

EATON VANCE CORP  
Form 10-Q  
June 07, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934**  
For the quarterly period ended April 30, 2007

or

**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 no. 1-8100

**EATON VANCE CORP.**

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

04-2718215  
(I.R.S. Employer Identification No.)

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

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

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 mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Shares outstanding as of April 30, 2007:  
Voting Common Stock 272,644 shares  
Non-Voting Common Stock 125,466,971 shares

**Eaton Vance Corp.**

**Form 10-Q**  
**For the Six Months Ended April 30, 2007**  
**Index**

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**Part I Financial Information**

**Item 1. Consolidated Financial Statements**

**Eaton Vance Corp.**

**Consolidated Balance Sheets (unaudited)**

<i>(in thousands)</i>	<b>April 30, 2007</b>	<b>October 31, 2006</b>
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 154,868	\$ 206,705

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Short-term investments		20,669
Investment adviser fees and other receivables	112,924	94,669
Other current assets	7,604	7,324
Total current assets	275,396	329,367
<b>Other Assets:</b>		
Deferred sales commissions	109,232	112,314
Goodwill	96,837	96,837
Other intangible assets, net	33,280	34,549
Long-term investments	84,482	73,075
Equipment and leasehold improvements, net	21,602	21,495
Other assets	530	558
Total other assets	345,963	338,828
Total assets	\$621,359	\$668,195

See notes to consolidated financial statements.

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**Eaton Vance Corp.**  
**Consolidated Balance Sheets (unaudited) (continued)**

<i>(in thousands, except share figures)</i>	<b>April 30, 2007</b>	<b>October 31, 2006</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities:</b>		
Accrued compensation	\$ 52,445	\$ 80,975
Accounts payable and accrued expenses	35,366	33,660
Dividend payable	15,097	15,187
Other current liabilities	16,523	9,823
Total current liabilities	119,431	139,645
<b>Long-term Liabilities:</b>		
Deferred income taxes	21,269	22,520
Total long-term liabilities	21,269	22,520
Total liabilities	140,700	162,165
Minority interest	9,506	9,545
Commitments and contingencies		
<b>Shareholders Equity:</b>		
Common stock, par value \$0.00390625 per share:		
Authorized, 1,280,000 shares		
Issued and outstanding, 272,644 and 309,760 shares, respectively	1	1
Non-voting common stock, par value \$0.00390625 per share:		
Authorized, 190,720,000 shares		
Issued and outstanding, 125,466,971 and 126,125,717 shares, respectively	490	493

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Notes receivable from stock option exercises	(2,628)	(1,891)
Accumulated other comprehensive income	6,946	4,383
Retained earnings	466,344	493,499
Total shareholders' equity	471,153	496,485
Total liabilities and shareholders' equity	\$621,359	\$668,195

See notes to consolidated financial statements.

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**Eaton Vance Corp.**  
**Consolidated Statements of Income (unaudited)**

<i>(in thousands, except per share figures)</i>	Three Months Ended April 30,		Six Months Ended April 30,	
	2007	2006	2007	2006
<b>Revenue:</b>				
Investment adviser and administration fees	\$ 185,437	\$ 145,284	\$ 354,834	\$ 287,353
Distribution and underwriter fees	37,058	35,414	73,636	70,781
Service fees	36,223	29,346	71,569	58,003
Other revenue	1,466	1,752	3,321	2,199
Total revenue	260,184	211,796	503,360	418,336
<b>Expenses:</b>				
Compensation of officers and employees	79,161	58,489	157,143	119,938
Amortization of deferred sales commissions	13,552	13,308	26,971	27,048
Service fee expense	27,682	22,971	54,900	45,834
Distribution expense	78,811	28,303	178,321	54,618
Fund expenses	4,455	3,940	8,674	7,800
Other expenses	20,231	24,168	39,062	38,403
Total expenses	223,892	151,179	465,071	293,641
Operating income	36,292	60,617	38,289	124,695
<b>Other Income (Expense):</b>				
Interest income	2,058	2,020	4,335	3,742
Interest expense	(57)	(360)	(84)	(724)
Gain on investments	965	2,886	1,673	3,547
Foreign currency loss	(61)	(71)	(133)	(127)
Impairment loss on investments				(592)
Income before income taxes, minority interest, equity in net income of affiliates and cumulative effect of change in accounting principle	39,197	65,092	44,080	130,541
Income taxes	(15,098)	(25,074)	(16,971)	(50,217)
Minority interest	(1,420)	(1,271)	(2,876)	(2,820)
Equity in net income of affiliates, net of tax	414	1,153	1,419	2,153
Net income before cumulative effect of change in accounting principle	23,093	39,900	25,652	79,657
Cumulative effect of change in accounting principle, net of tax				(626)

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	Three Months Ended April 30,		Six Months Ended April 30,	
Net income	\$ 23,093	\$ 39,900	\$ 25,652	\$ 79,031

See notes to consolidated financial statements.

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**Eaton Vance Corp.**  
**Consolidated Statements of Income (unaudited) (continued)**

	Three Months Ended April 30,		Six Months Ended April 30,	
<i>(in thousands, except per share figures)</i>	2007	2006	2007	2006
<b>Earnings Per Share Before Cumulative Effect of Change In Accounting Principle:</b>				
Basic	\$ 0.18	\$ 0.31	\$ 0.20	\$ 0.62
Diluted	\$ 0.17	\$ 0.29	\$ 0.19	\$ 0.57
<b>Earnings Per Share:</b>				
Basic	\$ 0.18	\$ 0.31	\$ 0.20	\$ 0.61
Diluted	\$ 0.17	\$ 0.29	\$ 0.19	\$ 0.57
<b>Weighted Average Shares Outstanding:</b>				
Basic	125,937	128,447	126,094	128,859
Diluted	135,163	138,736	135,219	138,942

See notes to consolidated financial statements.

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**Eaton Vance Corp.**  
**Consolidated Statements of Cash Flows (unaudited)**

	Six Months Ended April 30,	
<i>(in thousands)</i>	2007	2006
Cash and cash equivalents, beginning of period	\$206,705	\$146,389
<b>Cash Flows from Operating Activities:</b>		
Net income	25,652	79,031
Adjustments to reconcile net income to net cash provided by operating activities:		

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	<b>Six Months Ended April 30,</b>	
Stock-based compensation	22,476	20,499
Depreciation and other amortization	4,978	11,986
Amortization of deferred sales commissions	26,969	27,050
Payment of capitalized sales commissions	(30,472)	(24,765)
Contingent deferred sales charges received	6,606	7,676
Deferred income taxes	(2,611)	(6,719)
Interest on long-term debt and amortization of debt issuance costs	43	633
Gain on investments	(2,362)	(3,985)
Impairment loss on long-term investments		592
Minority interest	2,876	2,820
Equity in net income of affiliates	(2,122)	(3,311)
Dividends received from affiliates	268	2,734
Cumulative effect of change in accounting principle, net of tax		626
Proceeds from the sale of trading investments	49,412	79,974
Purchase of trading investments	(28,548)	(160,172)
Changes in other assets and liabilities:		
Investment adviser fees and other receivables	(18,254)	(6,201)
Other current assets	(350)	5,375
Other assets	(960)	1,243
Accrued compensation	(28,533)	(22,050)
Accounts payable and accrued expenses	1,681	2,461
Other current liabilities	6,694	(5,531)
Net cash provided by operating activities	33,443	9,966
<b>Cash Flows From Investing Activities:</b>		
Additions to equipment and leasehold improvements	(3,810)	(7,174)
Purchase of management contracts		(1,230)
Proceeds from sale of available-for-sale investments	5,421	24,496
Purchase of available-for-sale investments	(7,925)	(5,652)
Net cash provided by (used for) investing activities	(6,314)	10,440

See notes to consolidated financial statements.

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**Eaton Vance Corp.**  
**Consolidated Statements of Cash Flows (unaudited) (continued)**

	<b>Six Months Ended April 30,</b>	
<i>(in thousands)</i>	<b>2007</b>	<b>2006</b>
<b>Cash Flows From Financing Activities:</b>		
Excess tax benefit of stock option exercises	4,795	1,447
Distributions to minority shareholders	(2,915)	(2,860)

	<b>Six Months Ended April 30,</b>	
Proceeds from issuance of non-voting common stock	24,127	14,054
Repurchase of common stock	(146)	
Repurchase of non-voting common stock	(74,945)	(76,442)
Principal repayments on notes receivable from stock option exercises	411	911
Dividends paid	(30,355)	(25,891)
Proceeds from the issuance of mutual fund subsidiary's capital stock		80,000
Net cash used for financing activities	(79,028)	(8,781)
Effect of currency rate changes on cash and cash equivalents	62	46
Net increase (decrease) in cash and cash equivalents	(51,837)	11,671
Cash and cash equivalents, end of period	\$ 154,868	\$ 158,060

**Supplemental Cash Flow Information:**

Interest paid	\$ 41	\$ 91
Income taxes paid	\$ 8,808	\$ 58,512

**Supplemental Non-Cash Flow Information**

Exercise of stock options through issuance of notes receivable	\$ 1,148	\$ 374
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See notes to consolidated financial statements.

**Eaton Vance Corp.****Notes to Consolidated Financial Statements****(1) Basis of Presentation**

In the opinion of management, the accompanying unaudited interim consolidated financial statements of Eaton Vance Corp. ( the Company ) include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the results for the interim periods in accordance with accounting principles generally accepted in the United States of America. Such financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures have been omitted pursuant to such rules and regulations. As a result, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company's latest annual report on Form 10-K.

**(2) Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly and majority-owned subsidiaries. The equity method of accounting is used for investments in affiliates in which the Company's ownership ranges from 20 to 50 percent. The Company consolidates all investments in affiliates in which the Company's ownership exceeds 50 percent. The Company provides for minority interests in consolidated companies for which the Company's ownership is less than 100 percent. All material intercompany accounts and transactions have been eliminated.

**(3) Earnings Per Share**

The following table provides a reconciliation of net income and common shares used in the basic and diluted earnings per share computations for the three and six months ended April 30, 2007 and 2006:

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<i>(in thousands, except per share data)</i>	For the Three Months Ended April 30,		For the Six Months Ended April 30,	
	2007	2006	2007	2006
Net income basic	\$ 23,093	\$ 39,900	\$ 25,652	\$ 79,031
Interest adjustment related to contingently convertible debt, net of tax		181		364
Net income diluted	\$ 23,093	\$ 40,081	\$ 25,652	\$ 79,395
Weighted-average shares outstanding basic	125,937	128,447	126,094	128,859
Incremental common shares from stock options and restricted stock awards	9,226	7,101	9,125	6,895
Incremental common shares related to contingently convertible debt		3,188		3,188
Weighted-average shares outstanding diluted	135,163	138,736	135,219	138,942
Earnings per share:				
Basic	\$ 0.18	\$ 0.31	\$ 0.20	\$ 0.61
Diluted	\$ 0.17	\$ 0.29	\$ 0.19	\$ 0.57

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The Company uses the treasury stock method to account for the dilutive effect of unexercised stock options and unvested restricted stock on diluted earnings per share. Antidilutive incremental common shares related to stock options excluded from the computation of earnings per share were 27,000 for both the six months ended April 30, 2007 and 2006.

