

EATON VANCE CORP
Form 8-K
May 24, 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): May 24, 2006

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

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

| | |
|--|--------------|
| <u>255 State Street, Boston, Massachusetts</u> | <u>02109</u> |
| (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 six months ended April 30, 2006, as described in Registrant's news release dated May 24, 2006, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

Exhibit No.

99.1

Document

Press release issued by the Registrant dated May 24, 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: May 24, 2006

/s/ William M. Steul
William M. Steul, Chief Financial Officer

EXHIBIT INDEX

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

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|---|
| 99.1 | Copy of Registrant's news release dated May 24, 2006. |

Exhibit 99.1

May 24, 2006

FOR IMMEDIATE RELEASE

EATON VANCE CORP.

REPORT FOR THE THREE MONTHS AND SIX MONTHS ENDED APRIL 30, 2006

Boston, MA--Eaton Vance Corp. reported diluted earnings per share of \$0.29 in the second quarter of fiscal 2006 compared to diluted earnings per share of \$0.23 in the second quarter of fiscal 2005, an increase of 26 percent. The Company earned \$0.57 per diluted share in the first six months of fiscal 2006, an increase of 24 percent compared to earnings of \$0.46 per diluted share in the first six months of fiscal 2005.

In the second quarter of fiscal 2006, Eaton Vance accelerated non-cash amortization by \$8.9 million or \$0.04 per diluted share to write off intangible assets relating to the termination of certain institutional and high-net-worth asset management contracts at the Company's Fox Asset Management LLC subsidiary. The amortization expense is included in other expenses in the Company's Consolidated Statements of Income for both the three and six-month periods ended April 30, 2006. These contracts were identified and accounted for as intangible assets at the time of the Fox acquisition in September 2001. Assets under management at Fox have remained relatively stable despite the attrition of assets managed under the original contracts acquired as these assets have been replaced over time by other managed assets.

Assets under management of \$118.8 billion at the end of the second quarter of fiscal 2006 were \$20.0 billion or 20 percent greater than the \$98.8 billion at the end of the second fiscal quarter last year. In the 12-month period ended April 30, 2006, the Company's assets under management were positively affected by long-term fund and separate account net inflows of \$8.9 billion, market price appreciation of \$9.8 billion and \$0.6 billion of acquired separate accounts. Gross sales and inflows of long-term funds and separate accounts in the last 12 months were \$25.6 billion.

Fund and separate account net inflows of \$2.8 billion increased 33 percent in the second quarter of fiscal 2006 compared to net inflows of \$2.1 billion in the second quarter of fiscal 2005. The Company did not offer a closed-end fund in the second quarter of fiscal 2006. Excluding closed-end funds flows, total fund and separate account net inflows increased 170 percent in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005.

The Company experienced institutional and high-net-worth separate account net inflows of \$156 million in the second quarter of fiscal 2006 compared to net outflows of \$373 million in the second quarter of fiscal 2005. Retail managed account net inflows were \$391 million in the second quarter of fiscal 2006 compared to \$474 million in the same period last year. Attached tables 1-4 summarize assets under management and asset flows by investment objective.

As a result of higher average assets under management, revenue in the second quarter of fiscal 2006 increased by \$29.0 million or 16 percent to \$211.5 million compared to revenue in the second quarter of fiscal 2005 of \$182.5 million. Investment adviser and administration fees increased 20 percent to \$145.3 million, compared to the 17 percent increase in average assets under management. Distribution and underwriter fees increased 4 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. Other revenue decreased 20 percent primarily because of investment income earned last year by an investment company that after April 2005 was no longer consolidated.

Operating expenses increased 18 percent in the second quarter of fiscal 2006 to \$150.9 million compared to operating expense of \$127.7 million in the second quarter of fiscal 2005, because of higher compensation, service fee, distribution and other expenses. Compensation expense increased 16 percent because of increases in employee headcount, higher sales and asset based marketing incentive costs and higher operating income-based management bonus accruals.

