

EATON VANCE CORP
Form 8-K
August 23, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 8-K
CURRENT REPORT

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

Date of Report (Date of earliest event reported): August 23, 2006

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

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

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

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

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

- [] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- [] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- [] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- [] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

INFORMATION INCLUDED IN THE REPORT

Item 9.01. Financial Statements and Exhibits

Registrant has reported its results of operations for the three and nine months ended July 31, 2006, as described in Registrant's news release dated August 23, 2006, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

Exhibit No.

Document

99.1 Press release issued by the Registrant dated August 23, 2006.

SIGNATURES

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

EATON VANCE CORP.

(Registrant)

Date: August 23, 2006

/s/ William M. Steul

William M. Steul, Chief Financial Officer

Page 3 of 10

EXHIBIT INDEX

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

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Copy of Registrant's news release dated August 23, 2006. |

NEWS RELEASE

August 23, 2006

FOR IMMEDIATE RELEASE

**EATON VANCE CORP.
REPORT FOR THE THREE MONTHS AND NINE MONTHS ENDED
JULY 31, 2006**

Boston, MA, August 23, 2006--Eaton Vance Corp. reported diluted earnings per share of \$0.31 in the third quarter of fiscal 2006 compared to diluted earnings per share of \$0.26 in the third quarter of fiscal 2005, an increase of 19 percent. The Company earned \$0.88 per diluted share in the first nine months of fiscal 2006, an increase of 22 percent compared to earnings of \$0.72 per diluted share in the first nine months of fiscal 2005.

Assets under management of \$120.4 billion at the end of the third quarter of fiscal 2006 were \$14.4 billion or 14 percent greater than the \$106.0 billion at the end of the third fiscal quarter last year. In the 12-month period ended July 31, 2006, the Company's assets under management were positively affected by long-term fund and separate account net inflows of \$9.1 billion, market price appreciation of \$3.0 billion, acquired high-net-worth assets of \$0.5 billion and a \$1.9 billion increase in money market fund assets. Gross sales and inflows of long-term funds and separate accounts in the last 12 months were \$27.3 billion.

Fund and separate account net inflows of \$2.6 billion in the third quarter of fiscal 2006 compared to net inflows of \$2.4 billion in the third quarter of fiscal 2005. Strong open-end mutual fund net sales in the third quarter more than offset lower closed-end fund sales compared to the same period last year. Private fund net inflows increased to \$1.5 billion from \$0.3 billion in part due to a new \$0.7 billion collateralized debt obligations vehicle.

The Company experienced institutional and high-net-worth separate account net outflows of \$0.5 billion in the third quarter of fiscal 2006 compared to net inflows of \$0.2 billion in the third quarter of fiscal 2005, primarily because of a bank loan separate account withdrawal. Retail managed account net inflows were \$36 million in the third quarter of fiscal 2006 compared to \$0.4 billion in the same period last year. Without the loss of a relatively low-fee overlay arrangement at Parametric Portfolio Associates, retail managed account net inflows would have been higher than in the year-ago quarter. Attached tables 1-4 provide more details on assets under management and asset flows.

As a result of higher average assets under management, revenue in the third quarter of fiscal 2006 increased by \$25.5 million or 13 percent to \$216.3 million compared to revenue in the third quarter of fiscal 2005 of \$190.8 million. Investment adviser and administration fees increased 17 percent to \$149.8 million, generated by a 16 percent increase in average assets under management. Distribution and underwriter fees decreased 3 percent, reflecting the continuing shift in sales and assets from class B mutual fund shares to other fund share classes and other managed assets with low or no distribution fees. Service fee revenue increased 17 percent due to the increase in average fund assets that pay these fees.

Operating expenses increased 14 percent in the third quarter of fiscal 2006 to \$148.4 million compared to operating expenses of \$129.9 million in the third quarter of fiscal 2005 because of higher compensation, service fee, distribution and other expenses. Compensation expense increased 20 percent, due primarily to a 15 percent increase in employee headcount, higher marketing incentive compensation from increased mutual fund sales, and increased operating income-based management bonus accruals.

