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EATON VANCE CORP
Form 8-K
February 26, 2003

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): February 26, 2003

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

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

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

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INFORMATION INCLUDED IN THE REPORT

ITEM 5. OTHER EVENTS

Registrant has reported its results of operations for the three months ended January 31, 2003, as described in Registrant's news release dated February 26, 2003, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit No. Document

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99.1 Press release issued by the Registrant dated
February 26, 2003.

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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: February 26, 2003

/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 February 26, 2003. |

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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

February 26, 2003

FOR IMMEDIATE RELEASE

EATON VANCE CORP.
REPORT FOR THE THREE MONTHS ENDED

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JANUARY 31, 2003

BOSTON, MA--Eaton Vance Corp. reported diluted earnings per share of \$0.37 in the first three months of fiscal 2003 compared to diluted earnings per share of \$0.46 in the first three months of fiscal 2002.

Assets under management of \$55.8 billion at the end of the first quarter of fiscal 2003 were \$3.5 billion or 6 percent below the \$59.3 billion at the end of the first fiscal quarter last year. This 6 percent decline compares to a 23 percent decline in the S&P 500 and a 31 percent decline in the Nasdaq Composite for the same 12-month period. The Company's assets under management were negatively affected by \$8.1 billion of market depreciation, 57 percent of which was offset by \$4.6 billion of positive net inflows in the last 12 months. Gross sales and inflows of long-term funds and separate accounts in the last 12 months were \$13.3 billion. The Company's strong position in fixed income investment management continued to help offset the effects on Eaton Vance of the unprecedented equity market declines of the past three years.

Net inflows of long-term fund assets and separate account assets in the first three months of 2003 were \$1.3 billion compared to \$1.1 billion in the first three months of last year. Net inflows in the first quarter of 2003 benefited from the successful offering of nine closed-end municipal bond funds that added \$0.7 billion of new assets. Tables 1, 2 and 3 (attached) summarize assets under management and asset flows by investment objective.

As a result of lower average assets under management, fiscal 2003 first quarter revenue decreased by \$10.7 million or 8 percent to \$124.9 million, compared to fiscal 2002 first quarter revenue. Investment adviser and administration fees declined 4 percent to \$69.1 million. Distribution and underwriter fees declined 14 percent reflecting lower fund assets under management and the continuing

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shift from sales of Class B and Class C mutual fund shares to other share classes and assets with low or no distribution fees. Service fee revenue declined 11 percent in the first quarter of fiscal 2003 because of the decline in average assets in mutual funds that pay service fees.

Fiscal first quarter 2003 operating expenses of \$86.5 million were essentially flat compared to \$86.2 million in fiscal first quarter 2002. Compensation expense decreased 6 percent primarily because of lower operating income based bonus accruals.

Amortization of deferred sales commissions was flat at \$21.4 million in the first quarters of fiscal 2003 and 2002. Service fee expense and distribution fee expense declined 4 percent and 3 percent respectively, reflecting the decline in fund assets under management. Other expenses increased \$2.9 million or 23 percent primarily because of \$1.8 million of one-time closed-end municipal bond fund offering expenses, as well as increases in marketing related travel and promotion expenses.

First quarter 2003 operating income declined 23 percent to \$38.4 million and net income declined 22 percent to \$25.9 million. Other income declined by \$0.2 million, primarily because of a 9 percent decrease in interest income and the accrual, beginning November 13, 2002, of an additional 2.5% per annum of cash interest by a subsidiary on certain of its notes. Partly offsetting the lower net interest income and additional items of other income was a \$0.5 million increase in gains on the sale of investments. The Company's provision for income taxes was 35 percent in the first quarter of fiscal 2003 and in the first

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quarter of fiscal 2002.

Cash, cash equivalents and short-term investments were \$209.5 million on January 31, 2003, \$188.0 million on October 31, 2002 and \$222.8 million on January 31, 2002. The Company's strong operating cash flow in the last 12 months allowed it to reduce its long-term debt by \$91.7 million or 41 percent to \$131.7 million, and pay \$82.4 million in income taxes (including reducing the deferred tax liability by \$24.3 million to \$44.0 million), \$80.6 million in sales commissions, \$44.7 million to repurchase 1,460,000 shares of its non-voting common stock and \$20.4 million in dividends to shareholders. There are no outstanding borrowings against the Company's \$170.0 million credit facility.

During the first three months of fiscal year 2003, the Company repurchased and retired 324,600 shares of its non-voting common stock under its repurchase authorization. Approximately 2.0 million shares remain of the current 4.0 million-share authorization.

