

EATON VANCE CORP
Form 10-Q
June 05, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934
For the quarterly period ended April 30, 2008

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 no. 1-8100

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

04-2718215
(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 No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer []
Non-accelerated filer [] (Do not check if smaller reporting company) Smaller reporting company []

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

Shares outstanding as of April 30, 2008:

Voting Common Stock 371,386 shares

Non-Voting Common Stock 115,407,502 shares

Eaton Vance Corp.

Form 10-Q

For the Six Months Ended April 30, 2008

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Part I - Financial Information
Item 1. Consolidated Financial Statements**Eaton Vance Corp.****Consolidated Balance Sheets (unaudited)**

| <i>(in thousands)</i> | April 30, 2008 | October 31, 2007 |
|--|---------------------------|-----------------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 300,131 | \$ 434,957 |
| Short-term investments | 50,574 | 50,183 |
| Investment advisory fees and other receivables | 109,196 | 116,979 |
| Other current assets | 6,426 | 8,033 |
| Total current assets | 466,327 | 610,152 |
| Other Assets: | | |
| Deferred sales commissions | 85,329 | 99,670 |
| Goodwill | 103,003 | 103,003 |
| Other intangible assets, net | 34,633 | 35,988 |
| Long-term investments | 93,696 | 86,111 |
| Deferred income taxes | 30,793 | - |
| Equipment and leasehold improvements, net | 26,426 | 26,247 |
| Other assets | 5,183 | 5,660 |
| Total other assets | 379,063 | 356,679 |
| Total assets | \$ 845,390 | \$ 966,831 |

See notes to consolidated financial statements.

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

| <i>(in thousands, except share figures)</i> | April 30, 2008 | October 31, 2007 |
|--|---------------------------|-----------------------------|
| Liabilities and Shareholders Equity | | |
| Current Liabilities: | | |
| Accrued compensation | \$ 61,647 | \$ 106,167 |
| Accounts payable and accrued expenses | 44,201 | 66,955 |
| Dividends payable | 17,366 | 17,780 |
| Taxes payable | 2,027 | 21,107 |
| Deferred income taxes | 20,148 | - |
| Other current liabilities | 5,568 | 5,690 |
| Total current liabilities | 150,957 | 217,699 |
| Long-Term Liabilities: | | |
| Long-term debt | 500,000 | 500,000 |
| Taxes payable | 1,039 | - |
| Deferred income taxes | - | 11,740 |
| Total long-term liabilities | 501,039 | 511,740 |
| Total liabilities | 651,996 | 729,439 |
| Minority interest | 9,157 | 8,224 |
| Commitments and contingencies (See Note 14) | - | - |
| Shareholders Equity: | | |
| Voting Common Stock, par value \$0.00390625 per share: | | |
| Authorized, 1,280,000 shares | 1 | 1 |
| Issued and outstanding, 371,386 shares | | |
| Non-Voting Common Stock, par value \$0.00390625 | | |
| per share: | | |
| Authorized, 190,720,000 shares | | |
| Issued and outstanding, 115,407,502 and 117,798,378 | 451 | 460 |
| shares, respectively | | |
| Notes receivable from stock option exercises | (5,039) | (2,342) |
| Accumulated other comprehensive income | 996 | 3,193 |
| Retained earnings | 187,828 | 227,856 |
| Total shareholders' equity | 184,237 | 229,168 |
| Total liabilities and shareholders' equity | \$ 845,390 | \$ 966,831 |

See notes to consolidated financial statements.

Eaton Vance Corp.**Consolidated Statements of Income (unaudited)**

| | Three Months Ended April 30, 2008 | 2007 | Six Months Ended April 30, 2008 | 2007 |
|---|--|----------------|--|----------------|
| <i>(in thousands, except per share figures)</i> | | | | |
| Revenue: | | | | |
| Investment advisory and administration fees | \$ 201,738 | \$ 185,437 | \$ 412,424 | \$ 354,834 |
| Distribution and underwriter fees | 32,497 | 36,053 | 69,536 | 71,965 |
| Service fees | 38,057 | 37,228 | 78,860 | 73,240 |
| Other revenue | 1,134 | 1,466 | 2,402 | 3,321 |
| Total revenue | 273,426 | 260,184 | 563,222 | 503,360 |
| Expenses: | | | | |
| Compensation of officers and employees | 75,244 | 79,161 | 157,171 | 157,143 |
| Distribution expense | 29,184 | 77,884 | 61,360 | 176,537 |
| Service fee expense | 31,441 | 28,609 | 64,898 | 56,684 |
| Amortization of deferred sales commissions | 12,194 | 13,552 | 25,618 | 26,971 |
| Fund expenses | 5,910 | 4,455 | 12,426 | 8,674 |
| Other expenses | 23,308 | 20,231 | 46,437 | 39,062 |
| Total expenses | 177,281 | 223,892 | 367,910 | 465,071 |
| Operating income | 96,145 | 36,292 | 195,312 | 38,289 |
| Other Income (Expense): | | | | |
| Interest income | 2,745 | 2,058 | 7,125 | 4,335 |
| Interest expense | (8,405) | (57) | (16,819) | (84) |
| Gains/(losses) on investments | (118) | 965 | 235 | 1,673 |
| Unrealized gains/(losses) on investments | 384 | - | (437) | - |
| Foreign currency losses | (12) | (61) | (32) | (133) |
| Income before income taxes, minority interest and equity in net income of affiliates | 90,739 | 39,197 | 185,384 | 44,080 |
| Income taxes | (33,909) | (15,098) | (70,932) | (16,971) |
| Minority interest | (4,042) | (1,420) | (5,404) | (2,876) |

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| | | | | |
|--|-----------|-----------|------------|-----------|
| Equity in net income of affiliates, net of tax | 374 | 414 | 2,042 | 1,419 |
| Net income | \$ 53,162 | \$ 23,093 | \$ 111,090 | \$ 25,652 |
| Earnings Per Share: | | | | |
| Basic | \$ 0.46 | \$ 0.18 | \$ 0.96 | \$ 0.20 |
| Diluted | \$ 0.43 | \$ 0.17 | \$ 0.89 | \$ 0.19 |
| Weighted Average Shares Outstanding: | | | | |
| Basic | 115,421 | 125,937 | 115,849 | 126,094 |
| Diluted | 123,271 | 135,163 | 125,537 | 135,219 |
| Dividends Declared Per Share | \$ 0.15 | \$ 0.12 | \$ 0.30 | \$ 0.24 |

See notes to consolidated financial statements.

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Eaton Vance Corp.

Consolidated Statements of Cash Flows (unaudited)

| <i>(in thousands)</i> | Six Months Ended | |
|---|-------------------------|-------------|
| | April 30, 2008 | 2007 |
| Cash and cash equivalents, beginning of period | \$434,957 | \$206,705 |
| Cash Flows from Operating Activities: | | |
| Net income | 111,090 | 25,652 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| (Gains)/losses on investments | 352 | (2,362) |
| Amortization of long-term investments | 928 | 946 |
| Equity in net income of affiliates | (3,228) | (2,122) |
| Dividends received from affiliates | 3,750 | 268 |
| Minority interest | 5,404 | 2,876 |
| Interest on long-term debt and amortization of debt issuance costs | 673 | 43 |
| Deferred income taxes | (19,601) | (2,611) |
| Excess tax benefit of stock option exercises | (6,037) | (4,795) |
| Stock-based compensation | 20,668 | 22,476 |
| Depreciation and other amortization | 6,754 | 4,978 |
| Amortization of deferred sales commissions | 25,618 | 26,969 |
| Payment of capitalized sales commissions | (18,064) | (30,472) |
| Contingent deferred sales charges received | 6,793 | 6,606 |

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| | | |
|--|----------|----------|
| Proceeds from the sale of trading investments | 6,737 | 49,412 |
| Purchase of trading investments | (25,524) | (28,548) |
| Changes in other assets and liabilities: | | |
| Investment advisory fees and other receivables | 7,767 | (18,254) |
| Other current assets | 101 | (350) |
| Other assets | (85) | (1,906) |
| Accrued compensation | (44,499) | (28,533) |
| Accounts payable and accrued expenses | (22,684) | 1,681 |
| Taxes payable - current | (18,043) | 6,744 |
| Other current liabilities | (129) | 4,745 |
| Taxes payable - long-term | 1,035 | - |
| Net cash provided by operating activities | 39,776 | 33,443 |
| Cash Flows From Investing Activities: | | |
| Additions to equipment and leasehold improvements | (5,583) | (3,810) |
| Proceeds from sale of available-for-sale investments | 16,462 | 5,421 |
| Purchase of available-for-sale investments | (11,533) | (7,925) |
| Net cash used for investing activities | (654) | (6,314) |

See notes to consolidated financial statements.

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Eaton Vance Corp.

Consolidated Statements of Cash Flows (unaudited) (continued)

| <i>(in thousands)</i> | Six Months Ended | |
|--|-------------------------|-------------|
| | April 30, | 2007 |
| | 2008 | |
| Cash Flows From Financing Activities: | | |
| Distributions to minority shareholders | (4,150) | (2,915) |
| Excess tax benefit of stock option exercises | 6,037 | 4,795 |
| Proceeds from issuance of Non-Voting Common Stock | 19,862 | 24,127 |
| Repurchase of Common Stock | - | (146) |
| Repurchase of Non-Voting Common Stock | (161,071) | (74,945) |
| Principal repayments on notes receivable from stock | | |
| option exercises | 399 | 411 |
| Dividends paid | (35,134) | (30,355) |
| Proceeds from the issuance of mutual fund subsidiaries | | |
| capital stock | 199 | - |
| Redemption of mutual fund subsidiaries - capital stock | (52) | - |
| Net cash used for financing activities | (173,910) | (79,028) |
| Effect of currency rate changes on cash and cash equivalents | (38) | 62 |

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| | | |
|--|------------|------------|
| Net decrease in cash and cash equivalents | (134,826) | (51,837) |
| Cash and cash equivalents, end of period | \$ 300,131 | \$ 154,868 |
| Supplemental Cash Flow Information: | | |
| Interest paid | \$ 16,320 | \$ 41 |
| Income taxes paid | \$ 108,734 | \$ 8,808 |
| Supplemental Non-Cash Flow Information: | | |
| Exercise of stock options through issuance of notes receivable | \$ 3,096 | \$ 1,148 |

See notes to consolidated financial statements.

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Eaton Vance Corp.

Notes to Consolidated Financial Statements (unaudited)

(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 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.

(2) Principles of Consolidation

The consolidated financial statements include the accounts of the Company 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, or in instances in which the Company is able to exercise significant influence, but not control, over the investee (such as representation on the investee s board of directors). The Company consolidates all investments in affiliates in which the Company s ownership exceeds 50 percent or where the Company has control. 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.

(3) Reclassifications and Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. Certain fees have been reclassified from distribution and underwriter fees to service fees. Certain fees earned on Class A shares have been reclassified from distribution expenses to distribution and underwriter fees. Taxes payable have been reclassified from other current liabilities to taxes payable.

(4) Earnings Per Share

The following table provides a reconciliation of common shares used in the earnings per basic share and earnings per diluted share computations for the three and six months ended April 30, 2008 and 2007:

| | For the Three | | For the Six | |
|---|-------------------|---------|-------------------|---------|
| | Months Ended | | Months Ended | |
| | April 30, 2008 | 2007 | April 30, 2008 | 2007 |
| <i>(in thousands, except per share data)</i> | | | | |
| Weighted-average shares outstanding basic | 115,421 | 125,937 | 115,849 | 126,094 |
| Incremental common shares from stock options and restricted stock awards | 7,850 | 9,226 | 9,688 | 9,125 |
| Weighted-average shares outstanding diluted | 123,271 | 135,163 | 125,537 | 135,219 |
| Earnings per share: | | | | |
| Basic | \$ 0.46 | \$ 0.18 | \$ 0.96 | \$ 0.20 |
| Diluted | \$ 0.43 | \$ 0.17 | \$ 0.89 | \$ 0.19 |

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The Company uses the treasury stock method to account for the dilutive effect of unexercised stock options and unvested restricted stock on earnings per diluted share. Antidilutive incremental common shares related to stock options excluded from the computation of earnings per diluted share were approximately 3,354,000 and 27,000 for the six months ended April 30, 2008 and 2007, respectively.

