

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

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

**FORM 10-Q/A**

(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, 2005

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8100

**EATON VANCE CORP.**

(Exact name of registrant as specified in its charter)

Maryland  
(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

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

Shares outstanding as of April 30, 2005:

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

**Eaton Vance Corp.**  
**Form 10-Q**  
**For the Six Months Ended April 30, 2005**  
**Index**

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**Part I Financial Information**

**Item 1. Consolidated Financial Statements**

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

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

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

See notes to consolidated financial statements.

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

| <i>(in thousands, except share figures)</i>                | <b>April 30,<br/>2005</b> | <b>October 31,<br/>2004</b> |
|--|---------------------------|-----------------------------|
| <b>Liabilities and Shareholders' Equity</b>                |                           |                             |
| <b>Current Liabilities:</b>                                |                           |                             |
| Accrued compensation                                       | \$ 32,628                 | \$ 52,299                   |
| Accounts payable and accrued expenses                      | 24,078                    | 23,789                      |
| Dividend payable   | 10,506                    | 10,660                      |
| Other current liabilities                                  | 9,144                     | 7,451                       |
| Total current liabilities                                  | 76,356                    | 94,199                      |
| <b>Long-term Liabilities:</b>                              |                           |                             |
| Long-term debt   | 74,900                    | 74,347                      |
| Deferred income taxes                                      | 49,617                    | 57,644                      |
| Total long-term liabilities                                | 124,517                   | 131,991                     |
| Total liabilities  | 200,873                   | 226,190                     |
| Minority interest  | 4,472                     | 67,870                      |
| Commitments and contingencies                              |                           |                             |
| <b>Shareholders' Equity:</b>                               |                           |                             |
| Common stock, par value \$0.00390625 per share:            |                           |                             |
| Authorized, 1,280,000 shares                               |                           |                             |
| Issued, 309,760 shares                                     | 1                         | 1                           |
| Non-voting common stock, par value \$0.00390625 per share: |                           |                             |
| Authorized, 190,720,000 shares                             |                           |                             |
| Issued, 131,256,033 and 133,271,560 shares, respectively   | 513                       | 521                         |
| Notes receivable from stock option exercises               | (2,862)                   | (2,718)                     |
| Deferred compensation                                      | (3,000)                   | (2,400)                     |
| Accumulated other comprehensive income                     | 1,996                     | 1,854                       |
| Retained earnings  | 449,054                   | 452,248                     |
| Total shareholders' equity                                 | 445,702                   | 449,506                     |
| Total liabilities and shareholders' equity                 | \$ 651,047                | \$ 743,566                  |

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

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

See notes to consolidated financial statements.

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

| <i>(in thousands)</i>                        | <b>Six Months Ended<br/>April 30,</b> |             |
|--|---------------------------------------|-------------|
|  | <b>2005</b>                           | <b>2004</b> |
| <b>Cash Flows From Financing Activities:</b> |                                       |             |
| Credit facility debt issuance costs          | (428)                                 |             |
| Repayment of debt                            |                                       | (7,143)     |

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

### Supplemental Cash Flow Information:

|                   |           |           |
|-------------------|-----------|-----------|
| Interest paid     | \$ 90     | \$ 1,817  |
| Income taxes paid | \$ 49,960 | \$ 26,492 |

See notes to consolidated financial statements.

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## Eaton Vance Corp.

### Notes to Consolidated Financial Statements

#### (1) Basis of Presentation

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

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

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

#### (2) Principles of Consolidation

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

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

#### (3) Earnings Per Share

In October 2004, the Financial Accounting Standards Board ratified the consensus of the Emerging Issues Task Force ( EITF ) regarding the effect of contingently convertible debt on diluted earnings per share. EITF 04-08 states that any shares of common stock that may be issued to

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settle contingently convertible securities must be considered issued in the calculation of diluted earnings per share, regardless of whether the market price trigger (or other contingent feature) has been met. The consensus requires the restatement of diluted earnings per share for all prior periods presented. The implementation of EITF 04-08, as indicated in the table below, reduced diluted earnings per share by less than \$0.01 in each period presented.

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

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

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

**(4) Other Intangible Assets**

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

| April 30, 2005                           | Weighted-average<br>amortization<br>period<br>(in years) | Gross<br>carrying<br>amount | Accumulated<br>amortization |
|--|--|-----------------------------|-----------------------------|
| <i>(dollars in thousands)</i>            |  |                             |                             |
| <b>Amortizing intangible assets:</b>     |  |                             |                             |
| Client relationships acquired            | 15.9   | \$49,986                    | (\$9,760)                   |
| <b>Non-amortizing intangible assets:</b> |  |                             |                             |
| Mutual fund management contract acquired |  | 1,311                       |                             |
| Total                                    |  | \$51,297                    | (\$9,760)                   |

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

**(5) Investments**

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

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

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

**(6) Debt**

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

**(7) Stock-Based Compensation Plans**

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

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

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

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

**(6) Debt**



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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| under fair value based method for all awards, net of related tax effects | (5,218)  | (4,879)  | (11,068) | (9,318)  |
| Pro forma net income   | \$32,536 | \$30,546 | \$65,220 | \$57,176 |