**(4) Other Intangible Assets**

The following is a summary of other intangible assets at April 30, 2007:

<i>(dollars in thousands)</i>	Weighted- average amortization period (in years)	Gross carrying amount	Accumulated amortization
<b>Amortizing intangible assets:</b>			
Client relationships acquired	13.4	\$55,245	\$23,920
<b>Non-amortizing intangible assets:</b>			
Mutual fund management contract acquired		1,955	
Total		\$57,200	\$23,920

**(5) Investments**

The following is a summary of investments at April 30, 2007:

<i>(in thousands)</i>	April 30, 2007
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**Long-term investments:**

Debt securities	\$ 764
Equity securities	14,709
Sponsored funds	42,886
Collateralized debt obligation entities	10,051
Investments in affiliates	15,127
Other investments	945
Total	\$84,482

**(6) Stock-Based Compensation Plans**

The Company has four stock-based compensation plans, which are described below. The Company recognized total compensation cost related to those plans of \$22.5 million and \$20.5 million for the six months ended April 30, 2007 and 2006, respectively. The total income tax benefit recognized for stock-based compensation arrangements was \$6.4 million and \$5.6 million for the six months ended April 30, 2007 and 2006, respectively.

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***Stock Option Plan***

The Company has a Stock Option Plan (the 1998 Plan) administered by the Compensation Committee of the Board of Directors under which options to purchase shares of the Company's non-voting common stock may be granted to all eligible employees and are automatically granted to independent directors of the Company. No stock options may be granted under the 1998 Plan with an exercise price that is less than the fair market value of the stock at the time the stock option is granted. The options granted under the 1998 Plan expire five to ten years from the date of grant; options to employees vest over a five-year period as stipulated in each grant. The 1998 Plan contains provisions that, in the event of a change of control of the Company, may accelerate the vesting of awards. A total of 40.0 million shares have been reserved for issuance under the 1998 Plan. Through April 30, 2007, options to purchase 37.7 million shares have been issued pursuant to the 1998 Plan.

The Company's current retirement policy provides that an employee is eligible for retirement at age 65 and for early retirement when the employee reaches age 55 with a combined age and years of service equal to at least 75 years or with the Company's consent. Because the terms and conditions of many of the Company's outstanding stock options allow for accelerated vesting of options upon retirement, the adoption of SFAS 123R resulted in the immediate recognition of compensation expense at grant date for all awards granted to retirement-eligible employees subsequent to the implementation of SFAS 123R on November 1, 2005. For awards granted to employees approaching retirement eligibility, the adoption of SFAS 123R resulted in compensation expense recognition on a straight-line basis over the period from the grant date through the retirement eligibility date. Stock-based compensation expense for employees who are not retirement eligible is recognized on a straight-line basis over the service or vesting period of the option (generally five years). Prior to the implementation of SFAS No. 123R, and consistent with SFAS 123, it had been the Company's policy to recognize all stock-based compensation expense over the vesting period without regard to retirement eligibility. The Company continues to recognize all stock-based compensation expense for awards granted to retirement-eligible employees prior to November 1, 2005 over the vesting period.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management's judgment. The Company's stock volatility assumption is based upon its historical stock price fluctuations. The Company has no reason to believe that its future stock price volatility will differ from the past. The Company uses historical data to estimate option forfeiture rates. The expected term of options granted is derived using the simplified method in accordance with SEC Staff Accounting Bulletin No. 107. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average fair values of options granted during the six months ended April 30, 2007 and 2006 using the Black-Scholes option pricing model were as follows:

**April 30,  
2007**

**April 30,  
2006**

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	April 30, 2007	April 30, 2006
Weighted average grant date fair value of options granted	\$ 9.53	\$ 8.36
<b>Assumptions:</b>		
Dividend yield	1.3% to 1.5%	1.4% to 1.6%
Volatility	26% to 27%	28% to 30%
Risk-free interest rate	4.6% to 4.8%	4.5% to 5.1%
Expected life of options	6.8 years	6.8 years

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Stock option transactions under the 1998 Plan are summarized as follows:

**For the Six Months Ended April 30, 2007**

<i>(share and intrinsic value figures in thousands)</i>	Shares	Weighted Average Exercise Price	Weighed Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of period	25,629	\$ 17.83		
Granted	4,467	30.17		
Exercised	(1,344)	15.43		
Forfeited/Expired	(335)	23.66		
Options outstanding, end of period	28,417	\$ 19.82	6.6	\$522,913
Options exercisable, end of period	14,806	\$ 15.65	5.2	\$334,149
Vested or expected to vest at April 30, 2007	27,872	\$ 17.87	6.6	\$515,363

The Company received \$19.6 million and \$10.3 million related to the exercise of options under the 1998 Plan for the six months ended April 30, 2007 and 2006. Options exercised represent newly issued shares. The total intrinsic value of options exercised during the six months ended April 30, 2007 and 2006 was \$25.3 million and \$14.9 million, respectively. The total fair value of options that vested during the six months ended April 30, 2007 was \$27.0 million.

The Company recorded compensation expense of \$21.3 million and \$19.3 million for the six months ended April 30, 2007 and 2006, respectively, relating to the 1998 Plan. As of April 30, 2007, there was \$80.7 million of deferred compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 3.3 years.

**Restricted Stock Plan**

The Company has a Restricted Stock Plan administered by the Compensation Committee of the Board of Directors under which restricted stock may be granted to key employees. Shares of the Company's non-voting common stock granted under the plan are subject to restrictions on transferability and carry the risk of forfeiture, based in each case on such considerations as the Compensation Committee shall determine. Unless the Compensation Committee determines otherwise, restricted stock that is still subject to restrictions upon termination of employment shall be forfeited. Restrictions on shares granted lapse in three to seven years from date of grant. A total of 2,000,000 shares have been reserved under the plan.

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In the six months ended April 30, 2006, 40,209 shares were issued pursuant to the plan at a weighted average grant date fair value of \$24.87 per share. No shares were issued pursuant to this plan for the six months ended April 30, 2007. Because these shares are contingently forfeitable, compensation expense is recorded over the forfeiture period. The Company recorded compensation expense of \$0.5 million for both the six months ended April 30, 2007 and 2006 relating to shares issued in prior years. As of April 30, 2007, there was \$2.1 million of compensation cost related to nonvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 2.4 years.

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A summary of the Company's restricted stock activity for the quarter ended April 30, 2007, is presented below:

### For the Six Months Ended April 30, 2007

<i>(share figures in thousands)</i>	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	210	\$ 19.79
Granted		
Vested	(45)	18.57
Forfeited/Expired		
Nonvested, end of period	165	\$ 19.39

### *Employee Stock Purchase Plan*

A total of 9.0 million shares of the Company's non-voting common stock have been reserved for issuance under the Employee Stock Purchase Plan. The plan qualifies under Section 423 of the United States Internal Revenue Code and permits eligible employees to direct up to 15 percent of their salaries to a maximum of \$12,500 per six-month offering period toward the purchase of Eaton Vance Corp. non-voting common stock at the lower of 90 percent of the market price of the non-voting common stock at the beginning or at the end of each six-month offering period. Through April 30, 2007, 7.2 million shares have been issued pursuant to this plan. The Company recorded associated compensation expense of \$0.4 million and \$0.3 million for the six months ended April 30, 2007 and 2006, respectively. The Company received \$1.6 million related to shares issued under the Employee Stock Purchase Plan in the six months ended April 30, 2007.

### *Incentive Plan-Stock Alternative*

A total of 4.8 million shares of the Company's non-voting common stock have been reserved for issuance under the Incentive Plan-Stock Alternative. The plan permits employees and officers to direct up to half of their monthly and annual incentive bonuses toward the purchase of non-voting common stock at 90 percent of the average market price of the stock for the five business days subsequent to the end of the offering period. Through April 30, 2007, 3.1 million shares have been issued pursuant to this plan. The Company recorded associated compensation expense of \$0.3 million and \$0.4 million for the six months ended April 30, 2007 and 2006, respectively. The Company received \$2.9 million related to shares issued under the Incentive Plan-Stock Alternative in the six months ended April 30, 2007.

### **(7) Common Stock Repurchases**

The Company's current share repurchase program was announced on July 12, 2006. The Board authorized management to repurchase 8.0 million shares of its non-voting common stock on the open market and in private transactions in accordance with applicable securities laws. The Company's stock repurchase program is not subject to an expiration date.

In the first six months of fiscal 2007, the Company purchased approximately 2.2 million shares of its non-voting common stock under this share repurchase authorization. Approximately 4.1 million additional shares may be repurchased under the current authorization.

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**(8) Regulatory Requirements**

Eaton Vance Distributors, Inc. (EVD), a wholly owned subsidiary of the Company and principal underwriter of the Eaton Vance Funds, is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital. For purposes of this rule, EVD had net capital of \$28.6 million at April 30, 2007, which exceeded its minimum net capital requirement of \$1.5 million. EVD's ratio of aggregate indebtedness to net capital at April 30, 2007 was .81 to 1.

**(9) Income Taxes**

The provision for income taxes for the six months ended April 30, 2007 and 2006 consists of the following:

<i>(in thousands)</i>	<b>For the Six Months Ended April 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Current:</b>		
Federal	\$ 17,296	\$ 51,746
State	2,286	5,189
<b>Deferred:</b>		
Federal	(2,341)	(6,141)
State	(270)	(577)
<b>Total</b>	<b>\$ 16,971</b>	<b>\$ 50,217</b>

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the Company's assets and liabilities. The significant components of deferred income taxes are as follows:

<i>(in thousands)</i>	<b>April 30, 2007</b>	<b>October 31, 2006</b>
<b>Deferred tax assets:</b>		
Stock-based compensation	\$ 30,430	\$ 26,584
Deferred rent	789	838
Differences between book and tax bases of investments	557	1,993
Differences between book and tax bases of property	672	160
Other	427	483
<b>Total deferred tax asset</b>	<b>\$ 32,875</b>	<b>\$ 30,058</b>
<b>Deferred tax liabilities:</b>		
Deferred sales commissions	\$(40,909)	\$(41,947)
Differences between book and tax bases of goodwill and intangibles	(7,613)	(6,371)
Unrealized net holding gains on investments	(4,018)	(2,584)
<b>Total deferred tax liability</b>	<b>\$(52,540)</b>	<b>\$(50,902)</b>
<b>Net deferred tax liability</b>	<b>\$(19,665)</b>	<b>\$(20,844)</b>

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Deferred tax assets and liabilities reflected on the Company's Consolidated Balance Sheets (unaudited) at April 30, 2007 and October 31, 2006 are as follows:

<i>(in thousands)</i>	<b>April 30, 2007</b>	<b>October 31, 2006</b>
Net current deferred tax asset, included in other current assets	\$ 1,604	\$ 1,676
Net non-current deferred tax liability	(21,269)	(22,520)
Net deferred tax liability	\$(19,665)	\$(20,844)

The exercise of stock options resulted in a reduction of taxes payable of approximately \$4.8 million and \$1.4 million for the six months ended April 30, 2007 and 2006, respectively. Such benefit has been reflected in shareholders' equity.

