

EATON VANCE CORP
Form 8-K
November 22, 2005

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 22, 2005

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland

1-8100

04-2718215

(State or other jurisdiction of incorporation)

(Commission File Number)

(IRS Employer Identification No.)

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))

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INFORMATION INCLUDED IN THE REPORT

Item 9.01. Financial Statements and Exhibits

Registrant has reported its results of operations for the three months and Fiscal Year ended October 31, 2005, as described in Registrant's news release dated November 22, 2005, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

| <u>Exhibit No.</u> | <u>Document</u> |
|--------------------|---|
| 99.1 | Press release issued by the Registrant dated November 22, 2005. |

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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 22, 2005

/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:

| <u>Exhibit No.</u> | <u>Description</u> |
|--------------------|--|
| 99.1 | Copy of Registrant's news release dated November 22, 2005. |

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Exhibit 99.1

November 22, 2005

FOR IMMEDIATE RELEASE

EATON VANCE CORP.

REPORT FOR THE THREE MONTHS AND FISCAL YEAR ENDED OCTOBER 31, 2005

Boston, MA--Eaton Vance Corp. earned \$0.31 per diluted share in the fourth quarter of fiscal 2005, an increase of 15 percent over the \$0.27 per diluted share earned in the fourth quarter of fiscal 2004. The Company earned \$1.13 per diluted share in fiscal 2005 compared to \$0.99 per diluted share in fiscal 2004, an increase of 14 percent.

Assets under management on October 31, 2005 were \$108.5 billion, a 15 percent increase over the \$94.3 billion of managed assets on October 31, 2004. Total gross sales and inflows into Eaton Vance funds and separate accounts were \$24.7 billion in fiscal 2005 compared to \$25.5 billion in fiscal 2004, representing the second highest level of gross sales and inflows in Company history. Net inflows (gross inflows less redemptions and other outflows) were \$9.6 billion in fiscal 2005 compared to \$13.8 billion in fiscal 2004. Market appreciation added \$4.6 billion and the August acquisition of the assets of Weston Asset Management contributed \$106 million to assets under management in fiscal 2005. Tables 1, 2 and 3 (attached) summarize assets under management and asset flows by investment objective.

Eaton Vance raised \$4.8 billion (\$5.0 billion including leverage) in closed-end fund common share offerings in fiscal 2005 compared to \$3.9 billion (\$6.3 billion including leverage) in fiscal 2004. In the fourth quarter, the Company introduced the Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund, a closed-end fund that raised \$1.9 billion of assets in September. Fiscal 2005 earnings were reduced by \$18.8 million or \$0.08 per share due to one-time sales incentives and other expenses associated with the assets raised in 5 closed-end fund offerings during the year.

Fiscal 2005 was another great year for Eaton Vance, said James B. Hawkes, Chairman and CEO. Total assets under management increased 15 percent to \$108.5 billion, exceeding \$100 billion for the first time in Company history. For the third year in a row the Company was the leader among asset management firms in closed-end fund sales with \$5.0 billion of assets raised in fiscal 2005. Overall, equity fund assets increased 22 percent, bank loan fund assets increased 12 percent, fixed-income fund assets increased 6 percent and separately managed account assets increased 13 percent. The new assets added in fiscal 2005 should contribute meaningfully to revenue and profit in fiscal 2006.

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Eaton Vance experienced net inflows of \$3.8 billion in the fourth quarter of fiscal 2005, an increase of 19 percent compared to net inflows of \$3.2 billion in the fourth quarter of fiscal 2004. Among the different product categories, closed-end fund net inflows increased 61 percent to \$1.9 billion and retail managed account net inflows increased 95 percent to \$432 million compared to the same period last year.

As a result of higher average assets under management, revenue in the fourth quarter of fiscal 2005 increased by \$24.5 million or 14 percent to \$198.1 million compared to revenue in the fourth quarter of fiscal 2004 of \$173.6 million. Investment adviser and administration fees increased 20 percent to \$135.0 million, compared to the 17 percent increase in average assets under management. Distribution and underwriter fees were \$34.9 million in both periods, unchanged despite higher average assets due to 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 14 percent to \$27.4 million due to the increase in average fund assets that pay these fees. Other revenue decreased 62 percent primarily because the Company was no longer required to consolidate an affiliated investment company after the second quarter of fiscal 2005.