Earnings per share:

|                     |        |        |        |        |
|---------------------|--------|--------|--------|--------|
| Basic as reported   | \$0.28 | \$0.26 | \$0.57 | \$0.48 |
| Basic pro forma     | \$0.25 | \$0.23 | \$0.49 | \$0.42 |
| Diluted as reported | \$0.27 | \$0.25 | \$0.53 | \$0.46 |
| Diluted pro forma   | \$0.23 | \$0.21 | \$0.46 | \$0.39 |

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

**(8) Common Stock Repurchases**

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

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

**(9) Regulatory Requirements**

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

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**(10) Income Taxes**

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

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

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

| (in thousands) | April 30, 2005 | October 31, 2004 |
|----------------|----------------|------------------|
|----------------|----------------|------------------|

**(7) Stock-Based Compensation Plans**

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

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

| <b>(in thousands)</b>                  | <b>April 30,<br/>2005</b> | <b>October<br/>31,<br/>2004</b> |
|--|---------------------------|---------------------------------|
| Net current deferred tax asset         | \$ 244                    | \$ 63                           |
| Net non-current deferred tax liability | (49,617)                  | (57,644)                        |
| <b>Net deferred tax liability</b>      | <b>\$(49,373)</b>         | <b>\$(57,581)</b>               |

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

**(11) Comprehensive Income**

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

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

**(12) Contingencies**

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

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

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**(13) Recent Accounting Developments**

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

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

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

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

**General**

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

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

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

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

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

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

### Assets Under Management

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

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### Ending Assets Under Management by Investment Objective

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

Equity assets represented 59 percent of total assets under management at April 30, 2005, down from 60 percent at April 30, 2004. Equity funds managed for tax efficiency totaled \$30.1 billion and \$27.7 billion at April 30, 2005 and 2004, respectively. Fixed income assets, including money market funds, represented 22 percent of total assets under management at April 30, 2005, down from 25 percent at April 30, 2004. Fixed income assets include \$11.1 billion and \$10.6 billion of tax-exempt municipal bond funds at April 30, 2005 and 2004, respectively. Floating-rate

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income assets represented 19 percent of total assets under management at April 30, 2005, up from 15 percent at April 30, 2004. The shift in asset mix from fixed income to equity and floating-rate income reflects investor response to continued improvements in the equity markets and the rise in short-term interest rates.

### *Long-Term Fund and Separate Account Net Flows*

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

<sup>(1)</sup> High-net-worth ( *HNW* )

<sup>(2)</sup> Not meaningful ( *NM* )

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

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

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

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*Asset Flows by Investment Objective*

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

**Ending Assets Under Management by Asset Class**

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

<sup>(1)</sup> Share class includes Eaton Vance Advisers Senior Floating-Rate Fund, an interval fund.

<sup>(2)</sup> Share class includes Eaton Vance Prime Rate Reserves, an interval fund.

<sup>(3)</sup> Share class includes Eaton Vance Classic Senior Floating-Rate Fund, an interval fund.

<sup>(4)</sup> Share class includes Eaton Vance Institutional Senior Floating-Rate Fund, an interval fund.

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

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

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

**Average Assets Under Management by Asset Class**

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

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

(1) Share class includes Eaton Vance Advisers Senior Floating-Rate Fund, an interval fund.

(2) Share class includes Eaton Vance Prime Rate Reserves, an interval fund.

(3) Share class includes Eaton Vance Classic Senior Floating-Rate Fund, an interval fund.

(4) Share class includes Eaton Vance Institutional Senior Floating-Rate Fund, an interval fund.

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

### Results of Operations

|                     | For the<br>Three Months Ended<br>April 30, |           |          | For the<br>Six Months Ended<br>April 30, |           |          |
|---------------------|--|-----------|----------|--|-----------|----------|
| (in thousands)      | 2005                                       | 2004      | % Change | 2005                                     | 2004      | % Change |
| Net income          | \$ 37,627                                  | \$ 35,169 | 7%       | \$ 76,033                                | \$ 65,982 | 15%      |
| Earnings per share: |  |           |          |  |           |          |
| Basic               | \$ 0.28                                    | \$ 0.26   | 8%       | \$ 0.57                                  | \$ 0.48   | 19%      |
| Diluted             | \$ 0.27                                    | \$ 0.25   | 8%       | \$ 0.53                                  | \$ 0.46   | 15%      |
| Operating margin    | 34%  | 34%       |          | 34%                                      | 33%       |          |

Net income increased by 7 percent and 15 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago. The increases noted in both second quarter and first half

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net income can be primarily attributed to a 17 percent increase in average assets under management in the second quarter of fiscal 2005 and a 20 percent increase in average assets under management in the first half of fiscal 2005 over the same periods a year ago. Financial results for both the second quarter and first half of fiscal 2005 reflect the recognition of a \$1.8 million impairment loss on the Company's investment in one collateralized debt obligation entity.