(5) Other Intangible Assets

The following is a summary of other intangible assets at April 30, 2008:

| <i>(dollars in thousands)</i> | Weighted-average amortization period (in years) | Gross carrying amount | Accumulated amortization | Net carrying amount |
|---|--|--------------------------------------|-------------------------------------|------------------------------------|
| Amortizing intangible assets: | | | | |
| Client relationships acquired | 12.2 | \$58,404 | \$26,579 | \$31,825 |
| Non-amortizing intangible assets: | | | | |
| Mutual fund management contract acquired | | 2,808 | - | 2,808 |
| Total | | \$61,212 | \$26,579 | \$34,633 |

(6) Investments

The following is a summary of investments at April 30, 2008:

| <i>(in thousands)</i> | April 30, 2008 |
|--------------------------------|---------------------------|
| Short-term investments: | |
| Sponsored fund | \$ 50,574 |
| Total | \$ 50,574 |

| <i>(in thousands)</i> | April 30, 2008 |
|---|---------------------------|
| Long-term investments: | |
| Debt securities | \$ 1,256 |
| Equity securities | 20,437 |
| Sponsored funds | 34,293 |
| Collateralized debt obligation entities | 18,034 |
| Investments in affiliates | 18,711 |
| Other investments | 965 |
| Total | \$ 93,696 |

(7) Long-Term Debt

The Company's long-term debt balance at April 30, 2008 is comprised entirely of its 6.5% ten-year senior notes due October 2, 2017. Interest is payable semi-annually in arrears on April 2 and October 2 of each year.

As of April 30, 2008, the Company had no borrowings against its \$200.0 million credit facility.

(8) Stock-Based Compensation Plans

The Company has four stock-based compensation plans, which are described below. The Company recognized total compensation cost related to those plans of \$20.7 million and \$22.5 million for the six months ended April 30, 2008 and 2007, respectively. The total income tax benefit recognized for stock-based compensation arrangements was \$5.4 million and \$6.4 million for the six months ended April 30, 2008 and 2007, respectively.

Stock Option Plan

The Company has a Stock Option Plan (the 2007 Plan) administered by the Compensation Committee of the Board of Directors under which options to purchase shares of the Company's Non-Voting Common Stock may be granted to all eligible employees and are automatically granted to independent directors of the Company. No stock options may be granted under the 2007 Plan with an exercise price that is less than the closing fair market value of the stock on the day the stock option is granted. The options granted under the 2007 Plan expire ten years from the date of grant; options to employees vest over a five-year period as stipulated in each grant. The 2007 Plan contains provisions that, in the event of a change of control of the Company as defined in the 2007 Plan, may accelerate the vesting of awards. A total of 4.0 million shares have been reserved for issuance under the 2007 Plan. Through April 30, 2008, options to purchase 3.4 million shares have been issued pursuant to the 2007 Plan.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management's judgment. The Company's stock volatility assumption is based upon its historical stock price fluctuations. The Company has no reason to believe that its future stock price volatility will differ from the past. The Company uses historical data to estimate option forfeiture rates and the expected term of options granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average fair values per share of options granted during the six months ended April 30, 2008 and 2007 using the Black-Scholes option pricing model were as follows:

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| | April 30, 2008 | 2007 |
|--|-------------------|--------------|
| Weighted average grant date fair value | | |
| of options granted | \$14.83 | \$9.53 |
| Assumptions: | | |
| Dividend yield | 1.2% to 1.9% | 1.3% to 1.5% |
| Volatility | 25% to 28% | 26% to 27% |
| Risk-free interest rate | 3.6% to 4.4% | 4.6% to 4.8% |
| Expected life of options | 6.8 to 7.8 years | 6.8 years |

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Stock option transactions under the 2007 Plan and predecessor plans are summarized as follows:

For the Six Months Ended April 30, 2008

| | Shares | Price | Weighted | |
|---|---------|---------|-------------|-----------|
| | | | Average | Average |
| | | | Remaining | Aggregate |
| | | | Contractual | Intrinsic |
| <i>(share and intrinsic value figures in thousands)</i> | | | Term | Value |
| Options outstanding, beginning of period | 27,579 | \$19.99 | | |
| Granted | 3,377 | 48.09 | | |
| Exercised | (1,100) | 14.80 | | |
| Forfeited/expired | (171) | 31.31 | | |
| Options outstanding, end of period | 29,685 | \$23.31 | 6.2 | \$433,726 |
| Options exercisable, end of period | 17,696 | \$17.39 | 4.9 | \$340,381 |
| Vested or expected to vest | 29,205 | \$23.17 | 6.2 | \$429,992 |

The Company received \$13.2 million and \$19.6 million related to the exercise of options for the six months ended April 30, 2008 and 2007, respectively. Options exercised represent newly issued shares. The total intrinsic value of options exercised during the six months ended April 30, 2008 and 2007 was \$27.7 million and \$25.3 million, respectively. The total fair value of options that vested during the six months ended April 30, 2008 was \$23.6 million.

The Company recorded compensation expense of \$18.9 million and \$21.3 million for the six months ended April 30, 2008 and 2007, respectively, relating to the 2007 Plan and successor plans. As of April 30, 2008, there was \$90.2 million of deferred compensation expense related to stock options, which is expected to be recognized over a weighted-average period of 3.4 years.

Restricted Stock Plan

The Company has a Restricted Stock Plan administered by the Compensation Committee of the Board of Directors under which restricted stock may be granted to key employees. Shares of the Company's Non-Voting Common Stock granted under the plan are subject to restrictions on transferability and carry the risk of forfeiture, based in each case on such considerations as the Compensation Committee shall determine. Unless the Compensation Committee determines otherwise, restricted stock that is still subject to restrictions upon termination of employment shall be forfeited. Restrictions on shares granted lapse five years from date of grant. A total of 2.0 million shares have been reserved under the plan. Through April 30, 2008, 0.9 million shares have been issued pursuant to this plan.

In the six months ended April 30, 2008 and 2007, 29,965 shares and 40,209 shares were issued pursuant to this plan at a weighted average fair value of \$48.39 and \$24.87 per share, respectively. Because these shares are contingently forfeitable, compensation expense is recorded over the forfeiture period. The Company recorded compensation expense of \$0.7 million and \$0.5 million for the six months ended April 30, 2008 and 2007, respectively, relating to shares issued pursuant to this plan. As of April 30, 2008, there was \$2.9 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.4 years.

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A summary of the Company's restricted stock activity for the six months ended April 30, 2008 is presented below:

For the Six Months Ended April 30, 2008

| <i>(share figures in thousands)</i> | Shares | Weighted Average Grant Date Fair Value |
|-------------------------------------|---------------|---|
| Unvested, beginning of period | 178 | \$21.93 |
| Granted | 30 | 48.39 |
| Vested | (58) | 18.97 |
| Unvested, end of period | 150 | \$28.36 |

Employee Stock Purchase Plan

A total of 9.0 million shares of the Company's Non-Voting Common Stock have been reserved for issuance under the Employee Stock Purchase Plan. The plan qualifies under Section 423 of the United States Internal Revenue Code and permits eligible employees to direct up to 15 percent of their salaries to a maximum of \$12,500 per six-month offering period toward the purchase of Eaton Vance Corp. Non-Voting Common Stock at the lower of 90 percent of the market price of the Non-Voting Common Stock at the beginning or at the end of each six-month offering period. Through April 30, 2008, 7.3 million shares have been issued pursuant to this plan. The Company recorded compensation expense of \$0.7 million and \$0.4 million for the six months ended April 30, 2008 and 2007, respectively, relating to the Employee Stock Purchase Plan. The Company received \$1.8 million and \$1.6 million related to shares issued under the Employee Stock Purchase Plan in the six months ended April 30, 2008 and 2007, respectively.

Incentive Plan-Stock Alternative

A total of 4.8 million shares of the Company's Non-Voting Common Stock have been reserved for issuance under the Incentive Plan-Stock Alternative. The plan permits employees and officers to direct up to half of their monthly and annual incentive bonuses toward the purchase of Non-Voting Common Stock at 90 percent of the average closing market price of the stock for five business days subsequent to the end of the offering period. Through April 30, 2008, 3.3 million shares have been issued pursuant to this plan. The Company recorded compensation expense of \$0.4 million and \$0.3 million for the six months ended April 30, 2008 and 2007, respectively, relating to the Incentive Plan-Stock Alternative. The Company received \$4.9 million and \$2.9 million related to shares issued under the Incentive Plan-Stock Alternative in the six months ended April 30, 2008 and 2007, respectively.

(9) Common Stock Repurchases

The Company's current share repurchase program was announced on October 24, 2007. The Board authorized management to repurchase up to 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 program is not subject to an expiration date.

In the first six months of fiscal 2008, the Company purchased approximately 3.7 million shares of its Non-Voting Common Stock under the current share repurchase authorization. Approximately 3.5 million additional shares may be repurchased under the current authorization.

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(10) 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 \$41.9 million at April 30, 2008, which exceeded its minimum net capital requirement of \$2.2 million. EVD's ratio of aggregate indebtedness to net capital at April 30, 2008 was 0.78-to-1.

(11) Income Taxes

Effective November 1, 2007, the Company adopted Financial Accounting Standards Board's (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements for a tax position taken or expected to be taken in a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is more

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likely than not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of the benefit. The difference between the tax benefit recognized in the financial statements for a tax position in accordance with FIN 48 and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit.

The adoption of FIN 48 on November 1, 2007 resulted in a reduction to beginning retained earnings in the amount of \$5.0 million, which was reflected as a cumulative effect of a change in accounting principle, and a corresponding \$5.0 million increase to the Company's liability for uncertain tax positions. This increase in the liability for unrecognized tax benefits primarily reflects accruals for state income taxes.

On November 1, 2007, the Company carried a liability for unrecognized tax benefits of \$18.5 million, including \$3.0 million for interest and related charges, for uncertain state tax positions existing prior to the adoption of FIN 48. In the event that all of these liabilities were resolved favorably, the Company would reduce its income tax provision by approximately \$18.5 million, thereby lowering its effective tax rate. In the six-month period ended April 30, 2008, there were no material changes to these liabilities.

The Company historically classified the liability for unrecognized tax benefits in current taxes payable. Upon adoption of FIN 48, unrecognized tax benefits of \$0.9 million that are not expected to be paid in the next twelve months were reclassified to long-term taxes payable.

The Company's policy is to include interest and penalties in its income tax provision. The Company and its subsidiaries file income tax returns in U.S. federal, state, local and foreign jurisdictions. The Company is generally no longer subject to income tax examinations by U.S. federal, state, local, or non-U.S. tax authorities for fiscal years prior to fiscal 2004.

During the first quarter of fiscal 2008, the Company filed a request for change in accounting method with the Internal Revenue Service under the Service's automatic consent program. This request relates to the Company's treatment of expenses associated with the launch of closed-end funds. Historically the Company expensed these costs as incurred for tax purposes; the Company has now elected to capitalize and amortize these expenses for tax purposes over a 15 year period.

In conjunction with the filing of the request for a change in accounting method, the Company recorded a deferred tax asset of \$84.9 million, the majority of which will amortize over the 15 year period. In addition, the Company recorded a corresponding deferred tax liability in the amount of \$84.9 million, which will reverse over a four-year period ending October 31, 2011.

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In the ordinary course of business, various taxing authorities may not agree with certain tax positions the Company has taken, or the applicable law may not be clear. To resolve some of these uncertainties, the Company has filed Voluntary Disclosure Agreements (VDAs) with specific state taxing authorities.

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The Company believes that over the next 12 months its outstanding VDA filings and current state tax audits will be completed and it is reasonably possible that the Company's uncertain state tax positions could decrease between \$14.0 million and \$19.0 million in that period.

