EATON VANCE CORP
Form 10-Q/A
June 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 30, 2005

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to ________

Commission file number 1-8100

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland	04-2718215
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

255 State Street, Boston, Massachusetts 02109

(Address of principal executive offices) (zip code)

(617) 482-8260

(Registrant s telephone number, including area code)

Indicate by check-mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

Shares outstanding as of April 30, 2005:

Voting Common Stock 309,760 shares
Non-Voting Common Stock 131,256,033 shares

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Part I Financial Information

Item 1. Consolidated Financial Statements

Eaton Vance Corp.
Consolidated Balance Sheets (unaudited)

(in thousands)	April 30, 2005	October 31, 2004
Assets		
Current Assets:		
Cash and cash equivalents	$158,814	$147,137
Short-term investments	125,953	210,429
Investment adviser fees and other receivables	32,506	32,249
Other current assets	6,217	4,861
Total current assets	323,490	394,676
Other Assets:		
Deferred sales commissions	140,028	162,259

Goodwill	89,281	89,281
Other intangible assets, net	41,537	43,965
Long-term investments	40,071	36,895
Equipment and leasehold improvements, net	12,224	12,413
Other assets	4,416	4,077
Total other assets	327,557	348,890
Total assets	$651,047	$743,566

See notes to consolidated financial statements.

Eaton Vance Corp.
Consolidated Balance Sheets (unaudited) (continued)

(in thousands, except share figures)	**April 30, 2005**	**October 31, 2004**
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accrued compensation	$ 32,628	$ 52,299
Accounts payable and accrued expenses	24,078	23,789
Dividend payable	10,506	10,660
Other current liabilities	9,144	7,451
Total current liabilities	76,356	94,199
Long-term Liabilities:		
Long-term debt	74,900	74,347
Deferred income taxes	49,617	57,644
Total long-term liabilities	124,517	131,991
Total liabilities	200,873	226,190
Minority interest	4,472	67,870
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, 131,256,033 and 133,271,560 shares, respectively	513	521
Notes receivable from stock option exercises	(2,862)	(2,718)
Deferred compensation	(3,000)	(2,400)
Accumulated other comprehensive income	1,996	1,854
Retained earnings	449,054	452,248
Total shareholders' equity	445,702	449,506
Total liabilities and shareholders' equity	$ 651,047	$ 743,566

See notes to consolidated financial statements.

Eaton Vance Corp.
Consolidated Statements of Income (unaudited)

(in thousands, except per share figures)	Three Months Ended April 30, 2005	Three Months Ended April 30, 2004	Six Months Ended April 30, 2005	Six Months Ended April 30, 2004
Revenue:				
Investment adviser and administration fees	$121,361	$101,162	$240,276	$194,912
Distribution and underwriter fees	33,809	39,637	68,869	79,513
Service fees	25,139	23,017	50,616	44,926
Other revenue	2,195	1,475	4,521	2,913
Total revenue	182,504	165,291	364,282	322,264
Expenses:				
Compensation of officers and employees	43,914	36,793	86,118	74,292
Amortization of deferred sales commissions	16,907	21,869	34,947	42,632
Service fee expense	20,594	18,879	41,766	37,511
Distribution expense	23,194	19,695	46,113	38,474
Other expenses	16,445	11,880	31,032	23,077
Total expenses	121,054	109,116	239,976	215,986
Operating income	61,450	56,175	124,306	106,278
Other income (expense):				
Interest income	1,057	661	1,766	1,449
Interest expense	(371)	(1,364)	(732)	(3,015)
Gain (loss) on investments	77	(83)	87	(78)
Foreign currency gain (loss)	3	(29)	25	(47)
Impairment loss on investments	(1,840)		(1,840)	
Income before income taxes, equity in net income (loss) of affiliates and minority interest	60,376	55,360	123,612	104,587
Income taxes	21,911	19,559	44,764	36,885
Equity in net income (loss) of affiliates, net of tax	370	399	(207)	408
Minority interest	1,208	1,031	2,608	2,128
Net income	$ 37,627	$ 35,169	$ 76,033	$ 65,982
Earnings per share:				
Basic	$ 0.28	$ 0.26	$ 0.57	$ 0.48
Diluted	$ 0.27	$ 0.25	$ 0.53	$ 0.46
Weighted average shares outstanding:				
Basic	132,121	135,533	132,826	135,951
Diluted	142,176	145,391	142,948	145,619

See notes to consolidated financial statements.