The Company's quarterly effective tax rate is based upon an estimate of the anticipated annual effective tax rate. The Company's effective tax rate (income taxes as a percentage of income before minority interest, equity in net income of affiliates, cumulative effect of change in accounting principle and income taxes) was 38.5 percent for both the six months ended 2007 and 2006. The primary reconciling item between the Company's overall effective tax rate and the statutory federal rate of 35 percent relates to state income taxes.

### **(10) Comprehensive Income**

Total comprehensive income includes net income and other comprehensive income, net of tax. The components of comprehensive income for the six months ended April 30, 2007 and 2006 are as follows:

<i>(in thousands)</i>	<b>For the Six Months Ended April 30,</b>	
	<b>2007</b>	<b>2006</b>
Net income	\$25,652	\$79,031
Net unrealized gains on available-for-sale securities, net of income taxes of \$1,410 and \$353, respectively	2,526	594
Foreign currency translation adjustments, net of income taxes of \$26 and \$18, respectively	37	31
Comprehensive income	\$28,215	\$79,656

### **(11) Commitments and Contingencies**

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, information technology agreements, distribution agreements and service agreements. The Company has also agreed to indemnify its directors, officers and employees in accordance with the Company's articles and bylaws. Certain agreements do not contain any limits on the Company's liability and, therefore, it is not possible to estimate the Company's potential liability under these indemnities. In certain cases, the Company has recourse against third parties with respect to these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

The Company and its subsidiaries are subject to various legal proceedings. In the opinion of management, after discussions with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition or results of operations of the Company.

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In July 2006, the Company committed to invest \$15.0 million in a private equity partnership that invests in companies in the financial services industry. The Company has invested \$5.6 million of the total \$15.0 million of committed capital at April 30, 2007.

### (12) Recent Accounting Developments

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. Management is currently evaluating this standard and its impact, if any, on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements for fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management is currently evaluating this standard and its impact, if any, on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit, pension or other postretirement plan in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities. The Company does not anticipate that the provisions of SFAS No. 158 will have an impact on the Company's consolidated financial statements because the Company does not maintain any defined benefit, pension or other post-retirement plans.

In June 2006, the FASB issued interpretation No. 48, Accounting for the Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. The provisions of FIN 48 are effective for the Company's fiscal year which begins on November 1, 2007. Management is currently evaluating the potential impact of the adoption of this interpretation.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This Item 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-Q regarding our financial position, business strategy and other plans and objectives for future operations are forward-looking statements. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations reflected in such forward-looking statements will prove to have been correct or that we will take any actions that may presently be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the Risk Factors section of this form 10-Q. 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.*

### General

The Company's principal business is managing investment funds and separate accounts for retail investors and providing investment management and counseling services to high-net-worth individuals and institutions. The Company's long-term strategy is to develop value-added core competencies in a range of investment disciplines and to offer industry-leading investment products and services across multiple distribution channels. In executing this strategy, the Company has developed a broadly diversified product line and a powerful marketing, distribution and customer service capability.

The Company is a market leader in a number of investment areas, including tax-managed equity, value equity, equity income, floating-rate bank loan, municipal bond, investment grade and high-yield bond investing. The diversified offerings of Eaton Vance and its affiliates offer 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.

The Company's principal marketing strategy is to distribute its retail products (including funds and retail managed accounts) primarily through financial intermediaries in the advice channel. The Company has a broad reach in this marketplace, with distribution partners including national and regional broker/dealers, independent broker/dealers, independent financial advisory firms, banks and insurance companies. Eaton Vance supports these distribution partners with a team of more than 150 regional and Boston-based sales professionals serving the needs of the Company's partners and clients across the United States, Latin America and Europe. Specialized sales and marketing teams provide the increasingly sophisticated information required for distributing the Company's privately placed funds, retail managed accounts, retirement products and charitable giving vehicles.

The Company is also committed to serving institutional and high-net-worth clients who access investment advice outside of traditional retail broker/dealer channels. The Company and its majority-owned subsidiaries, including Atlanta Capital Management Company, LLC (Atlanta Capital), Fox Asset Management LLC (Fox Asset Management) and Parametric Portfolio Associates LLC (Parametric Portfolio Associates), have 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 each of the Company's affiliates focus on developing relationships in this market and deal directly with these clients, often on the basis of independent referrals.

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The Company's revenue is derived primarily from investment adviser, administration, distribution and service fees received from Eaton Vance funds and investment adviser fees received from separate accounts. Fees paid to the Company are based primarily on the value of the investment portfolios managed by the Company and fluctuate with changes in the total value of the assets under management. Such fees are recognized over the period that the Company manages these assets. The Company's major expenses are employee compensation, amortization of deferred sales commissions and distribution-related expenses.

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to deferred sales commissions, goodwill and intangible assets, income taxes, investments, stock-based compensation and litigation. The Company bases its estimates on historical experience and on various other assumptions that it believes 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 under different assumptions or conditions.

### Assets Under Management

Assets under management of \$150.0 billion on April 30, 2007 were 26 percent higher than the \$118.8 billion reported a year earlier. Long-term fund net inflows contributed \$20.5 billion to growth in assets under management over the last twelve months, including \$11.8 billion of open-end and private fund net inflows and \$8.8 billion of closed-end fund net inflows. Separate account net inflows totaled \$0.8 billion, reflecting \$2.4 billion of retail managed account net inflows offset by \$1.6 billion of institutional and high-net-worth net outflows. Market price appreciation, reflecting favorable equity markets, contributed \$9.8 billion and an increase in money market assets added \$0.2 billion to assets under management.

### Ending Assets Under Management by Investment Objective<sup>(1)</sup>

(in billions)	April 30,		% Change
	2007	2006	
Equity assets	\$ 96.0	\$ 72.9	32%
Fixed income assets	31.6	25.6	23%
Floating-rate bank loan assets	22.4	20.3	10%
Total	\$ 150.0	\$ 118.8	26%

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<sup>(1)</sup> Includes funds and separate accounts.

Equity assets represented 64 percent of total assets under management on April 30, 2007, up from 61 percent on April 30, 2006. Assets in equity funds managed for after-tax returns totaled \$46.3 billion and \$33.1 billion on April 30, 2007 and 2006, respectively. Fixed income assets, including money market funds, represented 21 percent of total assets under management on April 30, 2007, compared to 22 percent on April 30, 2006. Fixed income assets included \$17.2 billion and \$12.7 billion of tax-exempt municipal bond funds and \$1.7 billion and \$1.5 billion of money market fund assets on April 30, 2007 and 2006, respectively. Floating-rate bank loan assets represented 15 percent of total assets under management on April 30, 2007, compared to 17 percent on April 30, 2006.

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**Long-Term Fund and Separate Account Net Flows**

(in billions)	For the Three Months Ended April 30,		% Change	For the Six Months Ended April 30,		% Change
	2007	2006		2007	2006	
Long-term funds:						
Closed-end funds	\$ 5.8	\$	NM <sup>(2)</sup>	\$ 8.6	\$ 0.1	NM
Open-end funds	2.8	1.6	75%	5.1	2.2	132%
Private funds	0.5	0.8	38%	1.4	0.3	367%
Total long-term fund net inflows	9.1	2.4	279%	15.1	2.6	481%
Institutional/HNW <sup>(1)</sup> accounts	0.3	0.1	200%	(0.3)	(0.7)	57%
Retail managed accounts	1.1	0.4	175%	1.7	0.7	143%
Total separate account net inflows	1.4	0.5	180%	1.4		NM
Total net inflows	\$10.5	\$ 2.9	262%	\$16.5	\$ 2.6	535%

<sup>(1)</sup> High-net-worth ( HNW )

<sup>(2)</sup> Not meaningful ( NM )

Long-term fund net inflows totaled \$9.1 billion in the second quarter of fiscal 2007 compared to \$2.4 billion in the second quarter of fiscal 2006. Closed-end fund offerings contributed significantly to net inflows in the second quarter of fiscal 2007, with \$5.8 billion in closed-end fund assets added. The Company had no closed-end fund offerings in the second quarter of fiscal 2006. Open-end fund net inflows of \$2.8 billion and \$1.6 billion in the second quarters of fiscal 2007 and 2006, respectively, reflect gross inflows of \$5.7 billion and \$3.8 billion, respectively, an increase of 50 percent year over year. Open-end fund redemptions totaled \$2.9 billion and \$2.2 billion for the second quarter of fiscal 2007 and 2006, respectively, an increase of 27 percent year over year. Private funds, which include privately offered equity and bank loan funds as well as collateralized debt obligation entities, contributed net inflows of \$0.5 billion in the second quarter of fiscal 2007 and \$0.8 billion in the second quarter of fiscal 2006.

The Company experienced net inflows of separate account assets of \$1.4 billion in the second quarter of fiscal 2007, compared to net inflows of \$0.5 billion in the second quarter of fiscal 2006. Retail managed account net inflows totaled \$1.1 billion in the second quarter of fiscal 2007, compared to \$0.4 billion in the second quarter of fiscal 2006. Retail managed account net inflows in fiscal 2007 reflect strong net sales of Parametric Portfolio Associates' tax efficient overlay and core equity products and Eaton Vance Management's (EVM's) large cap value product. Institutional and high-net-worth separate account net inflows totaled \$0.3 billion in the second quarter of fiscal 2007 compared to net inflows of \$0.1 billion in the second quarter of fiscal 2006.

Money market fund assets, which are not included in long-term fund net flows because of their short-term nature, increased to \$1.7 billion on April 30, 2007 from \$1.5 billion on April 30, 2006. The increase in money market fund assets in the second quarter of fiscal 2007 compared to the second quarter of fiscal 2006 can be primarily attributed to the introduction of a cash collateral fund managed by the Company in the second quarter of fiscal 2006. The cash collateral fund was introduced in conjunction with a securities lending program in which certain of the



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Company's sponsored funds participate.