The provision for income taxes for the six months ended April 30, 2008 and 2007 consists of the following:

| <i>(in thousands)</i> | For the Six Months Ended | |
|-----------------------|---------------------------------|------------------|
| | April 30, 2008 | 2007 |
| Current: | | |
| Federal | \$ 80,234 | \$ 17,296 |
| State | 10,299 | 2,286 |
| Deferred: | | |
| Federal | (17,716) | (2,341) |
| State | (1,885) | (270) |
| Total | \$ 70,932 | \$ 16,971 |

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:

| <i>(in thousands)</i> | April 30, 2008 | October 31, 2007 |
|---|---------------------------|-----------------------------|
| Deferred tax assets: | | |
| Stock-based compensation | \$ 37,267 | \$ 33,899 |
| Deferred rent | 587 | 676 |
| Differences between book and tax bases of | | |
| investments | 726 | 619 |
| Differences between book and tax bases of | | |
| property | 1,264 | 1,111 |
| Unrealized losses on derivative instruments | 1,479 | 1,558 |
| Closed-end fund expenses | 87,766 | - |
| Other | 426 | 1,931 |
| Total deferred tax asset | \$ 129,515 | \$ 39,794 |

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| <i>(in thousands)</i> | April 30, 2008 | October 31, 2007 |
|----------------------------------|---------------------------|-----------------------------|
| Deferred tax liabilities: | | |
| Deferred sales commissions | \$ (31,918) | \$(37,573) |
| Closed-end fund expenses | (74,608) | - |

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Differences between book and tax bases of

| | | |
|---|-------------|------------|
| goodwill and intangibles | (10,103) | (8,858) |
| Unrealized net holding gains on investments | (2,241) | (3,600) |
| Total deferred tax liability | \$(118,870) | \$(50,031) |
| Net deferred tax asset/(liability) | \$ 10,645 | \$(10,237) |

Deferred tax assets and liabilities reflected on the Company's Consolidated Balance Sheets (unaudited) at April 30, 2008 and October 31, 2007 are as follows:

| <i>(in thousands)</i> | April 30, 2008 | October 31, 2007 |
|--|---------------------------|-----------------------------|
| Net current deferred tax asset/(liability) | \$(20,148) | \$ 1,503 |
| Net non-current deferred tax asset/(liability) | 30,793 | (11,740) |
| Net deferred tax asset/(liability) | \$ 10,645 | \$(10,237) |

The net current deferred tax liability of \$20.1 million as of April 30, 2008, principally represents the current portion of the remaining \$74.6 million deferred tax liability associated with the change in accounting method.

The net current deferred tax asset of \$1.5 million as of October 31, 2007 is classified as a component of other current assets on the Company's Consolidated Balance Sheet.

The exercise of stock options resulted in a reduction of taxes payable of approximately \$6.0 million and \$4.8 million for the six months ended April 30, 2008 and 2007, respectively. Such benefit has been reflected in shareholders' equity.

The Company's quarterly effective tax rate is based upon an estimate of the anticipated annual effective tax rate. The Company's effective tax rate (income taxes as a percentage of income before minority interest, equity in net income of affiliates and income taxes) was 38.3 percent and 38.5 percent for the six months ended April 30, 2008 and 2007, respectively. The primary reconciling item between the Company's overall effective tax rate and the statutory federal rate of 35 percent relates to state income taxes.

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(12) 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, 2008 and 2007 are as follows:

For the Six Months Ended

April 30,

2008

2007

(in thousands)

| | | |
|--|------------|-----------|
| Net income | \$ 111,090 | \$ 25,652 |
| Net unrealized gains (losses) on available-for-sale securities, net of income tax (expense)/benefit of \$1,306 and \$(1,410), respectively | (2,248) | 2,526 |
| Foreign currency translation adjustments, net of income taxes of \$53 and \$26, respectively | (94) | 37 |
| Change in unamortized losses on derivative instruments, net of income tax of \$79 | 145 | - |
| Comprehensive income | \$ 108,893 | \$ 28,215 |

(13) Derivative Financial Instruments

In October 2007, the Company issued \$500.0 million in aggregate principal amount of 6.5 percent ten-year senior notes due October 2017. In anticipation of the offering, the Company entered into an interest rate lock transaction with an aggregate notional amount of \$200.0 million intended to hedge against movements in ten-year Treasury rates between the time at which the decision was made to issue the debt and the pricing of the securities. The prevailing Treasury rate had declined as of the time of the pricing of the securities. At the time the debt was issued, the Company terminated the lock agreement and settled the transaction in cash. At termination, the interest rate lock was determined to be an effective cash flow hedge and the \$4.5 million settlement cost was recorded as a loss in other comprehensive income, net of tax.

The loss recorded in other comprehensive income will be reclassified to earnings as a component of interest expense over the term of the debt. During the six months ended April 30, 2008, the Company reclassified \$0.3 million of the loss on the Treasury lock transaction into interest expense. At April 30, 2008, the remaining unamortized loss on this transaction was \$4.2 million. During the remaining six months of fiscal 2008, the Company expects to reclassify approximately \$0.2 million of the loss on the Treasury lock transaction into interest expense.

(14) Commitments and 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, officers and employees in accordance with the Company's Articles of Incorporation, as amended. 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.

In July 2006, the Company committed to invest \$15.0 million in a private equity partnership that invests in companies in the financial services industry. The Company had invested \$10.6 million of the total \$15.0 million of committed capital at April 30, 2008. The Company anticipates investing the remaining \$4.4 million by September 2010.

(15) Recent Accounting Developments

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. Management does not anticipate that the provisions of SFAS No. 162 will have an impact on the Company's consolidated results of operations or consolidated financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*—an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities to improve the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for periods beginning after November 15, 2008. SFAS No. 161 is effective for the Company's fiscal quarter that begins on February 1, 2009. Management is currently evaluating the potential impact, if any, on the Company's disclosures in its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51*. SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries and for the deconsolidation of subsidiaries. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. The provisions of SFAS No. 160 are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years on a prospective basis except for the presentation and disclosure requirements which apply retrospectively. Earlier application of SFAS No. 160 is prohibited. SFAS No. 160 is effective for the Company's fiscal year that begins on November 1, 2009. Management is currently evaluating the potential impact, if any, on the Company's consolidated financial statements.

In December 2007, the FASB amended SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141R, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first reporting period for fiscal years beginning on or after December 15, 2008. Earlier application of SFAS 141R is prohibited. SFAS No. 141R is effective for the Company's fiscal year that begins on November 1, 2009 and will be applied to future acquisitions.

In June 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) in EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as

an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. EITF 06-11 is effective for the Company's fiscal year that begins on November 1, 2008. Management is currently evaluating the potential impact of EITF 06-11, if any, on the Company's consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. SFAS No. 159 is effective for the Company's fiscal year that begins on November 1, 2008. Management is currently evaluating this standard and its impact, if any, on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. On February 6, 2008 the FASB agreed to partially defer the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities except those items recognized or disclosed at fair value on an annual or more frequently occurring basis, until November 15, 2008 and remove certain leasing transactions from the scope of SFAS No. 157. SFAS No. 157 is effective for the Company's fiscal year that begins on November 1, 2008. Management is currently evaluating this standard and its impact, if any, on the Company's consolidated financial statements.

(16) Subsequent Event

In April 2008, the minority investors in Parametric Portfolio Associates LLC exercised a put option, requiring the Company to purchase an additional interest in Parametric Portfolio Associates LLC for \$21.5 million. The transaction settled on May 1, 2008 and increased the Company's capital ownership interest from 84.3 percent to 89.3 percent and its profits interest from 81.2 percent to 82.3 percent. The additional purchase price will be allocated between intangible assets and goodwill in the third quarter.

In May 2008, the minority investors in Atlanta Capital Management Company, LLC, exercised a put option, requiring the Company to purchase an additional interest in Atlanta Capital Management Company, LLC, for \$5.0 million. The transaction will settle on June 30, 2008 and will increase the Company's ownership interest from 80.4 percent to 85.5 percent. The additional purchase price will be allocated between intangible assets and goodwill in the third quarter.

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 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

Our principal business is managing investment funds and providing investment management and counseling services to high-net-worth individuals and institutions. Our long-term strategy is to develop and sustain 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, we have developed a broadly diversified product line and a powerful marketing, distribution and customer service capability.

We are a market leader in a number of investment areas, including tax-managed equity, value equity, equity income, emerging market equity, floating-rate bank loan, municipal bond, investment grade and high-yield bond investing. Our diversified product line offers fund shareholders, retail managed account investors, institutional investors and high-net-worth clients a wide range of products and services designed and managed to generate attractive risk-adjusted returns over the long term.

Our principal retail marketing strategy is to distribute funds and separately managed accounts through financial intermediaries in the advice channel. We have a broad reach in this marketplace, with distribution partners including national and regional broker/dealers, independent broker/dealers, independent financial advisory firms, banks and insurance companies. We support these distribution partners with a team of more than 140 Boston-based and regional sales professionals across the U.S. and internationally. Specialized sales and marketing professionals in our Wealth Management Solutions Group serve as a resource to financial advisors seeking to help high-net-worth clients address wealth management issues and support the marketing of our products and services tailored to this marketplace.

We also commit significant resources to serving institutional and high-net-worth clients who access investment advice outside of traditional retail broker/dealer channels. Through our wholly owned affiliates and consolidated subsidiaries Atlanta Capital Management Company, LLC (Atlanta Capital), Fox Asset Management LLC (Fox Asset Management), Parametric Portfolio Associates LLC (Parametric Portfolio Associates) and Parametric Risk Advisors LLC (Parametric Risk Advisors), we manage investments for a broad range of institutional and high-net-worth clients, including corporations, endowments, foundations, family offices and public and private employee retirement plans. Specialized sales teams at our affiliates develop relationships in this market and deal directly with these clients.

Our revenue is derived primarily from investment advisory, administration, distribution and service fees received from Eaton Vance funds and investment advisory fees received from separate accounts. Our fees are based primarily on the value of the investment portfolios we manage and fluctuate with changes in the total value and mix of assets under management. Such fees are recognized over the period that we manage these assets. Our major expenses are employee compensation, distribution-related expenses and amortization of deferred sales commissions.

Our discussion and analysis of our financial condition and results of operations are based upon our 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 us 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, we evaluate our estimates, including those related to deferred sales commissions, goodwill and intangible assets, income taxes, investments and stock-based compensation. We base our estimates on historical experience and on various assumptions that we believe 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 \$159.1 billion on April 30, 2008 were 6 percent higher than the \$150.0 billion reported a year earlier. Long-term fund net inflows contributed \$8.2 billion to growth in assets under management over the last twelve months, including \$1.5 billion of closed-end fund net inflows and \$6.7 billion of open-end and private fund net inflows. Retail managed account net inflows contributed \$4.8 billion to growth in assets under management, while institutional and high-net-worth net inflows contributed an additional \$1.9 billion. Net price declines of managed assets, reflecting equity and income market weakness, reduced assets under management by \$6.0 billion, while an increase in cash management assets contributed \$0.2 billion.

Ending Assets Under Management by Investment Category ⁽¹⁾

| (in billions) | April 30, | | 2007 | % of Total | % Change |
|--------------------------------|-----------|------------|----------|------------|----------|
| | 2008 | % of Total | | | |
| Equity assets | \$ 107.7 | 68% | \$ 96.0 | 64% | 12% |
| Fixed income assets | 32.4 | 20% | 31.6 | 21% | 3% |
| Floating-rate bank loan assets | 19.0 | 12% | 22.4 | 15% | -15% |
| Total | \$ 159.1 | 100% | \$ 150.0 | 100% | 6% |

⁽¹⁾ Includes funds and separate accounts.

Equity assets represented 68 percent of total assets under management on April 30, 2008, compared to 64 percent on April 30, 2007. Assets in equity funds managed for after-tax returns totaled \$50.3 billion and \$51.7 billion on April 30, 2008 and 2007, respectively. Fixed income assets, including cash management funds, represented 20 percent of total assets under management on April 30, 2008, compared to 21 percent on April 30, 2007. Fixed income assets included \$17.1 billion and \$17.2 billion of tax-exempt municipal bond assets and \$2.0 billion and \$1.7 billion of cash management fund assets on April 30, 2008 and 2007, respectively. Floating-rate bank loan assets represented 12 percent of total assets under management on April 30, 2008, compared to 15 percent on April 30, 2007.