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Eaton Vance Corp.
Consolidated Statements of Cash Flows (unaudited)

(in thousands)	Six Months Ended April 30, 2005	2004
Cash and cash equivalents, beginning of period	$147,137	$138,328
Cash Flows from Operating Activities:		
Net income	76,033	65,982
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment loss on investments	1,840	
Loss on investments	143	13
Equity in net (income) loss of affiliates	312	(638)
Dividend received from affiliate	875	
Minority interest	2,608	2,128
Interest on long-term debt	642	1,050
Deferred income taxes	(8,284)	32,237
Tax benefit of stock option exercises	2,676	894
Compensation related to restricted stock issuance	400	800
Depreciation and other amortization	3,979	3,298
Amortization of deferred sales commissions	34,947	42,632
Payment of capitalized sales commissions	(23,306)	(35,976)
Contingent deferred sales charges received	10,608	10,317
Proceeds from the sale of trading securities	88,754	18,924
Purchase of trading securities	(157,408)	(70,015)
Changes in other assets and liabilities:		
Investment adviser fees and other receivables	(1,004)	(2,839)
Other current assets	(1,174)	(22,353)
Other assets	740	709
Accrued compensation	(19,671)	(8,414)
Accounts payable and accrued expenses	4,283	(2,526)
Other current liabilities	1,693	(972)
Net cash provided by operating activities	19,686	35,251
Cash Flows From Investing Activities:		
Additions to equipment and leasehold improvements	(1,362)	(1,635)
Net (increase) decrease in notes receivable from affiliates	(144)	104
Acquisition of subsidiary		(402)
Proceeds from sale of available-for-sale investments	979	745
Purchase of available-for-sale investments	(6,531)	(1,587)
Purchase of management contracts		(245)
Net cash used for investing activities	(7,058)	(3,020)

See notes to consolidated financial statements.

Eaton Vance Corp.
Consolidated Statements of Cash Flows (unaudited) (continued)

(in thousands)	Six Months Ended April 30, 2005	2004
Cash Flows From Financing Activities:		
Credit facility debt issuance costs	(428)	
Repayment of debt		(7,143)

Distributions to minority shareholders	(2,106)	(1,225)
Proceeds from issuance of non-voting common stock	11,402	6,703
Repurchase of non-voting common stock	(73,161)	(42,851)
Dividend paid	(21,305)	(16,341)
Proceeds from the issuance of mutual fund subsidiaries' capital stock	151,500	61,018
Redemption of mutual fund subsidiaries' capital stock	(66,891)	(18,030)
Net cash used for financing activities	(989)	(17,869)
Foreign currency translation adjustment	38	44
Net increase in cash and cash equivalents	11,677	14,406
Cash and cash equivalents, end of period	$ 158,814	$ 152,734
Supplemental Cash Flow Information:		
Interest paid	$ 90	$ 1,817
Income taxes paid	$ 49,960	$ 26,492

See notes to consolidated financial statements.

Eaton Vance Corp.
Notes to Consolidated Financial Statements

(1) Basis of Presentation

In the opinion of management, the accompanying unaudited interim consolidated financial statements of Eaton Vance Corp. (the Company) include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the results for the interim periods in accordance with accounting principles generally accepted in the United States of America. Such financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures have been omitted pursuant to such rules and regulations. As a result, these financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s latest annual report on Form 10-K.

Certain prior period amounts have been reclassified to conform to the current period presentation.

The number of shares used for purposes of calculating earnings per share and all other share and per share data have been adjusted for all periods presented to reflect a two-for-one stock split effective January 14, 2005.

(2) Principles of Consolidation

The accompanying financial statements include the accounts of Eaton Vance Corp. and its wholly and majority owned subsidiaries. The equity method of accounting is used for investments in affiliates in which the Company s ownership ranges from 20 to 50 percent. The Company consolidates all investments in affiliates in which the Company s ownership exceeds 50 percent. The Company provides for minority interests in consolidated companies for which the Company s ownership is less than 100 percent. All material intercompany accounts and transactions have been eliminated.

Effective April 1, 2005, the Company s investment in one of two consolidated short-term income mutual funds dropped below 50 percent. As a result, the Company adopted the equity method of accounting for this investment and deconsolidated the fund. The decreases in short-term investments and minority interest can be attributed to the deconsolidation of the fund. Deconsolidation of the fund had no effect on the net book value of the Company.