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

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

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

| | Three Months Ended | | |
|--|---------------------|---------------------|-------------|
| | January 31, 2003 | January 31, 2002 | % Change |
| Revenue: | | | |
| Investment adviser and administration fees | \$ 69,074 | \$ 71,867 | (3.9)% |
| Distribution and underwriter fees | 37,005 | 43,242 | (14.4) |
| Service fees | 17,925 | 20,062 | (10.7) |
| Other income | 930 | 499 | 86.4 |
| | ----- | ----- | ----- |
| Total revenue | 124,934 | 135,670 | (7.9) |
| | ----- | ----- | ----- |
| Expenses: | | | |
| Compensation of officers and employees | 26,403 | 28,060 | (5.9) |
| Amortization of deferred sales commissions | 21,394 | 21,403 | (0.0) |
| Service fee expense | 15,753 | 16,352 | (3.7) |
| Distribution fee expense | 7,683 | 7,890 | (2.6) |
| Other expenses | 15,313 | 12,447 | 23.0 |
| | ----- | ----- | ----- |
| Total expenses | 86,546 | 86,152 | 0.5 |
| | ----- | ----- | ----- |
| Operating Income | 38,388 | 49,518 | (22.5) |

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| | | | |
|--|-----------|-----------|--------|
| Other Income/(Expense): | | | |
| Interest income | 1,531 | 1,689 | (9.4) |
| Interest expense | (1,433) | (1,087) | 31.8 |
| Gain on sale of investments | 1,874 | 1,383 | 35.5 |
| Foreign currency (loss) | (95) | - | n/a |
| Equity in net loss of affiliates | (226) | (131) | 72.5 |
| | ----- | ----- | ----- |
| Income Before Minority Interest and Income Taxes | 40,039 | 51,372 | (22.1) |
| Minority Interest | (180) | (306) | (41.2) |
| | ----- | ----- | ----- |
| Income Before Income Taxes | 39,859 | 51,066 | (21.9) |
| Income Taxes | 13,950 | 17,873 | (21.9) |
| | ----- | ----- | ----- |
| Net Income | \$ 25,909 | \$ 33,193 | (21.9) |
| | ===== | ===== | ===== |
| Earnings Per Share: | | | |
| Basic | \$ 0.37 | \$ 0.48 | (22.9) |
| | ===== | ===== | ===== |
| Diluted | \$ 0.37 | \$ 0.46 | (19.6) |
| | ===== | ===== | ===== |
| Dividends Declared, Per Share | \$ 0.0800 | \$ 0.0725 | 10.3 |
| | ===== | ===== | ===== |
| Weighted Average Shares Outstanding: | | | |
| Basic | 69,163 | 69,042 | 0.2 |
| | ===== | ===== | ===== |
| Diluted | 70,495 | 71,813 | (1.8) |
| | ===== | ===== | ===== |

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

| | January 31, 2003 | October 31, 2002 | January 2002 |
|---|---------------------|---------------------|-----------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 114,525 | \$ 144,078 | \$ 129,3 |
| Short-term investments | 94,933 | 43,886 | 93,3 |
| Investment adviser fees and other receivables | 24,605 | 19,502 | 23,7 |
| Other current assets | 3,463 | 6,101 | 3,3 |
| | ----- | ----- | ----- |
| Total current assets | 237,526 | 213,567 | 249,8 |
| | ----- | ----- | ----- |
| Other Assets: | | | |
| Deferred sales commissions | 228,038 | 239,048 | 263,0 |
| Goodwill | 69,467 | 69,467 | 69,2 |
| Other intangible assets, net | 37,110 | 37,296 | 38,7 |
| Long-term investments | 31,312 | 39,982 | 39,0 |
| Equipment and leasehold improvements, net | 13,352 | 13,897 | 14,5 |
| Other assets | 3,277 | 3,362 | 11,4 |

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| | | | |
|--|------------|------------|----------|
| Total other assets | 382,556 | 403,052 | 436,2 |
| Total assets | \$ 620,082 | \$ 616,619 | \$ 686,1 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accrued compensation | \$ 9,474 | \$ 31,899 | \$ 16,4 |
| Accounts payable and accrued expenses | 17,293 | 16,324 | 20,5 |
| Dividend payable | 5,528 | 5,522 | 5,0 |
| Current portion of long-term debt | 7,143 | 7,143 | 7,1 |
| Other current liabilities | 22,807 | 7,382 | 23,7 |
| Total current liabilities | 62,245 | 68,270 | 72,9 |
| Long-term Liabilities: | | | |
| Long-term debt | 124,555 | 124,118 | 216,2 |
| Deferred income taxes | 43,993 | 50,531 | 68,2 |
| Total long-term liabilities | 168,548 | 174,649 | 284,4 |
| Total liabilities | 230,793 | 242,919 | 357,4 |
| Minority interest | 1,483 | 1,398 | 1,2 |
| Commitments and contingencies | - | - | |
| Shareholders' Equity: | | | |
| Common stock, par value \$0.0078125 per share: | | | |
| Authorized, 640,000 shares | | | |
| Issued, 154,880 shares | 1 | 1 | |
| Non-voting common stock, par value \$0.0078125 per share: | | | |
| Authorized, 95,360,000 shares | | | |
| Issued, 69,115,168, 69,102,459 and 68,462,051 shares, respectively | 540 | 540 | 5 |
| Notes receivable from stock option exercises | (3,290) | (3,530) | (2,4 |
| Deferred compensation | (1,825) | (2,100) | (2,9 |
| Accumulated other comprehensive income | 886 | 2,585 | 3,8 |
| Retained earnings | 391,494 | 374,806 | 328,3 |
| Total shareholders' equity | 387,806 | 372,302 | 327,3 |
| Total liabilities and shareholders' equity | \$ 620,082 | \$ 616,619 | \$ 686,1 |