Long-Term Fund and Separate Account Net Flows

| <i>(in billions)</i> | For the Three | | | For the Six | | |
|---|---------------------------|-------------|---------------------|---------------------------|-------------|---------------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Long-term funds: | | | | | | |
| Closed-end funds | \$ - | \$ 5.8 | NM | \$ 0.1 | \$ 8.6 | -99% |
| Open-end funds ⁽¹⁾ | 2.2 | 2.8 | -21% | 4.2 | 5.1 | -18% |
| Private funds | - | 0.5 | NM | (0.1) | 1.4 | NM |
| Total long-term fund net inflows | 2.2 | 9.1 | -76% | 4.2 | 15.1 | -72% |
| Institutional/HNW ⁽²⁾ accounts | 1.0 | 0.3 | 233% | 1.5 | (0.3) | NM |
| Retail managed accounts | 1.7 | 1.1 | 55% | 2.8 | 1.7 | 65% |
| Total separate account net inflows | 2.7 | 1.4 | 93% | 4.3 | 1.4 | 207% |
| Total net inflows | \$ 4.9 | \$ 10.5 | -53% | \$ 8.5 | \$ 16.5 | -48% |

⁽¹⁾ Includes net flows of bank loan interval funds.

⁽²⁾ High-net-worth (HNW)

⁽³⁾ Not meaningful (NM)

Net inflows totaled \$4.9 billion in the second quarter of fiscal 2008 compared to \$10.5 billion, or \$4.7 billion excluding closed-end fund flows, in the second quarter of fiscal 2007. Closed-end fund offerings contributed \$5.8 billion in net inflows in the second quarter of fiscal 2007 versus none in the second quarter of fiscal 2008. Open-end fund net inflows of \$2.2 billion and \$2.8 billion in the second quarter of fiscal 2008 and 2007, respectively, reflect gross inflows of \$6.4 billion and \$5.7 billion and redemptions of \$4.2 billion and \$2.9 billion, respectively. Flows into private funds, which include privately offered equity and bank loan funds as well as collateralized debt obligation entities, netted to zero in the second quarter of fiscal 2008, compared to \$0.5 billion of net inflows in the second quarter of fiscal 2007.

Separate accounts contributed net inflows of \$2.7 billion in the second quarter of fiscal 2008, compared to \$1.4 billion in the second quarter of fiscal 2007. Retail managed account net inflows increased to \$1.7 billion in the second quarter of fiscal 2008 from \$1.1 billion in the second quarter of fiscal 2007, reflecting strong net sales of Parametric Portfolio Associates' overlay and tax-efficient core equity products and Eaton Vance Management's (EVM's) large cap value and municipal bond products. Institutional and high-net-worth net inflows increased to \$1.0 billion in the second quarter of fiscal 2008 from \$0.3 billion in the second quarter of fiscal 2007, primarily reflecting strong high-net-worth net inflows at Parametric Portfolio Associates and a positive contribution from EVM's institutional initiative.

Cash management fund assets, which are not included in long-term net flows because of their short-term characteristics, increased to \$2.0 billion on April 30, 2008 from \$1.7 billion on April 30, 2007.

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The following table summarizes the asset flows by investment category for the three and six-month periods ended April 30, 2008 and 2007:

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Asset Flows

| <i>(in billions)</i> | For the Three | | | For the Six | | |
|---|---------------------------|-------------|---------------------|---------------------------|-------------|---------------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Equity fund assets beginning | \$ 70.0 | \$ 59.3 | 18% | \$ 75.5 | \$ 53.2 | 42% |
| Sales/inflows | 4.1 | 8.5 | -52% | 9.3 | 14.5 | -36% |
| Redemptions/outflows | (2.1) | (1.7) | 24% | (4.6) | (3.4) | 35% |
| Exchanges | - | - | - | (0.1) | - | NM |
| Market value change | 1.0 | 2.1 | -52% | (7.1) | 3.9 | NM |
| Equity fund assets ending | 73.0 | 68.2 | 7% | 73.0 | 68.2 | 7% |
| Fixed income fund assets beginning | 24.3 | 22.9 | 6% | 24.6 | 21.6 | 14% |
| Sales/inflows | 1.6 | 2.2 | -27% | 3.2 | 4.1 | -22% |
| Redemptions/outflows | (1.3) | (0.8) | 63% | (2.7) | (1.3) | 108% |
| Exchanges | 0.1 | - | NM | 0.2 | - | NM |
| Market value change | (0.5) | 0.2 | NM | (1.1) | 0.1 | NM |
| Fixed income fund assets ending | 24.2 | 24.5 | -1% | 24.2 | 24.5 | -1% |
| Floating-rate bank loan fund assets beginning | 18.4 | 20.3 | -9% | 20.4 | 20.0 | 2% |
| Sales/inflows | 1.3 | 1.9 | -32% | 2.1 | 3.7 | -43% |
| Redemptions/outflows | (1.4) | (0.9) | 56% | (3.1) | (2.4) | 29% |
| Exchanges | (0.1) | - | NM | (0.3) | - | NM |
| Market value change | (0.2) | 0.1 | NM | (1.1) | 0.1 | NM |
| Floating-rate bank loan fund assets ending | 18.0 | 21.4 | -16% | 18.0 | 21.4 | -16% |
| Total long-term fund assets beginning | 112.7 | 102.5 | 10% | 120.5 | 94.8 | 27% |
| Sales/inflows | 7.0 | 12.6 | -44% | 14.6 | 22.3 | -35% |
| Redemptions/outflows | (4.8) | (3.4) | 41% | (10.4) | (7.1) | 46% |
| Exchanges | - | - | - | (0.2) | - | NM |
| Market value change | 0.3 | 2.4 | -88% | (9.3) | 4.1 | NM |
| Total long-term fund assets ending | 115.2 | 114.1 | 1% | 115.2 | 114.1 | 1% |
| Separate accounts beginning | 38.5 | 31.7 | 21% | 39.6 | 30.5 | 30% |
| Inflows HNW and institutional | 2.1 | 1.1 | 91% | 4.2 | 1.7 | 147% |
| Outflows HNW and institutional | (1.1) | (0.8) | 38% | (2.7) | (2.0) | 35% |
| Inflows retail managed accounts | 2.6 | 1.6 | 63% | 4.6 | 2.8 | 64% |

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| | | | | | | |
|------------------------------------|----------|----------|------|----------|----------|-----|
| Outflows retail managed accounts | (0.9) | (0.5) | 80% | (1.8) | (1.0) | 80% |
| Market value change | 0.7 | 1.1 | -36% | (2.0) | 2.2 | NM |
| Separate accounts ending | 41.9 | 34.2 | 23% | 41.9 | 34.2 | 23% |
| Cash management fund assets ending | 2.0 | 1.7 | 18% | 2.0 | 1.7 | 18% |
| Assets under management ending | \$ 159.1 | \$ 150.0 | 6% | \$ 159.1 | \$ 150.0 | 6% |

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Ending Assets Under Management by Asset Class

| <i>(in billions)</i> | April 30, | | 2007 | % of Total | % Change |
|--------------------------------------|-----------|------------|----------|------------|----------|
| | 2008 | % of Total | | | |
| Open-end funds: | | | | | |
| Class A | \$ 36.9 | 23% | \$ 32.7 | 22% | 13% |
| Class B | 4.3 | 3% | 6.5 | 4% | -34% |
| Class C | 9.3 | 6% | 9.6 | 6% | -3% |
| Class I | 3.9 | 2% | 3.0 | 2% | 30% |
| Other ⁽¹⁾ | 3.8 | 3% | 2.7 | 2% | 41% |
| Total open-end funds | 58.2 | 37% | 54.5 | 36% | 7% |
| Private funds ⁽²⁾ | 27.8 | 17% | 29.0 | 19% | -4% |
| Closed-end funds | 31.2 | 20% | 32.3 | 22% | -3% |
| Total fund assets | 117.2 | 74% | 115.8 | 77% | 1% |
| HNW and institutional account assets | 25.3 | 16% | 22.1 | 15% | 14% |
| Retail managed account assets | 16.6 | 10% | 12.1 | 8% | 37% |
| Total separate account assets | 41.9 | 26% | 34.2 | 23% | 23% |
| Total | \$ 159.1 | 100% | \$ 150.0 | 100% | 6% |

⁽¹⁾ Includes other classes of Eaton Vance open-end funds and non-Eaton Vance funds subadvised by Atlanta

Capital, Fox Asset Management and Parametric Portfolio Associates.

⁽²⁾ Includes privately offered equity and bank loan funds and CDO entities.

We currently sell our sponsored open-end 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). We waive the sales load on Class A shares under certain circumstances. In such cases, the shares are sold at net asset value.

Fund assets represented 74 percent of total assets under management at April 30, 2008, compared to 77 percent at April 30, 2007. Class A share assets increased to 23 percent of total assets under management at April 30, 2008 from 22 percent at April 30, 2007, while Class B shares dropped to 3 percent at April 30, 2008 from 4 percent at April 30, 2007. The shift from Class B share assets to Class A share assets reflects the overall increasing popularity of Class A shares and the declining popularity of Class B shares in broker/dealer distribution systems. Class C share assets represented 6 percent of total assets under management on April 30, 2008 and 2007, while Class I share assets represented 2 percent of total assets under management on April 30, 2008 and 2007. Private funds represented 17 percent of total assets under management at April 30, 2008, compared to 19 percent on April 30, 2007. Closed-end funds represented 20 percent of the Company's total assets under management on April 30, 2008, compared to 22 percent on April 30, 2007.

Separate account assets, which include high-net-worth, institutional and retail managed account assets, totaled \$41.9 billion, or 26 percent of total assets under management, at April 30, 2008, up from \$34.2 billion, or 23 percent of total assets under management, at April 30, 2007. High-net-worth and institutional separate account assets increased by \$3.2 billion, or 14 percent, in the last twelve months, while retail managed account assets increased by \$4.5 billion, or 37 percent, in the same period. The increase in high-net-worth and institutional assets in the last twelve months reflects strong high-net-worth net inflows at Parametric Portfolio Associates and the acquisition of Parametric Risk Advisors in the third quarter of fiscal 2007. Retail managed account assets were positively impacted in the last twelve months by strong net sales of Parametric Portfolio Associates' overlay and tax-efficient core equity products and EVM's large-cap value and municipal bond products.

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

Average Assets Under Management by Asset Class⁽¹⁾

| <i>(in billions)</i> | For the Three | | | For the Six | | |
|--------------------------------------|-------------------|----------|-------------|-------------------|----------|-------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Open-end funds: | | | | | | |
| Class A | \$ 34.6 | \$ 31.0 | 12% | \$ 34.9 | \$ 29.7 | 18% |
| Class B | 4.9 | 6.5 | -25% | 5.3 | 6.6 | -20% |
| Class C | 9.1 | 9.2 | -1% | 9.5 | 9.0 | 6% |
| Class I | 3.5 | 2.8 | 25% | 3.5 | 2.8 | 25% |
| Other ⁽²⁾ | 3.3 | 2.7 | 22% | 3.3 | 2.6 | 27% |
| Total open-end funds | 55.4 | 52.2 | 6% | 56.5 | 50.7 | 11% |
| Private funds ⁽³⁾ | 27.5 | 28.0 | -2% | 28.3 | 27.5 | 3% |
| Closed-end funds | 30.6 | 30.0 | 2% | 31.6 | 27.6 | 14% |
| Total fund assets | 113.5 | 110.2 | 3% | 116.4 | 105.8 | 10% |
| HNW and institutional account assets | 24.4 | 21.4 | 14% | 24.5 | 21.3 | 15% |
| Retail managed account assets | 15.4 | 11.2 | 38% | 15.2 | 10.6 | 43% |
| Total separate account assets | 39.8 | 32.6 | 22% | 39.7 | 31.9 | 24% |
| Total | \$ 153.3 | \$ 142.8 | 7% | \$ 156.1 | \$ 137.7 | 13% |

⁽¹⁾ Assets under management attributable to acquisitions that closed during the relevant periods are included on a weighted average basis for the period from their respective closing dates.

⁽²⁾ Includes other classes of Eaton Vance open-end funds and non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates.

⁽³⁾ Includes privately offered equity and bank loan funds and CDO entities.

Results of Operations

We reported net income of \$53.2 million, or \$0.43 per diluted share, in the second quarter of fiscal 2008 compared to \$23.1 million, or \$0.17 per diluted share, in the second quarter of fiscal 2007. Operating results for the second quarter of fiscal 2007 reflect the payment of \$46.3 million in one-time structuring fees and \$8.1 million in marketing incentives related to a closed-end fund offered during the quarter. These one-time structuring fees and marketing incentives, which are included in distribution expense and compensation expense, respectively, reduced earnings for the second quarter of fiscal 2007 by \$0.25 per diluted share.

