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EATON VANCE CORP
Form 8-K
November 23, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): November 23, 2004

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

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

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

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))

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Item 9.01. Financial Statements and Exhibits

Registrant has reported its results of operations for the three months and Fiscal Year ended October 31, 2004, as described in Registrant's news release dated November 18, 2004, 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 November 23, 2004. |

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SIGNATURES

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

EATON VANCE CORP.
(Registrant)

Date: November 23, 2004 /s/ William M. Steul

William M. Steul, Chief Financial Officer

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EXHIBIT INDEX

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

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 99.1 | Copy of Registrant's news release dated November 23, 2004. |

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NEWS RELEASE

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

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November 23, 2004

FOR IMMEDIATE RELEASE

EATON VANCE CORP.
REPORT FOR THE THREE MONTHS AND FISCAL YEAR ENDED
OCTOBER 31, 2004

Boston, MA--Eaton Vance Corp. earned \$1.99 per diluted share in fiscal 2004 compared to \$1.51 per diluted share in fiscal 2003, an increase of 32 percent. The Company earned \$0.55 per diluted share in the fourth quarter of fiscal 2004, an increase of 34 percent over the \$0.41 per diluted share earned in the fourth quarter of fiscal 2003.

Assets under management on October 31, 2004 were \$94.3 billion, a 26 percent increase over the \$75.0 billion of managed assets on October 31, 2003. Total gross inflows into Eaton Vance funds and separate accounts were \$25.5 billion in fiscal 2004, an increase of 52 percent from the \$16.8 billion of gross inflows in fiscal 2003. Net inflows (gross inflows less redemptions and withdrawals) were \$13.8 billion in fiscal 2004 compared to \$8.3 billion in fiscal 2003, an increase of 66 percent. Both gross and net flows in fiscal 2004 represented the highest levels in Company history. Market appreciation added \$3.6 billion and the separate accounts acquired from Deutsche Bank last July added \$1.9 billion to assets under management in fiscal 2004. Tables 1, 2 and 3 (attached) summarize assets under management and asset flows by investment objective.

Eaton Vance raised a record \$6.3 billion in closed-end fund assets in fiscal 2004 compared to \$5.0 billion raised in fiscal 2003. In the fourth quarter, the Company introduced the Eaton Vance Enhanced Equity Income Fund, a closed-end fund that raised \$716 million in October. Earnings in fiscal 2004 were reduced by \$7.8 million of sales incentives and other expenses associated with the assets raised in 5 closed-end fund offerings.

"Eaton Vance had another year of record growth in fiscal 2004," said James B. Hawkes, Chairman and CEO. "Total assets under management increased 26 percent to \$94.3 billion. The Company was a leader among asset management firms in closed-end fund sales with \$6.3 billion of assets raised in fiscal 2004. Overall, equity fund assets increased 28 percent, bank loan fund assets increased 57 percent and separately managed account assets increased 33 percent. The new assets added in fiscal 2004 should contribute meaningfully to revenue and profit in fiscal 2005."

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Revenue in fiscal 2004 increased 27 percent to \$661.8 million from \$523.1 million in fiscal 2003. Fiscal 2004 investment adviser and administration fee revenue increased 39 percent in line with the 40 percent increase in average assets under management for the full year. Fiscal 2004 distribution and underwriter fee revenue increased only 2 percent, primarily because of the continuing shift in mutual fund sales and assets from Class B shares to other fund share classes and other managed assets with low or no distribution fees. Service fee revenue increased 23 percent due to the increase in average fund assets that pay service fees. Other revenue increased 25 percent, primarily because of investment income earned by two consolidated investment companies in which Eaton Vance is the majority shareholder.

Operating expenses increased 22 percent to \$439.3 million in fiscal 2004 from \$360.0 million in fiscal 2003 because of higher compensation, marketing,

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distribution and other expenses. Compensation expense increased 30 percent in fiscal 2004 due to higher marketing incentive payments associated with the increase in fund and separate account sales, additional compensation expense associated with the acquisition of Parametric Portfolio Associates in September 2003 and separate account assets of Deutsche Bank's Scudder Private Investment Counsel Boston office in July 2004, other employee additions, increases in base salaries and operating income-based performance bonuses.