The following table summarizes the asset flows by investment objective for the three and six month periods ended April 30, 2007 and 2006:

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**Asset Flows**

<i>(in billions)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	% Change	2007	2006	% Change
Equity fund assets beginning	\$ 59.3	\$ 48.1	23%	\$ 53.2	\$ 45.2	18%
Sales/inflows	8.5	2.0	325%	14.5	3.7	292%
Redemptions/outflows	(1.7)	(1.2)	42%	(3.4)	(2.7)	26%
Exchanges						
Market value change	2.1	1.2	75%	3.9	3.9	0%
Equity fund assets ending	68.2	50.1	36%	68.2	50.1	36%
Fixed income fund assets beginning	22.9	18.6	23%	21.6	18.2	19%
Sales/inflows	2.2	1.1	100%	4.1	2.0	105%
Redemptions/outflows	(0.8)	(0.5)	60%	(1.3)	(1.1)	18%
Exchanges						
Market value change	0.2	(0.1)	NM	0.1		NM
Fixed income fund assets ending	24.5	19.1	28%	24.5	19.1	28%
Floating-rate bank loan fund assets beginning	20.3	16.8	21%	20.0	16.8	19%
Sales/inflows	1.9	1.9	0%	3.7	3.0	23%
Redemptions/outflows	(0.9)	(0.9)	0%	(2.4)	(2.2)	9%
Exchanges						
Market value change	0.1	0.1	0%	0.1	0.3	67%
Floating-rate bank loan fund assets ending	21.4	17.9	20%	21.4	17.9	20%
Total long-term fund assets beginning	102.5	83.5	23%	94.8	80.2	18%
Sales/inflows	12.6	5.0	152%	22.3	8.7	156%
Redemptions/outflows	(3.5)	(2.6)	35%	(7.2)	(6.0)	20%
Exchanges						
Market value change	2.4	1.2	100%	4.1	4.2	2%
Total long-term fund assets ending	114.1	87.1	31%	114.1	87.1	31%
Separate accounts beginning	31.7	29.0	9%	30.5	27.6	11%
Inflows HNW and institutional	1.1	0.6	83%	1.7	1.3	31%
Outflows HNW and institutional	(0.8)	(0.5)	60%	(2.0)	(2.1)	5%
Inflows retail managed accounts	1.6	0.9	78%	2.8	1.7	65%
Outflows retail managed accounts	(0.5)	(0.5)	0%	(1.0)	(0.9)	11%
Market value change	1.1	0.7	57%	2.2	2.2	0%
Assets acquired					0.4	NM

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	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
Separate accounts ending	34.2	30.2	13%	34.2	30.2	13%
Money market fund assets ending	1.7	1.5	13%	1.7	1.5	13%
Assets under management ending	\$ 150.0	\$ 118.8	26%	\$ 150.0	\$ 118.8	26%

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*Ending Assets Under Management by Asset Class*

(in billions)	April 30,		
	2007	2006	% Change
Class A <sup>(1)</sup>	\$ 32.7	\$ 23.1	42%
Class B <sup>(2)</sup>	6.5	7.4	12%
Class C <sup>(3)</sup>	9.6	7.8	23%
Class I <sup>(4)</sup>	3.0	2.0	50%
Private funds <sup>(5)</sup>	29.0	23.7	22%
Closed-end funds	32.3	22.0	47%
Other <sup>(6)</sup>	2.7	2.6	4%
Total fund assets	115.8	88.6	31%
HNW and institutional account assets	22.1	21.7	2%
Retail managed account assets	12.1	8.5	42%
Total separate account assets	34.2	30.2	13%
Total	\$ 150.0	\$ 118.8	26%

<sup>(1)</sup> Includes Eaton Vance Advisers Senior Floating-Rate Fund, an interval fund.

<sup>(2)</sup> Includes Eaton Vance Prime Rate Reserves, an interval fund.

<sup>(3)</sup> Includes EV Classic Senior Floating-Rate Fund, an interval fund.

<sup>(4)</sup> Includes Eaton Vance Institutional Senior Floating-Rate Fund, an interval fund.

<sup>(5)</sup> Includes privately offered equity and bank loan funds and CDO entities.

<sup>(6)</sup> Includes other classes of Eaton Vance open-end funds and non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates.

The Company currently sells its sponsored mutual funds under four primary pricing structures: front-end load commission ( Class A ); spread-load commission ( Class B ); level-load commission ( Class C ); and institutional no-load ( Class I ). The Company waives the sales load on Class A shares when sold under a fee-based broker/dealer program. In such cases, the shares are sold at net asset value.

Fund assets represented 77 percent of total assets under management on April 30, 2007, compared to 75 percent on April 30, 2006. Class A share assets increased to 22 percent of total assets under management on April 30, 2007 from 19 percent on April 30, 2006, while Class B share assets dropped to 4 percent on April 30, 2007 from 6 percent on April 30, 2006. The shift from Class B share assets to Class A share assets reflects the overall increasing popularity of Class A shares in the industry and the declining popularity of Class B shares in broker/dealer distribution systems. Class C share assets represented 6 percent and 7 percent of total assets under management on April 30, 2007 and 2006, respectively, while Class I share assets represented 2 percent of total assets under management on both April 30, 2007 and 2006. Private funds represented 19 percent and 20 percent of the Company's total assets under management on April 30, 2007 and 2006, respectively. Closed-end

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funds increased to 22 percent of the Company's total assets under management on April 30, 2007, up from 19 percent on April 30, 2006.

Separate account assets, including high-net-worth, institutional and retail managed account assets, totaled \$34.2 billion on April 30, 2007, up from \$30.2 billion on April 30, 2006. High-net-worth and institutional account assets increased by 2 percent year over year, while retail managed account assets increased by 42 percent. Retail managed account assets were positively impacted over the last twelve months by strong net sales of Parametric Portfolio Associates' tax-efficient overlay and core equity products and EVM's large-cap value product.

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The average assets under management presented in the following table represent a monthly average by asset class. This table is intended to provide useful information in the analysis of the Company's revenue and asset-based distribution expenses. With the exception of the Company's separate account investment adviser fees, which are generally calculated as a percentage of either beginning, average or ending quarterly assets, the Company's investment adviser, administration, distribution and service fees are calculated as a percentage of average daily assets.

### *Average Assets Under Management by Asset Class <sup>(1)</sup>*

<i>(in billions)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	%	2007	2006	%
			Change			Change
Class A <sup>(2)</sup>	\$ 31.0	\$ 21.7	43%	\$ 29.7	\$ 20.7	43%
Class B <sup>(3)</sup>	6.5	7.5	13%	6.6	7.6	13%
Class C <sup>(4)</sup>	9.2	7.7	19%	9.0	7.6	18%
Class I <sup>(5)</sup>	2.8	1.9	47%	2.8	1.7	65%
Private funds <sup>(6)</sup>	28.0	22.9	22%	27.5	22.6	22%
Closed-end funds	30.0	21.8	38%	27.6	21.6	28%
Other <sup>(7)</sup>	2.7	2.7	0%	2.6	2.6	0%
Total fund assets	110.2	86.2	28%	105.8	84.4	25%
HNW and institutional account assets	21.4	21.3	0%	21.3	21.2	0%
Retail managed account assets	11.2	8.2	37%	10.6	7.8	36%
Total separate account assets	32.6	29.5	11%	31.9	29.0	10%
Total	\$ 142.8	\$ 115.7	23%	\$ 137.7	\$ 113.4	21%

<sup>(1)</sup> Assets under management attributable to acquisitions that closed during the relevant periods are included on a weighted average basis for the period from their respective closing dates.

<sup>(2)</sup> Includes Eaton Vance Advisers Senior Floating-Rate Fund, an interval fund.

<sup>(3)</sup> Includes Eaton Vance Prime Rate Reserves, an interval fund.

<sup>(4)</sup> Includes EV Classic Senior Floating-Rate Fund, an interval fund.

<sup>(5)</sup> Includes Eaton Vance Institutional Senior Floating-Rate Fund, an interval fund.

<sup>(6)</sup> Includes privately offered equity and bank loan funds and CDO entities.

<sup>(7)</sup> Includes other classes of Eaton Vance open-end funds and non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates.

### **Results of Operations**

The Company reported net income of \$23.1 million or \$0.17 per diluted share in the second quarter of fiscal 2007 compared to \$39.9 million or \$0.29 per diluted share in the second quarter of fiscal 2006. Operating results for the second quarter of fiscal 2007 include the payment of \$46.3 million in one-time structuring fees and \$8.1 million in marketing incentives related to the offering of Eaton Vance Tax-Managed Global Diversified Equity Income fund, a \$5.8 billion closed-end fund. These payments, which are included in distribution expense and compensation

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expense, respectively, reduced earnings for the second quarter and first six months of fiscal 2007 by approximately \$0.25 per diluted share.

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Operating results for the first six months of fiscal 2007 also include \$52.2 million in payments made to Merrill Lynch, Pierce, Fenner & Smith and A.G. Edwards & Sons, Inc. in the first quarter of fiscal 2007 to terminate compensation agreements in respect of certain of the Company's previously offered closed-end funds under which the Company was obligated to make payments over time based on the assets of the respective closed-end funds. The one-time termination payments, which are included in distribution expense, reduced diluted earnings for the first six months of fiscal 2007 by approximately \$0.24 per share. The termination of those agreements by a one-time payment will have the result of reducing the Company's distribution expense in future years by approximately \$9.0 million annually, the amount of the compensation that it would otherwise have paid to the two parties under those agreements. Operating results for the first six months of fiscal 2007 also include the payment of \$17.1 million in one-time structuring fees and \$4.7 million in marketing incentives in the first quarter of fiscal 2007 related to the November 2006 offering of Eaton Vance Tax-Managed Diversified Equity Income Fund, a \$2.8 billion closed-end fund. These payments, which are included in distribution expense and compensation expense, respectively, reduced earnings for the first six months of fiscal 2007 by approximately \$0.10 per diluted share.

### *Results of Operations*

<i>(in thousands)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	%	2007	2006	%
			Change			Change
Operating income	\$ 36,292	\$ 60,617	40%	\$ 38,289	\$ 124,695	69%
Net income	\$ 23,093	\$ 39,900	42%	\$ 25,652	\$ 79,031	68%
Earnings per share before cumulative effect of change in accounting principle:						
Basic	\$ 0.18	\$ 0.31	42%	\$ 0.20	\$ 0.62	68%
Diluted	\$ 0.17	\$ 0.29	41%	\$ 0.19	\$ 0.57	67%
Earnings per share:						
Basic	\$ 0.18	\$ 0.31	42%	\$ 0.20	\$ 0.61	67%
Diluted	\$ 0.17	\$ 0.29	41%	\$ 0.19	\$ 0.57	67%

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.