We reported net income of \$111.1 million, or \$0.89 per diluted share, in the first six months of fiscal 2008 compared to \$25.7 million, or \$0.19 per diluted share, in the first six months of fiscal 2007. Operating results for the first six months of fiscal 2007 reflect payments of \$63.4 million in one-time structuring fees and \$12.6 million in marketing incentives related to closed-end funds offered during the period. Operating results for the first six months of fiscal 2007 also include payments totaling \$52.2 million to Merrill Lynch, Pierce, Fenner & Smith and A.G. Edwards & Sons, Inc. to terminate compensation agreements in respect of certain of our previously offered closed-end funds under which we were obligated to make payments over time based on the assets of the respective closed-end funds. These

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one-time structuring fees, marketing incentives and termination payments reduced diluted earnings for the first six months of fiscal 2007 by approximately \$0.58 per share.

| | For the Three | | | For the Six | | |
|--|----------------------|-------------|---------------|---------------------|-------------|---------------|
| | Months Ended | | | Months Ended | | |
| | April 30, | | | April 30, | | |
| | | | % | | | % |
| <i>(in thousands, except per share data)</i> | 2008 | 2007 | Change | 2008 | 2007 | Change |
| Net income | \$ 53,162 | \$ 23,093 | 130% | \$ 111,090 | \$ 25,652 | 333% |
| Earnings per share: | | | | | | |
| Basic | \$ 0.46 | \$ 0.18 | 156% | \$ 0.96 | \$ 0.20 | 380% |
| Diluted | \$ 0.43 | \$ 0.17 | 153% | \$ 0.89 | \$ 0.19 | 368% |
| Operating margin | 35% | 14% | | 35% | 8% | |

In evaluating operating performance we consider operating income and net income, which are calculated on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), as well as adjusted operating income, an internally derived non-GAAP performance measure. We define adjusted operating income as operating income plus closed-end fund structuring fees and one-time payments, stock-based compensation and any write-off of intangible assets or goodwill. We believe that adjusted operating income is a key indicator of our ongoing profitability and therefore use this measure as the basis for calculating performance-based management incentives. Adjusted operating income is not, and should not be construed to be, a substitute for operating income computed in accordance with GAAP. However, in assessing the performance of the business, our management and the Board of Directors look at adjusted operating income as a measure of underlying performance, since amounts resulting from one-time events (e.g., the offering of a closed-end fund) can have a material short-term impact on GAAP earnings. In addition, when assessing performance, management and the Board look at performance both with and without stock-based

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compensation.

The following table provides a reconciliation of operating income to adjusted operating income:

| <i>(in thousands)</i> | For the Three | | | For the Six | | |
|-----------------------------|---------------------------|-------------|---------------------|---------------------------|-------------|---------------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Operating income | \$ 96,145 | \$ 36,292 | 165% | \$ 195,312 | \$ 38,289 | 410% |
| Closed-end fund structuring | | | | | | |
| fees | - | 46,321 | NM | - | 63,436 | NM |
| Payments to terminate | | | | | | |
| closed-end fund | | | | | | |
| compensation agreements | - | - | - | - | 52,178 | NM |
| Stock-based compensation | 8,938 | 8,252 | 8% | 20,668 | 22,476 | -8% |
| Adjusted operating income | \$ 105,083 | \$ 90,865 | 16% | \$ 215,980 | \$ 176,379 | 22% |
| Adjusted operating margin | 38% | 35% | | 38% | 35% | |

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Revenue

Our average effective fee rate (total revenue as a percentage of average assets under management) was 71 basis points and 72 basis points in the second quarter and first six months of fiscal 2008, respectively compared to 73 basis points in the second quarter and first six months of fiscal 2007.

| <i>(in thousands)</i> | For the Three | | | For the Six | | |
|-------------------------|---------------------------|-------------|---------------------|---------------------------|-------------|---------------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Investment advisory and | | | | | | |

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| | | | | | | |
|--|------------|------------|------|------------|------------|------|
| administration fees | \$ 201,738 | \$ 185,437 | 9% | \$ 412,424 | \$ 354,834 | 16% |
| Distribution and underwriter fees ⁽¹⁾ | 32,497 | 36,053 | -10% | 69,536 | 71,965 | -3% |
| Service fees ⁽¹⁾ | 38,057 | 37,228 | 2% | 78,860 | 73,240 | 8% |
| Other revenue | 1,134 | 1,466 | -23% | 2,402 | 3,321 | -28% |
| Total revenue | \$ 273,426 | \$ 260,184 | 5% | \$ 563,222 | \$ 503,360 | 12% |

⁽¹⁾ Certain amounts from prior years have been reclassified to conform to the current year presentation. See footnote 3 in Item 1 for further discussion of this change.

Investment advisory and administration fees

Investment advisory and administration fees are determined by contractual agreements with our sponsored funds and separate accounts and are generally based upon a percentage of the market value of assets under management. Net asset flows and changes in the market value of managed assets affect the amount of managed assets on which investment advisory and administration fees are earned, while changes in asset mix among different investment disciplines and products affect our average effective fee rate. Investment advisory and administration fees represented 73 percent and 70 percent of total revenue for the six months ended April 30, 2008 and 2007, respectively.

The increase in investment advisory and administration fees of 9 percent and 16 percent in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier can be attributed primarily to an increase in average assets under management and a modest increase in our average effective investment advisory and administration fee rate. Average assets under management increased by 7 percent and 13 percent in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year ago. Fund average effective fee rates increased to 60 basis points in the first six months of fiscal 2008 from 57 basis points in the first six months of fiscal 2007. Separately managed account average effective fee rates were 31 basis points in the first six months of fiscal 2008 and 2007.

Distribution and underwriter fees

Distribution plan payments received by the Company are made under contractual agreements with our sponsored funds and are calculated as a percentage of average assets under management in specific share classes of our mutual funds, as well as certain private funds. These fees fluctuate with both the level of average assets under management and the relative mix of assets. Underwriter commissions are earned on the sale of shares of our sponsored mutual funds on which investors pay a sales charge at the time of purchase (Class A share sales). Sales charges and underwriter commissions are waived or reduced on sales that exceed specified minimum amounts and on certain categories of sales. Underwriter commissions fluctuate with the level of Class A share sales and the mix of Class A shares sold with and without sales charges. Distribution and underwriter fees represented 12 percent and 14 percent of total revenue for the six months ended April 30, 2008 and 2007, respectively.

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Distribution plan payments received decreased 10 percent, or \$3.3 million, to \$29.1 million in the second quarter of fiscal 2008 over the same period a year earlier, reflecting a decrease in average Class B and certain private fund assets subject to distribution fees. Class B share distribution fees received decreased by 23 percent, or \$2.8 million, to \$9.5 million, reflecting a decrease in average Class B share assets under management of 25 percent year-over-year. Private fund distribution fees decreased by 10 percent, or \$0.3 million, to \$3.0 million, reflecting a decrease in average private fund assets under management of 9 percent. Underwriter fees and other distribution income decreased 7 percent, or \$0.2 million, to \$3.4 million in the second quarter of fiscal 2008, primarily reflecting a decrease of \$0.7 million in underwriter fees on Class A share sales offset by an increase of \$0.6 million in contingent deferred sales charges received on certain Class A share redemptions.

Distribution plan payments received decreased 5 percent, or \$3.0 million, to \$62.0 million in the first six months of fiscal 2008 over the same period a year earlier, reflecting a decrease in average Class B and certain private fund assets subject to distribution fees, partially offset by an increase in Class A and Class C share distribution fees received. Class B share distribution fees decreased by 19 percent, or \$4.8 million, to \$20.7 million, reflecting a decrease in average Class B share assets under management of 20 percent year-over-year. Private fund distribution fees decreased by 5 percent, or \$0.3 million, to \$6.4 million, reflecting a decrease in average private fund assets subject to distribution fees of 4 percent. Class A share distribution fees increased by 42 percent, or \$0.4 million, to \$1.2 million, reflecting a 40 percent increase in average Class A share assets that are subject to distribution fees (primarily in funds advised by Lloyd George Management). Class C share distribution fees increased by 5 percent, or \$1.7 million, to \$33.5 million, reflecting an increase in average assets subject to distribution fees of 6 percent. Underwriter fees and other distribution income increased 8 percent, or \$0.6 million, to \$7.5 million in the first six months of fiscal 2008, primarily reflecting an increase of \$1.5 million in contingent deferred sales charges received on certain Class A share redemptions offset by a decrease of \$1.0 million in underwriter fees received on Class A share sales.

Service fees

Service plan payments received by the Company are made under contractual agreements with our sponsored funds and are calculated as a percent of average assets under management in specific share classes of our mutual funds (principally Classes A, B and C) as well as certain private funds. Service fees are paid to Eaton Vance Distributors, Inc. as principal underwriter for service and/or the maintenance of shareholder accounts. Service fees represented 14 percent and 15 percent of total revenue for the six months ended April 30, 2008 and 2007, respectively.

Service fee revenue increased by 2 percent in the second quarter and 8 percent in the first six months of fiscal 2008 over the same periods a year ago, primarily reflecting a 2 percent and 8 percent increase in average assets under management in Class A, B, and C shares and private funds that pay service fees for the three and six month periods ended April 30, 2008, respectively.

Other revenue

Other revenue, which consists primarily of shareholder service fees, miscellaneous dealer income, custody fees, and investment income earned by consolidated funds and certain limited partnerships, decreased by 23 percent, or \$0.3 million, in the second quarter of fiscal 2008 over the same period a year earlier. The decrease in other revenue in the second quarter of fiscal 2008 can be attributed primarily to a decrease in realized and unrealized gains on securities classified as trading. Other revenue for the second quarter of fiscal 2008 and 2007 includes \$35,000 and \$0.3 million, respectively, of investment income related to consolidated funds and certain limited partnerships for the periods during which they were consolidated.

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Other revenue decreased by 28 percent, or \$0.9 million, in the first six months of fiscal 2008 over the same period a year earlier, primarily due to a decrease in realized and unrealized gains on securities classified as trading. Other revenue for the first six months of fiscal 2008 and 2007 includes \$0.2 million and \$0.8 million, respectively, of investment income related to consolidated funds and certain limited partnerships for the periods during which they were consolidated.

Expenses

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Operating expenses decreased by 21 percent in both the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier, primarily reflecting a decrease in distribution expense associated with the offering of closed-end funds in the first six months of fiscal 2007.

| <i>(in thousands)</i> | For the Three | | | For the Six | | |
|-------------------------------------|-------------------|-----------|-------------|-------------------|-----------|-------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Compensation of officers | | | | | | |
| and employees: | | | | | | |
| Cash compensation | \$ 66,306 | \$ 70,909 | -6% | \$136,503 | \$134,667 | 1% |
| Stock-based compensation | 8,938 | 8,252 | 8% | 20,668 | 22,476 | -8% |
| Total compensation of officers | | | | | | |
| and employees | 75,244 | 79,161 | -5% | 157,171 | 157,143 | 0% |
| Distribution expense ⁽¹⁾ | 29,184 | 77,884 | -63% | 61,360 | 176,537 | -65% |
| Service fee expense ⁽¹⁾ | 31,441 | 28,609 | 10% | 64,898 | 56,684 | 14% |
| Amortization of deferred sales | | | | | | |
| commissions | 12,194 | 13,552 | -10% | 25,618 | 26,971 | -5% |
| Fund expenses | 5,910 | 4,455 | 33% | 12,426 | 8,674 | 43% |
| Other expenses | 23,308 | 20,231 | 15% | 46,437 | 39,062 | 19% |
| Total expenses | \$177,281 | \$223,892 | -21% | \$367,910 | \$465,071 | -21% |

⁽¹⁾ Certain amounts from prior years have been reclassified to conform to the current year presentation. See footnote 3 in Item 1 for further discussion of this change.