Operating expenses increased 15 percent in the fourth quarter of fiscal 2005 to \$129.9 million compared to operating expenses of \$112.7 million in the fourth quarter of fiscal 2004, reflecting higher compensation, service fee, distribution and other expenses. Compensation expense increased 22 percent because of increases in employee headcount, closed-end fund and other marketing incentive compensation and higher operating income-based bonus accruals.

Amortization of deferred sales commissions declined 31 percent in the fourth quarter of fiscal 2005 compared to the fourth quarter of fiscal 2004 primarily because of the continuing decline in class B share sales and assets under management. Service fee expense increased 13 percent, in line with the increase in service fee revenue. Distribution expense increased 44 percent as a result of increases in closed-end fund and class C share distribution fees. Other expenses increased 16 percent primarily because of higher fund expenses, information technology, legal, audit,

compliance, recruiting and other miscellaneous expenses.

Operating income increased 12 percent to \$68.2 million and net income increased 12 percent to \$42.6 million in the fourth quarter of fiscal 2005, compared to \$60.9 million and \$37.9 million, respectively, in the fourth quarter of fiscal 2004. Interest income increased 197 percent because of higher interest and dividends earned on cash and short-term investments. Interest expense decreased \$1.2 million or 77 percent, reflecting the expensing of \$1.0 million of previously capitalized debt offering costs associated with the repurchase of \$46.0 million of a subsidiary's exchangeable notes in the fourth quarter of fiscal 2004. The effective tax rate, before minority interest and equity in net income of affiliates, was 37 percent in the fourth quarter of fiscal 2005 and 35 percent in the fourth quarter of fiscal 2004.

Revenue in fiscal 2005 increased 14 percent to \$753.2 million from \$661.8 million in fiscal 2004. Fiscal 2005 investment adviser and administration fee revenue increased 22 percent as a result of the 19 percent increase in average assets under management for the full year. Fiscal 2005 distribution and underwriter fee revenue decreased 7 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 14 percent due to the increase in average fund assets that pay service fees.

Operating expenses increased 12 percent to \$492.8 million in fiscal 2005 from \$439.3 million in fiscal 2004 because of higher compensation, marketing, distribution and other expenses. Compensation expense increased 18 percent in fiscal 2005 due to higher marketing incentive payments associated with the increase in fund and separate account sales, employee additions, increases in base salaries and operating income-based bonus accruals.

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Amortization of deferred sales commissions decreased 22 percent in fiscal 2005 compared to fiscal 2004 because of the decline in Class B share assets. Service fee expense increased 12 percent because of the growth in fund assets retained more than one year. Distribution expense increased 27 percent in fiscal 2005 primarily because of higher closed-end fund and class C share distribution expense. Other expenses increased 25 percent in fiscal 2005 because of increased fund expense, information technology, legal, audit, recruiting and other miscellaneous costs. Operating income increased 17 percent to \$260.4 million in fiscal 2005 from \$222.6 million in fiscal 2004.

Fiscal year 2005 net income increased 15 percent to \$159.9 million. Interest income in fiscal 2005 increased 56 percent to \$4.4 million primarily because of higher interest and dividends earned on cash and short-term investments. Interest expense decreased 75 percent, reflecting the repurchase of a subsidiary's exchangeable notes in the fourth quarter of fiscal 2004. Impairment losses on the Company's equity investments in collateralized debt funds it manages were \$2.1 million in fiscal 2005. The Company's effective tax rate was 37 percent in fiscal 2005 and 35 percent in fiscal 2004.