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Table 1
Asset Flows (in millions)
Twelve Months Ended January 31, 2003

| | |
|--|-----------|
| Assets 1/31/2002 - Beginning of Period | \$ 59,272 |
| Long-term Fund Sales/Inflows | 10,673 |
| Long-term Fund Redemptions/Outflows | (6,954) |
| Long-term Fund Net Exchanges | (215) |
| Long-term Fund Mkt. Change | (6,139) |
| Separate Accounts Inflows - Institutional/HNW | 1,726 |
| Separate Accounts Outflows - Institutional/HNW | (982) |
| Separate Accounts Inflows - Managed Accounts | 895 |

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| | |
|---|-----------|
| Separate Accounts Outflows - Managed Accounts | (125) |
| Separate Accounts Mkt. Change | (1,948) |
| Change in Money Market Funds | (453) |
| | ----- |
| Net Decrease | (3,522) |
| | ----- |
| Assets 1/31/2003 - End of Period | \$ 55,750 |
| | ===== |

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

| | January 31, 2003 | October 31, 2002 | % | January 31, 2002 | % |
|--------------------|---------------------|---------------------|--------|---------------------|--------|
| | ----- | ----- | Change | ----- | Change |
| Equity Funds | \$ 22,401 | \$ 22,910 | - 2.2% | \$ 27,459 | -18.4% |
| Fixed Income Funds | 14,601 | 13,302 | 9.8% | 10,302 | 41.7% |
| Bank Loan Funds | 7,308 | 7,687 | - 4.9% | 9,185 | -20.4% |
| Money Market Funds | 559 | 910 | -38.6% | 992 | -43.6% |
| Separate Accounts | 10,881 | 10,802 | 0.7% | 11,334 | - 4.0% |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 55,750 | \$ 55,611 | 0.3% | \$ 59,272 | - 5.9% |
| | ===== | ===== | ===== | ===== | ===== |

Table 3
Asset Flows by Investment Objective (in millions)

| | ----- | |
|--|---------------------|---------------------|
| | Three Months Ended | |
| | January 31, 2003 | January 31, 2002 |
| | ----- | ----- |
| Equity Fund Assets - Beginning of Period | \$ 22,910 | \$ 25,277 |
| Sales/Inflows | 707 | 1,250 |
| Redemptions/Outflows | (650) | (632) |
| Exchanges | (28) | 24 |
| Market Value Change | (538) | 1,540 |
| | ----- | ----- |
| Net Change | (509) | 2,182 |
| | ----- | ----- |
| Equity Fund Assets - End of Period | \$ 22,401 | \$ 27,459 |
| | ----- | ----- |
| Fixed Income Fund Assets - Beginning of Period | 13,302 | 10,165 |
| Sales/Inflows | 1,619 | 585 |
| Redemptions/Outflows | (430) | (321) |
| Exchanges | 64 | 151 |
| Market Value Change | 46 | (278) |
| | ----- | ----- |
| Net Change | 1,299 | 137 |
| | ----- | ----- |
| Fixed Income Fund Assets - End of Period | \$ 14,601 | \$ 10,302 |
| | ----- | ----- |
| Bank Loan Fund Assets - Beginning of Period | 7,687 | 9,582 |
| Sales/Inflows | 156 | 294 |
| Redemptions/Outflows | (515) | (588) |
| Exchanges | (64) | (97) |
| Market Value Change | 44 | (6) |

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| | | |
|--|-----------|-----------|
| Net Change | (379) | (397) |
| Bank Loan Fund Assets - End of Period | \$ 7,308 | \$ 9,185 |
| Long-Term Fund Assets - Beginning of Period | 43,899 | 45,024 |
| Sales/Inflows | 2,482 | 2,129 |
| Redemptions/Outflows | (1,595) | (1,541) |
| Exchanges | (28) | 78 |
| Market Value Change | (448) | 1,256 |
| Net Change | 411 | 1,922 |
| Total Long-Term Fund Assets - End of Period | \$ 44,310 | \$ 46,946 |
| Separate Accounts - Beginning of Period | 10,802 | 10,468 |
| Separate Accounts Inflows - Institutional/HNW | 587 | 589 |
| Separate Accounts Outflows - Institutional/HNW | (464) | (202) |
| Separate Accounts Inflows - Managed Accounts | 274 | 97 |
| Separate Accounts Outflows - Managed Accounts | (28) | (7) |
| Separate Accounts Market Change | (290) | 389 |
| Net Change | 79 | 866 |
| Separate Accounts - End of Period | \$ 10,881 | \$ 11,334 |
| Money Market Fund Assets - End of Period | 559 | 992 |
| Total Assets Under Management - End of Period | \$ 55,750 | \$ 59,272 |