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EATON VANCE CORP
Form 8-K
May 21, 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): May 21, 2003

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

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INFORMATION INCLUDED IN THE REPORT

| | |
|------------------|-----------------------------------------------------------------------------|
| ITEM 5. | OTHER EVENTS AND REQUIRED FD DISCLOSURE |
| ----- | ----- |
| ITEMS 9. AND 12. | REGULATION FD DISCLOSURE / RESULTS OF OPERATIONS AND FINANCIAL CONDITION |
| ----- | ----- |

Registrant has reported its results of operations for the three months ended April 30, 2003, as described in Registrant's news release dated May 21, 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.

| | |
|---------|------------------------------------|
| ITEM 7. | FINANCIAL STATEMENTS AND EXHIBITS. |
| ----- | ----- |

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(c) Exhibits.

| Exhibit No. ----- | Document ----- |
|----------------------|------------------------------------------------------------|
| 99.1 | Press release issued by the Registrant dated May 21, 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: May 21, 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 May 21, 2003. |

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Exhibit 99.1

NEWS RELEASE

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

May 21, 2003

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FOR IMMEDIATE RELEASE

EATON VANCE CORP.
REPORT FOR THE THREE MONTHS AND SIX MONTHS ENDED
APRIL 30, 2003

BOSTON, MA--Eaton Vance Corp. reported diluted earnings per share of \$0.36 in the second quarter of fiscal year 2003 compared to diluted earnings per share of \$0.46 in the second quarter of fiscal year 2002. Eaton Vance earned \$0.73 per diluted share for the first six months of fiscal 2003 compared to \$0.92 for the first six months of fiscal 2002.

Assets under management of \$57.9 billion at the end of the second quarter of fiscal 2003 were \$1.3 billion or 2 percent lower than the \$59.2 billion under management at the end of the second quarter last year. Average assets under management were \$56.1 billion in the second quarter of fiscal 2003, 5 percent lower than the average assets of \$59.3 billion in the second quarter of last year. During the 12-month period ended April 30, 2003, the S&P 500 and the Nasdaq Composite each declined by 13 percent. The Company's superior long-term investment performance, balanced product line (54 percent equity assets, 33 percent fixed income assets and 13 percent floating rate assets on April 30, 2003), and positive net flows helped offset approximately \$5.2 billion of market depreciation during the 12-month period.

Net inflows of long-term fund assets and separate account assets were \$1.5 billion in the first half of fiscal 2003 and \$1.6 billion in the first half of fiscal 2002. Fund net inflows of \$1.2 billion in the first six months of 2003 benefited from the successful offering of nine closed-end municipal bond funds that added \$0.7 billion of new assets. Managed account net inflows were \$0.3 billion in the first half of 2003 and in the first half of 2002. 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 and changes in product mix, fiscal 2003 first half revenue decreased by \$22.7 million or 8 percent to \$245.8 million. Investment adviser and administration fees declined \$6.4 million or 4

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percent to \$137.0 million. Distribution and underwriter fees decreased \$12.8 million or 15 percent, reflecting lower fund assets under management and the continuing 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 \$5.0 million or 12 percent in the first half of fiscal 2003 because of the decline in mutual fund assets that pay service fees. Other income increased 165 percent to \$2.3 million because of reimbursement payments for certain fund shareholder services now performed by the Company, and interest income from a consolidated investment company in which Eaton Vance is the majority shareholder.

Fiscal 2003 first half operating expenses of \$168.8 million were essentially flat compared to \$169.1 million in the first half of 2002. Compensation expenses declined 2 percent because of lower marketing and sales incentives and lower operating income-based bonus accruals. Amortization of deferred sales commissions increased 1 percent primarily due to adjustments made to better align amortization expense with projected distribution fee revenue. Service fee expense and distribution fee expense decreased 6 percent and 3 percent,

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respectively, reflecting the decline in fund assets under management. Other expenses increased 11 percent primarily because of \$1.8 million of non-recurring expenses related to the Company's successful offering of nine closed-end municipal bond funds, higher marketing-related travel expenses and higher audit and consulting fees. Fiscal 2003 first half operating income declined 23 percent to \$77.0 million.