### Revenue

|                | For the<br>Three Months Ended<br>April 30, |      |          | For the<br>Six Months Ended<br>April 30, |      |          |
|----------------|--|------|----------|--|------|----------|
| (in thousands) | 2005                                       | 2004 | % Change | 2005                                     | 2004 | % Change |



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|                                   | <b>For the<br/>Three Months Ended<br/>April 30,</b> |           | <b>For the<br/>Six Months Ended<br/>April 30,</b> |           |           |     |
|-----------------------------------|---|-----------|---|-----------|-----------|-----|
| Investment adviser and            |   |           |   |           |           |     |
| administration fees               | \$121,361   | \$101,162 | 20%   | \$240,276 | \$194,912 | 23% |
| Distribution and underwriter fees | 33,809  | 39,637    | 15%   | 68,869    | 79,513    | 13% |
| Service fees                      | 25,139  | 23,017    | 9%  | 50,616    | 44,926    | 13% |
| Other revenue                     | 2,195   | 1,475     | 49%   | 4,521     | 2,913     | 55% |
| Total                             | \$182,504   | \$165,291 | 10%   | \$364,282 | \$322,264 | 13% |

The Company's effective fee rate (total revenue as a percentage of average assets under management) decreased to 74 basis points in the second quarter of fiscal 2005 from 78 basis points in the second quarter of fiscal 2004, largely as a result of the change in the Company's long-term fund asset mix. As Class B shares have decreased as a percentage of total long-term fund assets under management, distribution and underwriter fees have decreased in both absolute dollars and as a percentage of total revenue. Distribution and underwriter fees as a percentage of total revenue decreased to 19 percent in the second quarter of fiscal 2005 from 24 percent in the second quarter of fiscal 2004. The decline in the Company's effective fee rate was offset in part by a reduction in deferred sales commission amortization expense as deferred sales commissions paid on Class B share sales also declined with the change in asset mix.

### *Investment adviser and administration fees*

Investment adviser and administration fees are generally calculated under contractual agreements with the Company's sponsored funds and separate accounts and are based upon a percentage of the market value of assets under management. Changes in the market value of managed assets affect the amount of investment adviser and administration fees earned, while shifts in asset mix affect the Company's effective fee rate.

The increase in investment adviser and administration fees of 20 percent and 23 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago can be attributed to an increase in average assets under management and the shift in asset mix from fixed income to equity and floating-rate income. Average assets under management increased by 17 percent and 20 percent in the second quarter and first half of fiscal 2005, respectively.

### *Distribution and underwriter fees*

Distribution plan payments, which are made under contractual agreements with the Company's sponsored funds, are calculated as a percentage of average assets under management in specific share classes of the Company's mutual funds (principally Class B and Class C, as well as certain private

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funds). These fees fluctuate with both the level of average assets under management and the relative mix of assets between share classes. Underwriter commissions are earned on the sale of shares of the Company's sponsored funds on which investors pay a sales charge at the time of purchase (Class A share sales). Sales charges, and therefore underwriter commissions, are waived or reduced on sales to shareholders or intermediaries that exceed specified minimum amounts and waived on shares that are purchased as part of a fee-based account. Underwriter commissions fluctuate with both the level of Class A share sales and the mix of Class A shares offered with and without sales charges.

Distribution and underwriter fees decreased by 15 percent in the second quarter of fiscal 2005 and by 13 percent in the first six months of fiscal 2005 over the same periods a year ago, primarily reflecting a decrease in Class B share assets under management. As noted in the table Ending Assets Under Management, ending Class B share assets under management declined 11 percent year-over-year as a result of net redemptions in the asset class over the last twelve months and the implementation of an 8-year Class B to Class A share conversion feature for certain of the Company's mutual funds in the second quarter of fiscal 2004.

### *Service fees*

Service plan payments, which are made under contractual agreements with the Company's sponsored funds, are calculated as a percent of average assets under management in specific share classes of the Company's mutual funds (principally Classes A, B and C) as well as certain private funds. Service fees represent payments made by sponsored funds to the principal underwriter (Eaton Vance Distributors, Inc., a wholly owned subsidiary of Eaton Vance Management) for personal service and/or the maintenance of shareholder accounts.

Service fees increased by 9 percent and 13 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago, primarily reflecting an increase in average Class A, B, C and private fund assets under management that are subject to service fees.

### *Other revenue*

Other revenue increased by 49 percent in the second quarter of fiscal 2005 over the same period a year ago, primarily reflecting investment

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income earned by two majority-owned investment companies consolidated by the Company. The Company consolidated each fund at the point in time at which the Company's investment in the fund exceeded 50 percent of the total net asset value of the fund. In April 2005, the Company deconsolidated the larger of the two funds when the Company's investment dropped below 50 percent of the total net asset value of the fund. Effective April 1, 2005, the Company's investment in the deconsolidated fund was accounted for under the equity method. Other revenue includes \$2.0 million of investment income related to the deconsolidated fund for the six months ended April 30, 2005.

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### *Expenses*

| <i>(in thousands)</i>                      | <b>For the<br/>Three Months Ended<br/>April 30,</b> |                  |                 | <b>For the<br/>Six Months Ended<br/>April 30,</b> |                  |                 |
|--|---|------------------|-----------------|---|------------------|-----------------|
|  | <b>2005</b>   | <b>2004</b>      | <b>% Change</b> | <b>2005</b>                                       | <b>2004</b>      | <b>% Change</b> |
| Compensation of officers and employees     | \$ 43,914   | \$ 36,793        | 19%             | \$ 86,118   | \$ 74,292        | 16%             |
| Amortization of deferred sales commissions | 16,907  | 21,869           | 23%             | 34,947  | 42,632           | 18%             |
| Service fee expense                        | 20,594  | 18,879           | 9%              | 41,766  | 37,511           | 11%             |
| Distribution expense                       | 23,194  | 19,695           | 18%             | 46,113  | 38,474           | 20%             |
| Other expenses                             | 16,445  | 11,880           | 38%             | 31,032  | 23,077           | 34%             |
| <b>Total</b>                               | <b>\$121,054</b>                                    | <b>\$109,116</b> | <b>11%</b>      | <b>\$239,976</b>                                  | <b>\$215,986</b> | <b>11%</b>      |

#### *Compensation of officers and employees*

Compensation expense increased by 19 percent in the second quarter of fiscal 2005 over a year ago, principally due to a 14 percent increase in headcount, higher operating income-based bonus accruals, higher marketing incentives associated with the Company's separately managed account business, and higher marketing incentives associated with the increase in long-term fund sales.