Amortization of deferred sales commissions declined \$3.6 million or 21 percent in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005 primarily because of the continuing decline in class B share sales and assets under management. Service fee expense increased 12 percent in line with the increase in assets that have service fee revenue. Distribution expense increased 21 percent as a result of increases in sales support expenses, class A and C share fund distribution fees and closed-end fund fees. Other expenses increased 71 percent primarily because of the aforementioned acceleration of amortization and other fund, information technology, communications, and other miscellaneous expenses.

Operating income increased 11 percent in the second quarter of fiscal 2006 to \$60.6 million compared to \$54.8 million in the second quarter of fiscal 2005. Operating income was reduced in the second quarter of fiscal 2006 and fiscal 2005 by \$8.0 million and \$6.9 million respectively, for non-cash stock-based compensation as required by Statement of Financial Accounting Standards (SFAS) No. 123R. A Stock-Based Compensation Summary table showing the impact of SFAS 123R on the Company's financial statements is attached to the release. As previously discussed, operating income was also reduced by \$8.9 million in the second quarter of fiscal 2006 and by \$0.9 million in the second quarter of fiscal 2005 because of accelerated amortization relating to Fox Asset Management.

Net income increased 23 percent to \$39.9 million in the second quarter of fiscal 2006 compared to \$32.5 million in the second quarter of fiscal 2005. Interest income increased 91 percent because of higher interest earned on cash and short-term investments. The Company's effective tax rate, before minority interest and equity in net income of affiliates, was 38.5 percent in the second quarter of fiscal 2006 and 37.9 percent in the second quarter of fiscal 2005.

Cash, cash equivalents and short-term investments were \$286.5 million on April 30, 2006, and \$284.8 million April 30, 2005. The Company's strong operating cash flow in the last 12 months allowed it to pay \$135.9 million to repurchase 5.2 million shares of its non-voting common stock and \$46.8 million in dividends to shareholders. There are currently no outstanding borrowings against the Company's \$180 million credit facility.

During the first six months of fiscal 2006, the Company repurchased and retired 2.8 million shares of its non-voting common stock at an average price of \$27.63 per share under its current and prior repurchase authorizations. Approximately 2.5 million shares remained of the current 8.0 million share authorization on April 30, 2006.

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 | | | Six Months Ended | |
|--|--------------------|-------------------|-------------|-------------------|-------------------|
| | April 30, 2006 | April 30, 2005 | % Change | April 30, 2006 | April 30, 2005 |
| Revenue: | | | | | |
| Investment adviser and administration fees | \$ 145,284 | \$ 121,361 | 20 | \$ 287,353 | \$ 240,276 |
| Distribution and underwriter fees | 35,090 | 33,809 | 4 | 70,267 | 68,869 |
| Service fees | 29,346 | 25,139 | 17 | 58,003 | 50,616 |
| Other revenue | | 2,195 | (20) | 2,199 | 4,521 |
| Total revenue | 211,472 | 182,504 | 16 | 417,822 | 364,282 |
| Expenses: | | | | | |
| Compensation of officers and employees | 58,489 | 50,578 | 16 | 119,938 | 100,129 |
| Amortization of deferred sales commissions | 13,308 | 16,907 | (21) | 27,048 | 34,947 |
| Service fee expense | 22,971 | 20,594 | 12 | 45,834 | 41,766 |
| Distribution expense | 27,979 | 23,194 | 21 | 54,104 | 46,113 |
| Other expenses | 28,108 | 16,445 | 71 | 46,203 | 31,032 |
| Total expenses | 150,855 | 127,718 | 18 | 293,127 | 253,987 |
| Operating Income | 60,617 | 54,786 | 11 | 124,695 | 110,295 |
| Other Income/(Expense): | | | | | |
| Interest income | | 1,057 | 91 | 3,742 | 1,766 |
| Interest expense | (360) | | (3) | (724) | (732) |
| Gain on investments | | | n/a | 3,547 | 87 |
| Foreign currency gain (loss) | (71) | | n/a | (127) | 25 |
| Impairment loss on investments | - | (1,840) | n/a | (592) | (1,840) |