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

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

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<i>(in thousands)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	% Change	2007	2006	% Change
Operating income	\$ 36,292	\$ 60,617	40%	\$ 38,289	\$ 124,695	69%
Closed-end fund structuring fees	46,321		NM	63,436		NM
Payments to terminate closed-end fund compensation agreements				52,178		NM
Write-off of intangible assets		8,876	NM		8,876	NM
Stock-based compensation	8,252	7,977	3%	22,476	20,499	10%
Adjusted operating income	\$ 90,865	\$ 77,470	17%	\$ 176,379	\$ 154,070	14%

**Revenue**

The Company's effective fee rate (total revenue as a percentage of average assets under management) was 73 basis points in both the second quarter of fiscal 2007 and first six months of fiscal 2007 compared to 73 basis points and 74 basis points in the second quarter and first six months of fiscal 2006, respectively.

<i>(in thousands)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	% Change	2007	2006	% Change
Investment adviser and administration fees	\$ 185,437	\$ 145,284	28%	\$ 354,834	\$ 287,353	23%
Distribution and underwriter fees	37,058	35,414	5%	73,636	70,781	4%
Service fees <sup>(1)</sup>	36,223	29,346	23%	71,569	58,003	23%
Other revenue	1,466	1,752	16%	3,321	2,199	51%
Total revenue	\$ 260,184	\$ 211,796	23%	\$ 503,360	\$ 418,336	20%

<sup>(1)</sup> Certain amounts from prior quarters have been reclassified to conform to the current year presentation.

*Investment adviser and administration fees*

Investment adviser and administration fees are generally determined by contractual agreements with the Company's sponsored funds and separate accounts and are generally based upon a percentage of the market value of assets under management. Net asset flows and changes in the market value of managed assets affect the amount of investment adviser and administration fees earned, while shifts in asset mix affect the Company's effective fee rate.

The increase in investment adviser and administration fees of 28 percent and 23 percent in the second quarter and first six months of fiscal 2007, respectively, over the same periods a year earlier can be attributed primarily to an increase in average assets under management. Average assets under

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management increased by 23 percent and 21 percent in the second quarter and first six months of fiscal 2007, respectively, over the same periods a year ago. Fund effective fee rates (including both investment adviser and administration fees) remained stable at 57 basis points for both the first six months of fiscal 2007 and the first six months of fiscal 2006, while separately managed account effective fee rates declined modestly to 31 basis points in the first half of fiscal 2007 from 32 basis points in the first half of fiscal 2006.

### *Distribution and underwriter fees*

Distribution plan payments, which are made under contractual agreements with the Company's sponsored funds, are calculated as a percentage of average assets under management in specific share classes of the Company's mutual funds (principally Class B and Class C), as well as certain private funds. These fees fluctuate with both the level of average assets under management and the relative mix of assets. Underwriter commissions are earned on the sale of shares of the Company's sponsored mutual funds on which investors pay a sales charge at the time of purchase (Class A share sales). Sales charges and underwriter commissions are waived or reduced on sales that exceed specified minimum amounts and on fee-based account sales. Underwriter commissions fluctuate with the level of Class A share sales and the mix of Class A shares offered with and without sales charges.

Distribution plan payments increased 6 percent to \$33.4 million in the second quarter of fiscal 2007 from \$31.6 million in the second quarter of fiscal 2006, reflecting an increase in average Class C and certain private fund assets subject to distribution fees, partly offset by a decrease in average Class B share assets under management. As noted in the table *Average Assets Under Management by Asset Class*, average Class B share assets under management declined 13 percent year-over-year in the second quarter of fiscal 2007, while average Class C share and private fund assets under management subject to distribution fees increased by 19 percent and 10 percent, respectively. Underwriter fees and other distribution income decreased 3 percent to \$3.7 million in the second quarter of fiscal 2007 from \$3.8 million in the second quarter of fiscal 2006, primarily reflecting an increase in the percentage of equity Class A shares offered without a sales charge offset by an increase in other distribution income.

Distribution plan payments increased 4 percent to \$66.7 million in the first six months of fiscal 2007 from \$64.4 million in the first six months of fiscal 2006, reflecting an increase in average Class C and certain private fund assets subject to distribution fees partly offset by a decrease in average Class B share assets under management. As noted in the table *Average Assets Under Management by Asset Class*, average Class B share assets under management declined 13 percent year-over-year in the first half of fiscal 2007, while average Class C share and private fund assets under management subject to distribution fees increased by 17 percent and 11 percent, respectively. Underwriter fees and other distribution income increased by 8 percent to \$6.9 million in the first six months of fiscal 2007 from \$6.4 million in the second quarter of fiscal 2006, primarily reflecting an increase in Class A share sales and an increase in other distribution income.

### *Service fees*

Service plan payments, which are made under contractual agreements with the Company's sponsored funds, are calculated as a percent of average assets under management in specific share classes of the Company's mutual funds (principally Classes A, B and C) as well as certain private funds. Service fees represent payments made by sponsored funds to the principal underwriter (Eaton Vance Distributors, Inc., a wholly owned subsidiary of EVM) for personal service and/or the maintenance of shareholder accounts.

Service fee revenue increased by 23 percent in both the second quarter and first six months of fiscal 2007 over the same periods a year ago, primarily reflecting a 23 percent increase in average assets under management in Class A, B, and C shares and private funds subject to service fees.

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### *Other revenue*

Other revenue, which consists primarily of shareholder service fees, miscellaneous dealer income, custody fees, and investment income earned by consolidated funds, decreased by 16 percent or \$0.3 million in the second quarter of fiscal 2007 over the same period a year ago. The decrease in other revenue can be primarily attributed to a decrease in investment income related to consolidated funds for the periods during which they were consolidated. Other revenue for the second quarter of fiscal 2007 and 2006 includes \$0.3 million and \$0.9 million, respectively, of investment income related to consolidated funds.

Other revenue increased by 51 percent in the first half of fiscal 2007 over the same period a year ago, primarily due to increases in shareholder service fees and miscellaneous dealer income totaling \$1.1 million. Other revenue for the first half of fiscal 2007 and 2006 includes \$0.8 million and \$1.0 million, respectively, of investment income related to consolidated funds for the periods during which they were consolidated.

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The Company realized gains of \$1.7 million and \$2.2 million for the six months ended April 30, 2007 and 2006, respectively, upon the disposition of its investments in sponsored funds. The Company realized gains of \$1.4 million on liquidation of its investments in a collateralized debt obligation entity for the six months ended April 30, 2006.

### *Expenses*

Operating expenses increased by 48 percent in the second quarter of fiscal 2007, primarily reflecting increases in compensation, service fees, and distribution expenses.

<i>(in thousands)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	% Change	2007	2006	% Change
Compensation of officers and employees	\$ 79,161	\$ 58,489	35%	\$ 157,143	\$ 119,938	31%
Amortization of deferred sales commissions	13,552	13,308	2%	26,971	27,048	0%
Service fee expense	27,682	22,971	21%	54,900	45,834	20%
Distribution expense	78,811	28,303	178%	178,321	54,618	226%
Fund expenses	4,455	3,940	13%	8,674	7,800	11%
Other expenses	20,231	24,168	16%	39,062	38,403	2%
<b>Total expenses</b>	<b>\$223,892</b>	<b>\$151,179</b>	<b>48%</b>	<b>\$465,071</b>	<b>\$293,641</b>	<b>58%</b>

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### *Compensation of officers and employees*

Compensation expense increased by 35 percent and 31 percent in the second quarter and first six months of fiscal 2007 compared to the same periods a year earlier. The increase in compensation expense in both periods can be attributed to higher stock-based compensation expense and base compensation expense associated with a 12 percent increase in headcount, higher adjusted operating income-based employee incentive payments, higher marketing incentive payments associated with the Company's separately managed account business, and higher marketing incentive payments associated with the increase in long-term fund sales, which include initial public offerings of closed-end funds. The increase in headcount over the last twelve months reflects additions to the Company's investment management, marketing and operations teams required to support the significant growth in assets under management.

Stock-based compensation included in Compensation of officers and employees was \$8.3 million and \$22.5 million in the second quarter and first six months of fiscal 2007, respectively, compared to \$8.0 million and \$20.5 million in the second quarter and first six months of fiscal 2006, respectively.

### *Amortization of deferred sales commissions*

Amortization of deferred sales commissions increased by 2 percent in the second quarter of fiscal 2007 while remaining flat in the first six months of fiscal 2007 compared to the same periods a year earlier. Amortization expense is affected by ongoing sales and redemptions of mutual fund Class B shares, Class C shares and certain private funds. As amortization expense is a function of the Company's fund sales mix, a continuing shift away from Class B shares to other classes over time, particularly Class A shares, will likely result in reductions in amortization expense over time.

### *Service fees*

Service fees the Company receives from sponsored funds are generally retained by the Company in the first year and paid to broker/dealers after the first year pursuant to third-party service arrangements. These fees are calculated as a percent of average assets under management in specific

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share classes of the Company's mutual funds (principally Classes A, B, and C) and certain private funds. Service fee expense increased by 21 percent and 20 percent in the second quarter and first six months of fiscal 2007, respectively, over the same periods a year earlier, reflecting increases in average long-term fund assets retained more than one year in funds and share classes that are subject to service fees.

### *Distribution expense*

Distribution expense consists primarily of ongoing payments made to distribution partners pursuant to third-party distribution arrangements (for certain Class C share and closed-end fund assets, calculated as a percentage of average assets under management), commissions paid to broker/dealers on the sale of Class A shares at net asset value, structuring fees paid on new closed-end fund offerings and other marketing expenses, including marketing expenses associated with revenue sharing arrangements with the Company's distribution partners.

Distribution expense increased by \$50.5 million or 178 percent in the second quarter of fiscal 2007, primarily due to the payment of \$46.3 million in one-time structuring fees in the second quarter of fiscal 2007 related to the offering of Eaton Vance Tax-Managed Global Diversified Equity Income fund, a \$5.8 billion closed-end fund. Distribution expense for the first six months of fiscal 2007 also includes payment of \$17.1 million in one-time structuring fees in the first quarter of fiscal 2007 related to the offering of Eaton Vance Tax-Managed Diversified Equity Income Fund, a \$2.8 billion closed-end fund, and \$52.2 million in payments made to Merrill Lynch, Pierce, Fenner & Smith and A.G. Edwards & Sons, Inc. in the first quarter of fiscal 2007 to terminate certain closed-end fund compensation agreements under which the Company was obligated to make recurring payments over time based on the assets of the respective closed-end funds. The termination of those agreements by a one-time payment will have the effect of reducing the Company's distribution expense in future years by approximately \$9.0 million annually, the amount of the compensation that it would otherwise have paid to the two parties under those agreements.

