cash equivalents and short-term investments were \$308.3 million (including \$47.1 million of minority shareholder investments in two consolidated investment companies) on April 30, 2004, \$242.8 million on October 31, 2003 and \$238.3 million on April 30, 2003. The Company's strong operating cash flow in the last 12 months allowed it to reduce its long-term debt by \$5.4 million to \$119.6 million and to pay \$64.7 million in income taxes, \$72.3 million in sales commissions, \$73.0 million to repurchase 2.0 million shares of its non-voting common stock and \$30.1 million in dividends to shareholders. There are no outstanding borrowings against the Company's \$170.0 million credit facility. The Company has sufficient cash and short-term investments to repurchase the \$120.1 million of convertible notes issued by a subsidiary in the event note holders choose to redeem them on the upcoming August 13, 2004 optional put date.

The 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 six months of fiscal 2004, the Company repurchased and retired 1,155,900 shares of its non-voting common stock at an average price of \$37.05

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per share, under its repurchase authorization. Approximately 2.7 million shares remain to be repurchased under the current 4.0 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.

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

| | Three Months Ended | | | April 2000 |
|--|--------------------|-------------------|-------------|---------------|
| | April 30, 2004 | April 30, 2003 | % Change | |
| Revenue: | | | | |
| Investment adviser and administration fees | \$ 101,162 | \$ 67,935 | 49% | \$ 194 |
| Distribution and underwriter fees | 39,637 | 34,223 | 16 | 79 |
| Service fees | 23,017 | 17,354 | 33 | 44 |
| Other revenue | 1,475 | 1,364 | 8 | 2 |
| | ----- | ----- | ----- | ----- |
| Total revenue | 165,291 | 120,876 | 37 | 322 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Compensation of officers and employees | 36,793 | 24,118 | 53 | 74 |
| Amortization of deferred sales commissions | 21,869 | 21,635 | 1 | 42 |
| Service fee expense | 18,879 | 14,916 | 27 | 37 |
| Distribution expense | 19,695 | 11,961 | 65 | 38 |
| Other expenses | 11,880 | 9,630 | 23 | 23 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 109,116 | 82,260 | 33 | 215 |
| | ----- | ----- | ----- | ----- |
| Operating Income | 56,175 | 38,616 | 45 | 106 |
| Other Income/(Expense): | | | | |
| Interest income | 661 | 1,406 | (53) | 1 |
| Interest expense | (1,364) | (1,471) | (7) | (3) |
| Gain (loss) on investments | (83) | 76 | n/a | |
| Foreign currency gain (loss) | (29) | 135 | n/a | |
| Equity in net income (loss) of affiliates | 623 | 15 | n/a | |
| | ----- | ----- | ----- | ----- |
| Income Before Income Taxes and Minority Interest | 55,983 | 38,777 | 44 | 105 |
| Income Taxes | 20,154 | 13,572 | 48 | 37 |
| Minority Interest, Net of Tax | 660 | 191 | 246 | 1 |
| Net Income | \$ 35,169 | \$ 25,014 | 41 | \$ 65 |
| | ===== | ===== | ===== | ===== |
| Earnings Per Share: | | | | |
| Basic | \$ 0.52 | \$ 0.36 | 44 | \$ |
| | ===== | ===== | ===== | ===== |
| Diluted | \$ 0.50 | \$ 0.36 | 39 | \$ |
| | ===== | ===== | ===== | ===== |
| Dividends Declared, Per Share | \$ 0.12 | \$ 0.08 | 50 | \$ |
| | ===== | ===== | ===== | ===== |
| Weighted Average Shares Outstanding: | | | | |

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| | | | | |
|---------|--------|--------|-------|-------|
| Basic | 67,766 | 68,967 | (2) | 67 |
| | ===== | ===== | ===== | ===== |
| Diluted | 70,111 | 69,979 | 0 | 70 |
| | ===== | ===== | ===== | ===== |