Amortization of deferred sales commissions declined 23 percent in the third quarter of fiscal 2006 compared to the third quarter of fiscal 2005 primarily because of the continuing decline in class B fund share sales and assets. Service fee expense increased 9 percent. Distribution expense increased 19 percent as a result of increases in sales support, class A fund share commissions, class C fund share distribution expenses and closed-end fund fees. Other expenses increased 35 percent primarily because of higher fund-related expenses assumed by the Company and higher information technology, facilities, communications, and travel expenses.

Operating income increased 12 percent to \$67.9 million and net income increased 17 percent to \$41.8 million in the third quarter of fiscal 2006, compared to \$60.8 million and \$35.8 million, respectively, in the third quarter of fiscal 2005. Interest income increased 113 percent, primarily because of higher interest and dividends earned on cash and short-term investments. The effective tax rate, before minority interest and equity in net income of affiliates, was 39.2 percent in the third quarter of fiscal 2006 and 41.3 percent in the third quarter of fiscal 2005.

Cash, cash equivalents and short-term investments were \$295.7 million on July 31, 2006, and \$252.3 million on July 31, 2005. The Company's strong operating cash flow in the last 12 months enabled it to repurchase 5.3 million shares of its non-voting common stock for \$141.0 million and to pay \$49.1 million in dividends to shareholders. There are currently no outstanding borrowings against the Company's \$180 million credit facility.

During the first nine months of fiscal 2006, the Company repurchased and retired 4.2 million shares of its non-voting common stock at an average price of \$27.04 per share under its current and prior repurchase authorizations. Approximately 7.9 million shares remain of the current 8.0 million share authorization.

On August 17, 2006 a subsidiary of the Company completed its redemption of \$76.4 million of its zero-coupon exchangeable notes for cash. Note holders were entitled to exchange each note for 28.73 shares of Eaton Vance Corp. non-voting common stock. The premium value of the shares in excess of the accreted value of the notes was \$9.8 million, which was paid to note holders in cash and will be charged to interest expense in the Company's fiscal fourth quarter income statement. The additional interest expense and write-off of related debt issuance costs will reduce fourth quarter diluted earnings per share by approximately \$0.05. Redemption of the notes eliminates all of Eaton Vance Corp.'s outstanding long-term debt and will reduce its diluted shares outstanding by 3.2 million shares or approximately 2.3 percent.

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

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

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

| | Three Months Ended | | | Nine Months Ended | | |
|--|--------------------|------------------|---------------------------------|-------------------|----------------|-----------|
| | July 31, 2006 | July 31, 2005 | % Change July 31, 2006 | July 31, 2005 | % Change | |
| Revenue: | | | | | | |
| Investment adviser and administration fees | \$ 149,823 | \$ 127,768 | 17 % | \$ 437,176 | \$ 368,047 | \$ 19 % |
| Distribution and underwriter fees | 34,338 | 35,238 | (3) | 104,605 | 104,107 | 0 |
| Service fees | 31,235 | 26,637 | 17 | 89,238 | 77,253 | 16 |
| Other revenue | | 1,108 | (17) | 3,118 | 5,629 | (45) |
| Total revenue | 216,315 | 190,751 | 13 | 634,137 | 555,036 | 14 |
| Expenses: | | | | | | |
| Compensation of officers and employees | 61,989 | 51,782 | 20 | 181,926 | 151,911 | 20 |
| Amortization of deferred sales commissions | 12,119 | 15,694 | (23) | 39,168 | 50,641 | (23) |
| Service fee expense | 24,063 | 22,087 | 9 | 69,896 | 63,853 | 9 |
| Distribution expense | 30,601 | 25,775 | 19 | 84,705 | 71,888 | 18 |
| Other expenses | 19,658 | 14,610 | | 65,861 | 45,642 | 44 |

