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EATON VANCE CORP
Form 8-K
November 25, 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): November 25, 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 AND REQUIRED FD DISCLOSURE
ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL
CONDITION

Registrant has reported its results of operations for the three months ended October 31, 2003, as described in Registrant's news release dated November 25, 2003, a copy of which is filed herewith as Exhibit 99.1 and incorporated herein by reference.

This information is being filed pursuant to Item 5. Other Events and Required FD Disclosure and is being provided under Item 12. Results of Operations and Financial Condition.

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

| Exhibit No. ----- | Document ----- |
|----------------------|---|
| 99.1 | Press release issued by the Registrant dated November 25, 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: November 25, 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 November 25, 2003. |

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EXHIBIT 99.1

NEWS RELEASE

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

November 25, 2003

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FOR IMMEDIATE RELEASE

EATON VANCE CORP.
REPORT FOR THE THREE MONTHS AND FISCAL YEAR ENDED
OCTOBER 31, 2003

BOSTON, MA--Eaton Vance Corp. earned \$0.41 per diluted share in the fourth quarter of fiscal 2003, an increase of 21 percent over the \$0.34 per diluted share earned in the fourth quarter of fiscal 2002. In fiscal 2003 the Company earned \$1.51 per diluted share compared to \$1.70 per diluted share in fiscal 2002.

Assets under management on October 31, 2003 were \$75.0 billion, a 35 percent increase over the \$55.6 billion of managed assets on October 31, 2002. The acquisition of Parametric Portfolio Associates (PPA) on September 10, 2003 added \$5.3 billion of assets. Excluding the assets acquired with PPA, total gross inflows into Eaton Vance funds and separate accounts were \$16.8 billion in fiscal 2003, an increase of 29 percent from the \$13.0 billion of gross inflows in fiscal 2002 and the highest annual gross inflows in Company history. Net inflows (gross inflows less redemptions and withdrawals) were \$8.3 billion in fiscal 2003 compared to \$4.9 billion in fiscal 2002, an increase of 69 percent. Tables 1, 2 and 3 (attached) summarize assets under management and asset flows by investment objective.

Eaton Vance raised a record \$5.0 billion in closed-end fund assets in fiscal 2003. In the fourth quarter, the Company introduced the Eaton Vance Tax-Advantaged Dividend Income Fund, a closed-end fund that raised \$1.3 billion in late September. When the over-allotment option on common shares and the planned issuance of preferred shares are completed in early fiscal 2004, the fund is expected to have assets of about \$2.1 billion and contribute approximately \$9.5 million in revenue annually. Earnings in the fourth quarter of 2003 were reduced by the payment of \$2.4 million of sales incentives and other marketing expenses incurred in connection with the successful offering of the fund. Earnings in fiscal 2003 were reduced by \$8.5 million of sales incentives and other expenses associated with the \$5.0 billion in 11 closed-end fund offerings.

"Eaton Vance had its best asset growth year ever in fiscal 2003," said James B. Hawkes, Chairman and CEO. "Total assets under management increased 35 percent to \$75.0 billion. The Company was a leader among asset management firms in closed-end fund sales with \$5.0 billion of assets raised in fiscal 2003. Equity fund assets increased 26 percent, fixed income fund assets increased 34 percent, bank loan fund assets increased 24 percent and separately managed account assets, including those managed by PPA, increased 70 percent. The new assets added in fiscal 2003 should result in meaningful revenue and profit growth in fiscal 2004."

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Revenue in the fourth quarter of fiscal 2003 increased \$19.6 million or 16 percent to \$143.4 million from the fourth quarter a year ago. Revenue in fiscal year 2003 was essentially even with fiscal 2002 at \$523.1 million. Fourth quarter 2003 investment adviser and administration fees increased 25 percent over fourth quarter 2002 consistent with the 26 percent growth in average assets under management. Fiscal 2003 investment adviser and administration fee revenue increased 6 percent in line with the 6 percent increase in average assets under management for the full year. Fiscal 2003 distribution and underwriter fee revenue declined 9 percent primarily because of the continuing shift in mutual fund sales and assets from Class B to other fund share classes and to other

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managed assets with low or no distribution fees. Service fee revenue increased 12 percent in the fourth quarter of fiscal 2003 over the fourth quarter of fiscal 2002 because of an increase in fund assets that pay service fees. For fiscal 2003, service fee revenue declined 4 percent due to the full-year decline in average fund assets that pay service fees. Other income increased 131 percent primarily because of reimbursement payments for certain fund shareholder services now performed by the Company and investment income from a consolidated investment company in which Eaton Vance is the majority shareholder.