Compensation of officers and employees

Compensation expense decreased by \$3.9 million, or 5 percent, in the second quarter of fiscal 2008 compared to the same period a year earlier, primarily reflecting a decrease in sales incentives offset by increases in base compensation, payroll taxes, employee benefits, adjusted operating income-based incentives and stock-based compensation. Sales incentives decreased by \$11.0 million, or 52 percent, primarily reflecting the \$8.1 million in closed-end fund sales incentives paid out in the second quarter of fiscal 2007 and a decrease in incentives paid on sales of our open-end funds. Base compensation, payroll taxes and employee benefits increased by \$4.6 million, or 17 percent, reflecting an 11 percent increase in average headcount and year-end salary adjustments. Adjusted operating-income based incentives increased by \$2.0 million, or 9 percent, reflecting the increase in adjusted operating income year over year. Stock-based compensation expense increased by \$0.7 million, or 8 percent, reflecting the increase in average headcount.

Compensation expense totaled \$157.2 million in the first six months of fiscal 2008 compared to \$157.1 million in the first six months of fiscal 2007. Decreases in sales incentives and stock-based compensation expense of \$15.1 million and \$1.8 million, respectively, were offset by increases in base compensation, payroll taxes, employee benefits, and adjusted operating income-based incentives of \$7.2 million, \$0.4 million, \$1.1 million and \$7.6 million, respectively. As noted above, the decrease in sales incentives year over year can be attributed to closed-end fund sales incentives paid out in the first six months of fiscal 2007 and a decrease in sales incentives paid on sales of our open-end funds. The decrease in stock-based

compensation expense can be attributed to a decrease in option grants to retirement-eligible employees in the first quarter of fiscal 2008. The increases noted in base compensation, payroll taxes and employee benefits can be attributed to a 10 percent increase in average headcount and year-end salary adjustments. The increase noted in adjusted operating income-based incentives can be attributed to an increase in adjusted operating income year over year.

Our retirement policy provides that an employee is eligible for retirement at age 65, or for early retirement when the employee reaches age 55 and has a combined age plus years of service of at least 75 years or with our consent. Stock-based compensation expense for employees approaching retirement eligibility is recognized on a straight-line basis over the period from the grant date through the retirement eligibility date. Stock-based compensation expense for employees who will not become retirement eligible during the vesting period of the options (five years) is recognized on a straight-line basis.

The accelerated recognition of compensation cost for employees who are retirement-eligible or are nearing retirement eligibility under our retirement policy is applicable for all grants made on or after our adoption of Statement of Financial Accounting Standards (SFAS) No. 123R (November 1, 2005). The accelerated recognition of compensation expense associated with stock option grants to retirement-eligible employees in the quarter when the options are granted (the first quarter of each fiscal year) reduces the associated stock-based compensation expense that would otherwise be recognized in subsequent quarters.

Distribution expense

Distribution expense consists primarily of ongoing payments made to distribution partners pursuant to third-party distribution arrangements for Class C and certain closed-end fund assets, which are calculated as a percentage of average assets under management, commissions paid to broker/dealers on the sale of Class A shares at net asset value, structuring fees paid on new closed-end fund offerings and other marketing expenses, including marketing expenses associated with revenue sharing arrangements with our distribution partners.

Distribution expense decreased by 63 percent, or \$48.7 million, in the second quarter of fiscal 2008 over the same period a year earlier, primarily reflecting the payment of \$46.3 million in one-time structuring fees associated with the offering of a closed-end fund in the second quarter of fiscal 2007. Distribution expense decreased by 65 percent, or \$115.2 million, in the first six months of fiscal 2008 over the same period a year earlier, primarily reflecting the payment of \$63.4 million in one-time structuring fees associated with the offering of closed-end funds in the first six months of fiscal 2007 as well as \$52.2 million in payments made to Merrill Lynch, Pierce, Fenner & Smith and A.G. Edwards & Sons, Inc. to terminate certain closed-end fund compensation agreements under which we were obligated to make recurring payments over time based on the assets of the respective closed-end funds.

Service fee expense

Service fees we receive from sponsored funds are generally retained in the first year and paid to broker/dealers after the first year pursuant to third-party service arrangements. These fees are calculated as a percent of average assets under management in specific share classes of our mutual funds (principally Classes A, B, and C) as well as certain private funds. Service fee expense increased by 10 percent and 14 percent in the second quarter and first six months of fiscal 2008 over the same periods a year earlier, reflecting an increase in average fund assets retained more than one year in funds and share classes that are subject to service fees.

Amortization of deferred sales commissions

Amortization expense is affected by ongoing sales and redemptions of mutual fund Class B shares, Class C shares and certain private funds. Amortization of deferred sales commissions decreased by 10 percent and 5 percent in the second quarter and first six months of fiscal 2008 compared to the same periods a year earlier. As amortization expense is a function of the Company's fund sales mix, a continuing shift away from Class B shares to other classes over time will likely result in a reduction in amortization expense over time.

Fund expenses

Fund expenses consist primarily of fees paid to subadvisors, compliance costs and other fund-related expenses we incur. Fund expenses increased by 33 percent and 43 percent in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier, primarily reflecting increases in subadvisory fees and other fund-related expenses. The increase in subadvisory fees can be attributed to the increase in average assets under management in funds for which external investment advisors act as subadvisors. The increase in other fund-related expenses can be attributed to an increase in expenses for certain institutional funds for which we are paid an all-in management fee and are obligated to pay the funds' operating expenses.

Other expenses

Other expenses consist primarily of travel, facilities, information technology, consulting, communications and other corporate expenses, including the amortization of intangible assets.

Other expenses increased by 15 percent, or \$3.1 million, in the second quarter of fiscal 2008 over the same period a year earlier, primarily reflecting increases in facilities-related expenses of \$1.5 million and information technology expense of \$1.8 million. The increase in facilities-related expenses can be attributed to an increase in rent and insurance associated with additional office space leased to support the growth in headcount and accelerated amortization of leasehold improvements in anticipation of our move to new corporate headquarters in Boston in fiscal 2009. The increase in information technology expense can be attributed to an increase in outside data services and consulting costs incurred in conjunction with several significant system implementations.

Other expenses increased by 19 percent, or \$7.4 million, in the first six months of fiscal 2008 over the same period a year earlier, primarily reflecting increases in facilities-related expenses of \$2.5 million, information technology expense of \$3.8 million, communications expense of \$0.4 million and other corporate expenses of \$1.3 million, offset by a decrease in travel of \$0.8 million. The increase in facilities-related expenses can be attributed to an increase in rent and insurance associated with additional office space leased to support the growth in headcount and accelerated amortization of leasehold improvements in anticipation of our move to new corporate headquarters in Boston in fiscal 2009. The increase in information technology expense can be attributed to an increase in outside data services and consulting costs incurred in conjunction with several significant system implementations. The increase in communications expense can be attributed to increases in telephone and cable costs, while the increase in other corporate expenses can be primarily attributed to increases in charitable giving and professional development costs. The decrease in travel expense can be attributed to travel costs incurred in the first six months of fiscal 2007 in support of two closed-end fund initial public offerings.

Other Income and Expense

| <i>(in thousands)</i> | For the Three | | | For the Six | | |
|-------------------------------|---------------------------|-------------|---------------------|---------------------------|-------------|---------------------|
| | Months Ended | | | Months Ended | | |
| | April 30, 2008 | 2007 | % Change | April 30, 2008 | 2007 | % Change |
| Interest income | \$ 2,745 | \$ 2,058 | 33% | \$ 7,125 | \$ 4,335 | 64% |
| Interest expense | (8,405) | (57) | NM | (16,819) | (84) | NM |
| Gains/(losses) on investments | (118) | 965 | NM | 235 | 1,673 | -86% |
| Unrealized gains/(losses) on | | | | | | |
| investments | 384 | - | NM | (437) | - | NM |
| Foreign currency losses | (12) | (61) | -80% | (32) | (133) | -76% |
| Total other income (expense) | \$ (5,406) | \$ 2,905 | NM | \$ (9,928) | \$ 5,791 | NM |

Interest income increased by \$0.7 million and \$2.8 million, or 33 percent and 64 percent, in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier, primarily reflecting additional interest income earned on proceeds from our \$500.0 million senior notes offering that funded on October 2, 2007.

Interest expense increased by \$8.3 million and \$16.7 million in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier, primarily due to interest accrued on our senior notes issued in October 2007.

In the second quarter and first six months of fiscal 2008 we incurred net realized gains (losses) on investments totaling \$(0.1) million and \$0.2 million, respectively, compared to net realized gains of \$1.0 million and \$1.7 million in the second quarter and first six months of fiscal 2007, respectively. Net realized gains in the second quarter and first six months of fiscal 2007 include \$0.8 million and \$1.3 million of gains realized on the liquidation of an investment in a collateralized debt obligation entity.

Unrealized gains (losses) on investments of \$0.4 million and \$(0.4) million in the second quarter and first six months of fiscal 2008, respectively, relate to investments in separately managed accounts seeded for new product development purposes.

Income Taxes

Our effective tax rate (income taxes as a percentage of income before income taxes, minority interest, equity in net income of affiliates, and the cumulative effect of a change in accounting principle) was 37.4 percent and 38.3 percent in the second quarter and first six months of fiscal 2008, respectively, compared to 38.5 percent in both the second quarter and first six months of fiscal 2007. The decrease in our effective tax rate in the second quarter of fiscal 2008 can be attributed to the adjustment made to minority interest as more fully described below.

Our policy for accounting for income taxes includes monitoring our business activities and tax policies to ensure that we are in compliance with federal, state and foreign tax laws. In the ordinary course of business, various taxing authorities may not agree with certain tax positions we have taken, or applicable law may not be clear. We periodically review these tax positions and provide for and adjust as necessary estimated liabilities relating to such positions as part of our overall tax provision.

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Minority Interest

Minority interest increased by \$2.6 million and \$2.5 million in the second quarter and first six months of fiscal 2008, respectively, over the same periods a year earlier, primarily due to a \$2.8 million adjustment recorded in the second quarter of fiscal 2008 to reverse stock-based compensation previously allocated to minority shareholders of our majority-owned subsidiaries. We have determined that the allocation of stock-based compensation expense to minority shareholders reduces our liability to minority shareholders in a manner that is not consistent with the agreements governing partnership distributions to those individuals. The \$2.8 million adjustment recognized in the second quarter represents the reversal of accumulated stock-based compensation expense allocated to minority shareholders from the date of acquisition. Stock-based compensation expense allocated to minority shareholders in prior periods was neither quantitatively nor qualitatively material to our consolidated financial statements in any of our previously reported fiscal years or periods.

Minority interest is not adjusted for taxes due to the underlying tax status of our consolidated subsidiaries. Atlanta Capital, Fox Asset Management, Parametric Portfolio Associates and Parametric Risk Advisors are limited liability companies that are treated as partnerships for tax purposes. Funds we consolidate are registered investment companies or private funds that are treated as pass-through entities for tax purposes.

Equity in Net Income of Affiliates, Net of Tax

Equity in net income of affiliates, net of tax, at April 30, 2008 reflects our 20 percent minority equity interest in Lloyd George Management and a 7 percent minority equity interest in a private equity partnership. Equity in net income of affiliates, net of tax, was flat in the second quarter of fiscal 2008 compared to the same period a year earlier and increased by \$0.6 million, or 44 percent, in the first six months of fiscal 2008 over the same period a year earlier. The increase in the first six months of fiscal 2008 can be attributed to an increase in net income of both Lloyd George Management and the private equity partnership.

Changes in Financial Condition and Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity and capital resources on April 30, 2008 and October 31, 2007 and for the six month periods ended April 30, 2008 and 2007:

Balance Sheet and Cash Flow Data

| <i>(in thousands)</i> | April 30, 2008 | October 31, 2007 | % Change |
|---------------------------------|---------------------------|-----------------------------|-----------------|
| Balance sheet data: | | | |
| Assets: | | | |
| Cash and cash equivalents | \$ 300,131 | \$ 434,957 | -31% |
| Short-term investments | 50,574 | 50,183 | 1% |
| Long-term investments | 93,696 | 86,111 | 9% |
| Deferred sales commissions | 85,329 | 99,670 | -14% |
| Deferred income taxes long-term | 30,793 | - | NM |
| Liabilities: | | | |
| Taxes payable current | 2,027 | 21,107 | -90% |
| Taxes payable long term | 1,039 | - | NM |
| Deferred income taxes current | 20,148 | - | NM |
| Deferred income taxes long-term | - | 11,740 | NM |
| Long-term debt | 500,000 | 500,000 | 0% |

For the Six Months Ended

| <i>(in thousands)</i> | April 30, 2008 | 2007 | % Change |
|------------------------|---------------------------|-------------|-----------------|
| Cash flow data: | | | |
| Operating cash flows | \$ 39,776 | \$ 33,443 | 19% |
| Investing cash flows | (654) | (6,314) | -89% |
| Financing cash flows | (173,910) | (79,028) | 120% |

Liquidity and Capital Resources

Our financial condition is highly liquid, with a significant percentage of our assets, 36 percent and 45 percent at April 30, 2008 and October 31, 2007, respectively, represented by cash and cash equivalents. The decrease in cash and cash equivalents in the first six months of fiscal 2008 reflects the Company's repurchase of approximately 3.7 million shares of its Non-Voting Common Stock for a total of \$161.1 million. Short-term investments include investments in our sponsored cash management funds. Long-term investments consist principally of investments in certain of our sponsored mutual funds, seed investments in separately managed accounts, investments in affiliates and investments in collateralized debt obligation (CDO) entities.