First half net income declined 23 percent to \$50.9 million. Interest income declined 16 percent because of lower short-term interest rates in the first half of fiscal 2003 compared to the first half last year. Interest expense increased 33 percent primarily because of the accrual, beginning November 13, 2002, of an additional 2.5 percent per annum of cash interest paid by Eaton Vance Management on its exchangeable notes. Gains on the sale of investments increased 41 percent. The Company's provision for income taxes was 35 percent in both the first half of fiscal 2003 and the first half of fiscal 2002.

Cash and cash equivalents and short-term investments were \$238.3 million on April 30, 2003 and \$217.1 million on April 30, 2002. The Company's strong operating cash flow in the last 12 months allowed it to reduce its long-term debt by \$92.0 million or 42 percent to \$125.0 million, and pay \$76.8 million in federal and state income taxes (including reducing the deferred tax liability by \$24.1 million to \$39.6 million), \$74.0 million in sales commissions, \$38.6 million to repurchase 1,361,000 shares of its non-voting common stock and \$21.1 million in dividends to shareholders. There are no outstanding borrowings against the Company's \$170 million credit facility.

Short-term investments on April 30, 2003 included the investment holdings of the \$67.2 million Eaton Vance Institutional Short-term Income Fund. Even though the Company's \$50.1 million investment in the fund is considered to be temporary, Statement of Financial Accounting Standards No. 144 requires the Company to consolidate funds in its financial statements in which it is the majority investor. Minority interest of \$18.3 million on April 30, 2003 includes \$17.1 million of minority interest in the Eaton Vance Institutional Short-term Income Fund.

During the first six months of fiscal year 2003, the Company used \$14.7 million of its cash to repurchase and retire 523,900 shares of its non-voting common stock. Approximately 1.8 million shares remain of the current 4.0 million-share 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
(in thousands, except per share amounts)

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| | Three Months Ended | | | Apr |
|---------------------------------------------------------|--------------------|-------------------|---------------|--------------|
| | April 30, 2003 | April 30, 2002 | % Change | |
| Revenue: | | | | |
| Investment adviser and administration fees | \$ 67,935 | \$ 71,511 | (5.0)% | \$ 137 |
| Distribution and underwriter fees | 34,223 | 40,722 | (16.0) | 71 |
| Service fees | 17,354 | 20,225 | (14.2) | 35 |
| Other income | 1,364 | 366 | 272.7 | 2 |
| Total revenue | 120,876 | 132,824 | (9.0) | 245 |
| Expenses: | | | | |
| Compensation of officers and employees | 24,118 | 23,729 | 1.6 | 50 |
| Amortization of deferred sales commissions | 21,635 | 21,034 | 2.9 | 43 |
| Service fee expense | 15,477 | 16,767 | (7.7) | 31 |
| Distribution fee expense | 7,643 | 7,894 | (3.2) | 15 |
| Other expenses | 13,387 | 13,474 | (0.6) | 28 |
| Total expenses | 82,260 | 82,898 | (0.8) | 168 |
| Operating Income | 38,616 | 49,926 | (22.7) | 77 |
| Other Income/(Expense): | | | | |
| Interest income | 1,406 | 1,815 | (22.5) | 2 |
| Interest expense | (1,471) | (1,091) | 34.8 | (2) |
| Gain on investments | 76 | - | n/a | 1 |
| Foreign currency gain | 135 | 150 | (10.0) | |
| Equity in net income (loss) of affiliates | 15 | - | n/a | |
| Income Before Minority Interest and Income Taxes | 38,777 | 50,800 | (23.7) | 78 |
| Minority Interest in Income | (293) | (283) | 3.5 | |
| Income Before Income Taxes | 38,484 | 50,517 | (23.8) | 78 |
| Income Taxes | 13,470 | 17,682 | (23.8) | 27 |
| Net Income | \$ 25,014 | \$ 32,835 | (23.8) | \$ 50 |
| Earnings Per Share: | | | | |
| Basic | \$ 0.36 | \$ 0.47 | (23.4) | \$ |
| Diluted | \$ 0.36 | \$ 0.46 | (21.7) | \$ |
| Dividends Declared, Per Share | \$ 0.0800 | \$ 0.0725 | 10.3 | \$ 0. |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 68,967 | 69,352 | (0.6) | 69 |
| Diluted | 69,979 | 72,097 | (2.9) | 70 |