Cash, cash equivalents and short-term investments were \$274.2 million on October 31, 2005 and \$357.6 million on October 31, 2004 (\$294.3 million excluding minority interest). The Company's strong cash flow in fiscal 2005 enabled it to pay \$132.6 million to repurchase and retire 5.4 million shares of its non-voting common stock and to pay \$42.2 million in dividends to its shareholders. There are no outstanding borrowings against the Company's \$170.0 million credit facility. Approximately 5.3 million shares remain of the current stock repurchase 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 | | | Twelve Months Ended | | |
|--|--------------------|-----------------|-------------|---------------------|-----------------|-------------|
| | October 2005 | October 2004 | % Change | October 2005 | October 2004 | % Change |
| Revenue: | | | | | | |
| Investment adviser and administration fees | \$ 135,038 | \$ 112,701 | 20% | \$ 503,085 | \$ 413,102 | 22% |
| Distribution and underwriter fees | 34,936 | 34,920 | 0 | 139,043 | 150,018 | (7) |
| Service fees | 27,391 | 23,964 | 14 | 104,644 | 92,087 | 14 |
| Other revenue | | 2,021 | (62) | 6,403 | 6,606 | (3) |
| Total revenue | 198,139 | 173,606 | 14 | 753,175 | 661,813 | 14 |
| Expenses: | | | | | | |
| Compensation of officers and employees | 47,062 | 38,521 | 22 | 177,856 | 150,489 | 18 |
| Amortization of deferred sales commissions | 12,894 | 18,651 | (31) | 63,535 | 81,202 | (22) |
| Service fee expense | 22,344 | 19,691 | 13 | 86,197 | 76,620 | 12 |
| Distribution expense | 31,559 | 21,965 | 44 | 103,447 | 81,559 | 27 |
| Other expenses | 16,084 | 13,892 | 16 | 61,726 | 49,381 | 25 |
| Total expenses | 129,943 | 112,720 | 15 | 492,761 | 439,251 | 12 |
| Operating Income | 68,196 | 60,886 | 12 | 260,414 | 222,562 | 17 |

Other Income/(Expense):

| | | | | | | |
|--|-----------|-----------|------|------------|------------|------|
| Interest income | 1,558 | 524 | 197 | 4,354 | 2,799 | 56 |
| Interest expense | (365) | (1,568) | (77) | (1,464) | (5,898) | (75) |
| Gain (loss) on investments | (236) | (3) | n/a | 38 | 275 | (86) |
| Foreign currency loss | (6) | (23) | n/a | (32) | (85) | (62) |
| Impairment loss on investments | (280) | - | n/a | (2,120) | - | n/a |
| Income Before Income Taxes, Minority Interest and Equity in Net Income of Affiliates | 68,867 | 59,816 | 15 | 261,190 | 219,653 | 19 |
| Income Taxes | 25,621 | 21,054 | 22 | 97,500 | 77,434 | 26 |
| Minority Interest | 1,301 | 1,335 | (3) | 5,037 | 4,559 | 10 |
| Equity in Net Income of Affiliates, Net of Tax | 704 | 501 | 41 | 1,231 | 1,283 | (4) |
| Net Income | \$ 42,649 | \$ 37,928 | 12 | \$ 159,884 | \$ 138,943 | 15 |
| Earnings Per Share: | | | | | | |
| Basic | \$ 0.33 | \$ 0.28 | 18 | \$ 1.21 | \$ 1.03 | 17 |
| Diluted | \$ 0.31 | \$ 0.27 | 15 | \$ 1.13 | \$ 0.99 | 14 |
| Dividends Declared, Per Share | \$ 0.10 | \$ 0.08 | 25 | \$ 0.34 | \$ 0.28 | 21 |
| Weighted Average Shares Outstanding: | | | | | | |
| Basic | 129,902 | 133,477 | (3) | 131,591 | 134,938 | (2) |
| Diluted | 140,050 | 142,033 | (1) | 141,632 | 144,313 | (2) |

Balance Sheet

(in thousands, except per share figures)

| | October 31, 2005 | October 31, 2004 |
|---|---------------------|---------------------|
| | <hr/> | <hr/> |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 146,389 | \$ 147,137 |
| Short-term investments | 127,858 | 210,429 |
| Investment adviser fees and other receivables | 83,868 | 32,249 |
| Other current assets | 10,473 | 4,861 |
| | <hr/> | <hr/> |
| Total current assets | 368,588 | 394,676 |
| Other Assets: | | |
| Deferred sales commissions | 126,113 | 162,259 |
| Goodwill | 89,634 | 89,281 |
| Other intangible assets, net | 40,644 | 43,965 |
| Long-term investments | 61,766 | 36,895 |
| Equipment and leasehold improvements, net | 12,764 | 12,413 |
| Other assets | 3,035 | 4,077 |
| | <hr/> | <hr/> |
| Total other assets | 333,956 | 348,890 |
| | <hr/> | <hr/> |
| Total assets | \$ 702,544 | \$ 743,566 |
| <hr/> | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accrued compensation | \$ 62,880 | \$ 52,299 |
| Accounts payable and accrued expenses | 27,987 | 23,789 |
| Dividend payable | 12,952 | 10,660 |
| Other current liabilities | 12,538 | 7,451 |
| | <hr/> | <hr/> |
| Total current liabilities | 116,357 | 94,199 |
| Long-Term Liabilities: | | |
| Long-term debt | 75,467 | 74,347 |
| Deferred income taxes | 51,147 | 57,644 |
| | <hr/> | <hr/> |
| Total long-term liabilities | 126,614 | 131,991 |
| | <hr/> | <hr/> |
| Total liabilities | 242,971 | 226,190 |
| | <hr/> | <hr/> |
| Minority interest | 4,620 | 67,870 |
| | <hr/> | <hr/> |
| Commitments and contingencies | | |