Amortization of deferred sales commissions decreased 5 percent in fiscal 2004 compared to fiscal 2003 because of the decline in Class B share assets. Service fee expense increased 19 percent because of the growth in fund assets retained more than one year. Distribution expense increased 49 percent in fiscal 2004 primarily because of higher closed-end fund distribution expense, increases in other sales-related marketing expenses and an increase in commissions paid on certain Class A sales. Other expense increased 23 percent in fiscal 2004 because of increased travel, facilities, information technology, legal, audit, recruiting and other miscellaneous costs. Operating income increased 36 percent to \$222.6 million in fiscal 2004 from \$163.1 million in fiscal 2003.

Fiscal year 2004 net income increased 31 percent to \$138.9 million. Interest income in fiscal 2004 declined 42 percent to \$2.8 million primarily because of the inclusion of interest income from two consolidated investment companies in other revenue beginning in the second quarter of fiscal 2003. Interest expense increased 2 percent, reflecting \$1.0 million of previously capitalized debt offering costs expensed in the fourth quarter associated with the repurchase of \$46.0 million of a subsidiary's exchangeable notes that was partly offset by the decline in interest expense associated with the Company's overall reduction of long-term debt in fiscal 2004. The Company's effective tax rate was 36 percent in fiscal 2004 and 35 percent in fiscal 2003.

Cash, cash equivalents and short-term investments were \$357.6 million on October 31, 2004 (\$294.3 million excluding minority shareholder investments in two consolidated investment companies) and \$242.8 million on October 31, 2003 (\$238.8 million excluding minority interest). The Company's strong cash flow in fiscal 2004 allowed it to pay \$85.0 million to repurchase and retire 2,263,155 shares of its non-voting common stock (at an average price of \$37.57 per share), \$34.5 million to pay dividends to its shareholders and \$53.2 million to reduce its long-term debt. There are no outstanding borrowings against the Company's \$170.0 million credit facility. Approximately 1.6 million shares remain of the current stock repurchase authorization.

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

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

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Eaton Vance Corp.
Summary of Results of Operations

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(in thousands, except per share amounts)

| | Three Months Ended | | | October 31, 2004 |
|--|---------------------|---------------------|-------------|---------------------|
| | October 31, 2004 | October 31, 2003 | % Change | |
| Revenue: | | | | |
| Investment adviser and administration fees | \$112,701 | \$ 83,648 | 35 % | \$413,102 |
| Distribution and underwriter fees | 34,920 | 38,074 | (8) | 150,018 |
| Service fees | 23,964 | 20,147 | 19 | 92,087 |
| Other revenue | 2,021 | 1,550 | 30 | 6,606 |
| | 173,606 | 143,419 | 21 | 661,813 |
| Expenses: | | | | |
| Compensation of officers and employees | 38,521 | 34,173 | 13 | 150,489 |
| Amortization of deferred sales commissions | 18,651 | 21,024 | (11) | 81,202 |
| Service fee expense | 19,691 | 17,438 | 13 | 76,620 |
| Distribution expense | 21,965 | 16,356 | 34 | 81,559 |
| Other expenses | 13,892 | 9,160 | 52 | 49,381 |
| | 112,720 | 98,151 | 15 | 439,251 |
| Operating Income | 60,886 | 45,268 | 35 | 222,562 |
| Other Income/(Expense): | | | | |
| Interest income | 524 | 659 | (20) | 2,799 |
| Interest expense | (1,568) | (1,427) | 10 | (5,898) |
| Gain on investments | (3) | 43 | (107) | 275 |
| Foreign currency gain (loss) | (23) | (24) | (4) | (85) |
| Equity in net income of affiliates | 783 | 314 | 149 | 2,005 |
| | 60,599 | 44,833 | 35 | 221,658 |
| Income Before Income Taxes and Minority Interest | 60,599 | 44,833 | 35 | 221,658 |
| Income Taxes | 21,816 | 15,691 | 39 | 79,797 |
| Minority Interest, Net of Tax | 855 | 469 | 82 | 2,918 |
| | 855 | 469 | 82 | 2,918 |
| Net Income | \$ 37,928 | \$ 28,673 | 32 | \$138,943 |
| Earnings Per Share: | | | | |
| Basic | \$ 0.57 | \$ 0.42 | 36 | \$ 2.06 |
| Diluted | \$ 0.55 | \$ 0.41 | 34 | \$ 1.99 |
| Dividends Declared, Per Share | \$ 0.16 | \$ 0.12 | 33 | \$ 0.55 |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 66,739 | 68,493 | (3) | 67,469 |