(3) Earnings Per Share

In October 2004, the Financial Accounting Standards Board ratified the consensus of the Emerging Issues Task Force (EITF) regarding the effect of contingently convertible debt on diluted earnings per share. EITF 04-08 states that any shares of common stock that may be issued to settle contingently convertible securities must be considered issued in the calculation of diluted earnings per share, regardless of whether the market price trigger (or other contingent feature) has been met. The consensus requires the restatement of diluted earnings per share for all prior periods presented. The implementation of EITF 04-08, as indicated in the table below, reduced diluted earnings per share by less than $0.01 in each period presented.

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The following table provides a reconciliation of net income and common shares used in the basic and diluted earnings per share computations for the three and six month periods ended April 30, 2005 and 2004:

	For the Three Months Ended April 30,		**For the Six Months Ended April 30,**	
(in thousands, except per share data)	**2005**	**2004**	**2005**	**2004**
Net income basic	$ 37,627	$ 35,169	$ 76,033	$ 65,982
Interest adjustment related to contingently convertible debt, net of tax	184	766	371	1,534
Net income diluted	$ 37,811	$ 35,935	$ 76,404	$ 67,516
Weighted-average shares outstanding basic	132,121	135,533	132,826	135,951
Incremental common shares from stock options and restricted stock awards	6,867	4,690	6,934	4,500
Incremental common shares related to contingently convertible debt	3,188	5,168	3,188	5,168
Weighted-average shares outstanding diluted	142,176	145,391	142,948	145,619
Earnings per share:				
Basic	$ 0.28	$ 0.26	$ 0.57	$ 0.48
Diluted	$ 0.27	$ 0.25	$ 0.53	$ 0.46

The Company uses the treasury stock method to account for the dilutive effect of unexercised stock options and unvested restricted stock on diluted earnings per share. Antidilutive incremental common shares related to stock options excluded from the computation of earnings per share were 63,000 and 15,000 for the six months ended April 30, 2005 and 2004, respectively.

(4) Other Intangible Assets

The following is a summary of other intangible assets at April 30, 2005:

April 30, 2005

(dollars in thousands)	**Weighted-average amortization period (in years)**	**Gross carrying amount**	**Accumulated amortization**
Amortizing intangible assets:			
Client relationships acquired	15.9	$49,986	($9,760)
Non-amortizing intangible assets:			
Mutual fund management contract acquired		1,311	
Total		$51,297	($9,760)

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In the second quarter of fiscal 2005, the Company recognized an impairment loss of $0.9 million relating to the loss of client relationships acquired by a majority-owned subsidiary in fiscal 2003. The impairment loss was computed by comparing the net present value of projected client cash flows to the carrying value of the intangible asset at April 30, 2005. The impairment loss is included in other expenses in the Company s Consolidated Statements of Income for the three and six month periods ended April 30, 2005.

(5) Investments

The following is a summary of investments at April 30, 2005:

(in thousands)	**April 30, 2005**
Short-term investments:	
Short-term debt securities	$ 10,058
Investment in affiliate	115,895
Total	$ 125,953
Long-term investments:	
Sponsored funds	$ 20,394
Collateralized debt obligation entities	11,786
Investment in affiliates	6,972
Other investments	919
Total	$ 40,071

In the second quarter of fiscal 2005, the Company recognized a $1.8 million impairment loss related to its investment in one collateralized debt obligation entity. The impairment loss resulted from the effect of tightening credit spreads and higher than forecasted prepayment rates on the Company s investment. The Company continues to earn a management fee on the underlying collateral pool.

(6) Debt

The Company s long-term debt balance at April 30, 2005 is comprised entirely of its 1.5% zero-coupon exchangeable senior notes due in 2031.

(7) Stock-Based Compensation Plans

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, encourages entities to use a fair value-based method in accounting for employee stock-based compensation plans but allows entities to apply the intrinsic value-based method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. Entities that elect the intrinsic value-based method must disclose pro forma net income and earnings per share as if the fair value-based method had been applied for all awards in measuring compensation costs.

