

EATON VANCE CORP
Form 10-Q
June 07, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the quarterly period ended April 30, 2013

or

Transition Report Pursuant to Section 13 or 15 (d) of The Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file no. 1-8100

EATON VANCE CORP.

(Exact name of registrant as specified in its charter)

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

Two International Place, Boston, Massachusetts 02110

(Address of principal executive offices) (zip code)

(617) 482-8260

(Registrant's telephone number, including area code)

Edgar Filing: EATON VANCE CORP - Form 10-Q

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Shares outstanding as of April 30, 2013:

Voting Common Stock – 399,240 shares

Non-Voting Common Stock – 121,009,816 shares

Eaton Vance Corp.

Form 10-Q

As of April 30, 2013 and for the

Three and Six Month Periods Ended April 30, 2013

Table of Contents

| Required Information | Page Number Reference |
|---|-----------------------|
| Part I Financial Information | |
| Item 1. Consolidated Financial Statements | 3 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 38 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 65 |
| Item 4. Controls and Procedures | 65 |
| Part II Other Information | |
| Item 1. Legal Proceedings | 65 |
| Item 1A. Risk Factors | 65 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 68 |
| Item 6. Exhibits | 69 |
| Signatures | 70 |

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

| (in thousands) | April 30, 2013 | October 31, 2012 |
|---|-------------------|------------------------|
| Assets | | |
| Cash and cash equivalents | \$320,135 | \$462,076 |
| Investment advisory fees and other receivables | 153,135 | 133,589 |
| Investments | 542,058 | 486,933 |
| Assets of consolidated collateralized loan obligation ("CLO") entity: | | |
| Cash and cash equivalents | 61,244 | 36,758 |
| Bank loans and other investments | 319,321 | 430,583 |
| Other assets | 5,538 | 1,107 |
| Deferred sales commissions | 19,261 | 19,336 |
| Deferred income taxes | 54,637 | 51,234 |
| Equipment and leasehold improvements, net | 51,657 | 54,889 |
| Intangible assets, net | 79,251 | 59,228 |
| Goodwill | 228,876 | 154,636 |
| Other assets | 52,166 | 89,122 |
| Total assets | \$1,887,279 | \$1,979,491 |

See notes to Consolidated Financial Statements.

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

| (in thousands, except share data) | April 30, 2013 | October 31, 2012 |
|--|-------------------|------------------------|
| Liabilities, Temporary Equity and Permanent Equity | | |
| Liabilities: | | |
| Accrued compensation | \$86,993 | \$145,338 |
| Accounts payable and accrued expenses | 60,428 | 59,397 |
| Dividend payable | 24,287 | 23,250 |
| Debt | 500,000 | 500,000 |
| Liabilities of consolidated CLO entity: | | |
| Senior and subordinated note obligations | 368,127 | 446,605 |
| Other liabilities | 489 | 766 |
| Other liabilities | 72,905 | 91,785 |
| Total liabilities | 1,113,229 | 1,267,141 |
| Commitments and contingencies | | |
| Temporary Equity: | | |
| Redeemable non-controlling interests | 121,252 | 98,765 |
| Permanent Equity: | | |
| Voting Common Stock, par value \$0.00390625 per share: | | |
| Authorized, 1,280,000 shares | | |
| Issued and outstanding, 399,240 and 413,167 shares, respectively | 2 | 2 |
| Non-Voting Common Stock, par value \$0.00390625 per share: | | |
| Authorized, 190,720,000 shares | | |
| Issued and outstanding, 121,009,816 and 115,878,384 shares, respectively | 473 | 453 |
| Additional paid-in capital | 129,282 | 26,730 |
| Notes receivable from stock option exercises | (7,278) | (4,155) |
| Accumulated other comprehensive income | 1,251 | 3,923 |
| Appropriated retained earnings | 15,466 | 18,699 |
| Retained earnings | 512,038 | 566,420 |
| Total Eaton Vance Corp. shareholders' equity | 651,234 | 612,072 |
| Non-redeemable non-controlling interests | 1,564 | 1,513 |
| Total permanent equity | 652,798 | 613,585 |
| Total liabilities, temporary equity and permanent equity | \$1,887,279 | \$1,979,491 |

See notes to Consolidated Financial Statements.