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

| | April 30, 2004 | October 31, 2003 | April 30 2003 |
|---|-------------------|---------------------|------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 152,734 | \$ 138,328 | \$ 140,72 |
| Short-term investments | 155,610 | 104,484 | 97,59 |
| Investment adviser fees and other receivables | 28,761 | 25,922 | 21,28 |
| Other current assets | 25,870 | 3,583 | 3,32 |
| | ----- | ----- | ----- |
| Total current assets | 362,975 | 272,317 | 262,93 |
| | ----- | ----- | ----- |
| Other Assets: | | | |
| Deferred sales commissions | 182,349 | 199,322 | 216,61 |
| Goodwill | 89,281 | 88,879 | 69,46 |
| Other intangible assets, net | 44,971 | 46,193 | 37,09 |
| Long-term investments | 37,877 | 36,490 | 31,32 |
| Equipment and leasehold improvements, net | 12,215 | 12,411 | 12,76 |
| Other assets | 2,929 | 3,090 | 3,19 |
| | ----- | ----- | ----- |
| Total other assets | 369,622 | 386,385 | 370,45 |
| | ----- | ----- | ----- |
| Total assets | \$ 732,597 | \$ 658,702 | \$633,39 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accrued compensation | \$ 26,925 | \$ 35,339 | \$ 14,99 |
| Accounts payable and accrued expenses | 21,296 | 23,822 | 17,53 |
| Dividend payable | 8,098 | 8,189 | 5,51 |
| Current portion of long-term debt | - | 7,143 | 7,14 |
| Other current liabilities | 7,354 | 8,302 | 8,76 |
| | ----- | ----- | ----- |
| Total current liabilities | 63,673 | 82,795 | 53,96 |
| | ----- | ----- | ----- |
| Long-Term Liabilities: | | | |
| Long-term debt | 119,621 | 118,736 | 117,84 |
| Deferred income taxes | 65,619 | 33,203 | 39,58 |
| | ----- | ----- | ----- |
| Total long-term liabilities | 185,240 | 151,939 | 157,43 |
| | ----- | ----- | ----- |
| Total liabilities | 248,913 | 234,734 | 211,39 |
| | ----- | ----- | ----- |

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| | | | |
|---|------------|------------|-----------|
| Minority interest | 51,582 | 7,691 | 18,33 |
| 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, 67,500,405, 68,250,464 and 68,993,224 shares, respective | 527 | 533 | 53 |
| Notes receivable from stock option exercises | (2,891) | (2,995) | (3,27 |
| Deferred compensation | (3,200) | (1,000) | (1,55 |
| Accumulated other comprehensive income | 1,688 | 1,245 | 94 |
| Retained earnings | 435,977 | 418,493 | 407,00 |
| Total shareholders' equity | 432,102 | 416,277 | 403,66 |
| Total liabilities and shareholders' equity | \$ 732,597 | \$ 658,702 | \$ 633,39 |

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Table 1
Asset Flows (in millions)
Twelve Months Ended April 30, 2004

| | |
|---|-----------|
| Assets 4/30/2003 - Beginning of Period | \$ 57,893 |
| Long-term fund sales and inflows | 19,782 |
| Long-term fund redemptions and outflows | (7,350) |
| Long-term fund net exchanges | (14) |
| Long-term fund mkt. value change | 4,802 |
| Long-term fund assets acquired1 | 660 |
| Institutional and HNW account inflows | 3,093 |
| Institutional and HNW account outflows | (1,524) |
| Institutional and HNW assets acquired1 | 2,772 |
| Retail managed account inflows | 1,560 |
| Retail managed account outflows | (830) |
| Retail managed account assets acquired1 | 1,850 |
| Separate account mkt. value change | 2,429 |
| Change in money market funds | (30) |
| Net change | 27,200 |
| Assets 4/30/2004 - End of Period | \$ 85,093 |

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

| | April 30, 2004 | October 31, 2003 | % Change | April 30, 2003 | % Change |
|--------------------|-------------------|---------------------|-------------|-------------------|-------------|
| Equity Funds | \$ 34,539 | \$ 28,854 | 20% | \$ 23,372 | 48% |
| Fixed Income Funds | 17,649 | 17,801 | -1% | 15,573 | 13% |
| Bank Loan Funds | 11,791 | 9,547 | 24% | 7,156 | 65% |