The Company continues to apply the intrinsic value method as described in APB No. 25. Had compensation cost for the Company s stock-based compensation plans been determined consistent with the fair value method as described in SFAS No. 123, the Company s net income and earnings per share

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for the three and six month periods ended April 30, 2005 and 2004 would have been reduced to the following pro forma amounts:

	For the Three Months Ended April 30,		**For the Six Months Ended April 30,**	
(in thousands, except per share figures)	**2005**	**2004**	**2005**	**2004**
Net income as reported	$37,627	$35,169	$76,033	$65,982
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	127	256	255	512
Deduct: Total stock-based employee compensation expense determined				

under fair value based method for all awards, net of related tax effects	(5,218)	(4,879)	(11,068)	(9,318)
Pro forma net income	$32,536	$30,546	$65,220	$57,176
Earnings per share:				
Basic as reported	$0.28	$0.26	$0.57	$0.48
Basic pro forma	$0.25	$0.23	$0.49	$0.42
Diluted as reported	$0.27	$0.25	$0.53	$0.46
Diluted pro forma	$0.23	$0.21	$0.46	$0.39

In the first six months of fiscal 2005 and 2004, 45,546 and 171,330 shares, respectively, were issued pursuant to the Company s Restricted Stock Plan. Because these shares are contingently forfeitable, compensation expense is recorded over the forfeiture period. The Company recorded compensation expense of $0.4 million and $0.8 million for the six months ended April 30, 2005 and 2004, respectively.

(8) Common Stock Repurchases

The Company s current share repurchase authorization was announced on April 14, 2005. The Board authorized management to repurchase 8.0 million shares of its non-voting common stock on the open market and in private transactions in accordance with applicable securities laws. The Company s stock repurchase plan is not subject to an expiration date.

In the first six months of fiscal 2005, the Company purchased approximately 2.7 million shares of its non-voting common stock under a previous share repurchase authorization and 0.3 million shares under the current share repurchase authorization. Approximately 7.7 million additional shares may be repurchased under the current authorization.

(9) Regulatory Requirements

Eaton Vance Distributors, Inc. (EVD), a wholly owned subsidiary of the Company and principal underwriter of the Eaton Vance Funds, is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital. For purposes of this rule, EVD had net capital of $23.7 million, which exceeded its minimum net capital requirement of $1.4 million at April 30, 2005. The ratio of aggregate indebtedness to net capital at April 30, 2005 was .87 to 1.

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(10) Income Taxes

The provision for income taxes for the six months ended April 30, 2005 and 2004 consists of the following:

	For the Six Months Ended April 30,	
(in thousands)	**2005**	**2004**
Current:		
Federal	$ 49,531	$ 4,381
State	3,516	267
Deferred:		
Federal	(7,763)	29,947
State	(520)	2,290
Total	$ 44,764	$36,885

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the Company s assets and liabilities. The significant components of deferred income taxes are as follows:

(in thousands)	**April 30, 2005**	**October 31, 2004**

Deferred tax assets:		
Capital loss carryforward	$ 2,838	$ 2,844
Deferred rent	745	829
Differences between book and tax bases of investments	1,424	437
Differences between book and tax bases of accruals	2,007	2,011
Other	756	871
Total deferred tax asset	$ 7,770	$ 6,992
Deferred tax liabilities:		
Deferred sales commissions	$(46,248)	$(51,874)
Accretion on zero-coupon exchangeable notes	(1,555)	(3,746)
Differences between book and tax bases of goodwill and intangibles	(7,252)	(6,630)
Differences between book and tax bases of property	(921)	(1,231)
Unrealized net holding gains on investments	(1,167)	(1,092)
Total deferred tax liability	$(57,143)	$(64,573)
Net deferred tax liability	$(49,373)	$(57,581)

Deferred tax assets and liabilities reflected on the Company s Consolidated Balance Sheets at April 30, 2005 and October 31, 2004 are as follows:

(in thousands)	**April 30, 2005**	**October 31, 2004**
Net current deferred tax asset	$ 244	$ 63
Net non-current deferred tax liability	(49,617)	(57,644)
Net deferred tax liability	$(49,373)	$(57,581)

The exercise of non-qualified stock options resulted in a reduction of taxes payable of approximately $2.7 million and $0.9 million for the six months ended April 30, 2005 and 2004, respectively. Such benefit has been reflected in shareholders equity.