Compensation expense increased by 16 percent in the first half of fiscal 2005 over a year ago, principally due to a 14 percent increase in headcount, higher operating income-based bonus accruals and higher marketing incentives associated with the Company's separately managed account business. Marketing incentives associated with long-term fund sales were flat year over year, reflecting flat fund sales for the second half of fiscal 2005 compared to the same period a year ago.

#### *Amortization of deferred sales commissions*

Amortization of deferred sales commissions decreased by 23 percent and 18 percent in the three and six month periods ending April 30, 2005 over the same periods a year ago. Amortization expense is affected by ongoing sales and redemptions of mutual fund Class B shares, Class C shares and certain private funds. Class B, Class C and private fund sales decreased in both the second quarter and first half of fiscal 2005 compared to the same periods a year ago. A continuing shift from Class B sales to Class A sales over time will likely result in a further reduction in amortization expense.

#### *Service fee expense*

Service fees the Company receives from sponsored funds are generally retained by the Company 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 the Company's mutual funds (principally Classes A, B and C) as well as certain private funds. Service fee expense increased by 9 percent and 11 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago, reflecting increases in average long-term fund assets retained more than one year that are subject to service fees.

#### *Distribution expense*

Distribution expense consists primarily of payments made to distribution partners pursuant to third-party distribution arrangements (calculated as a percentage of average Class C share and closed-end fund

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assets under management), commissions paid to broker/dealers on the sale of Class A shares at net asset value and other marketing expenses, including marketing expenses associated with revenue sharing arrangements with the Company's distribution partners. Distribution expense increased by 18 percent and 20 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago, largely as a result of increases in average closed-end fund and other assets under management subject to third-party distribution arrangements.

### *Other expenses*

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

Other expenses increased by 38 percent and 34 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago, primarily reflecting increases in fund-related expenses and the amortization of intangible assets. The increase in fund-related expenses in both the second quarter and first half of fiscal 2005 can be attributed to costs borne by the Company to support product development prior to new product launch and payments made to external investment advisors for subadvisory services provided. The increase in the amortization of intangible assets in both the second quarter and first half of fiscal 2005 over the same periods a year ago can be attributed to a \$0.9 million impairment of management contracts acquired by a majority-owned subsidiary in fiscal 2003.

### *Other Income and Expense*

| <i>(in thousands)</i>          | <b>For the<br/>Three Months Ended<br/>April 30,</b> |                 |                 | <b>For the<br/>Six Months Ended<br/>April 30,</b> |                  |                 |
|--------------------------------|---|-----------------|-----------------|---|------------------|-----------------|
|                                | <b>2005</b>   | <b>2004</b>     | <b>% Change</b> | <b>2005</b>                                       | <b>2004</b>      | <b>% Change</b> |
| Interest income                | \$ 1,057  | \$ 661          | 60%             | \$ 1,766  | \$ 1,449         | 22%             |
| Interest expense               | (371)   | (1,364)         | 73%             | (732)   | (3,015)          | 76%             |
| Gain (loss) on investments     | 77  | (83)            | NM              | 87  | (78)             | NM              |
| Foreign currency gain (loss)   | 3   | (29)            | NM              | 25  | (47)             | NM              |
| Impairment loss on investments | (1,840)   |                 | NM              | (1,840)   |                  | NM              |
| <b>Total</b>                   | <b>\$(1,074)</b>                                    | <b>\$ (815)</b> | <b>NM</b>       | <b>\$ (694)</b>                                   | <b>\$(1,691)</b> | <b>NM</b>       |

Interest income increased by 60 percent and 22 percent in the second quarter and first half of fiscal 2005, respectively, over the same periods a year ago, primarily due to an increase in short-term interest rates offset by a decrease in interest income earned on the Company's minority equity investments in three collateralized debt obligation entities.

Investment income earned on investments classified as available-for-sale is included in interest income. Interest and dividend income earned by the Company's two consolidated funds, which invest in short-term debt instruments, is recorded in other revenue. Effective April 1, 2005, the Company deconsolidated one of the two funds and adopted the equity method of accounting for this investment. Investment income earned by this fund is included in equity in net income of affiliates for the month of April.

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Interest expense decreased by 73 percent and 76 percent in the second quarter and first half of fiscal 2005, respectively, primarily reflecting a decrease in average long-term debt balances. The decrease in average long-term debt balances is attributed to the retirement of Eaton Vance Management's (EVM's) 6.22 percent senior notes in March 2004 and the repurchase of \$46.0 million of EVM's zero-coupon exchangeable senior notes in August 2004.

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

### *Income Taxes*

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) increased to 36.3 percent in the second quarter of fiscal 2005 from 35.3 percent in the second quarter of fiscal 2004 due to an increase in state income taxes.