| | | | | | |
|--|----------|-------------------------|----------|----------|-----|
| Total expenses | 148,430 | 129,948 ¹⁴ | 441,556 | 383,935 | 15 |
| Operating Income | 67,885 | 60,803 ¹² | 192,581 | 171,101 | 13 |
| Other Income/(Expense): | | | | | |
| Interest income | | 1,030 ¹¹³ | 5,938 | 2,796 | 112 |
| Interest expense | (655) | 78 | (1,380) | (1,099) | 26 |
| Gain on investments | | nm | 3,589 | 274 | nm |
| Foreign currency loss | (55) | 8 | (182) | (26) | nm |
| Impairment loss on investments | - | nm | (592) | (1,840) | nm |
| Income Before Income Taxes, Minority Interest, Equity in Net Income of Affiliates and | | | | | |
| Cumulative Effect of Change in Accounting Principle | 69,413 | 61,602 ¹³ | 199,954 | 171,206 | 17 |
| Income Taxes | (27,233) | (25,452) ⁷ | (77,451) | (66,986) | 16 |
| Minority Interest | (1,011) | (1,128) ⁽¹⁰⁾ | (3,830) | (3,736) | 3 |
| Equity in Net Income of Affiliates, Net of Tax | | (11) | 2,803 | 527 | nm |
| Net Income Before Cumulative Effect of Change in Accounting Principle | 41,819 | 35,756 | 121,476 | 101,011 | 20 |

| | | | | | |
|---|-----------|-----------|-----|------------|---------------|
| | | | 17 | | |
| Cumulative Effect of Change in Accounting Principle, | | | | | |
| Net of Tax | - | - | nm | (626) | - nm |
| Net Income | \$ 41,819 | \$ 35,756 | 17 | \$ 120,850 | \$ 101,011 20 |
| Earnings Per Share Before Cumulative Effect of Change in Accounting Principle: | | | | | |
| Basic | \$ 0.33 | \$ 0.27 | 22 | \$ 0.95 | \$ 0.76 25 |
| Diluted | \$ 0.31 | \$ 0.26 | 19 | \$ 0.88 | \$ 0.72 22 |
| Earnings Per Share: | | | | | |
| Basic | \$ 0.33 | \$ 0.27 | 22 | \$ 0.94 | \$ 0.76 24 |
| Diluted | \$ 0.31 | \$ 0.26 | 19 | \$ 0.88 | \$ 0.72 22 |
| Dividends Declared, Per Share | \$ 0.10 | \$ 0.08 | 25 | \$ 0.30 | \$ 0.24 25 |
| Weighted Average Shares Outstanding: | | | | | |
| Basic | 127,211 | 130,887 | (3) | 128,292 | 132,177 (3) |
| Diluted | 136,601 | 139,691 | | 138,141 | 140,983 (2) |
| | | | (2) | | |

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

| | July 31, 2006 | October 31, 2005 | July 31, 2005 |
|---|--------------------------|-----------------------------|--------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 165,771 | \$ 146,389 | \$ 125,479 |
| Short-term investments | 129,926 | 127,858 | 126,822 |
| Investment adviser fees and other receivables | 89,391 | 83,868 | 82,404 |
| Other current assets | 6,371 | 10,473 | 6,832 |
| | | | |
| Total current assets | 391,459 | 368,588 | 341,537 |
| | | | |
| Other Assets: | | | |
| Deferred sales commissions | 114,825 | 126,113 | 132,521 |
| Goodwill | 94,787 | 89,634 | 89,634 |
| Other intangible assets, net | 36,501 | 40,644 | 40,865 |
| Long-term investments | 61,552 | 61,766 | 51,448 |
| Equipment and leasehold improvements, net | 20,228 | 12,764 | 12,677 |
| Other assets | 2,026 | 3,035 | 4,395 |
| | | | |
| Total other assets | 329,919 | 333,956 | 331,540 |
| | | | |
| Total assets | \$ 721,378 | \$ 702,544 | \$ 673,077 |
| | | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accrued compensation | \$ 59,664 | \$ 62,880 | \$ 46,586 |
| Accounts payable and accrued expenses | 32,303 | 27,987 | 28,650 |
| Dividend payable | 12,704 | 12,952 | 10,431 |
| Current portion of long-term debt | 76,316 | | |
| Other current liabilities | 7,920 | 12,538 | 7,674 |
| | | | |
| Total current liabilities | 188,907 | 116,357 | 93,341 |
| | | | |
| Long-Term Liabilities: | | | |
| Long-term debt | | 75,467 | 75,184 |
| Deferred income taxes | 26,168 | 29,804 | 29,536 |