(11) Comprehensive Income

Total comprehensive income includes net income and other comprehensive income, net of tax. The components of comprehensive income for the six months ended April 30, 2005 and 2004 are as follows:

	For the Six Months Ended April 30,	
(in thousands)	**2005**	**2004**
Net income	$76,033	$65,982
Net unrealized gains on available-for-sale securities, net of income taxes of $61 and $228, respectively	118	417
Foreign currency translation adjustments, net of income taxes of $13 and $18, respectively	26	26
Comprehensive income	$76,177	$66,425

(12) Contingencies

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, information technology agreements, distribution agreements and service agreements. The Company has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Company s by-laws. Certain agreements do not contain any limits on the Company s liability and, therefore, it is not possible to estimate the Company s potential liability under these indemnities. In certain cases, the Company has recourse against third parties with respect to these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

The Company and its subsidiaries are subject to various legal proceedings. In the opinion of management, after discussions with legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the consolidated financial condition or results of operations of the Company.

(13) Recent Accounting Developments

In March 2004, the FASB ratified the consensus of the EITF regarding the recognition and measurement of other-than-temporary impairments of certain investments. The effective date of the recognition and measurement guidance in EITF 03-01 has been delayed until the implementation guidance provided by a FASB staff position on the issue has been finalized. The disclosure guidance was unaffected by the delay and is effective for fiscal years ending after June 15, 2004. The Company implemented the disclosure provisions of EITF 03-01 in its annual financial statements for the fiscal year ended October 31, 2004 and does not anticipate that the implementation of the recognition and measurement guidance, when released, will have a material effect on the Company s financial statements.

In December 2004, the FASB revised SFAS No. 123 (SFAS No. 123), requiring public companies to recognize the cost resulting from all share-based payment transactions in their financial statements based on the grant-date fair value of those awards. The Company intends to apply the modified version of retrospective application for periods prior to the required effective date and will adjust results on a basis consistent with the pro forma disclosures previously made under SFAS No. 123. The revised statement is effective for the Company s first fiscal quarter beginning November 1, 2005. Had the Company implemented the provisions of SFAS No. 123 as revised for the six months ended April 30, 2005 and 2004, diluted earnings per share would have been reduced to $0.46 and $0.39, respectively.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Item includes statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, intentions or strategies regarding the future. All statements, other than statements of historical facts included in this Form 10-Q regarding our financial position, business strategy and other plans and objectives for future operations, are forward-looking statements. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations reflected in such forward-looking statements will prove to have been correct or that we will take any actions that may presently be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the Competitive Conditions and Risk Factors section of this Form 10-Q. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.

General

The Company s principal business is creating, marketing and managing investment companies (funds) and providing investment management and counseling services to high-net-worth individuals and institutions. The Company s long-term strategy is to develop value-added core competencies in a range of investment disciplines and to offer industry-leading investment products and services across multiple distribution channels. In executing this strategy, the Company has developed a broadly diversified product line and a powerful marketing, distribution and customer service capability.

The Company is a market leader in a number of investment areas, including tax-managed equity, value equity, equity income, floating-rate bank loan, municipal bond and high-yield bond investing. The diversified offerings of Eaton Vance and its affiliates offer fund shareholders, institutional investors and private investment counsel clients a wide range of products and services designed and managed to generate attractive risk-adjusted returns over the long-term.

The Company s marketing strategy is to distribute these products and retail managed accounts primarily through financial intermediaries in the advice channel. The Company has a broad reach in this marketplace, with distribution partners including national wirehouses, regional broker/dealers, independent broker/dealers, independent financial advisory firms, banks and insurance companies. Eaton Vance supports these distribution partners with a team of more than 146 regional and Boston-based representatives who are dedicated to meeting the needs of the Company s partners and clients across the country. Specialized sales and marketing teams provide the increasingly sophisticated information required for distributing privately placed funds, retail managed accounts, retirement products and charitable giving vehicles.

The Company is also committed to a strategy of expanding distribution to reach institutional and high-net-worth clients who access investment advice outside of traditional retail broker/dealer channels. The Company and its subsidiaries, including Atlanta Capital Management Company, LLC, Fox Asset Management LLC and Parametric Portfolio Associates LLC, serve a broad range of clients in the institutional marketplace, including Taft-Hartley plans, foundations, endowments and defined contribution plans for individuals, corporations and municipalities. Specialized sales teams at each of the Company s affiliates focus exclusively on developing relationships in this market and deal directly with these clients, often on the basis of independent referrals.