Operating expenses increased \$20.9 million or 6 percent in fiscal 2003 because of higher compensation, marketing, distribution and other expenses. Compensation expense increased 22 percent in the fourth quarter and 10 percent in fiscal 2003 due to higher marketing incentive payments associated with the increase in fund and separate account sales, and increases in the number of employees, base salaries and performance bonuses.

Amortization of deferred sales commissions increased 2 percent in fiscal 2003 due primarily to deferred sales commissions added in fiscal 2002 and adjustments made to better align amortization expense with projected distribution fee revenue. Service fee expense increased 15 percent in the fourth quarter and 1 percent in fiscal 2003 because of the growth in fund assets retained more than one year. Distribution expense increased 31 percent in the fourth quarter and 9 percent in fiscal 2003 primarily because of distribution expenses on the new closed-end funds, the increase in sales-related marketing expenses and the increase in commissions paid on certain Class A sales. (Note that distribution expense now includes certain distribution costs previously included in service fee expense and other expenses.) Other expenses increased 13 percent in fiscal 2003 because of non-recurring expenses related to the 11 closed-end fund offerings, higher on-going fund expenses, increased travel expenses, higher information technology costs, and higher audit and consulting fees. Operating income in the fourth quarter of fiscal 2003 increased 19 percent to \$45.3 million from \$38.1 million in the fourth quarter of fiscal 2002. Fiscal year 2003 operating income declined 11 percent to \$163.1 million.

Net income in the fourth quarter of fiscal 2003 increased 20 percent to \$28.7 million compared to \$23.8 million in the fourth quarter of fiscal 2002. Fiscal year 2003 net income declined 12 percent to \$106.1 million. Interest income in fiscal 2003 declined to \$4.8 million from \$9.0 million last year because of lower interest rates and the inclusion in fiscal 2002 of \$2.1 million of interest received from the settlement of a fiscal 1993-1995 Massachusetts income tax dispute. Interest expense declined by \$1.3 million in fiscal 2003 because of a reduction in the Company's long-term debt in the fourth quarter of fiscal 2002. Fiscal 2002 interest expense included \$2.1 million of previously capitalized debt offering costs associated with the repurchase in the fourth quarter of \$87.0 million of a subsidiary's 30-year zero-coupon senior exchangeable notes. Fiscal 2003 interest expense included a \$2.8 million accrual of an additional 2.5 percent per annum of cash interest payable through August 13, 2004 on the subsidiary's outstanding exchangeable notes. The Company's effective tax rate was 35 percent in both fiscal 2003 and fiscal 2002.

Cash, cash equivalents and short-term investments were \$242.8 million on October 31, 2003 and \$188.0 million on October 31, 2002. The Company's strong cash flow in fiscal 2003 allowed it to pay \$71.0 million of federal and state income taxes

(\$54.8 million of current and \$16.2 million of deferred taxes), \$70.0 million in sales commissions, \$44.9 million to repurchase and retire 1,417,300 shares of its non-voting common stock, \$28.0 million to acquire 80 percent of Parametric Portfolio Associates, \$24.8 million to pay dividends to its shareholders and \$7.1 million to reduce its long-term debt. Approximately 3.9 million shares

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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 | | | October 31, 2002 |
|---|--------------------|------------------|--------------|------------------|
| | October 31, 2003 | October 31, 2002 | % Change | |
| Revenue: | | | | |
| Investment adviser and administration fees | \$ 83,648 | \$ 66,898 | 25.0% | \$ 296 |
| Distribution and underwriter fees | 38,074 | 37,939 | 0.4 | 146 |
| Service fees | 20,147 | 18,024 | 11.8 | 74 |
| Other income | 1,550 | 957 | 62.0 | 5 |
| Total revenue | 143,419 | 123,818 | 15.8 | 523 |
| Expenses: | | | | |
| Compensation of officers and employees | 34,173 | 27,996 | 22.1 | 115 |
| Amortization of deferred sales commissions | 21,024 | 20,925 | 0.5 | 85 |
| Service fee expense | 17,438 | 15,181 | 14.9 | 64 |
| Distribution expense | 16,356 | 12,452 | 31.4 | 54 |
| Other expenses | 9,160 | 9,191 | (0.3) | 40 |
| Total expenses | 98,151 | 85,745 | 14.5 | 359 |
| Operating Income | 45,268 | 38,073 | 18.9 | 163 |
| Other Income/(Expense): | | | | |
| Interest income | 659 | 2,068 | (68.1) | 4 |
| Interest expense | (1,427) | (3,584) | (60.2) | (5) |
| Gain on investments | 43 | 68 | (36.8) | 2 |
| Foreign currency gain (loss) | (24) | 8 | n/a | |
| Equity in net income of affiliates | 314 | 163 | 92.6 | |
| Income Before Minority Interest and Income Taxes | 44,833 | 36,796 | 21.8 | 164 |
| Minority Interest in Income | (722) | (107) | 574.8 | (1) |
| Income Before Income Taxes | 44,111 | 36,689 | 20.2 | 163 |
| Income Taxes | 15,438 | 12,841 | 20.2 | 57 |