**Equity in Net Income (Loss) of Affiliates, Net of Tax**

Equity in net income (loss) of affiliates, net of tax, was flat in the second quarter of fiscal 2005 in comparison with the second quarter of fiscal 2004 and decreased by 151 percent in the first half of fiscal 2005 in comparison with the same period a year ago, largely as a result of calendar year-end bonuses paid and expensed by an affiliate in December 2004.

**Minority Interest**

Minority interest increased by 17 percent in the second quarter of fiscal 2005 over the same period a year ago due to the increased profitability of two of the Company's majority-owned subsidiaries, Atlanta Capital and Parametric Portfolio Associates. Minority interest is not tax-effected due to the underlying tax status of the Company's majority-owned subsidiaries. Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates are limited liability companies that are treated as partnerships for tax purposes.

**Changes in Financial Condition and Liquidity and Capital Resources**

The following table summarizes certain key financial data relating to the Company's liquidity and capital resources as of April 30, 2005 and October 31, 2004:

| <i>(in thousands)</i>      | <b>April 30,<br/>2005</b> | <b>October 31,<br/>2004</b> | <b>% Change</b> |
|----------------------------|---------------------------|-----------------------------|-----------------|
| <b>Balance sheet data:</b> |                           |                             |                 |
| Cash and cash equivalents  | \$158,814                 | \$147,137                   | 8%              |
| Short-term investments     | 125,953                   | 210,429                     | 40%             |
| Long-term investments      | 40,071                    | 36,895                      | 9%              |
| Deferred sales commissions | 140,028                   | 162,259                     | 14%             |
| Long-term debt             | 74,900                    | 74,347                      | 1%              |
| Deferred income taxes      | 49,617                    | 57,644                      | 14%             |
|                            |                           | 25                          |                 |

| <i>(in thousands)</i>  | <b>For the<br/>Six Months Ended<br/>April 30,</b> |             |
|------------------------|---|-------------|
|                        | <b>2005</b>                                       | <b>2004</b> |
| <b>Cash flow data:</b> |   |             |
| Operating cash flows   | \$ 19,686   | \$ 35,251   |
| Investing cash flows   | (7,058)   | (3,020)     |
| Financing cash flows   | (989)   | (17,869)    |

The Company's financial condition is highly liquid, with a significant percentage of the Company's assets represented by cash, cash equivalents and short-term investments. Short-term investments consist principally of investments in the Company's sponsored money market mutual funds. The decrease in short-term investments can be attributed to the deconsolidation of the larger of two consolidated mutual funds in April of 2005. Long-term investments consist principally of seed investments in certain of the Company's other sponsored mutual funds and minority equity investments in collateralized debt obligation entities.

Deferred sales 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 2005, primarily reflecting a decrease in Class B share fund sales and assets over the last two fiscal years. Deferred income taxes, which relate primarily to deferred sales commissions, also decreased by 14 percent in the first six months of fiscal 2005.

The following table details the Company's future contractual obligations under its operating lease arrangements:

| <b>Contractual Obligation</b> | <b>Payments Due</b> |
|-------------------------------|---------------------|
| <i>(in millions)</i>          | <b>Total</b>        |

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| Contractual Obligation | Payments Due         |              |              |                  |
|------------------------|----------------------|--------------|--------------|------------------|
|                        | Less than 1<br>years | 1-3<br>years | 4-5<br>years | After 5<br>years |
| Operating leases       | \$ 25.2              | \$ 6.8       | \$ 12.0      | \$ 6.4           |

Excluded from the table above are any future payments to be made by the Company to purchase the minority interests retained by the sellers of Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates at the time of acquisition. The Company's acquisition agreements provide the minority owners the right to require the Company to purchase these retained equity interests at specific intervals over time. These agreements also provide the Company with the right to require the principals to sell their retained equity interests to the Company at specific intervals over time, as well as upon certain events such as death and permanent disability. These purchases and/or sales will occur at varying times at varying amounts over the next 11 years and will be based upon a multiple of earnings before interest and taxes, a measure which is intended to represent fair market value. The timing and amounts of these purchases cannot be predicted with certainty. However, the Company anticipates that the purchase of the remaining minority interests in its majority-owned subsidiaries may be a significant use of operating cash in the future.

Also excluded from the table above are EVM's zero-coupon exchangeable senior notes (Notes). On August 13, 2001, EVM issued the Notes at a principal amount of \$314.0 million due August 13, 2031,

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resulting in net proceeds of approximately \$195.5 million. The discounted price reflects a yield to maturity of 1.5 percent per year. Upon certain events, each Note is exchangeable into 28.7314 shares of the Company's non-voting common stock, subject to adjustment. EVM may redeem the Notes for cash on or after August 13, 2006, at their accreted value of \$76.4 million. At the option of Note holders, EVM may be required to repurchase the Notes at their accreted value on August 13, 2006 and at five-year intervals thereafter until maturity. EVM may also be required to repurchase the Notes at their accreted value if the credit rating of the Notes is decreased by three or more rating subcategories below its initial rating by either Moody's or Standard & Poor's. Such repurchases can be paid in cash, shares of the Company's non-voting common stock, or a combination of both, as elected by the Company.