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| | | | | | |
|--------------------|-----------|-----------|------|-----------|-----|
| Money Market Funds | 386 | 445 | -13% | 416 | -7% |
| Separate Accounts | 20,728 | 18,397 | 13% | 11,376 | 82% |
| <hr/> | | | | | |
| Total | \$ 85,093 | \$ 75,044 | 13% | \$ 57,893 | 47% |
| <hr/> | | | | | |

Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Six Months |
|--|--------------------|-------------------|-------------------|
| | April 30, 2004 | April 30, 2003 | April 30, 2004 |
| Equity Fund Assets - Beginning of Period | \$ 33,214 | \$ 22,401 | \$ 28,854 |
| Sales/Inflows | 2,276 | 527 | 5,720 |
| Redemptions/Outflows | (868) | (646) | (1,568) |
| Exchanges | 42 | (63) | 93 |
| Market Value Change | (125) | 1,153 | 1,440 |
| Net Change | 1,325 | 971 | 5,685 |
| Equity Assets - End of Period | \$ 34,539 | \$ 23,372 | \$ 34,539 |
| Fixed Income Fund Assets - Beginning of Period | 18,252 | 14,601 | 17,801 |
| Sales/Inflows | 663 | 1,063 | 1,391 |
| Redemptions/Outflows | (689) | (453) | (1,243) |
| Exchanges | (61) | 65 | (149) |
| Market Value Change | (516) | 297 | (151) |
| Net Change | (603) | 972 | (152) |
| Fixed Income Assets - End of Period | \$ 17,649 | \$ 15,573 | \$ 17,649 |
| Bank Loan Fund Assets - Beginning of Period | 11,180 | 7,308 | 9,547 |
| Sales/Inflows | 1,215 | 205 | 3,197 |
| Redemptions/Outflows | (737) | (364) | (1,115) |
| Exchanges | 40 | (29) | 72 |
| Market Value Change | 93 | 36 | 90 |
| Net Change | 611 | (152) | 2,244 |
| Bank Loan Assets - End of Period | \$ 11,791 | \$ 7,156 | \$ 11,791 |
| Long-Term Fund Assets - Beginning of Period | 62,646 | 44,310 | 56,202 |
| Sales/Inflows | 4,154 | 1,795 | 10,308 |
| Redemptions/Outflows | (2,294) | (1,463) | (3,926) |
| Exchanges | 21 | (27) | 16 |
| Market Value Change | (548) | 1,486 | 1,379 |
| Net Change | 1,333 | 1,791 | 7,777 |
| Total Long-Term Fund Assets - End of Period | \$ 63,979 | \$ 46,101 | \$ 63,979 |
| Separate Accounts - Beginning of Period | 20,529 | 10,881 | 18,397 |

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| | | | |
|---|-----------|-----------|-----------|
| Institutional/HNW Account Inflows | 793 | 284 | 1,889 |
| Institutional/HNW Account Outflows | (467) | (485) | (799) |
| Retail Managed Account Inflows | 522 | 120 | 1,027 |
| Retail Managed Account Outflows | (366) | (56) | (576) |
| Separate Accounts Market Value Change | (283) | 632 | 790 |
| | ----- | ----- | ----- |
| Net Change | 199 | 495 | 2,331 |
| | ----- | ----- | ----- |
| Separate Accounts - End of Period | \$ 20,728 | \$ 11,376 | \$ 20,728 |
| | ----- | ----- | ----- |
| Money Market Fund Assets - End of Period | 386 | 416 | 386 |
| | ----- | ----- | ----- |
| Total Assets Under Management - End of Period | \$ 85,093 | \$ 57,893 | \$ 85,093 |
| | ===== | ===== | ===== |

1 Parametric Portfolio Associates acquired by Eaton Vance on September 10, 2003