The Company s revenue is primarily derived from investment adviser, administration, distribution and service fees received from the Eaton Vance funds and investment adviser fees received from separate accounts. Fees paid to the Company are based primarily on the value of the investment portfolios managed by the Company and fluctuate with changes in the total value of the assets under management. Such fees are recognized over the period that the Company manages these assets. The Company s major expenses are employee compensation, the amortization of deferred sales commissions and distribution-related expenses.

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to investments, deferred sales commissions, intangible assets, income taxes and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Assets Under Management

Assets under management of $98.8 billion on April 30, 2005 were $13.7 billion or 16 percent higher than the $85.1 billion reported a year earlier. Long-term fund net inflows contributed $8.4 billion to ending assets under management over the last twelve month period, including $4.5 billion of open end and other fund net inflows and $3.9 billion of successful closed-end fund offerings (including leverage). Separate account net inflows contributed $0.8 billion, reflecting $1.3 billion of retail managed account net inflows offset by $0.5 billion of institutional and high-net-worth net outflows. The Company also added $1.9 billion to assets under management in July of 2004 with the strategic acquisition of the investment counsel assets of Deutsche Bank s Private Counsel Boston office. Market price appreciation, reflecting recovering equity markets, contributed $2.6 billion.

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Ending Assets Under Management by Investment Objective

	April 30,		
(in billions)	**2005**	**2004**	**% Change**
Equity assets	$58.1	$50.8	14%
Fixed income assets	22.2	21.5	3%
Floating-rate income assets	18.5	12.8	45%
Total	$98.8	$85.1	16%

Equity assets represented 59 percent of total assets under management at April 30, 2005, down from 60 percent at April 30, 2004. Equity funds managed for tax efficiency totaled $30.1 billion and $27.7 billion at April 30, 2005 and 2004, respectively. Fixed income assets, including money market funds, represented 22 percent of total assets under management at April 30, 2005, down from 25 percent at April 30, 2004. Fixed income assets include $11.1 billion and $10.6 billion of tax-exempt municipal bond funds at April 30, 2005 and 2004, respectively. Floating-rate income assets represented 19 percent of total assets under management at April 30, 2005, up from 15 percent at April 30, 2004. The shift in asset mix from fixed income to equity and floating-rate income reflects investor response to continued improvements in the equity markets and the rise in short-term interest rates.

Long-Term Fund and Separate Account Net Flows

	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
(in billions)	**2005**	**2004**	**% Change**	**2005**	**2004**	**% Change**
Long-term funds:						
Closed-end funds	$1.0	$1.1	-9%	$1.9	$4.3	-56%
Open-end and other funds	1.0	0.7	43%	1.7	2.1	-19%
Total long-term fund net inflows	2.0	1.8	11%	3.6	6.4	-44%
Institutional/HNW[1] accounts	(0.4)	0.3	NM [2]	(1.1)	1.1	NM
Retail managed accounts	0.5	0.2	150%	0.9	0.4	125%
Total separate account net inflows	0.1	0.5	-80%	(0.2)	1.5	NM
Total net inflows	$2.1	$2.3	-9%	$3.4	$7.9	-57%

[1] *High-net-worth (HNW)*
[2] *Not meaningful (NM)*

Long-term fund net inflows increased to $2.0 billion in the second quarter of fiscal 2005 from $1.8 billion in the same period last year. Closed-end fund offerings contributed significantly to net inflows in both periods, with $1.0 billion in closed-end fund assets added in the second quarter of fiscal 2005 and $1.1 billion added in the second quarter of fiscal 2004. Open-end and other long-term fund net inflows of $1.0 billion and $0.7 billion for the second quarters of fiscal 2005 and 2004, respectively, reflect gross inflows of $3.6 billion and $3.0 billion, respectively, net of redemptions of $2.6 billion and $2.3 billion, respectively. Long-term fund redemptions were 14 percent of average long-term fund assets under management in both the second quarter of fiscal 2005 and 2004. The industry average, by comparison, exceeded 20 percent of average long-term fund assets under management for each of the last two years.