Note holders also have the right to surrender their Notes for exchange into shares of the Company's non-voting common stock in any fiscal quarter if, as of the last day of the preceding fiscal quarter, the closing sales price of Eaton Vance Corp.'s non-voting common stock for at least 20 of the last 30 consecutive trading days is more than a specified percentage of the accreted exchange price per share on that date. On April 30, 2005, the contingent conversion price for the Company's non-voting common stock was \$27.84. EVM has the right to settle the exchange in cash, shares of the Company's non-voting common stock, or a combination of both. In the event that the requirements for exchange are met, shareholders elect to execute the exchange and EVM elects to settle the exchange in cash, EVM will recognize a charge to interest expense equal to the difference between the accreted value of the debt and the market value of the non-voting common stock on that date. On April 30, 2005, 110,945 Notes remained outstanding.

On December 21, 2004, the Company executed a new revolving credit facility with several banks. The facility, which expires December 21, 2009, provides that the Company may borrow up to \$180 million at LIBOR-based rates of interest that vary depending on the level of usage of the facility and credit ratings of the Notes. The agreement contains financial covenants with respect to leverage and interest coverage and requires the Company to pay an annual commitment fee on any unused portion.

### **Operating Cash Flows**

Operating cash flows consist primarily of the operating results of the Company adjusted to reflect changes in current assets and liabilities, deferred sales commissions, deferred income taxes and investments classified as trading. Cash provided by operating activities totaled \$19.7 million and \$35.3 million in the first six months of fiscal 2005 and 2004, respectively. The decrease in cash provided by operating activities can be attributed primarily to a decrease in cash provided by the purchase and sale of trading securities by the Company's two consolidated short-term income funds, which regularly purchase and sell short-term debt instruments. Net cash used in the purchase and sale of trading securities totaled \$68.7 million in the first six months of fiscal 2005. Net cash used in the purchase and sale of trading securities totaled \$51.1 million in the first six months of fiscal 2004.

Capitalized sales commissions paid to financial intermediaries for the distribution of the Company's Class B and Class C fund shares, as well as certain of the Company's private funds, decreased by \$12.7 million in the first six months of fiscal 2005 over the same period a year ago, primarily due to a decrease in Class B share sales. Although the Company anticipates that the payment of capitalized sales commissions will continue to be a significant use of cash in the future, the payment of sales commissions will likely continue to decline if sales of Class B shares continue to decline. The amortization of deferred sales commissions and contingent deferred sales charges received will likely be similarly

affected.

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Deferred income taxes reduced operating cash flows by \$8.3 million in the first six months of fiscal 2005 compared to a contribution of \$32.2 million in the first six months of fiscal 2004, primarily as a result of the change in the tax treatment of deferred sales commissions in the first quarter of fiscal 2004. In January 2004, the Internal Revenue Service issued a new regulation that changed the tax treatment of deferred sales commissions recoverable pursuant to Rule 12b-1 plans. The new tax regulation, which allows for the immediate deduction of these commissions when paid, was applied prospectively to such commissions paid in fiscal 2004 and retroactively to such commissions paid during fiscal years 2003 and 2002. Unamortized balances relating to fiscal years 2003 and 2002 were deducted for tax purposes in the first quarter of fiscal 2004. The change in tax accounting had no impact on the Company's effective tax rate.

### ***Investing Cash Flows***

Investing activities consist primarily of additions to equipment and leasehold improvements and the purchase and sale of investments in the Company's sponsored mutual funds. Cash used for investing activities totaled \$7.1 million and \$3.0 million in the first three months of fiscal 2005 and 2004, respectively. The year-over-year increase in cash used for investing activities reflects the Company's investment in certain sponsored funds in fiscal 2005.

### ***Financing Cash Flows***

Financing cash flows primarily reflect the issuance and repayment of long-term debt, the issuance and repurchase of the Company's non-voting common stock and the payment of dividends to the Company's shareholders. Financing cash flows also include proceeds from the issuance of capital stock by the Company's two consolidated mutual fund subsidiaries (one of which was deconsolidated in April of 2005) and cash paid to fund redemptions by minority shareholders of these mutual fund subsidiaries. Cash used for financing activities totaled \$1.0 million and \$17.9 million in the first six months of fiscal 2005 and 2004, respectively, reflecting net proceeds from the issuance of the Company's mutual fund subsidiaries' capital stock of \$84.6 million and \$43.0 million, respectively.

The Company repurchased and retired a total of 3.0 million shares of its non-voting common stock for \$73.2 million in the first six months of fiscal 2005 under its authorized repurchase program and issued 1.0 million shares of non-voting common stock in connection with stock option exercises, employee stock purchases and restricted stock grants for total proceeds of \$11.4 million. The Company has authorization to purchase an additional 7.7 million shares under its present share repurchase authorization and anticipates that future repurchases will continue to be a significant use of cash. The Company's dividend was \$0.16 per share in the first six months of fiscal 2005 compared to \$0.12 per share in the first six months of fiscal 2004.

On December 15, 2004, the Company's Board of Directors authorized, and the Company's voting shareholders approved, a two-for-one stock split of the Company's outstanding non-voting common stock. The split entitled each shareholder of record as of December 31, 2004 to receive two shares for every one share of non-voting stock held on the record date. The additional shares of non-voting common stock were distributed after the close of business on January 14, 2005.

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### **Off-Balance Sheet Arrangements**

The Company does 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 the Company to any liability that is not reflected in the Consolidated Financial Statements.