Deferred sales commissions, which represent commissions paid to broker/dealers in connection with the distribution of the Company's Class B and Class C fund shares, as well as certain private funds, decreased by 14 percent in the first six months of fiscal 2008 compared to October 31, 2007, primarily reflecting the ongoing decline in Class B share sales and assets. Deferred sales commissions are recovered over time from distribution plan payments and contingent deferred sales charges received. The Company periodically reviews the recoverability of deferred sales commission assets as events or changes in circumstances indicate that the carrying amount of deferred sales commission assets may not be recoverable and adjusts the deferred sales commission assets accordingly.

Taxes payable (current and long-term) decreased by \$18.0 million in the first six months of fiscal 2008, primarily reflecting a current tax provision for the period totaling \$90.5 million and the recognition of a \$5.0 million liability related to uncertain state tax positions in connection with the adoption of Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB

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Statement No. 109 (FIN 48) on November 1, 2007, offset by \$108.7 million of income taxes paid during the period.

Long-term deferred income taxes, which in previous periods related principally to the deferred income tax liability associated with deferred sales commissions offset by the deferred income tax benefit associated with stock-based compensation, changed from a net long-term deferred tax liability to a net long-term deferred tax benefit as a result of a change in tax accounting method for certain closed-end fund expenses. The Company filed the change in tax accounting method with the Internal Revenue Service in the first quarter of fiscal 2008 for expenses associated with the launch of new closed-end funds, which were historically deducted for tax purposes as incurred and are now capitalized and amortized over a 15 year period. Upon filing the change in tax accounting method, the Company recorded a deferred tax benefit of \$84.9 million, the majority of which will amortize over a 15 year period, and a corresponding deferred tax liability in the amount of \$84.9 million, which will reverse over a four year period ending October 31, 2011. The net current deferred tax liability of \$20.1 million as of April 30, 2008, principally represents the current portion of the remaining \$74.6 million deferred tax liability associated with the change in accounting method.

In October 2007, we issued \$500.0 million in aggregate principal amount of 6.5% ten-year senior notes due 2017. We also maintain a revolving credit facility with several banks, which expires on August 13, 2012. The facility, which was extended in August 2007, provides that we may borrow up to \$200.0 million at LIBOR-based rates of interest that vary depending on the level of usage of the facility and our credit ratings. The agreement contains financial covenants with respect to leverage and interest coverage and requires us to pay an annual commitment fee on any unused portion. On April 30, 2008, we had no outstanding borrowings under our revolving credit facility.

Contractual Obligations

The following table details our future contractual obligations:

| | Payments due | | | | |
|-----------------------------|--------------|-------------|---------|---------|----------|
| | | Less than 1 | 1-3 | 4-5 | After 5 |
| (in millions) | Total | Year | Years | Years | Years |
| Operating leases facilities | | | | | |
| and equipment | \$ 269.4 | \$ 10.3 | \$ 34.0 | \$ 35.7 | \$ 189.4 |
| Senior notes | 500.0 | - | - | - | 500.0 |
| Interest payments on senior | 312.5 | 32.5 | 97.5 | 65.0 | 117.5 |

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notes

Investment in private equity

| | | | | | |
|---------------------------|------------|---------|----------|----------|----------|
| partnership | 4.4 | - | 4.4 | - | - |
| Unrecognized tax benefits | 20.1 | 18.9 | 1.2 | - | - |
| Total | \$ 1,106.4 | \$ 61.7 | \$ 137.1 | \$ 100.7 | \$ 806.9 |

In July 2006, we committed to invest \$15.0 million in a private equity partnership that invests in companies in the financial services industry. As of April 30, 2008, we had invested \$10.6 million of the total \$15.0 million of committed capital.

In September 2006, we signed a long-term lease to move the Company's corporate headquarters to a new location in Boston. The lease will commence in May 2009.

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Excluded from the table above are future payments to be made by us to purchase the interests retained by minority investors in Atlanta Capital, Fox Asset Management, Parametric Portfolio Associates and Parametric Risk Advisors. Interests held by minority unit holders are not subject to mandatory redemption. The purchase of minority interests is predicated, for each subsidiary, on the exercise of a complex series of puts held by minority unit holders and calls held by us. The puts provide the minority shareholders the right to require us to purchase these retained interests at specific intervals over time, while the calls provide us with the right to require the minority shareholders to sell their retained equity interests to us at specific intervals over time, as well as upon the occurrence of certain events such as death or permanent disability. As a result, there is significant uncertainty as to the timing of any minority interest purchase in the future. The value assigned to the purchase of a minority interest is based, in each case, on a multiple of earnings before interest and taxes of the subsidiary, which is a measure that is intended to represent fair market value. There is no discrete floor or ceiling on any minority interest purchase. As a result, there is significant uncertainty as to the amount of any minority interest purchase in the future. Although the timing and amounts of these purchases cannot be predicted with certainty, we anticipate that the purchase of minority interests in our consolidated subsidiaries may be a significant use of cash in future years.

In April 2008, the minority investors in Parametric Portfolio Associates exercised a put option, requiring us to purchase an additional interest in Parametric Portfolio Associates for \$21.5 million. The transaction settled on May 1, 2008 and increased the Company's capital ownership interest from 84.3 percent to 89.3 percent and its profits interest from 81.2 percent to 82.3 percent. The additional purchase price will be allocated between intangible assets and goodwill in the third quarter.

In May 2008, the minority investors in Atlanta Capital Management Company, LLC, exercised a put option, requiring the Company to purchase an additional interest in Atlanta Capital Management Company, LLC, for \$5.0 million. The transaction will settle on June 30, 2008 and will increase the Company's ownership interest from 80.4 percent to 85.5 percent. The additional purchase price will be allocated between intangible assets and goodwill in the third quarter.

Operating Cash Flows

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Our operating cash flows are calculated by adjusting net income to reflect changes in assets and liabilities, deferred sales commissions, stock-based compensation, deferred income taxes and investments classified as trading. Cash provided by operating activities totaled \$39.8 million in the first six months of fiscal 2008 compared to \$33.4 million in the first six months of fiscal 2007. Operating cash flows in the first six months of fiscal 2007 were reduced by \$52.2 million in payments made to terminate certain closed-end fund compensation agreements and \$46.3 million in structuring fee payments related to the offering of a closed-end fund.

Investing Cash Flows

Investing activities consist primarily of the purchase of equipment and leasehold improvements, the purchase of equity interests from minority investors in our majority owned subsidiaries, and the purchase and sale of investments in our sponsored mutual funds and other sponsored investment products that we do not consolidate. Cash used for investing activities totaled \$0.7 million in the first six months of fiscal 2008 compared to \$6.3 million in the first six months of fiscal 2007.

In the first six months of fiscal 2008, additions to equipment and leasehold improvements totaled \$5.6 million, compared to \$3.8 million in the first six months of fiscal 2007. Fiscal 2008 and 2007 additions reflect leasehold improvements made in conjunction with additional office space leased to accommodate an increase in headcount. In the first six months of fiscal 2008, the purchase and sale of available-for-sale investments resulted in a net source of cash totaling \$4.9 million. In the first six months of fiscal 2007, the net purchases and sales of available-for-sale investments reduced investing cash flows by \$2.5 million.

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Financing Cash Flows

Financing cash flows primarily reflect the issuance and repayment of long-term debt, the issuance and repurchase of our Non-Voting Common Stock, excess tax benefits associated with stock option exercises and the payment of dividends to our shareholders. Financing cash flows also include proceeds from the issuance of capital stock by consolidated investment companies and cash paid to meet redemptions by minority shareholders of these funds. Cash used for financing activities totaled \$173.9 million and \$79.0 million in the first six months of fiscal 2008 and 2007, respectively.

In the first six months of fiscal 2008, we repurchased a total of 3.7 million shares of our Non-Voting Common Stock for \$161.1 million under our authorized repurchase program and issued 1.3 million shares of Non-Voting Common Stock in connection with the exercise of stock options and other employee stock purchases for total proceeds of \$19.9 million. We have authorization to purchase an additional 3.5 million shares under our current share repurchase authorization and anticipate that future repurchases will continue to be a significant use of cash. Our dividends per share were \$0.30 in the first six months of fiscal 2008 and \$0.24 in the first six months of fiscal 2007. We currently expect to declare and pay dividends on our Voting and Non-Voting Common Stock on a quarterly basis.

We believe that the remaining proceeds from our \$500.0 million senior note offering in fiscal 2007, cash provided by current operating activities and borrowings available to us under our \$200.0 million credit facility will provide us with sufficient liquidity to meet our short-term and

long-term operating needs.

Off-Balance Sheet Arrangements

We do not invest in any off-balance sheet vehicles that provide financing, liquidity, market or credit risk support or engage in any leasing activities that expose us to any liability that is not reflected in the Consolidated Financial Statements.

Critical Accounting Policies

We believe the following critical accounting policies, among others, affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. Actual results may differ from these estimates.

Deferred Sales Commissions

Sales commissions paid to broker/dealers in connection with the sale of certain classes of shares of open-end funds and private funds are generally capitalized and amortized over the period during which redemptions by the purchasing shareholder are subject to a contingent deferred sales charge, which does not exceed six years from purchase. Distribution plan payments received from these funds are recorded in revenue as earned. Contingent deferred sales charges and early withdrawal charges received from redeeming shareholders of these funds are generally applied to reduce the Company's unamortized deferred sales commission assets. Should we lose our ability to recover such sales commissions through distribution plan payments and contingent deferred sales charges, the value of these assets would immediately decline, as would future cash flows. We periodically review the recoverability of deferred sales commission assets as events or changes in circumstances indicate that the carrying amount of deferred sales commission assets may not be recoverable and adjust the deferred sales commission assets accordingly.

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Goodwill and Intangible Assets

Goodwill represents the excess of the cost of our investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. We attribute all goodwill associated with the acquisitions of Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates to a single reporting unit. Goodwill is not amortized but is tested at least annually for impairment by comparing the fair value of the reporting unit to its carrying amount, including goodwill. We establish fair value for the purpose of impairment testing using discounted cash flow analyses and appropriate market multiples. In this process, we make assumptions related to projected future earnings and cash flow, market multiples and applicable discount rates. Changes in these estimates could materially affect our impairment conclusion.

Identifiable intangible assets generally represent the cost of client relationships and management contracts acquired. In valuing these assets, we make assumptions regarding useful lives and projected growth rates, and significant judgment is required. We periodically review identifiable intangibles for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amounts of the assets exceed their respective fair values, additional impairment tests are performed to measure the amount of the impairment loss, if any.

Accounting for Income Taxes

Our effective tax rate reflects the statutory tax rates of the many jurisdictions in which we operate. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions. In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain, and we adjust our income tax provision in the period in which we determine that actual outcomes will likely be different from our estimates. FIN 48 requires that the tax effects of a position be recognized only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. The difference between the tax benefit recognized in the financial statements for a tax position in accordance with FIN 48 and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit. These unrecognized tax benefits, as well as the related interest, are adjusted regularly to reflect changing facts and circumstances. While we have considered future taxable income and ongoing tax planning in assessing our taxes, changes in tax laws may result in a change to our tax position and effective tax rate. The Company classifies any interest or penalties incurred as a component of income tax expense.