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

| (in thousands, except per share data) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| Revenue: | | | | |
| Investment advisory and administrative fees | \$276,921 | \$248,888 | \$540,202 | \$488,340 |
| Distribution and underwriter fees | 22,165 | 22,551 | 44,916 | 45,066 |
| Service fees | 31,132 | 32,065 | 62,262 | 64,364 |
| Other revenue | 1,474 | 1,266 | 2,829 | 2,606 |
| Total revenue | 331,692 | 304,770 | 650,209 | 600,376 |
| Expenses: | | | | |
| Compensation and related costs | 110,012 | 97,566 | 218,841 | 194,249 |
| Distribution expense | 35,304 | 32,960 | 69,193 | 65,288 |
| Service fee expense | 29,211 | 28,088 | 57,475 | 56,761 |
| Amortization of deferred sales commissions | 4,752 | 5,533 | 9,535 | 11,353 |
| Fund-related expenses | 8,074 | 6,590 | 15,498 | 13,241 |
| Other expenses | 36,269 | 35,222 | 70,917 | 67,853 |
| Total expenses | 223,622 | 205,959 | 441,459 | 408,745 |
| Operating income | 108,070 | 98,811 | 208,750 | 191,631 |
| Non-operating income (expense): | | | | |
| Gains and other investment income, net | 5,043 | 2,796 | 10,250 | 10,973 |
| Interest expense | (8,572) | (8,412) | (17,142) | (16,825) |
| Other income (expense) of consolidated CLO entity: | | | | |
| Gains and other investment income, net | 4,384 | 8,895 | 6,177 | 19,175 |
| Interest expense | (3,051) | (4,134) | (7,272) | (8,445) |
| Total non-operating (expense) income | (2,196) | (855) | (7,987) | 4,878 |
| Income before income taxes and equity in net income (loss) of affiliates | 105,874 | 97,956 | 200,763 | 196,509 |
| Income taxes | (38,194) | (35,164) | (74,133) | (70,351) |
| Equity in net income (loss) of affiliates, net of tax | 3,440 | (22) | 6,617 | 1,482 |
| Net income | 71,120 | 62,770 | 133,247 | 127,640 |
| Net income attributable to non-controlling and other beneficial interests | (7,439) | (9,900) | (19,761) | (27,499) |
| Net income attributable to Eaton Vance Corp. shareholders | \$63,681 | \$52,870 | \$113,486 | \$100,141 |
| Earnings per share: | | | | |
| Basic | \$0.53 | \$0.46 | \$0.93 | \$0.87 |
| Diluted | \$0.50 | \$0.44 | \$0.89 | \$0.84 |
| Weighted average shares outstanding: | | | | |
| Basic | 117,102 | 112,418 | 115,900 | 112,541 |
| Diluted | 123,330 | 115,881 | 121,235 | 115,324 |
| Dividends declared per share | \$0.20 | \$0.19 | \$1.40 | \$0.38 |

See notes to Consolidated Financial Statements.

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

| (in thousands) | Three Months Ended April 30, 2013 | | Six Months Ended April 30, 2013 | |
|---|--|----------|--|-----------|
| | 2012 | 2013 | 2012 | 2013 |
| Net income | \$71,120 | \$62,770 | \$133,247 | \$127,640 |
| Other comprehensive income (loss): | | | | |
| Amortization of loss on derivatives, net of income taxes of \$39, \$40, \$79 and \$79, respectively | 72 | 72 | 144 | 144 |
| Unrealized holding gains (losses) on available-for-sale investments, net of income taxes of \$(373), \$(587), \$1,103 and \$(1,027), respectively | 607 | 949 | (1,796) | 1,682 |
| Foreign currency translation adjustments, net of income taxes of \$627, \$(66), \$626 and \$19, respectively | (1,024) | 73 | (1,020) | (69) |
| Other comprehensive (loss) income, net of tax | (345) | 1,094 | (2,672) | 1,757 |
| Total comprehensive income | 70,775 | 63,864 | 130,575 | 129,397 |
| Comprehensive income attributable to non-controlling and other beneficial interests | (7,439) | (9,900) | (19,761) | (27,499) |
| Total comprehensive income attributable to Eaton Vance Corp. shareholders | \$63,336 | \$53,964 | \$110,814 | \$101,898 |