### **Critical Accounting Policies**

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

***Deferred Sales Commissions***

Sales commissions paid by the Company to broker/dealers in connection with the sale of certain classes of shares of open-end funds, bank loan interval funds and private funds are generally capitalized and amortized over the period during which the shareholder is subject to a contingent deferred sales charge, none of which exceeds six years. Distribution plan payments received by the Company from these funds are recorded in revenue as earned. Contingent deferred sales charges and early withdrawal charges received by the Company from redeeming shareholders of open-end and bank loan interval funds reduce unamortized deferred sales commissions. Should the Company lose its 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. 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 commissions assets accordingly.

***Goodwill and Intangible Assets***

Goodwill represents the excess of the cost of the Company's investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. Goodwill is not amortized but is tested at least annually for impairment by comparing the fair values of the companies acquired to their carrying amounts, including goodwill. Identifiable intangible assets generally represent the cost of client relationships and management contracts acquired. The Company periodically reviews 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 companies exceed their respective fair values, additional impairment tests will be performed to measure the amount of the impairment loss, if any.

***Deferred Income Taxes***

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. Deferred taxes relate principally to capitalized sales commissions paid to broker/dealers. As noted previously, new IRS regulations provide that commission payments made subsequent to November 1, 2003 are deductible for tax purposes at the time of payment. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing its taxes, changes in tax laws may result in a change to the Company's tax position and effective tax rate.

***Investments in Collateralized Debt Obligation Entities***

The Company acts as collateral manager for five collateralized debt obligation entities ( CDO entities ) pursuant to collateral management agreements between the Company and each CDO entity. At April 30, 2005, combined assets under management in the collateral pools of all five of these CDO entities were approximately \$1.6 billion. The Company had combined minority equity investments of \$11.8 million in three of these entities on April 30, 2005.

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The Company accounts for its 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 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. The Company reviews cash flow estimates throughout the life of each CDO investment pool to determine whether an impairment loss relating to its equity 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 the Company's 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 equity interest. Market yields, default rates and recovery rates used in the Company's 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 the Company's investments in these CDO entities may be adversely affected. The Company's risk of loss in the CDO entities is limited to the \$11.8 million carrying value of the minority equity investments on the Company's Consolidated Balance Sheet at April 30, 2005.

A CDO entity issues non-recourse debt securities, which are sold in a private offering by an underwriter to institutional and high-net-worth investors. The CDO debt securities issued by the CDO entity are secured by collateral in the form of high-yield bonds and/or floating-rate income instruments that the CDO entity purchases. The Company manages the collateral securities for a fee and, in most cases, is 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, the Company's equity investment in a CDO entity is 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. The Company's financial exposure to the CDOs it manages is limited to its equity interests in the CDO entities as reflected in the Company's Consolidated Balance Sheet.

### ***Loss Contingencies***

The Company continuously reviews any investor, employee or vendor complaints and pending or threatened litigation. The likelihood that a loss contingency exists is evaluated under the criteria of SFAS No. 5, Accounting for Contingencies, through consultation with legal counsel and a loss contingency is recorded if the contingency is probable and reasonably estimable at the date of the financial statements. There are no losses of this nature that are probable and reasonably estimable, and thus, no losses have been recorded in the financial statements included in this report.

### **Accounting Developments**

In March 2004, the FASB ratified the consensus of the EITF regarding the recognition and measurement of other-than-temporary impairments of certain investments. The effective date of the recognition and measurement guidance in EITF 03-01 has been delayed until the implementation guidance provided by a FASB staff position on the issue has been finalized. The disclosure guidance was unaffected by the delay and is effective for fiscal years ending after June 15, 2004. The Company implemented the disclosure provisions of EITF 03-01 in its annual financial statements for the fiscal year ended October 31, 2004

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and does not anticipate that the implementation of the recognition and measurement guidance, when released, will have a material effect on the Company's financial statements.

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

### **Competitive Conditions and Risk Factors**

***The Company is subject to substantial competition in all aspects of its business.*** The Company's 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 internally and externally managed investment products. Although the Company has historically been successful in maintaining access to these channels, there can be no assurance that it will continue to do so. The inability to have such access could have a material adverse effect on the Company's business.

***There are few barriers to entry in the investment management business.*** The Company's funds and separate accounts compete against an ever-increasing number of investment products and services sold to the public by investment dealers, banks, insurance companies and others. Many institutions competing with the Company have greater resources than the Company. The Company competes 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, and the services provided to investors.

***The Company derives almost all of its revenue from investment adviser and administration fees and distribution income received from the Eaton Vance funds, other pooled investment vehicles and separate accounts.*** As a result, the Company is dependent upon management contracts, administration contracts, underwriting contracts or service contracts under which these fees and income are paid. If any of these contracts are terminated, not renewed, or amended to reduce fees, the Company's financial results may be adversely affected.

***The Company's assets under management, which impact revenue, are subject to significant fluctuations.*** The major sources of revenue for the Company (i.e. investment adviser, administration, distribution, and service fees) are calculated as percentages of assets under management. A decline in securities prices or in the sale of investment products or an increase in fund redemptions generally would reduce fee income. Financial market declines or adverse changes in interest rates would generally negatively impact the level of the Company's assets under management and consequently its revenue and net income. A recession or other economic or political events could also adversely impact the Company's revenue if it led to a decreased demand for products, a higher redemption rate, or a decline in securities prices. Like other businesses, the Company's actual results could be affected by the loss of key employees through competition or retirement. The Company's operations and actual results could also be affected by increased expenses due to such factors as greater competition for personnel, higher costs for

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distribution of mutual funds and other investment products, costs for insurance and other services by outside providers, or by the disruption of services such as power, communications, information technology, fund transfer agency or fund administration.