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### *Fund expenses*

Fund expenses consist primarily of fees paid to subadvisors, compliance costs and other fund-related expenses incurred by the Company. Fund expenses increased by 13 percent and 11 percent in the second quarter and first six months of fiscal 2007 over the same periods a year earlier primarily as a result of increases in subadvisory fees and other fund-related expenses. The increase in subadvisory fees can be attributed to the increase in average assets under management in funds subadvised by external investment advisers. The increase in other fund-related expenses can be attributed to an increase in fund expenses for certain institutional funds for which the Company is paid an all-in management fee and bears the funds' non-advisory expenses.

### *Other expenses*

Other expenses consist primarily of travel, facilities, information technology, consulting, communications and other corporate expenses, including the amortization of intangible assets.

Other expenses decreased by 16 percent, or \$3.9 million, in the second quarter of fiscal 2007 over the second quarter of fiscal 2006, primarily reflecting a decrease in the amortization of intangible assets of \$9.0 million offset by increases in travel expense of \$0.7 million, facilities-related expenses of \$1.7 million, information technology expense of \$1.6 million and consulting costs of \$0.9 million. The decrease in the amortization of intangible assets can be attributed to the \$8.9 million write-off of intangible assets relating to the termination of certain institutional and high-net-worth asset management contracts at Fox Asset Management in the second quarter of fiscal 2006. The increase in travel expense can be attributed primarily to additional travel costs incurred in the marketing of Eaton Vance Tax-Managed Global Diversified Equity Income fund in the second quarter of fiscal 2007. The increase in facilities-related expenses can be attributed to an increase in rent and insurance associated with additional office space leased by the Company to support the 12 percent increase in headcount and an increase in the amortization of leasehold improvements associated with the acceleration of amortization schedules in anticipation of the Company's move to new corporate headquarters in Boston in fiscal 2009. The increase in information technology expense can be attributed to an overall increase in outside data services and consulting costs incurred in conjunction with several significant system implementations over the last twelve months. The increase in consulting costs can be attributed primarily to executive recruiting costs incurred in the second quarter of fiscal 2007.

Other expenses increased by 2 percent, or \$0.7 million, in the first six months of fiscal 2007 over the same period a year earlier, primarily reflecting a decrease in the amortization of intangible assets of \$9.0 million offset by increases in travel expense of \$1.5 million, facilities-related expenses of \$3.2 million, and information technology expense of \$4.3 million. The decrease in the amortization of intangible assets can be attributed to the \$8.9 million write-off of intangible assets relating to the termination of certain institutional and high-net-worth asset management contracts at Fox Asset Management in the second quarter of fiscal 2006. The increase in travel expense can be attributed primarily to additional travel costs incurred in the marketing of Eaton Vance Tax-Managed Diversified Equity Income Fund and Eaton Vance Tax-Managed Global Diversified Equity Income Fund in the first and second quarters of fiscal 2007, respectively. The increase in



facilities-related expenses can be attributed to an increase in rent and insurance associated with additional office space leased by the Company to support the 12 percent increase in headcount and an increase in the amortization of leasehold improvements associated with the acceleration of amortization schedules in anticipation of the Company's move to new corporate headquarters in Boston in fiscal 2009. The increase in information technology expense can be attributed to an overall increase in outside data services and consulting costs incurred in conjunction with several significant system implementations over the last twelve months.

<i>(in thousands)</i>	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
	2007	2006	% Change	2007	2006	% Change
Interest income	\$2,058	\$2,020	2%	\$4,335	\$3,742	16%
Interest expense	(57)	(360)	84%	(84)	(724)	88%
Gain on investments	965	2,886	67%	1,673	3,547	53%
Foreign currency loss	(61)	(71)	14%	(133)	(127)	5%
Impairment loss on investments			NM		(592)	NM
Total other income	\$2,905	\$4,475	35%	\$5,791	\$5,846	1%

Interest income increased by 2 percent and 16 percent in the second quarter and first six months of fiscal 2007, respectively, over the same periods a year earlier, primarily due to an increase in short-term interest rates.

Interest expense decreased by 84 percent and 88 percent in the second quarter and first six months of fiscal 2007, respectively, over the same periods a year earlier, primarily due to the retirement of all of the Company's long-term debt in August 2006.

The Company recognized impairment losses of \$0.6 million in the first six months of fiscal 2006 related to its investments in one CDO entity. The impairment loss resulted from the effect of tightening credit spreads and higher than forecasted prepayment rates on the entity's investments.

#### ***Income Taxes***

The Company's effective tax rate (income taxes as a percentage of income before income taxes, minority interest, equity in net income of affiliates, and the cumulative effect of a change in accounting principle) was 38.5 percent for all periods presented.

The Company's policy for accounting for income taxes includes monitoring its business activities and tax policies to ensure that the Company is in compliance with federal, state and foreign tax laws. In the ordinary course of business, various taxing authorities may not agree with certain tax positions taken by the Company, or applicable law may not be clear. The Company periodically reviews these tax positions and provides for and adjusts as necessary estimated liabilities relating to such positions as part of its overall tax provision.

#### ***Minority Interest***

Minority interest increased by 12 percent and 2 percent in the second quarter and first six months of fiscal 2007 over the same periods a year earlier. Minority interest is not adjusted for taxes due to the underlying tax status of the Company's majority-owned subsidiaries. Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates are limited liability companies that are treated as partnerships for tax purposes. Funds consolidated by the Company are registered investment companies or private funds that are treated as pass-through entities for tax purposes.

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### *Equity in Net Income of Affiliates, Net of Tax*

Equity in net income of affiliates, net of tax, at April 30, 2007 reflects the Company's 20 percent minority equity interest in Lloyd George Management and a 7 percent minority equity interest in a private equity partnership. Equity in net income of affiliates, net of tax, decreased by 64 percent and 34 percent in the second quarter and first six months of fiscal 2007, respectively, compared to the same periods a year earlier, primarily due to the Company's sale of certain investments in sponsored mutual funds that were accounted for under the equity method in prior periods.

### **Changes in Financial Condition and Liquidity and Capital Resources**

The following table summarizes certain key financial data relating to the Company's liquidity and capital resources on April 30, 2007 and 2006 and for the six-month periods then ended:

#### *Balance Sheet and Cash Flow Data*

<i>(in thousands)</i>	<b>April 30, 2007</b>	<b>October 31, 2006</b>	<b>% Change</b>
<b>Balance sheet data:</b>			
Cash and cash equivalents	\$ 154,868	\$ 206,705	25%
Short-term investments		20,669	100%
Long-term investments	84,482	73,075	16%
Deferred sales commissions	109,232	112,314	3%
Deferred income taxes	21,269	22,520	6%
	<b>For the Six Months Ended April 30,</b>		
<i>(in thousands)</i>	<b>2007</b>	<b>2006</b>	<b>% Change</b>
<b>Cash flow data:</b>			
Operating cash flows	\$ 33,443	\$ 9,966	236%
Investing cash flows	(6,314)	10,440	NM
Financing cash flows	(79,028)	(8,781)	NM

The Company's financial condition is highly liquid, with a significant percentage of the Company's assets represented by cash, cash equivalents and short-term investments. Short-term investments include investments in the Company's sponsored money market and short-term income funds. Long-term investments consist principally of investments in certain of the Company's sponsored mutual funds, investments in affiliates and minority equity investments in CDO entities.

Deferred sales commissions paid to broker/dealers in connection with the distribution of the Company's Class B and Class C fund shares, as well as certain private funds, decreased by 3 percent in the first half of fiscal 2007, primarily reflecting the ongoing decline in Class B share sales and assets. Deferred income taxes, which relate principally to the deferred tax liability for deferred sales commissions offset by the deferred tax benefit for stock-based compensation, decreased by 6 percent in the first half of fiscal 2007.

The following table details the Company's future contractual obligations:

<b>Contractual Obligations</b>	<b>Payments due</b>
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<i>(in millions)</i>	<b>Total</b>	<b>Less than 1 Year</b>	<b>1 3 Years</b>	<b>4 5 Years</b>	<b>After 5 Years</b>
Operating leases facilities and equipment	\$ 198.8	\$9.8	\$22.6	\$25.2	\$ 141.2
Investment in private equity partnership	\$ 9.4		\$ 9.4		

In July 2006, the Company committed to invest up to \$15.0 million in a private equity partnership that invests in companies in the financial services industry. Through April 30, 2007, the Company has invested \$5.6 million of the total \$15.0 million of committed capital.

In September 2006, the Company signed a long-term lease to move the Company's corporate headquarters to a new location in Boston. The lease will commence in May 2009.

Excluded from the table above are future payments to be made by the Company to purchase the equity interests retained by minority investors in Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates. The Company's acquisition agreements provide the minority shareholders the right to require the Company to purchase these retained interests at specific intervals over time. These agreements also provide the Company with the right to require the minority shareholders to sell their retained equity interests to the Company at specific intervals over time, as well as upon certain events such as death and permanent disability. These purchases and sales will occur at varying times at varying amounts over the next 6 years and will generally be based upon a multiple of earnings before interest and taxes, a measure which is intended to represent fair market value. Although the timing and amounts of these purchases cannot be predicted with certainty, the Company anticipates that the purchase of the remaining minority interests in its majority-owned subsidiaries may be a significant use of cash in future years.

In April 2007, the minority investors in Parametric Portfolio Associates exercised a put option, requiring the Company to purchase an additional 2 percent interest in Parametric Portfolio Associates for \$6.1 million. The transaction settled in May 2007 and increased the Company's capital ownership interest from 82 to 84 percent. The additional purchase price will be allocated between intangible assets and goodwill in the third quarter based on an independent valuation.

In April 2007, Parametric Portfolio Associates announced the signing of a definitive agreement with Managed Risk Advisors, LLC, an investment management and derivatives investment advisory firm based in Westport, Connecticut, to merge with Parametric Risk Advisors LLC, a newly formed Parametric Portfolio Associates' affiliate specializing in the use of options and other derivatives in the management of client investment portfolios. Parametric Portfolio Associates will initially hold a 40 percent interest in the newly formed entity. Pursuant to the acquisition agreements, Parametric Portfolio Associates will have the right to require the minority shareholders to sell their retained equity interests to Parametric Portfolio Associates at specific intervals over time at a price based upon a multiple of earnings before interest and taxes, a measure which is intended to represent fair market value. The transaction was completed on May 1, 2007.