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| | | | | |
|--------------------------------------|-----------|-----------|-------|--------|
| Net Income | \$ 28,673 | \$ 23,848 | 20.2 | \$ 106 |
| Earnings Per Share: | | | | |
| Basic | \$ 0.42 | \$ 0.35 | 20.0 | \$ |
| Diluted | \$ 0.41 | \$ 0.34 | 20.6 | \$ |
| Dividends Declared, Per Share | \$ 0.1200 | \$ 0.0800 | 50.0 | \$ 0. |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 68,493 | 68,943 | (0.7) | 68 |
| Diluted | 70,446 | 70,343 | 0.1 | 70 |

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

| | October 31, 2003 | October 31, 2002 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 138,328 | \$ 144,078 |
| Short-term investments | 104,484 | 43,886 |
| Investment adviser fees and other receivables | 25,922 | 19,502 |
| Other current assets | 3,583 | 6,101 |
| Total current assets | 272,317 | 213,567 |
| Other Assets: | | |
| Deferred sales commissions | 199,322 | 239,048 |
| Goodwill | 88,879 | 69,467 |
| Other intangible assets, net | 46,193 | 37,296 |
| Long-term investments | 36,490 | 39,982 |
| Equipment and leasehold improvements, net | 12,411 | 13,897 |
| Other assets | 3,090 | 3,362 |
| Total other assets | 386,385 | 403,052 |
| Total assets | \$ 658,702 | \$ 616,619 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accrued compensation | \$ 35,339 | \$ 31,899 |
| Accounts payable and accrued expenses | 23,822 | 16,324 |
| Dividend payable | 8,189 | 5,522 |
| Current portion of long-term debt | 7,143 | 7,143 |
| Other current liabilities | 8,302 | 7,382 |
| Total current liabilities | 82,795 | 68,270 |

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| | | |
|---|------------|------------|
| Long-term Liabilities: | | |
| Long-term debt | 118,736 | 124,118 |
| Deferred income taxes | 33,203 | 50,531 |
| | ----- | ----- |
| Total long-term liabilities | 151,939 | 174,649 |
| | ----- | ----- |
| Total liabilities | 234,734 | 242,919 |
| | ----- | ----- |
| Minority interest | 7,691 | 1,398 |
| | ----- | ----- |
| 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, 68,250,464 and 69,102,459 shares, respectively | 533 | 540 |
| Notes receivable from stock option exercises | (2,995) | (3,530) |
| Deferred compensation | (1,000) | (2,100) |
| Accumulated other comprehensive income | 1,245 | 2,585 |
| Retained earnings | 418,493 | 374,806 |
| | ----- | ----- |
| Total shareholders' equity | 416,277 | 372,302 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 658,702 | \$ 616,619 |
| | ===== | ===== |

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

| | |
|--|-----------|
| Assets 10/31/2002 - Beginning of Period | \$ 55,611 |
| Long-term fund sales and inflows | 13,749 |
| Long-term fund redemptions and outflows | (6,481) |
| Long-term fund net exchanges | (84) |
| Long-term fund mkt. value change | 4,459 |
| Long-term fund assets acquired | 660 |
| Institutional and HNW account inflows | 2,075 |
| Institutional and HNW account outflows | (1,674) |
| Institutional and HNW assets acquired with acquisition(1) | 2,772 |
| Retail managed account inflows | 929 |
| Retail managed account outflows | (337) |
| Retail managed account assets acquired with acquisition(1) | 1,850 |
| Separate account mkt. value change | 1,980 |
| Change in money market funds | (465) |
| | ----- |
| Net change | 19,433 |
| | ----- |
| Assets 10/31/2003 - End of Period | \$ 75,044 |
| | ===== |