Shareholders' Equity:

Common stock, par value \$0.00390625 per share:

| | | |
|--|------------|------------|
| Authorized, 1,280,000 shares | | |
| Issued, 309,760 shares | 1 | 1 |
| Non-voting common stock, par value \$0.00390625 per share: | | |
| Authorized, 190,720,000 shares | | |
| Issued, 129,243,023 and 133,271,560 shares, respectively | 505 | 521 |
| Notes receivable from stock option exercises | (2,741) | (2,718) |
| Deferred compensation | (2,600) | (2,400) |
| Accumulated other comprehensive income | 2,566 | 1,854 |
| Retained earnings | 457,222 | 452,248 |
| | <hr/> | <hr/> |
| Total shareholders' equity | 454,953 | 449,506 |
| | <hr/> | <hr/> |
| Total liabilities and shareholders' equity | \$ 702,544 | \$ 743,566 |
| | <hr/> | <hr/> |

Table 1
Asset Flows (in millions)
Twelve Months Ended October 31, 2005

| | | |
|---|----|----------|
| Assets 10/31/2004 - Beginning of Period | \$ | 94,346 |
| Long-term fund sales and inflows | | 18,600 |
| Long-term fund redemptions and outflows | | (10,004) |
| Long-term fund net exchanges | | (48) |
| Long-term fund mkt. value change | | 2,535 |
| Institutional and HNW account inflows | | 2,949 |
| Institutional and HNW account outflows | | (3,587) |
| Institutional and HNW assets acquired ¹ | | 106 |

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

| | October 31, 2005 | October 31, 2004 | % Change |
|--------------------------|---------------------|---------------------|-------------|
| Equity Funds | \$ 45,146 | \$ 36,895 | 22% |
| Fixed Income Funds | 18,603 | 17,553 | 6% |
| Bank Loan Funds | 16,816 | 15,034 | 12% |
| Money Market Funds | 278 | 389 | -29% |
| Separate Accounts | 27,650 | 24,475 | 13% |
| | <hr/> | <hr/> | <hr/> |
| Total | \$ 108,493 | \$ 94,346 | 15% |

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| | | | | |
|------------------------------------|------------|--|--|--|
| Retail managed account inflows | 3,198 | | | |
| Retail managed account outflows | (1,553) | | | |
| Separate account mkt. value change | 2,062 | | | |
| Change in money market funds | (111) | | | |
| Net change | 14,147 | | | |
| Assets 10/31/2005 - End of Period | \$ 108,493 | | | |

Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Twelve Months Ended | |
|--|--------------------|------------------|---------------------|------------------|
| | October 31, 2005 | October 31, 2004 | October 31, 2005 | October 31, 2004 |
| Equity Fund Assets - Beginning of Period | \$ 43,509 | \$ 35,018 | \$ 36,895 | \$ 28,854 |
| Sales/Inflows | 3,291 | 2,559 | 9,678 | 9,776 |
| Redemptions/Outflows | (1,057) | (1,629) | (4,301) | (4,071) |
| Exchanges | 4 | (2) | 47 | 95 |
| Market Value Change | (601) | 949 | 2,827 | 2,241 |
| Net Change | 1,637 | 1,877 | 8,251 | 8,041 |
| Equity Fund Assets - End of Period | \$ 45,146 | \$ 36,895 | \$ 45,146 | \$ 36,895 |
| Fixed Income Fund Assets - Beginning of Period | 18,451 | 17,090 | 17,553 | 17,801 |
| Sales/Inflows | 1,029 | 644 | 3,699 | 2,469 |
| Redemptions/Outflows | (602) | (472) | (2,364) | (2,375) |
| Exchanges | (15) | (2) | (54) | (265) |
| Market Value Change | (260) | 293 | (231) | (77) |
| Net Change | 152 | 463 | 1,050 | (248) |
| Fixed Income Fund Assets - End of Period | 18,603 | \$ 17,553 | \$ 18,603 | \$ 17,553 |