*The Company's business is subject to substantial governmental regulation.* Changes in legal, regulatory, accounting, tax and compliance requirements could have a significant effect on the Company's operations and results, including but not limited to increased expenses and reduced investor interest in certain funds and other investment products offered by the Company. The Company continually monitors legislative, tax, regulatory, accounting, and compliance developments that could impact its business.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company is routinely subjected to different types of risk, including market risk. Market risk is the risk that the Company will incur losses due to adverse changes in equity prices, interest rates, credit risk, or currency exchange rates.

The Company's primary exposure to equity price risk arises from its investments in sponsored equity funds. Equity price risk as it relates to these investments represents the potential future loss of value that would result from a decline in the fair values of the fund shares. The Company's investments in sponsored equity funds totaled \$16.1 million at April 30, 2005, and are carried at fair value on the Company's Consolidated Balance Sheets.

The Company's primary exposure to interest rate risk arises from its investment in fixed-and floating-rate income funds sponsored by the Company and short-term debt securities. The negative effect on the Company's pre-tax interest income of a 50 basis point decline in interest rates would be approximately \$0.6 million based on fixed-income and floating-rate income investments of \$128.4 million as of April 30, 2005. A 50 basis point decline in interest rates is a hypothetical scenario used to demonstrate potential risk and does not represent management's view of future market changes. The Company is not exposed to interest rate risk in its debt instruments as all of the Company's funded debt instruments carry fixed interest rates.

The Company's primary exposure to credit risk arises from its minority equity interests in three CDO entities that are included in long-term investments in the Company's Consolidated Balance Sheets. As a minority equity investor in a CDO entity, the Company is only entitled to a residual interest in the CDO entity, making these investments sensitive to the default rates of the underlying issuers of the high-yield bonds or floating-rate income instruments held by the CDO entity. The Company's minority equity investments are subject to an impairment loss in the event that the cash flows generated by the collateral securities are not sufficient to allow equity holders to recover their investments. If there is deterioration in the credit quality of the issuers underlying the collateral securities and a corresponding increase in the number of defaults, cash flows generated by the collateral securities may be adversely impacted and the Company may be unable to recover its investment. The Company's total investment in minority equity interests in CDO entities is approximately \$11.8 million at April 30, 2005, which represents the total value at risk with respect to such entities as of April 30, 2005.

The Company does not enter into foreign currency transactions for speculative purposes and currently has no material investments that would expose it to foreign currency exchange risk.

In evaluating market risk, it is also important to note that most of the Company's revenue is based on the market value of assets under management. As noted in "Competitive Conditions and Risk Factors" in Item 2, declines of financial market values will negatively impact revenue and net income.

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### **Item 4. Controls and Procedures**

As of April 30, 2005, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Disclosure controls and procedures are the controls and other procedures that the Company designed to ensure that it records, processes, summarizes and reports in a timely manner the information it must disclose in reports that it files with or submits to the SEC. The Company's Chief Executive Officer and Chief Financial Officer participated in this evaluation. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective.

There have been no changes in the Company's internal control over financial reporting that occurred during the Company's second fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's 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 the Company's SEC filings.

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

The following table sets forth information regarding the Company's purchases of its non-voting common stock on a monthly basis during the second quarter of fiscal 2005:

**Issuer Repurchases of Equity Securities**

| <b>Period</b>                              | <b>(a) Total Number of Shares Purchased</b> | <b>(b) Average price paid per share</b> | <b>(c) Total Number of Shares Purchased of Publicly Announced Plans or Programs<sup>1</sup></b> | <b>(d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs</b> |
|--|---|---|---|---|
| February 1, 2005 through February 28, 2005 | 598,519                                     | \$ 26.02                                | 598,519   | 1,409,517   |
| March 1, 2005 through March 31, 2005       | 596,239                                     | \$ 24.19                                | 596,239   | 813,278   |
| April 1, 2005 through April 30, 2005       | 539,633                                     | \$ 22.87                                | 539,633   | 7,703,232   |
| <b>Total</b>                               | <b>1,734,391</b>                            | <b>\$ 24.41</b>                         | <b>1,734,391</b>  | <b>7,703,232</b>  |

<sup>1</sup> The Company's current share repurchase authorization was announced on April 14, 2005 replacing the October 22, 2003 program. The Board authorized management to repurchase 8,000,000 shares of its non-voting common stock in the open market and in private transactions in accordance with applicable securities laws. The Company's stock repurchase plan is not subject to an expiration date.

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

No items were submitted to a vote in the second quarter of fiscal 2005.

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

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 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 |

**(b) Reports on Form 8-K**

The Company filed a Form 8-K with the SEC on March 2, 2005, regarding the Company's press release of its results of operations for the quarter ended January 31, 2005.

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**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 8, 2005

/s/ William M. Steul

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(Signature)

William M. Steul  
Chief Financial Officer

DATE: June 8, 2005

/s/ Laurie G. Hylton

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(Signature)

Laurie G. Hylton  
Chief Accounting Officer

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