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The Company experienced net inflows of separate account assets under management (including retail managed accounts) of $0.1 billion in the second quarter of fiscal 2005 compared to net inflows of $0.5 billion in the second quarter of fiscal 2004. Retail managed account net flows were positive for both the second quarter and first half of fiscal 2005, increasing to $0.5 billion and $0.9 billion, respectively, compared to $0.2 billion and $0.4 billion, respectively for the same periods a year ago. Retail managed account progress, however, was offset by institutional and high-net-worth account net outflows of $0.4 billion and $1.1 billion in the second quarter and first half of fiscal 2005, respectively, compared to net inflows of $0.3 billion and $1.1 billion for the same periods a year ago. Net outflows of institutional and high-net-worth accounts in the second quarter and first half of fiscal 2005 reflect client withdrawals due to management turnover at Fox Asset Management and institutional net outflows at Atlanta Capital associated with one large public fund client that expanded its stable of growth managers and reallocated a significant portion of its assets. In a sequential quarter over quarter comparison, institutional and high-net-worth net outflows slowed considerably, dropping to $0.4 billion in the second quarter of fiscal 2005 from $0.7 billion in the first quarter of fiscal 2005.

The following table summarizes the asset flows by investment objective for the three and six month periods ended April 30, 2005 and 2004:

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Asset Flows by Investment Objective

(in billions)	For the Three Months Ended April 30, 2005	For the Three Months Ended April 30, 2004	% Change	For the Six Months Ended April 30, 2005	For the Six Months Ended April 30, 2004	% Change
Equity fund assets beginning	$39.3	$33.2	18%	$36.9	$ 28.9	28 %
Sales/inflows	1.7	2.3	-26%	3.8	5.7	-33%
Redemptions/outflows	(1.2)	(0.9)	33%	(2.2)	(1.6)	38%
Exchanges			NM		0.1	NM
Market value change	(0.7)	(0.1)	NM	0.6	1.4	-57%
Equity fund assets ending	39.1	34.5	13%	39.1	34.5	13%
Fixed income fund assets beginning	17.7	18.3	-3%	17.6	17.8	-1%
Sales/inflows	1.2	0.7	71%	1.8	1.4	29%
Redemptions/outflows	(0.6)	(0.7)	-14%	(1.2)	(1.2)	0%
Exchanges		(0.1)	NM		(0.2)	NM
Market value change	(0.3)	(0.5)	-40%	(0.2)	(0.1)	100%
Fixed income fund assets ending	18.0	17.7	2%	18.0	17.7	2%
Floating-rate fund assets beginning	15.6	11.2	39%	15.0	9.5	58%
Sales/inflows	1.7	1.2	42%	2.9	3.2	-9%
Redemptions/outflows	(0.8)	(0.7)	14%	(1.5)	(1.1)	36%
Exchanges			NM		0.1	NM
Market value change	(0.1)	0.1	NM		0.1	NM
Floating-rate fund assets ending	16.4	11.8	39%	16.4	11.8	39%
Total long-term fund assets beginning	72.6	62.7	16%	69.5	56.2	24%
Sales/inflows	4.6	4.2	10%	8.5	10.3	-17%
Redemptions/outflows	(2.6)	(2.3)	13%	(4.9)	(3.9)	26%
Exchanges		(0.1)	NM			NM
Market value change	(1.1)	(0.5)	120%	0.4	1.4	-71%
Total long-term fund assets ending	73.5	64.0	15%	73.5	64.0	15%
Separate account assets beginning	25.1	20.5	22%	24.5	18.4	33%
Inflows HNW and institutional	0.7	0.8	-13%	1.5	1.9	-21%
Outflows HNW and institutional	(1.1)	(0.4)	175%	(2.6)	(0.8)	225%
Inflows retail managed account	0.9	0.5	80%	1.7	1.0	70%
Outflows retail managed account	(0.4)	(0.4)	0%	(0.9)	(0.6)	50%
Market value change	(0.2)	(0.3)	-33%	0.8	0.8	0%
Separate account assets ending	25.0	20.7	21%	25.0	20.7	21%
Money market fund assets ending	0.3	0.4	-25%	0.3	0.4	-25%
Assets under management ending	$98.8	$85.1	16%	$98.8	$ 85.1	16%

Ending Assets Under Management by Asset Class

(in billions)	April 30, 2005	2004	% Change
Class A [1]	$16.9	$13.9	22%
Class B [2]	8.2	9.2	11%
Class C [3]	7.3	6.8	7%
Class I [4]	2.4	1.5	60%
Private funds	19.1	17.7	8%
Closed-end funds	17.8	13.4	33%
Other	2.1	1.9	11%
Total fund assets	73.8	64.4	15%
HNW and institutional account assets	19.1	16.4	16%
Retail managed account assets	5.9	4.3	37%
Total separate account assets	25.0	20.7	21%
Total	$98.8	$85.1	16%