The Company maintains a revolving credit facility with several banks, which expires on December 21, 2009. It provides that the Company may borrow up to \$180 million at LIBOR-based rates of interest that vary depending on the level of usage of the facility and the Company's credit ratings. The agreement contains financial covenants with respect to leverage and interest coverage and requires the Company to pay an annual commitment fee on any unused portion. On April 30, 2007, the Company had no outstanding borrowings under its revolving credit facility.

**Operating Cash Flows**

Operating cash flows of the Company are calculated by adjusting the net income to reflect changes in current assets and liabilities, deferred sales commissions, stock-based compensation, deferred income taxes and investments classified as trading. Cash provided by operating activities totaled \$33.4 million and \$10.0 million for the six months ended April 30, 2007 and 2006, respectively. The increase in cash provided by operating activities in the first six months of fiscal 2007 can be attributed primarily to an increase in cash provided by the purchase and sale of trading securities by the Company's consolidated mutual funds, which regularly purchase and sell securities. In the first six months of fiscal 2007, the purchase and sale of trading securities by the Company's consolidated funds increased cash by \$20.8 million. In the first six months of fiscal 2006 this activity reduced cash by \$80.2 million. Operating cash flows in the first six months of fiscal 2007 were reduced by \$52.2 million in payments made by the Company to terminate certain closed-end fund compensation agreements and \$63.4 million in structuring fee payments made by the Company related to the offering of Eaton Vance Tax-Managed Diversified Equity Income Fund in the first quarter of fiscal 2007 and Eaton Vance Tax-Managed Global Diversified Equity Income Fund in the second quarter of fiscal 2007.

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Capitalized sales commissions paid to financial intermediaries for the distribution of the Company's Class B and Class C fund shares and certain private funds increased by \$5.7 million in the first six months of fiscal 2007 compared to the same period a year earlier due primarily to a 72 percent increase in Class C share sales. The Company anticipates that the payment of capitalized sales commissions will continue to be a significant use of cash in the future.

### ***Investing Cash Flows***

Investing activities consist primarily of the purchase of equipment and leasehold improvements and the purchase and sale of investments in Company-sponsored mutual funds that the Company does not consolidate. Cash used for investing activities totaled \$6.3 million for the six months ended April 30, 2007, compared to cash provided by investing activities of \$10.4 million for the first six months of fiscal 2006. Additions to equipment and leasehold improvements in the second quarter of both fiscal 2007 and 2006 primarily reflect additional leasehold improvements made in conjunction with additional office space leased to accommodate an increase in headcount. In the first six months of fiscal 2007, the purchase and sale of available-for-sale securities reduced cash by \$2.5 million. In the first six months of fiscal 2006, the same activity increased cash by \$18.8 million.

### ***Financing Cash Flows***

Financing cash flows primarily reflect the issuance and repurchase of the Company's non-voting common stock and the payment of dividends to the Company's shareholders. Financing cash flows also include proceeds from the issuance of capital stock by the Company's consolidated investment companies and cash paid to meet redemptions by minority shareholders of these funds. Cash used for financing activities totaled \$79.0 million and \$8.8 million for the six months ended April 30, 2007 and 2006, respectively.

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In the first six months of fiscal 2007, the Company repurchased a total of 2.2 million shares of its non-voting common stock for \$74.9 million under its authorized repurchase program and issued 1.5 million shares of non-voting common stock in connection with the exercise of stock options and employee stock purchases for total proceeds of \$24.1 million. The Company has authorization to purchase an additional 4.1 million shares under its present share repurchase authorization and anticipates that future repurchases will continue to be a significant use of cash. The Company's dividends per share were \$0.24 in the first six months of fiscal 2007 compared to \$0.20 in the first six months of fiscal 2006.

The Company believes that cash provided by operating activities and borrowings available under the Company's \$180 million credit facility will provide the Company with sufficient liquidity to meet its short-term and long-term cash demands.

### ***Off-Balance Sheet Arrangements***

The Company does not invest in any off-balance sheet vehicles that provide financing, liquidity, market or credit risk support or engage in any leasing activities that expose the Company to any liability that is not reflected in the Consolidated Financial Statements.

### ***Critical Accounting Policies***

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

### ***Deferred Sales Commissions***

Sales commissions paid by the Company to broker/dealers in connection with the sale of certain classes of shares of open-end funds and private funds are generally capitalized and amortized over the period during which redemptions by the purchasing shareholder are subject to a contingent deferred sales charge, which does not exceed six years from purchase. Distribution plan payments received by the Company from these funds are recorded in revenue as earned. Contingent deferred sales charges and early withdrawal charges received by the Company from redeeming shareholders of open-end funds reduce unamortized deferred sales commissions. Should the Company lose its ability to recover such sales commissions through distribution plan payments and contingent deferred sales charges, the value of these assets would immediately decline, as would future cash flows. The Company periodically reviews the recoverability of deferred sales commission assets as events or changes in circumstances indicate that the carrying amount of deferred sales commission assets may not be recoverable and adjusts the deferred sales commission assets accordingly.

### ***Goodwill and Intangible Assets***

Goodwill represents the excess of the cost of the Company's investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. The Company attributes all goodwill associated with the acquisitions of Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates to a single reporting unit. Goodwill is not amortized but is tested at least annually for impairment by comparing the fair value of the reporting unit to its carrying amount, including goodwill. The Company establishes fair value for the purpose of impairment testing using discounted cash flow analyses and appropriate market multiples. In this process, the Company makes assumptions related to projected future earnings and cash flow, market multiples and applicable discount rates. Changes in these estimates could materially affect the Company's impairment conclusion.

Identifiable intangible assets generally represent the cost of client relationships and management contracts acquired. In valuing these assets, the Company makes assumptions regarding useful lives and projected growth rates and significant judgment is required. In most instances, the Company engages third party consultants to perform these valuations. The Company periodically reviews identifiable intangibles for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the amount of the impairment loss, if any.

#### ***Deferred Income Taxes***

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the Company's assets and liabilities. The Company's deferred taxes relate principally to stock-based compensation expense and capitalized sales commissions paid to broker/dealers. Under IRS regulations, capitalized sales commission payments are deductible for tax purposes at the time of payment. While the Company has considered future taxable income and ongoing tax planning in assessing its taxes, changes in tax laws may result in a change to the Company's tax position and effective tax rate.

#### ***Investments in CDO Entities***

The Company acts as collateral manager for a number of CDO entities pursuant to collateral management agreements between the Company and each CDO entity. At April 30, 2007, combined assets under management in the collateral pools of these CDO entities plus warehoused assets upon which the Company earns a management fee were approximately \$3.7 billion. The Company had combined minority equity investments of \$10.1 million in five of these entities on April 30, 2007.

The Company accounts for its investments in CDO entities under Emerging Issues Task Force (EITF) 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets. The excess of future cash flows over the initial investment at the date of purchase is recognized as interest income over the life of the investment using the effective yield method. The Company reviews cash flow estimates throughout the life of each CDO investment pool to determine whether an impairment of its equity investments should be recognized. Cash flow estimates are based on the underlying pool of collateral securities and take into account the overall credit quality of the issuers of the collateral securities, the forecasted default rate of the collateral securities and the Company's past experience in managing similar securities. If the updated estimate of future cash flows (taking into account both timing and amounts) is less than the last revised estimate, an impairment loss is recognized based on the excess of the carrying amount of the investment over its fair value. Fair value is determined using current information, notably market yields and projected cash flows based on forecasted default and recovery rates that a market participant would use in determining the current fair value of the equity interest. Market yields, default rates and recovery rates used in the Company's estimate of fair value vary based on the nature of the investments in the underlying collateral pools. In periods of rising credit default rates and lower debt recovery rates, the fair value, and therefore carrying value, of the Company's investments in these CDO entities may be adversely affected. The Company's risk of loss in the CDO entities is limited to the \$10.1 million carrying value of the minority equity investments on the Company's Consolidated Balance Sheet at April 30, 2007.

A CDO entity issues non-recourse debt securities, which are sold in a private offering by an underwriter to institutional and high-net-worth investors. The CDO debt securities issued by the CDO entity are secured by collateral in the form of floating-rate bank loans and/or high-yield bonds that the CDO entity purchases. The Company manages the collateral securities for a fee and, in most cases, is a minority investor in the equity interests of the CDO entity. An equity interest in a CDO entity is subordinated to all other interests in the CDO entity and entitles the investor to receive the residual cash flows, if any, from the CDO entity. As a result, the Company's equity investment in a CDO entity is highly sensitive to changes in the credit quality of the issuers of the collateral securities, including changes in the forecasted default rates and any

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declines in anticipated recovery rates. The Company's financial exposure to the CDO entities it manages is limited to its equity interests in the CDO entities as reflected in the Company's Consolidated Balance Sheet.

### ***Stock-Based Compensation***

Stock-based compensation expense reflects the fair value of stock-based awards measured at grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management's judgment. Management must also apply judgment in developing an expectation of awards that may be forfeited. If actual experience differs significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially affected.

### ***Loss Contingencies***

The Company continuously reviews any investor, employee or vendor complaints and pending or threatened litigation. The likelihood that a loss contingency exists is evaluated under the criteria of Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies, through consultation with legal counsel and a loss contingency is recorded if the contingency is probable and reasonably estimable at the date of the financial statements. There are no losses of this nature that are probable and reasonably estimable as of April 30, 2007 and thus none have been recorded in the financial statements included in this report.

### ***Inflation***

The Company's assets are, to a large extent, liquid in nature and therefore the Company does not believe that inflation has a material impact on the Company's results of operations. To the extent that inflation, or the expectation thereof, results in rising interest rates, it may adversely affect the Company's financial condition and results of operations. A substantial decline in the value of fixed-income or equity investments could adversely affect the net asset value of funds and accounts the Company manages, which in turn would result in a decline in investment advisory revenue.

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### ***Accounting Developments***

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. Management is currently evaluating this standard and its impact, if any, on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Management is currently evaluating this standard and its impact, if any, on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS No. 158 requires employers to recognize the overfunded or underfunded status of a defined benefit, pension or other postretirement plan in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position. The provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006 for employers with publicly traded equity securities. The Company does not anticipate that the provisions of SFAS No. 158 will have an impact on the Company's consolidated financial statements because the Company does not maintain any defined benefit, pension or other post-retirement plans.

In June 2006, the FASB issued interpretation No. 48, Accounting for the Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies certain aspects of accounting for uncertain tax positions, including issues related to the recognition and measurement of those tax positions. The provisions of FIN 48 are effective for the Company's fiscal year which begins on November 1, 2007.