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

| | April 30, 2003 | October 31, 2002 | April 30, 2002 |
|--------------------------------------------------------------------|-------------------|---------------------|-------------------|
| | ----- | ----- | ----- |
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 140,728 | \$ 144,078 | \$123,33 |
| Short-term investments | 97,590 | 43,886 | 93,80 |
| Investment adviser fees and other receivables | 21,287 | 19,502 | 22,69 |
| Other current assets | 3,329 | 6,101 | 2,24 |
| | ----- | ----- | ----- |
| Total current assets | 262,934 | 213,567 | 242,07 |
| | ----- | ----- | ----- |
| Other Assets: | | | |
| Deferred sales commissions | 216,615 | 239,048 | 257,75 |
| Goodwill | 69,467 | 69,467 | 69,35 |
| Other intangible assets, net | 37,094 | 37,296 | 38,29 |
| Long-term investments | 31,323 | 39,982 | 40,60 |
| Equipment and leasehold improvements, net | 12,768 | 13,897 | 14,52 |
| Other assets | 3,191 | 3,362 | 11,50 |
| | ----- | ----- | ----- |
| Total other assets | 370,458 | 403,052 | 432,04 |
| | ----- | ----- | ----- |
| Total assets | \$ 633,392 | \$ 616,619 | \$674,12 |
| | ===== | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current Liabilities: | | | |
| Accrued compensation | \$ 14,993 | \$ 31,899 | \$ 17,02 |
| Accounts payable and accrued expenses | 17,538 | 16,324 | 18,08 |
| Dividend payable | 5,519 | 5,522 | 5,03 |
| Current portion of long-term debt | 7,143 | 7,143 | 7,14 |
| Other current liabilities | 8,767 | 7,382 | 6,87 |
| | ----- | ----- | ----- |
| Total current liabilities | 53,960 | 68,270 | 54,15 |
| | ----- | ----- | ----- |
| Long-term Liabilities: | | | |
| Long-term debt | 117,844 | 124,118 | 209,83 |
| Deferred income taxes | 39,588 | 50,531 | 63,68 |
| | ----- | ----- | ----- |
| Total long-term liabilities | 157,432 | 174,649 | 273,51 |
| | ----- | ----- | ----- |
| Total liabilities | 211,392 | 242,919 | 327,67 |
| | ----- | ----- | ----- |
| Minority interest | 18,339 | 1,398 | 1,32 |
| | ----- | ----- | ----- |
| 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, 68,993,224, 69,102,459 and 69,465,745 shares, respectively | 539 | 540 | 54 |

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| | | | |
|----------------------------------------------|------------|------------|----------|
| Notes receivable from stock option exercises | (3,279) | (3,530) | (2,41) |
| Deferred compensation | (1,550) | (2,100) | (2,65) |
| Accumulated other comprehensive income | 967 | 2,585 | 3,87 |
| Retained earnings | 406,983 | 374,806 | 345,76 |
| | ----- | ----- | ----- |
| Total shareholders' equity | 403,661 | 372,302 | 345,12 |
| | ----- | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 633,392 | \$ 616,619 | \$674,12 |
| | ===== | ===== | ===== |

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Table 1
Asset Flows (in millions)
Twelve Months Ended April 30, 2003

| | |
|---------------------------------------|-----------|
| Assets 4/30/2002 - Beg. of Period | \$ 59,231 |
| Long-term Fund Sales/Inflows | 10,493 |
| Long-term Fund Redemptions/Outflows | (6,942) |
| Long-term Fund Net Exchanges | (234) |
| Long-term Fund Mkt. Change | (3,982) |
| Institutional/HNW Account Inflows | 2,041 |
| Institutional/HNW Account Outflows | (1,464) |
| Retail Managed Account Inflows | 811 |
| Retail Managed Account Outflows | (166) |
| Separate Accounts Market Value Change | (1,219) |
| Change in Money Market Funds | (676) |
| | ----- |
| Net Change | (1,338) |
| | ----- |
| Assets 4/30/2003 - End of Period | \$ 57,893 |
| | ===== |