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| | | | | | |
|--|-----------|-----------|-----|-----------|-----------|
| Income Before Income Taxes, Minority Interest Equity in Net Income (Loss) of Affiliates and Cumulative Effect of Change in Accounting Principle | | | | | |
| | 65,092 | 53,712 | 21 | 130,541 | 109,601 |
| Income Taxes | (25,074) | (20,338) | 23 | (50,217) | (41,534) |
| Minority Interest | (1,271) | (1,208) | 5 | (2,820) | (2,608) |
| Equity in Net Income (Loss) of Affiliates, Net of Tax | | | n/a | 2,153 | (207) |
| Net Income Before Cumulative Effect of Change in Accounting Principle | | | | | |
| | 39,900 | 32,536 | 23 | 79,657 | 65,252 |
| Cumulative Effect of Change in Accounting Principle, Net of Tax | - | - | n/a | (626) | - |
| Net Income | \$ 39,900 | \$ 32,536 | 23 | \$ 79,031 | \$ 65,252 |
| Earnings Per Share Before Cumulative Effect of Change in Accounting Principle: | | | | | |
| Basic | \$ 0.31 | \$ 0.25 | 24 | \$ 0.62 | \$ 0.49 |
| Diluted | \$ 0.29 | \$ 0.23 | 26 | \$ 0.57 | \$ 0.46 |
| Earnings Per Share: | | | | | |
| Basic | \$ 0.31 | \$ 0.25 | 24 | \$ 0.61 | \$ 0.49 |
| Diluted | \$ 0.29 | \$ 0.23 | 26 | \$ 0.57 | \$ 0.46 |
| Dividends Declared, Per Share | \$ 0.10 | \$ 0.08 | 25 | \$ 0.20 | \$ 0.16 |
| Weighted Average Shares Outstanding: | | | | | |
| Basic | 128,447 | 132,121 | (3) | 128,859 | 132,826 |
| Diluted | 138,736 | 140,954 | (2) | 138,942 | 141,636 |

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

| | April 30, 2006 | October 31, 2005 | April 30, 2005 |
|---|-------------------|---------------------|-------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 158,060 | \$ 146,389 | \$ 158,814 |
| Short-term investments | 128,427 | 127,858 | 125,953 |
| Investment adviser fees and other receivables | 90,066 | 83,868 | 32,506 |
| Other current assets | 6,029 | 10,473 | 6,217 |
| Total current assets | 382,582 | 368,588 | 323,490 |
| Other Assets: | | | |
| Deferred sales commissions | 116,148 | 126,113 | 140,028 |
| Goodwill | 89,634 | 89,634 | 89,281 |
| Other intangible assets, net | 31,580 | 40,644 | 41,537 |
| Long-term investments | 53,850 | 61,766 | 40,071 |
| Equipment and leasehold improvements, net | 18,247 | 12,764 | 12,224 |
| Other assets | 2,061 | 3,035 | 4,416 |
| Total other assets | 311,520 | 333,956 | 327,557 |
| Total assets | \$ 694,102 | \$ 702,544 | \$ 651,047 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accrued compensation | \$ 40,832 | \$ 62,880 | \$ 32,628 |
| Accounts payable and accrued expenses | 30,939 | 27,987 | 24,078 |
| Dividend payable | 12,833 | 12,952 | 10,506 |
| Other current liabilities | 7,011 | 12,538 | 9,144 |
| Total current liabilities | 91,615 | 116,357 | 76,356 |
| Long-Term Liabilities: | | | |
| Long-term debt | 76,027 | 75,467 | 74,900 |
| Deferred income taxes | 26,616 | 29,804 | 31,388 |
| Total long-term liabilities | 102,643 | 105,271 | 106,288 |
| Total liabilities | 194,258 | 221,628 | 182,644 |

| | | | |
|---|------------|------------|------------|
| Minority interest | 10,799 | 4,620 | 4,472 |
| 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, 127,613,866, 129,243,023 and 131,565,793 shares, respectively | 498 | 505 | 513 |
| Notes receivable from stock option exercises | (2,204) | (2,741) | (2,862) |
| Accumulated other comprehensive income | 3,192 | 2,566 | 1,996 |
| Retained earnings | 487,558 | 475,965 | 464,283 |
| Total shareholders' equity | 489,045 | 476,296 | 463,931 |
| Total liabilities and shareholders' equity | \$ 694,102 | \$ 702,544 | \$ 651,047 |