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| | | | | |
|---------|--------|--------|-------|--------|
| Diluted | 69,293 | 70,446 | (2) | 69,789 |
| | ===== | ===== | ===== | ===== |

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

| | October 31, 2004 | October 31, 2003 |
|---|---------------------|---------------------|
| | ----- | ----- |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$147,137 | \$138,328 |
| Short-term investments | 210,429 | 104,484 |
| Investment adviser fees and other receivables | 32,249 | 25,922 |
| | ----- | ----- |
| Other current assets | 4,861 | 3,583 |
| | ----- | ----- |
| Total current assets | 394,676 | 272,317 |
| Other Assets: | | |
| Deferred sales commissions | 162,259 | 199,322 |
| Goodwill | 89,281 | 88,879 |
| Other intangible assets, net | 43,965 | 46,193 |
| Long-term investments | 36,895 | 36,490 |
| Equipment and leasehold improvements, net | 12,413 | 12,411 |
| Other assets | 4,077 | 3,090 |
| | ----- | ----- |
| Total other assets | 348,890 | 386,385 |
| Total assets | \$743,566 | \$658,702 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accrued compensation | \$ 52,299 | \$ 35,339 |
| Accounts payable and accrued expenses | 23,789 | 23,822 |
| Dividend payable | 10,660 | 8,189 |
| Current portion of long-term debt | - | 7,143 |
| Other current liabilities | 7,451 | 8,302 |
| | ----- | ----- |
| Total current liabilities | 94,199 | 82,795 |
| | ----- | ----- |
| Long-Term Liabilities: | | |
| Long-term debt | 74,347 | 118,736 |
| Deferred income taxes | 57,644 | 33,203 |
| | ----- | ----- |
| Total long-term liabilities | 131,991 | 151,939 |
| | ----- | ----- |
| Total liabilities | 226,190 | 234,734 |
| | ----- | ----- |
| Minority interest | 67,870 | 7,691 |
| | ----- | ----- |
| Commitments and contingencies | - | - |

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| | | |
|---|-----------|-----------|
| Shareholders' Equity: | | |
| Common stock, par value \$0.0078125 per share: | | |
| Authorized, 640,000 shares | | |
| Issued, 154,880 shares | 1 | 1 |
| Non-voting common stock, par value \$0.0078125 per share: | | |
| Authorized, 95,360,000 shares | | |
| Issued, 66,635,780 and 68,250,464 shares, respectively | 521 | 533 |
| Notes receivable from stock option exercises | (2,718) | (2,995) |
| Deferred compensation | (2,400) | (1,000) |
| Accumulated other comprehensive income | 1,854 | 1,245 |
| Retained earnings | 452,248 | 418,493 |
| | ----- | ----- |
| Total shareholders' equity | 449,506 | 416,277 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$743,566 | \$658,702 |
| | ===== | ===== |

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

| | |
|--|-----------|
| Assets 10/31/2003 - Beginning of Period | \$ 75,044 |
| Long-term fund sales and inflows | 19,823 |
| Long-term fund redemptions and outflows | (8,629) |
| Long-term fund net exchanges | (27) |
| Long-term fund mkt. value change | 2,113 |
| Institutional and HNW account inflows | 3,680 |
| Institutional and HNW account outflows | (2,001) |
| Institutional and HNW assets acquired(1) | 1,943 |
| Retail managed account inflows | 1,998 |
| Retail managed account outflows | (1,053) |
| Separate account mkt. value change | 1,511 |
| Change in money market funds | (56) |
| | ----- |
| Net change | 19,302 |
| | ----- |
| Assets 10/31/2004 - End of Period | \$ 94,346 |
| | ===== |

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

| | October 31, 2004 | October 31, 2003 | % Change |
|--------------------|---------------------|---------------------|-------------|
| Equity Funds | \$ 36,895 | \$ 28,854 | 28% |
| Fixed Income Funds | 17,553 | 17,801 | -1% |
| Bank Loan Funds | 15,034 | 9,547 | 57% |
| Money Market Funds | 389 | 445 | -13% |
| Separate Accounts | 24,475 | 18,397 | 33% |
| | ----- | ----- | |
| Total | \$ 94,346 | \$ 75,044 | 26% |
| | ===== | ===== | |