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

| | April 30, 2003 | October 31, 2002 | % Change | April 30, 2002 | % Change |
|--------------------|-------------------|---------------------|-------------|-------------------|-------------|
| Equity Funds | \$ 23,372 | \$ 22,910 | 2% | \$ 27,540 | -15% |
| Fixed Income Funds | 15,573 | 13,302 | 17% | 10,397 | 50% |
| Bank Loan Funds | 7,156 | 7,687 | -7% | 8,830 | -19% |
| Money Market Funds | 416 | 910 | -54% | 1,092 | -62% |
| Separate Accounts | 11,376 | 10,802 | 5% | 11,372 | 0% |
| | ----- | ----- | ----- | ----- | ----- |
| Total | \$ 57,893 | \$ 55,611 | 4% | \$ 59,231 | -2% |
| | ===== | ===== | ===== | ===== | ===== |

Table 3
Asset Flows by Investment Objective (in millions)

Three Months Ended

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| | April 30, 2003 | April 30, 2002 | April 2003 |
|------------------------------------------------|-------------------|-------------------|---------------|
| Equity Fund Assets - Beginning of Period | \$ 22,401 | \$ 27,459 | \$ 22,91 |
| Sales/Inflows | 527 | 1,195 | 1,23 |
| Redemptions/Outflows | (646) | (600) | (1,29) |
| Exchanges | (63) | 14 | (9) |
| Market Value Change | 1,153 | (528) | 61 |
| Net Change | 971 | 81 | 46 |
| Equity Assets - End of Period | \$ 23,372 | \$ 27,540 | \$ 23,37 |
| Fixed Income Fund Assets - Beginning of Period | 14,601 | 10,302 | 13,30 |
| Sales/Inflows | 1,063 | 533 | 2,68 |
| Redemptions/Outflows | (453) | (337) | (88) |
| Exchanges | 65 | 18 | 12 |
| Market Value Change | 297 | (119) | 34 |
| Net Change | 972 | 95 | 2,27 |
| Fixed Income Assets - End of Period | \$ 15,573 | \$ 10,397 | \$ 15,57 |
| Bank Loan Fund Assets - Beginning of Period | 7,308 | 9,185 | 7,68 |
| Sales/Inflows | 205 | 262 | 36 |
| Redemptions/Outflows | (364) | (538) | (87) |
| Exchanges | (29) | (40) | (9) |
| Market Value Change | 36 | (39) | 8 |
| Net Change | (152) | (355) | (53) |
| Bank Loan Assets - End of Period | \$ 7,156 | \$ 8,830 | \$ 7,15 |
| Long-Term Fund Assets - Beginning of Period | 44,310 | 46,946 | 43,89 |
| Sales/Inflows | 1,795 | 1,990 | 4,27 |
| Redemptions/Outflows | (1,463) | (1,475) | (3,05) |
| Exchanges | (27) | (8) | (5) |
| Market Value Change | 1,486 | (686) | 1,03 |
| Net Change | 1,791 | (179) | 2,20 |
| Total Long-Term Fund Assets - End of Period | \$ 46,101 | \$ 46,767 | \$ 46,10 |
| Separate Accounts - Beginning of Period | 10,881 | 11,334 | 10,80 |
| Institutional/HNW Account Inflows | 284 | 219 | 87 |
| Institutional/HNW Account Outflows | (485) | (388) | (94) |
| Retail Managed Account Inflows | 120 | 204 | 39 |
| Retail Managed Account Outflows | (56) | (15) | (8) |
| Separate Accounts Market Value Change | 632 | 18 | 34 |
| Net Change | 495 | 38 | 57 |
| Separate Accounts - End of Period | \$ 11,376 | \$ 11,372 | \$ 11,37 |
| Money Market Fund Assets - End of Period | 416 | 1,092 | 41 |
| Total Assets Under Management - End of Period | \$ 57,893 | \$ 59,231 | \$ 57,89 |

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