Table 1
Asset Flows (in millions)
Twelve Months Ended April 30, 2006

| | | |
|--|----|----------|
| Assets 4/30/2005 - beginning of period | \$ | 98,768 |
| Long-term fund sales and inflows | | 19,624 |
| Long-term fund redemptions and outflows | | (11,903) |
| Long-term fund net exchanges | | (27) |
| Long-term fund mkt. value change | | 6,325 |
| Institutional and HNW account inflows | | 2,819 |
| Institutional and HNW account outflows | | (3,154) |
| Institutional and HNW assets acquired ^{1,2} | | 555 |
| Retail managed account inflows | | 3,143 |
| Retail managed account outflows | | (1,632) |
| Separate account mkt. value change | | 3,466 |
| Change in money market funds | | 784 |
| | | <hr/> |
| Net change | | 20,000 |
| | | <hr/> |
| Assets 4/30/2006 - end of period | \$ | 118,768 |
| | | <hr/> |

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

| | April 30, 2006 | October 31, 2005 | % Change | April 30, 2005 | % Change |
|--------------------|-------------------|---------------------|-------------|-------------------|-------------|
| Equity funds | \$ 50,116 | \$ 45,146 | 11% | \$ 39,104 | 28% |
| Fixed income funds | 19,588 | 18,603 | 5% | 17,958 | 9% |
| Bank loan funds | 17,792 | 16,816 | 6% | 16,416 | 8% |
| Money market funds | 1,091 | 278 | 292% | 307 | 255% |
| Separate accounts | 30,181 | 27,650 | 9% | 24,983 | 21% |
| | <hr/> | | | | |
| Total | \$ 118,768 | \$ 108,493 | 9% | \$ 98,768 | 20% |
| | <hr/> | | | | |

Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | April 30, | April 30, | April 30, | April 30, |
| | <hr/> | | | |

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| | 2006 | 2005 | 2006 | 2005 |
|---|-----------|-----------|-----------|-----------|
| Equity fund assets - beginning of period | \$ 48,129 | \$ 39,329 | \$ 45,146 | \$ 36,895 |
| Sales/inflows | 1,991 | 1,705 | 3,672 | 3,762 |
| Redemptions/outflows | (1,229) | (1,191) | (2,661) | (2,185) |
| Exchanges | 12 | 11 | 37 | 30 |
| Market value change | 1,213 | (750) | 3,922 | 602 |
| Net change | 1,987 | (225) | 4,970 | 2,209 |
| Equity assets - end of period | \$ 50,116 | \$ 39,104 | \$ 50,116 | \$ 39,104 |
| Fixed income fund assets - beginning of period | 19,149 | 17,710 | 18,603 | 17,553 |
| Sales/inflows | 1,360 | 1,146 | 2,807 | 1,825 |
| Redemptions/outflows | (819) | (603) | (1,828) | (1,187) |
| Exchanges | 8 | (37) | (10) | (47) |
| Market value change | (110) | (258) | 16 | (186) |
| Net change | 439 | 248 | 985 | 405 |
| Fixed income assets - end of period | \$ 19,588 | \$ 17,958 | \$ 19,588 | \$ 17,958 |
| Bank loan fund assets - beginning of period | 16,744 | 15,558 | 16,816 | 15,034 |
| Sales/inflows | 1,849 | 1,709 | 3,024 | 2,892 |
| Redemptions/outflows | (882) | (783) | (2,280) | (1,498) |
| Exchanges | (19) | 3 | (28) | (4) |
| Market value change | 100 | (71) | 260 | (8) |
| Net change | 1,048 | 858 | 976 | 1,382 |
| Bank loan assets - end of period | \$ 17,792 | \$ 16,416 | \$ 17,792 | \$ 16,416 |
| Long-term fund assets - beginning of period | 84,022 | 72,597 | 80,565 | 69,482 |
| Sales/inflows | 5,200 | 4,560 | 9,503 | 8,479 |
| Redemptions/outflows | (2,930) | (2,577) | (6,769) | (4,870) |
| Exchanges | 1 | (23) | (1) | (21) |
| Market value change | 1,203 | (1,079) | 4,198 | 408 |
| Net change | 3,474 | 881 | 6,931 | 3,996 |
| Total long-term fund assets - end of period | \$ 87,496 | \$ 73,478 | \$ 87,496 | \$ 73,478 |
| Separate accounts - beginning of period | 28,942 | 25,087 | 27,650 | 24,475 |