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Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Twelve Months Ended | |
|--|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2004 | October 31, 2003 | October 31, 2004 | October 31, 2003 |
| Equity Fund Assets - Beginning of Period | \$ 35,018 | \$ 25,407 | \$ 28,854 | \$ 22,407 |
| Sales/Inflows | 2,559 | 2,073 | 9,776 | 4,375 |
| Redemptions/Outflows | (1,629) | (885) | (4,071) | (2,071) |
| Exchanges | (2) | 61 | 95 | (1) |
| Market Value Change | 949 | 1,538 | 2,241 | 3,000 |
| Assets Acquired ¹ | - | 660 | - | - |
| Net Change | 1,877 | 3,447 | 8,041 | 5,299 |
| Equity Fund Assets - End of Period | \$ 36,895 | \$ 28,854 | \$ 36,895 | \$ 28,854 |
| Fixed Income Fund Assets - Beginning of Period | 17,090 | 17,580 | 17,801 | 13,580 |
| Sales/Inflows | 644 | 667 | 2,469 | 6,000 |
| Redemptions/Outflows | (472) | (681) | (2,375) | (2,000) |
| Exchanges | (2) | (144) | (265) | (1) |
| Market Value Change | 293 | 379 | (77) | 1,000 |
| Net Change | 463 | 221 | (248) | 4,999 |
| Fixed Income Fund Assets - End of Period | \$ 17,553 | \$ 17,801 | \$ 17,553 | \$ 17,801 |
| Bank Loan Fund Assets - Beginning of Period | 13,777 | 8,419 | 9,547 | 7,000 |
| Sales/Inflows | 1,810 | 1,333 | 7,578 | 3,000 |
| Redemptions/Outflows | (541) | (310) | (2,183) | (1,000) |
| Exchanges | (4) | 75 | 143 | (1) |
| Market Value Change | (8) | 30 | (51) | 1,000 |
| Net Change | 1,257 | 1,128 | 5,487 | 2,999 |
| Bank Loan Fund Assets - End of Period | \$ 15,034 | \$ 9,547 | \$ 15,034 | \$ 9,547 |
| Long-Term Fund Assets - Beginning of Period | 65,885 | 51,406 | 56,202 | 43,000 |
| Sales/Inflows | 5,013 | 4,073 | 19,823 | 13,000 |
| Redemptions/Outflows | (2,642) | (1,876) | (8,629) | (6,000) |
| Exchanges | (8) | (8) | (27) | (1) |
| Market Value Change | 1,234 | 1,947 | 2,113 | 4,000 |
| Assets Acquired ⁽¹⁾ | - | 660 | - | - |
| Net Change | 3,597 | 4,796 | 13,280 | 12,999 |
| Total Long-Term Fund Assets - End of Period | \$ 69,482 | \$ 56,202 | \$ 69,482 | \$ 56,202 |
| Separate Accounts - Beginning of Period | 23,154 | 12,492 | 18,397 | 10,000 |
| Institutional/HNW Account Inflows | 1,172 | 695 | 3,680 | 2,000 |
| Institutional/HNW Account Outflows | (569) | (505) | (2,001) | (1,000) |
| Institutional and HNW Assets Acquired ^{(1) (2)} | (53) | 2,772 | 1,943 | 2,000 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Retail Managed Account Inflows | 468 | 338 | 1,998 | |
| Retail Managed Account Outflows | (246) | (142) | (1,053) | |
| Retail Managed Account Assets Acquired(1) | - | 1,850 | - | 1 |
| Separate accounts market value change | 549 | 897 | 1,511 | 1 |
| | ----- | | | |
| Net Change | 1,321 | 5,905 | 6,078 | 7 |
| | ----- | | | |
| Separate accounts - End of Period | \$ 24,475 | \$ 18,397 | \$ 24,475 | \$ 18,397 |
| | ----- | | | |
| Money market fund assets - End of Period | 389 | 445 | 389 | |
| | ----- | | | |
| Total Assets Under Management - End of Period | \$ 94,346 | \$ 75,044 | \$ 94,346 | \$ 75,044 |
| | ===== | | | |

- 1 Parametric Portfolio Associates acquired by Eaton Vance on September 10, 2003
- 2 Deutsche Bank's Scudder Private Investment Counsel assets acquired by Eaton Vance in July 2004 Deutsche Bank asset acquisition value adjusted in August 2004