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of our assets and liabilities. Our deferred taxes relate principally to closed-end fund expenses, stock-based compensation expense and capitalized sales commissions paid to broker/dealers. Expenses associated with the launch of closed-end funds are capitalized and amortized for tax purposes over a period of 15 years. Under IRS regulations, stock-based compensation is deductible for tax purposes at the time the employee recognizes the income (upon vesting of restricted stock, exercise of non-qualified stock option grants and any disqualifying dispositions of incentive stock options). Capitalized sales commission payments are deductible for tax purposes at the time of payment.

Investments in CDO Entities

We act as collateral or investment manager for a number of CDO entities pursuant to management agreements between us and each CDO entity. At April 30, 2008, combined assets under management in these CDO entities upon which we earn a management fee were approximately \$3.3 billion. We had combined investments of \$18.0 million in five of these entities on April 30, 2008.

We account for our investments in CDO entities under Emerging Issues Task Force (EITF) 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in

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Securitized Financial Assets. The excess of future cash flows over the initial investment at the date of purchase is recognized as interest income over the life of the investment using the effective yield method. We review cash flow estimates throughout the life of each CDO investment pool to determine whether an impairment of its investments should be recognized. Cash flow estimates are based on the underlying pool of collateral securities and take into account the overall credit quality of the issuers of the collateral securities, the forecasted default rate of the collateral securities and our past experience in managing similar securities. If the updated estimate of future cash flows (taking into account both timing and amounts) is less than the last revised estimate, an impairment loss is recognized based on the excess of the carrying amount of the investment over its fair value. Fair value is determined using current information, notably market yields and projected cash flows based on forecasted default and recovery rates that a market participant would use in determining the current fair value of the interest. Market yields, default rates and recovery rates used in our estimate of fair value vary based on the nature of the investments in the underlying collateral pools. In periods of rising credit default rates and lower debt recovery rates, the fair value, and therefore carrying value, of our investments in these CDO entities may be adversely affected. Our risk of loss in the CDO entities is limited to the \$18.0 million carrying value of the investments on our Consolidated Balance Sheet at April 30, 2008.

A CDO entity issues non-recourse debt and equity securities, which are sold in a private offering to institutional and high-net-worth investors. The CDO debt securities issued by the CDO entity are secured by collateral in the form of floating-rate bank loans, high-yield bonds and/or other types of approved securities that the CDO entity purchases. We manage the collateral securities for a fee and, in most cases, are a minority investor in the equity interests of the CDO entity. An equity interest in a CDO entity is subordinated to all other interests in the CDO entity and entitles the investor to receive the residual cash flows, if any, from the CDO entity. As a result, our equity investment in a CDO entity is highly sensitive to changes in the credit quality of the issuers of the collateral securities, including changes in the forecasted default rates and any declines in anticipated recovery rates. Our financial exposure to the CDO entities we manage is limited to our interests in the CDO entities as reflected in our Consolidated Balance Sheets.

Stock-Based Compensation

Stock-based compensation expense reflects the fair value of stock-based awards measured at grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management's judgment. Management must also apply judgment in developing an expectation of awards that may be forfeited. If actual experience differs significantly from these estimates, stock-based compensation expense and our results of operations could be materially affected.

Accounting Developments

In May 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS No. 162 is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. We do not anticipate that the provisions of SFAS No. 162 will have an impact on our consolidated results of operations or our consolidated financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* – an amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity's derivative and hedging activities to improve the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for periods beginning after November 15, 2008. SFAS No. 161 is effective for the Company's fiscal quarter that begins on February 1, 2009. We are currently evaluating the potential impact, if any, on the Company's disclosures in our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51*. SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries and for the deconsolidation of subsidiaries. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. The provisions of SFAS No. 160 are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years on a prospective basis except for the presentation and disclosure requirements which apply retrospectively. Earlier application of SFAS No. 160 is prohibited. SFAS No. 160 is effective for the Company's fiscal year that begins on November 1, 2009. We are currently evaluating the potential impact, if any, on our consolidated financial statements.

In December 2007, the FASB amended SFAS No. 141 (revised 2007), *Business Combinations*. SFAS No. 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first reporting period for fiscal years beginning on or after December 15, 2008. Earlier application of SFAS No. 141R is prohibited. SFAS No. 141R is effective for the Company's fiscal year that begins on November 1, 2009 and will be applied to future acquisitions.

In June 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified non-vested equity shares, non-vested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. EITF 06-11 is effective for the Company's fiscal year that begins on November 1, 2008. We are currently evaluating the potential impact of EITF 06-11, if any, on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. SFAS No. 159 is effective for the Company's fiscal year that begins on November 1, 2008. We are currently evaluating this standard and its impact, if any, on our consolidated financial statements.

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In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. On February 6, 2008 the FASB agreed to partially defer the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities except those items recognized or disclosed at fair value on an annual or more frequently occurring basis, until November 15, 2008 and remove certain leasing transactions from the scope of SFAS No. 157. SFAS No. 157 is effective for the Company's fiscal year that begins on November 1, 2008. We are currently evaluating this standard and its impact, if any, on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our Quantitative and Qualitative Disclosures About Market Risk from those previously reported in our Form 10-K for the year ended October 31, 2007.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2008. Disclosure controls and procedures as defined under the Securities Exchange Act Rule 13a-15(e), are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of the date of their evaluation, our disclosure controls and procedures were effective.

In the ordinary course of business, the Corporation may routinely modify, upgrade and enhance its internal controls and procedures for financial reporting. However, there have been no changes in our internal control over financial reporting as defined by Rule 13a-15(f) under the Exchange Act that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II - Other Information

Item 1. Legal Proceedings

There have been no material developments in litigation previously reported in our SEC filings.

Item 1A. Risk Factors

We are subject to substantial competition in all aspects of our investment management business and there are few barriers to entry. Our funds and separate accounts compete against an increasing number of investment products and services sold to the public by investment management companies, investment dealers, banks, insurance companies and others. Many institutions we compete with have greater financial resources than us. We compete with other providers of investment products on the basis of the products offered, the investment performance of such products, quality of service, fees charged, the level and type of financial intermediary compensation, the manner in which such products are marketed and distributed, reputation and the services provided to investors. In addition, our ability to market investment products is highly dependent on access to the various distribution systems of national and regional securities dealer firms, which generally offer competing affiliated and externally managed investment products that could limit the distribution of our investment products. There can be no assurance that we will be able to retain access to these channels. The inability to have such access could have a material adverse effect on our business. To the extent that existing or potential customers, including securities broker/dealers, decide to invest in or broaden distribution relationships with our competitors, the sales of our products as well as our market share, revenue and net income could decline.

We derive almost all of our revenue from investment advisory and administration fees, distribution income and service fees received from the Eaton Vance funds and separate accounts. As a result, we are dependent upon management contracts, administration contracts, distribution contracts, underwriting contracts or service contracts under which these fees and income are paid. Generally, these contracts are terminable upon 30 to 60 days' notice without penalty. If any of these contracts are terminated, not renewed, or amended to reduce fees, our financial results could be adversely affected.

Our assets under management, which impact revenue, are subject to significant fluctuations. Our major sources of revenue (i.e., investment advisory, administration, distribution, and service fees) are calculated as percentages of assets under management. Any decrease in the level of our assets under management could negatively impact our revenue and net income. For example, a decline in securities prices or in the sales of our investment products or an increase in fund redemptions or client withdrawals generally would reduce fee income. Financial market declines or adverse changes in interest rates would generally negatively impact the level of our assets under management and consequently our revenue and net income. To the extent that we receive income from assets under management that are derived from financial leverage, any reduction in leverage used could adversely impact the level of assets under management. For example, leverage could be reduced due to an adverse change in interest rates, a decrease in the availability of credit on favorable terms or a determination by us to reduce or eliminate leverage on certain products when we determine that the use of leverage is no longer in our clients' best interests. A recession or other economic or political events could also adversely impact our revenue if it led to a decreased demand for products, a higher redemption rate, or a decline in securities prices. Any decrease in the level of assets under management resulting from price declines, interest rate volatility, reduction in leverage or other factors could negatively impact our revenue and net income.

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Poor investment performance of our products could affect our sales or reduce the amount of assets under management, potentially negatively impacting revenue and net income. Investment performance, along with achieving and maintaining superior distribution and client service, is critical to our success. While strong investment performance could stimulate sales of our investment products, poor investment performance as compared to third-party benchmarks or competitive products could lead to a decrease in sales and stimulate higher redemptions, thereby lowering the amount of assets under management and reducing the investment advisory fees we earn. Past or present performance in the investment products we manage is not indicative of future performance.

Our success depends on key personnel and our financial performance could be negatively affected by the loss of their services. Our success depends upon our ability to attract, retain and motivate qualified portfolio managers, analysts, investment counselors, sales and management personnel and other key professionals including our executive officers. Investment professionals are in high demand, and we face strong competition for qualified personnel. Our key employees do not have employment contracts and may voluntarily terminate their employment at any time. Certain senior executives and directors are subject to our mandatory retirement policy. The loss of the services of key personnel or our failure to attract replacement or additional qualified personnel could negatively affect our financial performance. An increase in compensation made to attract or retain personnel could result in a decrease in net income.

Our expenses are subject to fluctuations that could materially affect our operating results. Our results of operations are dependent on the level of expenses, which can vary significantly from period to period. Our expenses may fluctuate as a result of variations in the level of total compensation expense, expenses incurred to support distribution of our investment products, expenses incurred to enhance our infrastructure (including technology and compliance) and impairments of intangible assets or goodwill.

Our reputation could be damaged. We have spent over 80 years building a reputation based on strong investment performance, a high level of integrity and superior client service. Our reputation is extremely important to our success. Any damage to our reputation could result in client withdrawals from funds or separate accounts that are advised by us and ultimately impede our ability to attract and retain key personnel. The loss of either client relationships or key personnel could reduce the amount of assets under management and cause us to suffer a loss in revenue or net income.

We are subject to federal securities laws, state laws regarding securities fraud, other federal and state laws and rules, and regulations of certain regulatory and self-regulatory organizations, including, among others, the SEC, FINRA, the FSA and the New York Stock Exchange. In addition, financial reporting requirements are comprehensive and complex. While we have focused significant attention and resources on the development and implementation of compliance policies, procedures and practices, non-compliance with applicable laws, rules or regulations, either in the United States or abroad, or our inability to adapt to a complex and ever-changing regulatory environment could result in sanctions against us, which could adversely affect our reputation, prospects, revenue, and earnings.

We could be impacted by changes in tax policy due to our tax-managed focus. Changes in U.S. tax policy may affect us to a greater degree than many of our competitors because we emphasize managing funds and separate accounts with an after-tax return objective. We believe an increase in overall tax rates could have a positive impact on our municipal income and tax-managed equity businesses that seek to minimize realized capital gains and/or maximize realized capital losses. An increase in the tax rate on qualified dividends could have a negative impact on our tax-advantaged equity income business. Changes in tax policy could also affect our ability to introduce new privately offered equity funds.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below sets forth information regarding purchases of our Non-Voting Common Stock on a monthly basis during the second quarter of fiscal 2008:

Purchases of Equity Securities by the Issue and Affiliated Purchasers

| Period | (a) Total Number of Shares Purchased | (b) Average price paid per share | (c) Total Number of Shares Purchased of Publicly Announced Plans or Programs⁽¹⁾ | (d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs |
|--------------------------|---|---|---|---|
| February 1, 2008 through | | | | |
| February 29, 2008 | 229,847 | \$35.29 | 229,847 | 3,526,190 |
| March 1, 2008 through | | | | |
| March 31, 2008 | - | - | - | 3,526,190 |
| April 1, 2008 through | | | | |
| April 30, 2008 | 11,826 | \$35.77 | 11,826 | 3,514,364 |
| Total | 241,673 | \$35.31 | 241,673 | 3,514,364 |

⁽¹⁾ We announced a share repurchase program on October 24, 2007. The Board authorized management to repurchase up to 8,000,000 shares of our Non-Voting Common Stock in the open market and in private transactions in accordance with applicable securities laws. This repurchase plan is not subject to an expiration date.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 6. Exhibits**(a) Exhibits**

| Exhibit No. | Description |
|--------------------|---|
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EATON VANCE CORP.
(Registrant)

DATE: June 5, 2008

/s/Robert J. Whelan
(Signature)
Robert J. Whelan
Chief Financial Officer

DATE: June 5, 2008

/s/Laurie G. Hylton
(Signature)
Laurie G. Hylton
Chief Accounting Officer