Management is currently evaluating the potential impact of the adoption of this interpretation.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is subjected to different types of risk, including market risk. Market risk is the risk that the Company will incur losses due to adverse changes in equity and bond prices, interest rates, credit conditions, or currency exchange rates.

The Company's primary direct exposure to equity price risk arises from its investments in sponsored equity funds and equity securities held by sponsored funds the Company consolidates. The Company's investments in sponsored equity funds and equity securities are carried at fair value on the Company's Consolidated Balance Sheets. Equity price risk as it relates to these investments represents the potential future loss of value that would result from a decline in the fair values of the fund shares or underlying equity securities. The following is a summary of the effect that a 10 percent increase or decrease in equity prices would have on the Company's investments subject to equity price fluctuation at April 30, 2007:

<i>(in thousands)</i>	Carrying value	Carrying value assuming a 10% increase	Carrying value assuming a 10% decrease
<b>Trading:</b>			
Equity securities	\$ 14,709	\$ 16,180	\$ 13,238
<b>Available for sale securities:</b>			
Sponsored funds	38,649	42,514	34,784
<b>Total</b>	<b>\$53,358</b>	<b>\$58,694</b>	<b>\$48,022</b>

The Company's primary direct exposure to falling interest rates arises from its investment in sponsored funds and debt securities held by sponsored funds the Company consolidates. The Company considered the negative effect on pre-tax interest income of a 50 basis point (0.50%) decline in interest rates as of April 30, 2007. A 50 basis point decline in interest rates is a hypothetical scenario used to demonstrate potential risk and does not represent management's view of future market changes. The following is a summary of the effect that a 50 basis point (0.50%) decline in interest rates would have on the Company's pre-tax net income as of April 30, 2007:

<i>(in thousands)</i>	Carrying value	Pre-tax interest income impact of a 50 basis point decline in interest rates
<b>Trading:</b>		
Debt securities	\$ 764	\$ 4
<b>Available for sale securities:</b>		
Sponsored funds	4,237	21
<b>Total</b>	<b>\$5,001</b>	<b>\$ 25</b>

The Company's primary direct exposure to credit risk arises from its minority equity interests in five CDO entities that are included in long-term investments in the Company's Consolidated Balance Sheets.

As a minority equity investor in a CDO entity, the Company is entitled to only a residual interest in the CDO entity, making these investments highly sensitive to the default rates of the underlying issuers of the floating-rate bank loans or high-yield bonds held by the CDO entity. The Company's minority equity investments are subject to an impairment loss in the event that the cash flows generated by the collateral securities are not sufficient to allow equity holders to recover their investments. If there is deterioration in the credit quality of the issuers underlying the collateral securities and a corresponding increase in the number of defaults, cash flows generated by the collateral securities may be adversely impacted and the Company may be unable to recover its investment. The Company's total investment in minority equity interests in CDO entities is approximately \$10.1 million at April 30, 2007, which represents the total value at risk with respect to such entities as of April 30, 2007.

The Company does not enter into foreign currency transactions for speculative purposes and currently has no material investments that would expose it to foreign currency exchange risk.

In evaluating market risk, it is also important to note that most of the Company's revenue is based on the market value of assets under management. As noted in "Risk Factors" in Item 1A, declines of financial market values will negatively impact the Company's revenue and net income.

#### **Item 4. Controls and Procedures**

As of April 30, 2007, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Disclosure controls and procedures are the controls and other procedures that the Company designed to ensure that it records, processes, summarizes and reports in a timely manner the information it must disclose in reports that it files with or submits to the SEC. The Company's Chief Executive Officer and Chief Financial Officer participated in this evaluation. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Report of Management on Internal Control over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over the Company's financial reporting. Internal control over financial reporting is the process designed and effected by the Company's board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, even effective internal controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Furthermore, the effectiveness of internal controls can change with circumstances.

Management has evaluated the effectiveness of internal control over financial reporting as of April 30, 2007 in relation to criteria described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on management's assessment, management concluded that the Company's internal control over financial reporting was effective as of April 30, 2007.

## **Part II Other Information**

### **Item 1. Legal Proceedings**

There have been no material developments in litigation previously reported in the Company's SEC filings.

#### **Item 1A. Risk Factors**



***The Company is subject to substantial competition in all aspects of its investment management business and there are few barriers to entry.*** The Company's 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 competing with the Company have greater resources than the Company. The Company competes with other providers of investment products on the basis of the products offered, the investment performance of such products, quality of service, fees charged, the level and type of financial intermediary compensation, the manner in which such products are marketed and distributed, the reputation of the Company and the services provided to investors. In addition, the Company's ability to market investment products is highly dependent on access to the various distribution systems of national and regional securities dealer firms, which offer competing investment products and could elect to limit the distribution of the Company's investment products. There can be no assurance that the Company will be able to retain access to these channels. The inability to have such access could have a material adverse effect on the Company's business. To the extent that existing or potential customers, including securities broker/dealers, decide to invest in or broaden distribution relationships with the Company's competitors, the sales of the Company's products as well as the Company's market share, revenues and net income could decline.

***The Company derives almost all of its revenue from investment adviser and administration fees and distribution income received from the Eaton Vance funds and separate accounts.*** As a result, the Company is dependent upon management contracts, administration contracts, distribution contracts, underwriting contracts or service contracts under which these fees and income are paid. Generally, these contracts are terminable upon 30 to 60 days' notice without penalty. If any of these contracts are terminated, not renewed, or amended to reduce fees, the Company's financial results could be adversely affected.

***The Company's assets under management, which impact revenue, are subject to significant fluctuations.*** The major sources of revenue for the Company (i.e., investment adviser, administration, distribution, and service fees) are calculated as percentages of assets under management. A decline in securities prices or in the sale of investment products or an increase in fund redemptions or client withdrawals generally would reduce fee income. Financial market declines or adverse changes in interest rates would generally negatively impact the level of the Company's assets under management and consequently its revenue and net income. A recession or other economic or political events could also adversely impact the Company's revenue if it led to a decreased demand for products, a higher redemption rate, or a decline in securities prices. Any decrease in the level of assets under management resulting from price declines, interest rate volatility or uncertainty or other factors would generally negatively impact the Company's revenue and net income.

***Poor investment performance of the Company's products could affect the Company's sales or reduce the amount of assets under management, potentially negatively impacting revenue and net income.*** Investment performance, along with achieving and maintaining superior distribution and client service, is critical to the Company's success. While strong investment performance could stimulate sales of the Company's investment products, poor investment performance as compared to third-party benchmarks or competitive products could lead to a decrease in sales and stimulate higher redemptions, thereby lowering the amount of assets under management and reducing the investment adviser fees the Company earns. Past or present performance in the investment products the Company manages is not indicative of future performance.

***The Company's success depends on key personnel and the Company's financial performance could be negatively affected by the loss of their services.*** The Company's success depends upon the Company's ability to attract, retain and motivate qualified portfolio managers, analysts, investment counselors, sales and management personnel and other key professionals including the Company's executive officers. Financial services professionals are in high demand, and the Company faces strong competition for qualified personnel. The Company's key employees do not have employment contracts and may voluntarily terminate their employment with the Company at any time. Certain senior executives and directors are subject to the Company's mandatory retirement policy. The loss of the services of key personnel or the Company's failure to attract replacement or additional qualified personnel could negatively affect the Company's financial performance. Any increase in compensation made by the Company in order to attract or retain key personnel could result in a decrease in net income.

***The Company's expenses are subject to fluctuations that could materially affect the Company's operating results.*** The Company's results of operations are dependent on the level of expenses, which can vary significantly. The Company's expenses may fluctuate as a result of variations in the level of total compensation expense, future impairments of intangible assets or goodwill, expenses incurred to enhance the Company's infrastructure (including technology and compliance) and other expenses incurred to support distribution of the Company's investment products.

***The Company's reputation could be damaged.*** Eaton Vance Corp. has spent over 80 years building a reputation based on strong investment performance, a high level of integrity and superior client service. The Company's reputation is extremely important to its success. Any damage to the Company's reputation could result in client withdrawals from funds or separate accounts that are advised by the Company and ultimately impede the Company's ability to attract and retain key personnel. The loss of either client relationships or key personnel could reduce the amount of assets under management and cause the Company to suffer a loss in revenue or net income.

*The Company is subject to federal securities laws, state laws regarding securities fraud, other federal and state laws and rules and regulations of certain regulatory and self-regulatory organizations, including, among others, the Securities and Exchange Commission, the NASD and the New York Stock Exchange.* In addition, financial reporting requirements are comprehensive and complex. While the Company has focused significant attention and resources on the development and implementation of compliance policies, procedures and practices, non-compliance with applicable laws, rules or regulations, either in the United States or abroad, or the Company's inability to adapt to a complex and ever-changing regulatory environment could result in sanctions against the Company, which could adversely affect the Company's reputation, prospects, revenue, and earnings.

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## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding the Company's purchases of its non-voting common stock on a monthly basis during the second quarter of fiscal 2007:

### Issuer Repurchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average price paid per share	(c) Total Number of Shares Purchased of Publicly Announced Plans or Programs <sup>1</sup>	(d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
February 1, 2007 through February 28, 2007	145,962	\$35.26	145,962	5,218,233
March 1, 2007 through March 31, 2007	480,412	\$34.61	480,412	4,737,821
April 1, 2007 through April 30, 2007	631,221	\$37.29	631,221	4,106,600
Total	1,257,595	\$36.03	1,257,595	4,106,600

<sup>1</sup> The Company's current share repurchase program was announced on July 12, 2006. The Board authorized management to repurchase 8,000,000 shares of its non-voting common stock in the open market and in private transactions in accordance with applicable securities laws. The Company's stock repurchase program is not subject to an expiration date.

## Item 4. Submission of Matters to a Vote of Security Holders

None.

## Item 6. Exhibits

### (a) Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	

Exhibit No.	Description
	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**(b) Reports on Form 8-K**

The Company filed a Form 8-K with the SEC on February 28, 2007, regarding the Company's press release of its results of operations for the quarter ended January 31, 2007.

The Company filed a Form 8-K with the SEC on March 22, 2007, announcing that Robert J. Whelan would join the Company as Vice President and Director of Finance in April 2007 and would become the next Chief Financial Officer upon the retirement of William M. Steul in October 2007.

The Company filed a Form 8-K with the SEC on April 13, 2007, to report assets under management as of March 31, 2007.

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**Signatures**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EATON VANCE CORP.  
(Registrant)

DATE: June 7, 2007

/s/William M. Steul  
(Signature)  
William M. Steul  
Chief Financial Officer

DATE: June 7, 2007

/s/Laurie G. Hylton  
(Signature)  
Laurie G. Hylton  
Chief Accounting Officer

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