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Shareholders' Equity (unaudited)

| (in thousands) | Permanent Equity | | | | | | | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Temporary Equity Redeemable Non-Controlling Interests |
|---|---------------------|-------------------------|----------------------------|--|--|--------------------------------|-------------------|--|------------------------|---|
| | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Option Exercises | Accumulated Other Comprehensive Income | Appropriated Retained Earnings | Retained Earnings | | | |
| Balance, November 1, 2012 | \$2 | \$453 | \$26,730 | \$(4,155) | \$3,923 | \$18,699 | \$566,420 | \$1,513 | \$613,585 | \$98,765 |
| Net income | - | - | - | - | - | (3,233) | 113,486 | 2,536 | 112,789 | 20,458 |
| Other comprehensive loss | - | - | - | - | (2,672) | - | - | - | (2,672) | - |
| Dividends declared | - | - | - | - | - | - | (167,868) | - | (167,868) | - |
| Issuance of Non-Voting Common Stock: | | | | | | | | | | |
| On exercise of stock options | - | 16 | 88,190 | (4,734) | - | - | - | - | 83,472 | - |
| Under employee stock purchase plan | - | 1 | 1,761 | - | - | - | - | - | 1,762 | - |
| Under employee incentive plan | - | - | 1,296 | - | - | - | - | - | 1,296 | - |
| Under restricted stock plan, net of forfeitures | - | 6 | - | - | - | - | - | - | 6 | - |
| Stock-based compensation | - | - | 26,884 | - | - | - | - | - | 26,884 | - |
| Tax benefit of stock option exercises | - | - | 13,118 | - | - | - | - | - | 13,118 | - |
| Repurchase of Voting Common Stock | - | - | (73) | - | - | - | - | - | (73) | - |
| Repurchase of Non-Voting Common Stock | - | (3) | (22,720) | - | - | - | - | - | (22,723) | - |
| Principal repayments on notes receivable from stock option exercises | - | - | - | 1,611 | - | - | - | - | 1,611 | - |
| Net subscriptions (redemptions/distributions) of non-controlling interest holders | - | - | - | - | - | - | - | (2,261) | (2,261) | 39,450 |
| Deconsolidation | - | - | - | - | - | - | - | - | - | (13,965) |
| Reclass to temporary equity | - | - | - | - | - | - | - | (224) | (224) | 224 |
| Purchase of non-controlling interests | - | - | - | - | - | - | - | - | - | (43,507) |
| Issuance of subsidiary equity | - | - | - | - | - | - | - | - | - | 13,927 |
| | - | - | (5,904) | - | - | - | - | - | (5,904) | 5,904 |

Other changes in
non-controlling interests

| | | | | | | | | | | |
|-------------------------|-----|-------|-----------|-----------|---------|----------|-----------|---------|-----------|----------|
| Balance, April 30, 2013 | \$2 | \$473 | \$129,282 | \$(7,278) | \$1,251 | \$15,466 | \$512,038 | \$1,564 | \$652,798 | \$121,25 |
|-------------------------|-----|-------|-----------|-----------|---------|----------|-----------|---------|-----------|----------|

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Consolidated Statements of Shareholders' Equity (unaudited) (continued)