(1) *Share class includes Eaton Vance Advisers Senior Floating-Rate Fund, an interval fund.*
(2) *Share class includes Eaton Vance Prime Rate Reserves, an interval fund.*
(3) *Share class includes Eaton Vance Classic Senior Floating-Rate Fund, an interval fund.*
(4) *Share class includes Eaton Vance Institutional Senior Floating-Rate Fund, an interval fund.*

The Company currently sells its sponsored mutual funds under four primary pricing structures: front-end load commission (Class A); spread-load commission (Class B); level-load commission (Class C); and institutional no-load (Class I). The Company waives the sales load on Class A shares when sold under a fee-based broker/dealer program. In such cases, the shares are sold at net asset value. The private fund asset category includes both private funds and collateralized debt obligation entities.

Fund assets decreased to 75 percent of total assets under management at April 30, 2005 from 76 percent a year ago, while separate account assets increased to 25 percent of total assets under management at April 30, 2005 from 24 percent a year ago. Class A share assets increased to 17 percent of total assets under management at April 30, 2005 from 16 percent of total assets under management at April 30, 2004, while Class B shares dropped to 8 percent from 11 percent of total assets under management over the same time period. The shift from Class B share assets to Class A share assets reflects the overall increasing popularity of Class A shares in the industry and the declining popularity of Class B shares as an asset class. Private funds and closed-end funds represented 37 percent of the Company s fund assets under management at both April 30, 2005 and 2004.

The shift in asset mix experienced by the Company over the last twelve month period had a significant impact on the Company s revenue and expense structure. The decline in Class B share sales and assets resulted in a reduction in both distribution income (distribution plan payments received) and amortization of deferred sales commissions. As a result of the decline in distribution plan payments received, the Company s effective fee rate, defined as total revenue as a percentage of average assets under management, declined from 78 basis points in the second quarter of fiscal 2004 to 74 basis points in the second quarter of fiscal 2005. The decrease in distribution plan payments was largely offset by a 23 percent decrease in the amortization of deferred sales commissions over the same period. The Company s operating margin was 34 percent in both the second quarter of fiscal 2005 and the second quarter of fiscal 2004.

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Average Assets Under Management by Asset Class

(in billions)	For the Three Months Ended April 30, 2005	2004	% Change	For the Six Months Ended April 30, 2005	2004	% Change
Class A [1]	$ 16.6	$ 11.2	48%	$ 16.3	$ 10.1	61%
Class B [2]	8.4	11.8	29%	8.5	12.4	31%
Class C [3]	7.3	6.7	9%	7.3	6.5	12%
Class I [4]	2.3	1.4	64%	2.2	1.2	83%
Private funds	19.4	18.0	8%	19.4	17.8	9%
Closed-end funds	17.4	12.8	36%	16.8	11.5	46%

	For the Three Months Ended April 30,			For the Six Months Ended April 30,		
Other	2.3	2.0	15%	2.2	2.0	10%
Total fund assets	73.7	63.9	15%	72.7	61.5	18%
HNW and institutional account assets	19.4	16.5	18%	19.6	15.9	23%
Retail managed account assets	5.8	4.3	35%	5.5	4.1	34%
Total separate account assets	25.2	20.8	21%	25.1	20.0	26%
Total	$ 98.9	$ 84.7	17%	$ 97.8	$ 81.5	20%

(1) Share class includes Eaton Vance Advisers Senior Floating-Rate Fund, an interval fund.
(2) Share class includes Eaton Vance Prime Rate Reserves, an interval fund.
(3) Share class includes Eaton Vance Classic Senior Floating-Rate Fund, an interval fund.
(4) Share class includes Eaton Vance Institutional Senior Floating-Rate Fund, an interval fund.

The average assets under management presented in the table above represent a monthly average by asset class. This table is intended to provide useful information in the analysis of the Company s revenue and asset-based distribution expenses. With the exception of the Company s separate account investment adviser fees, which are generally calculated as a percentage of either beginning or ending quarterly assets, the Company s investment adviser, administration, distribution and service fees are calculated primarily as a percentage of average daily assets.

Results of Operations

	For the Three Months Ended April 30,			For the Six Months Ended April 30,
(in thousands)	**2005**	**2004**	**% Change**	