Table 2

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Assets Under Management
By Investment Objective (in millions)

| | October 31, 2003 | October 31, 2002 | % |
|--------------------|---------------------|---------------------|------------|
| | | | Change |
| Equity Funds | \$ 28,854 | \$ 22,910 | 26% |
| Fixed Income Funds | 17,801 | 13,302 | 34% |
| Bank Loan Funds | 9,547 | 7,687 | 24% |
| Money Market Funds | 445 | 910 | -51% |
| Separate Accounts | 18,397 | 10,802 | 70% |
| Total | \$ 75,044 | \$ 55,611 | 35% |

Table 3
Asset Flows by Investment Objective (in millions)

| | Three Months Ended | | Twelve |
|--|---------------------|---------------------|-------------------|
| | October 31, 2003 | October 31, 2002 | October 3 2003 |
| Equity Fund Assets - Beginning of Period | \$ 25,407 | \$ 23,684 | \$ 22,910 |
| Sales and inflows | 2,073 | 627 | 4,189 |
| Redemptions and outflows | (885) | (729) | (2,778) |
| Exchanges | 61 | (84) | 3 |
| Market value change | 1,538 | (588) | 3,870 |
| Assets acquired with acquisition(1) | 660 | - | 660 |
| Net change | 3,447 | (774) | 5,944 |
| Equity Fund Assets - End of Period | \$ 28,854 | \$ 22,910 | \$ 28,854 |
| Fixed Income Fund Assets - Beginning of Period | 17,580 | 10,573 | 13,302 |
| Sales and inflows | 667 | 3,268 | 6,382 |
| Redemptions and outflows | (681) | (447) | (2,176) |
| Exchanges | (144) | 112 | (84) |
| Market value change | 379 | (204) | 377 |
| Net change | 221 | 2,729 | 4,499 |
| Fixed Income Fund Assets - End of Period | \$ 17,801 | \$ 13,302 | \$ 17,801 |
| Bank Loan Fund Assets - Beginning of Period | 8,419 | 8,415 | 7,687 |
| Sales and inflows | 1,333 | 174 | 3,178 |
| Redemptions and outflows | (310) | (666) | (1,527) |
| Exchanges | 75 | (93) | (3) |
| Market value change | 30 | (143) | 212 |
| Net change | 1,128 | (728) | 1,860 |
| Bank Loan Fund Assets - End of Period | \$ 9,547 | \$ 7,687 | \$ 9,547 |
| Long-Term Fund Assets - Beginning of Period | 51,406 | 42,672 | 43,899 |

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| | | | |
|--|-----------|-----------|-----------|
| Sales and inflows | 4,073 | 4,069 | 13,749 |
| Redemptions and outflows | (1,876) | (1,842) | (6,481) |
| Exchanges | (8) | (65) | (84) |
| Market value change | 1,947 | (935) | 4,459 |
| Assets acquired with acquisition(1) | 660 | - | 660 |
| | ----- | | |
| Net change | 4,796 | 1,227 | 12,303 |
| | ----- | | |
| Total Long-Term Fund Assets - End of Period | \$ 56,202 | \$ 43,899 | \$ 56,202 |
| | ----- | | |
| Separate Accounts - Beginning of Period | 12,492 | 10,601 | 10,802 |
| Institutional and HNW account inflows | 695 | 533 | 2,075 |
| Institutional and HNW account outflows | (505) | (167) | (1,674) |
| Institutional and HNW assets acquired with acquisition(1) | 2,772 | - | 2,772 |
| Retail managed account inflows | 338 | 170 | 929 |
| Retail managed account outflows | (142) | (42) | (337) |
| Retail managed account assets acquired with acquisition(1) | 1,850 | - | 1,850 |
| Separate accounts market value change | 897 | (293) | 1,980 |
| | ----- | | |
| Net change | 5,905 | 201 | 7,595 |
| | ----- | | |
| Separate accounts - End of Period | \$ 18,397 | \$ 10,802 | \$ 18,397 |
| | ----- | | |
| Money market fund assets - End of Period | 445 | 910 | 445 |
| | ----- | | |
| Total Assets Under Management - End of Period | \$ 75,044 | \$ 55,611 | \$ 75,044 |
| | ===== | | |

(1) Parametric Portfolio Associates acquired by Eaton Vance on September 10, 2003