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| | \$ | | | |
|---------------------------------|-----------|-----------|-----------|-----------|
| Bank Loan Fund Assets - | | | | |
| Beginning of Period | 16,430 | 13,777 | 15,034 | 9,547 |
| Sales/Inflows | 1,392 | 1,810 | 5,223 | 7,578 |
| Redemptions/Outflows | (914) | (541) | (3,339) | (2,183) |
| Exchanges | (10) | (4) | (41) | 143 |
| Market Value Change | (82) | (8) | (61) | (51) |
| Net Change | 386 | 1,257 | 1,782 | 5,487 |
| Bank Loan Fund Assets - | | | | |
| End of Period | \$ 16,816 | \$ 15,034 | \$ 16,816 | \$ 15,034 |
| Long-Term Fund Assets - | | | | |
| Beginning of Period | 78,390 | 65,885 | 69,482 | 56,202 |
| Sales/Inflows | 5,712 | 5,013 | 18,600 | 19,823 |
| Redemptions/Outflows | (2,573) | (2,642) | (10,004) | (8,629) |
| Exchanges | (21) | (8) | (48) | (27) |
| Market Value Change | (943) | 1,234 | 2,535 | 2,113 |
| Net Change | 2,175 | 3,597 | 11,083 | 13,280 |
| Total Long-Term Fund | | | | |
| Assets - End of Period | \$ 80,565 | \$ 69,482 | \$ 80,565 | \$ 69,482 |
| Separate Accounts - | | | | |
| Beginning of Period | 27,314 | 23,154 | 24,475 | 18,397 |
| Institutional/HNW Account | | | | |
| Inflows | 816 | 1,172 | 2,949 | 3,680 |
| Institutional/HNW Account | | | | |
| Outflows | (590) | (569) | (3,587) | (2,001) |
| Institutional and HNW | | | | |
| Assets Acquired ^{1, 2} | 106 | (53) | 106 | 1,943 |
| Retail Managed Account | | | | |
| Inflows | 811 | 468 | 3,198 | 1,998 |
| Retail Managed Account | | | | |
| Outflows | (379) | (246) | (1,553) | (1,053) |
| Separate accounts market | | | | |
| value change | (428) | 549 | 2,062 | 1,511 |
| Net Change | 336 | 1,321 | 3,175 | 6,078 |
| Separate accounts - End of | | | | |
| Period | \$ 27,650 | \$ 24,475 | \$ 27,650 | \$ 24,475 |

| | | | | |
|---|------------|-----------|------------|-----------|
| Money market fund assets - End of Period | 278 | 389 | 278 | 389 |
| Total Assets Under Management - End of Period | \$ 108,493 | \$ 94,346 | \$ 108,493 | \$ 94,346 |

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

| | Three Months Ended | | Twelve Months Ended | |
|----------------------------|---------------------|---------------------|---------------------|---------------------|
| | October 31, 2005 | October 31, 2004 | October 31, 2005 | October 31, 2004 |
| Long-term funds: | | | | |
| Closed-end funds | \$ 1,941 | \$ 1,202 | \$ 5,016 | \$ 6,323 |
| Open-end and other funds | 1,198 | 1,169 | 3,580 | 4,871 |
| Institutional/HNW accounts | 226 | 603 | (638) | 1,679 |
| Retail managed accounts | 432 | 222 | 1,645 | 945 |
| Total net flows | \$ 3,797 | \$ 3,196 | \$ 9,603 | \$ 13,818 |

¹ Weston Asset Management assets acquired by Eaton Vance in August 2005.

² Deutsche Bank's Scudder Private Investment Counsel assets acquired by Eaton Vance in July 2004. Deutsche Bank asset acq