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| | | | | |
|--|-------------------|------------------|-------------------|------------------|
| Institutional/HNW account inflows | 697 | 767 | 1,349 | 1,479 |
| Institutional/HNW account outflows | (541) | (1,140) | (2,144) | (2,577) |
| Institutional/HNW assets acquired ¹ | | | 449 | |
| Retail managed account inflows | 928 | 895 | 1,667 | 1,722 |
| Retail managed account outflows | (537) | (421) | (946) | (866) |
| Separate accounts market value change | 692 | (205) | 2,156 | 750 |
| Net change | 1,239 | (104) | 2,531 | 508 |
| Separate accounts - end of period | \$ 30,181 | \$ 24,983 | \$ 30,181 | \$ 24,983 |
| Money market fund assets - end of period | 1,091 | 307 | 1,091 | 307 |
| Total assets under management - end of period | \$ 118,768 | \$ 98,768 | \$ 118,768 | \$ 98,768 |

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

| | Three Months Ended | | Six Months Ended | |
|----------------------------|--------------------|-------------------|-------------------|-------------------|
| | April 30, 2006 | April 30, 2005 | April 30, 2006 | April 30, 2005 |
| Long-term funds: | | | | |
| Open-end funds | \$ 1,479 | \$ 821 | \$ 2,294 | \$ 1,296 |
| Closed-end funds | | 1,042 | 108 | 1,909 |
| Private funds | 791 | 120 | 332 | 404 |
| Institutional/HNW accounts | 156 | (373) | (795) | (1,098) |
| Retail managed accounts | 391 | 474 | 721 | 856 |
| Total net flows | \$ 2,817 | \$ 2,084 | \$ 2,660 | \$ 3,367 |

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

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

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Eaton Vance Corp.
 Stock-Based Compensation Summary
 (in millions, except per share figures)

| | Fiscal year 2005 | | | | | Fiscal year 2006 | | | | |
|---|------------------|---------|---------|---------|---------|------------------|---------|------------------------|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Total | Q1 ² | Q2 | Projected ¹ | | |
| | | | | | | | | Q3 | Q4 | Total |
| Stock-based compensation expense | \$ 7.5 | \$ 6.9 | \$ 7.3 | \$ 6.9 | \$.6 | \$.5 | \$ 8.0 | \$ 8.2 | \$ 7.7 | \$ 36.4 |
| Stock-based compensation expense, net of tax | \$ 5.8 | \$ 5.2 | \$ 5.6 | \$ 5.1 | \$.7 | \$ 9.0 | \$ 6.5 | \$ 6.3 | \$ 5.8 | \$ 27.6 |
| Stock-based compensation, net of tax, per diluted share | \$.04 | \$.04 | \$.04 | \$.04 | \$.15 | \$.06 | \$ 0.05 | \$ 0.05 | \$ 0.04 | \$ 0.20 |
| Diluted EPS pre-SFAS 123R | \$ 0.27 | \$ 0.27 | \$ 0.29 | \$ 0.31 | \$ 1.13 | \$ 0.35 | \$ 0.34 | | | |
| Diluted EPS post-SFAS 123R | \$ 0.23 | \$ 0.23 | \$ 0.25 | \$ 0.27 | \$ 0.98 | \$ 0.29 | \$ 0.29 | | | |

¹ Projections do not include estimated expense for future FY2006 option grants. Projected EPS figures calculated using April 30, 2006 fully diluted shares.

² EPS figure before cumulative effect in change in accounting principal of \$626,000.