| | | | |
|---|------------|------------|------------|
| Total long-term liabilities | 26,168 | 105,271 | 104,720 |
| Total liabilities | 215,075 | 221,628 | 198,061 |
| Minority interest | 8,996 | 4,620 | 4,058 |
| Commitments and contingencies | | | |
| Shareholders' Equity: | | | |
| Common stock, par value \$0.00390625 per share: | | | |
| Authorized, 1,280,000 shares | | | |
| Issued, 309,760 shares | 1 | 1 | 1 |
| Non-voting common stock, par value \$0.00390625 per share: | | | |
| Authorized, 190,720,000 shares | | | |
| Issued, 126,735,035, 129,243,023 and 130,230,370 shares, respectively | 495 | 505 | 509 |
| Notes receivable from stock option exercises | (2,043) | (2,741) | (2,843) |
| Accumulated other comprehensive income | 2,700 | 2,566 | 2,876 |
| Retained earnings | 496,154 | 475,965 | 470,415 |
| Total shareholders' equity | 497,307 | 476,296 | 470,958 |
| Total liabilities and shareholders' equity | \$ 721,378 | \$ 702,544 | \$ 673,077 |

Edgar Filing: EATON VANCE CORP - Form 8-K

Table 1
Asset Flows (in millions)

Twelve Months Ended July 31, 2006

| | |
|--|------------|
| Assets 7/31/2005 - beginning of period | \$ 105,975 |
| Long-term fund sales and inflows | 21,410 |
| Long-term fund redemptions and outflows | (12,459) |
| Long-term fund net exchanges | (76) |
| Long-term fund mkt. value change | 2,088 |
| Institutional/HNW account inflows | 2,546 |
| Institutional/HNW account outflows | (3,637) |
| Institutional/HNW account assets acquired ^{1,2} | 532 |
| Retail managed account inflows | 3,337 |
| Retail managed account outflows | (2,147) |
| Retail managed account assets acquired ¹ | 23 |
| Separate account mkt. value change | 931 |
| Change in money market funds | 1,867 |
| Net change | 14,415 |
| Assets 7/31/2006 - end of period | \$ 120,390 |
| | \$ 120,390 |

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

| | July 31, | October 31, | % | July 31, | % |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| | <u>2006</u> | <u>2005</u> | <u>Change</u> | <u>2005</u> | <u>Change</u> |
| Equity Funds | \$ 49,636 | \$ 45,146 | 10% | \$ 43,509 | 14% |
| Fixed Income Funds | 20,206 | 18,603 | 9% | 18,451 | 10% |
| Bank Loan Funds | 19,511 | 16,816 | 16% | 16,430 | 19% |
| Money Market Funds | 2,138 | 278 | 669% | 271 | 689% |
| Separate Accounts | <u>28,899</u> | <u>27,650</u> | <u>5%</u> | <u>27,314</u> | <u>6%</u> |
| Total | \$ 120,390 | \$ 108,493 | 11% | \$ 105,975 | 14% |

Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 31, 2006 | July 31, 2005 | July 31, 2006 | July 31, 2005 |
| Equity fund assets - beginning of period | \$ 50,116 | \$ 39,104 | \$ 45,146 | \$ 36,895 |
| Sales/inflows | 2,137 | 2,625 | 5,810 | 6,386 |
| Redemptions/outflows | (1,432) | (1,060) | (4,093) | (3,244) |
| Exchanges | (43) | 13 | (6) | 43 |
| Market value change | (1,142) | 2,827 | 2,779 | 3,429 |
| Net change | (480) | 4,405 | 4,490 | 6,614 |
| Equity assets - end of period | \$ 49,636 | \$ 43,509 | \$ 49,636 | \$ 43,509 |
| Fixed income fund assets - beginning of period | 19,588 | 17,958 | 18,603 | 17,553 |
| Sales/inflows | 1,536 | 845 | 4,343 | 2,671 |
| Redemptions/outflows | (870) | (574) | (2,698) | (1,761) |

Edgar Filing: EATON VANCE CORP - Form 8-K

| | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| Exchanges | 3 | 8 | (7) | (39) |
| Market value change | (51) | 214 | (35) | 27 |
| Net change | 618 | 493 | 1,603 | 898 |
| Fixed income assets - end of period | \$ 20,206 | \$ 18,451 | \$ 20,206 | \$ 18,451 |
| Bank loan fund assets - beginning of period | 17,792 | 16,416 | 16,816 | 15,034 |
| Sales/inflows | 2,522 | 940 | 5,546 | 3,831 |
| Redemptions/outflows | (814) | (927) | (3,095) | (2,425) |
| Exchanges | (14) | (27) | (42) | (31) |
| Market value change | 25 | 28 | 286 | 21 |
| Net change | 1,719 | 14 | 2,695 | 1,396 |
| Bank loan assets - end of period | \$ 19,511 | \$ 16,430 | \$ 19,511 | \$ 16,430 |
| Long-term fund assets - beginning of period | 87,496 | 73,478 | 80,565 | 69,482 |
| Sales/inflows | 6,195 | 4,410 | 15,699 | 12,888 |
| Redemptions/outflows | (3,116) | (2,561) | (9,886) | (7,430) |
| Exchanges | (54) | (6) | (55) | (27) |
| Market value change | (1,168) | 3,069 | 3,030 | 3,477 |
| Net change | 1,857 | 4,912 | 8,788 | 8,908 |
| Total long-term fund assets - end of period | \$ 89,353 | \$ 78,390 | \$ 89,353 | \$ 78,390 |
| Separate accounts - beginning of period | 30,181 | 24,983 | 27,650 | 24,475 |
| Institutional/HNW account inflows | 381 | 655 | 1,730 | 2,134 |
| Institutional/HNW account outflows | (904) | (420) | (3,048) | (2,998) |
| Institutional/HNW assets acquired ¹ | - | - | 427 | - |
| Retail managed account inflows | 859 | 665 | 2,526 | 2,387 |
| Retail managed account outflows | (823) | (308) | (1,769) | (1,174) |
| Retail managed accounts acquired ¹ | - | - | 23 | - |
| Separate accounts market value change | (795) | 1,739 | 1,360 | 2,490 |
| Net change | (1,282) | 2,331 | 1,249 | 2,839 |
| Separate accounts - end of period | \$ 28,899 | \$ 27,314 | \$ 28,899 | \$ 27,314 |
| Money market fund assets - end of period | 2,138 | 271 | 2,138 | 271 |
| Total assets under management - end of period | \$ 120,390 | \$ 105,975 | \$ 120,390 | \$ 105,975 |

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

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|------------------|-------------------|------------------|
| | July 31, 2006 | July 31, 2005 | July 31, 2006 | July 31, 2005 |
| Long-term funds: | | | | |
| Open-end and other funds | 1,440 | 378 | 3,733 | 1,675 |
| Closed-end funds | \$ 162 | \$ 1,167 | \$ 269 | \$ 3,076 |
| Private funds | 1,477 | 304 | 1,811 | 707 |
| Institutional/HNW accounts | (523) | 235 | (1,318) | (864) |
| Retail managed accounts | 36 | 357 | 757 | 1,213 |
| Total net flows | \$ 2,592 | \$ 2,441 | \$ 5,252 | \$ 5,807 |

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

²Weston Asset Management acquired by Eaton Vance in August 2005.