| (in thousands) | Permanent Equity | | | | | | | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Temporary Equity |
|---|---------------------|-------------------------|----------------------------|--|--|--|-------------------|--|------------------------|------------------|
| | Voting Common Stock | Non-Voting Common Stock | Additional Paid-In Capital | Notes Receivable from Stock Option Exercises | Accumulated Other Comprehensive Income | Appropriated Retained Earnings (Deficit) | Retained Earnings | | | |
| Balance, November 1, 2011 | \$2 | \$450 | \$- | \$(4,441) | \$1,340 | \$(3,867) | \$466,931 | \$889 | \$461,304 | \$100,824 |
| Net income | - | - | - | - | - | 8,861 | 100,141 | 1,776 | 110,778 | 16,862 |
| Other comprehensive income | - | - | - | - | 1,757 | - | - | - | 1,757 | - |
| Dividends declared | - | - | - | - | - | - | (43,991) | - | (43,991) | - |
| Issuance of Voting Common Stock | - | - | 56 | - | - | - | - | - | 56 | - |
| Issuance of Non-Voting Common Stock: | | | | | | | | | | |
| On exercise of stock options | - | 2 | 8,458 | (211) | - | - | - | - | 8,249 | - |
| Under employee stock purchase plan | - | 1 | 1,823 | - | - | - | - | - | 1,824 | - |
| Under employee incentive plan | - | - | 1,609 | - | - | - | - | - | 1,609 | - |
| Under restricted stock plan, net of forfeitures | - | 5 | - | - | - | - | - | - | 5 | - |
| Stock-based compensation | - | - | 29,320 | - | - | - | - | - | 29,320 | - |
| Tax benefit of stock option exercises | - | - | 1,162 | - | - | - | - | - | 1,162 | - |
| Repurchase of Non-Voting Common Stock | - | (8) | (39,556) | - | - | - | (12,105) | - | (51,669) | - |
| Principal repayments on notes receivable from stock option exercises | - | - | - | 481 | - | - | - | - | 481 | - |
| Net subscriptions (redemptions/distributions) of non-controlling interest holders | - | - | - | - | - | - | - | (1,436) | (1,436) | 20,102 |
| Deconsolidation | - | - | - | - | - | - | - | - | - | (6,276) |
| Reclass to temporary equity | - | - | - | - | - | - | - | (132) | (132) | 132 |
| Other changes in non-controlling interests | - | - | (2,872) | - | - | - | - | - | (2,872) | 2,872 |
| Balance, April 30, 2012 | \$2 | \$450 | \$- | \$(4,171) | \$3,097 | \$4,994 | \$510,976 | \$1,097 | \$516,445 | \$134,516 |

See notes to Consolidated Financial Statements.

8

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

| (in thousands) | Six Months Ended April 30, | |
|--|-------------------------------|------------|
| | 2013 | 2012 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 133,247 | \$ 127,640 |
| Adjustments to reconcile net income to net cash (used for) provided by operating activities: | | |
| Depreciation and amortization | 11,610 | 12,597 |
| Amortization of deferred sales commissions | 9,591 | 11,372 |
| Stock-based compensation | 26,884 | 29,320 |
| Deferred income taxes | (1,755) | (5,176) |
| Net gains on investments and derivatives | (6,226) | (7,680) |
| Equity in net income of affiliates, net of amortization | (8,127) | (2,383) |
| Dividends received from affiliates | 10,163 | 10,534 |
| Consolidated CLO entity operating activities: | | |
| Net losses (gains) on bank loans, other investments and note obligations | 2,739 | (7,963) |
| Amortization of investments | (403) | (532) |
| Net (decrease) increase in other assets and liabilities, including cash | (29,244) | 7,012 |
| Changes in operating assets and liabilities: | | |
| Investment advisory fees and other receivables | (13,692) | 1,665 |
| Investments in trading securities | (127,402) | (58,759) |
| Deferred sales commissions | (9,516) | (5,494) |
| Other assets | 32,715 | (31,142) |
| Accrued compensation | (60,286) | (61,329) |
| Accounts payable and accrued expenses | (3,443) | 1,949 |
| Other liabilities | (18,947) | 26,727 |
| Net cash (used for) provided by operating activities | (52,092) | 48,358 |
| Cash Flows From Investing Activities: | | |
| Additions to equipment and leasehold improvements | (2,158) | (2,479) |
| Net cash paid in acquisition | (86,429) | (12,335) |
| Cash paid for intangible assets | (300) | (200) |
| Proceeds from sales of investments | 63,184 | 47,407 |
| Purchase of investments | (662) | (6,274) |
| Consolidated CLO entity investing activities: | | |
| Proceeds from sales and maturities of bank loans and other investments | 199,601 | 89,308 |
| Purchase of bank loans and other investments | (85,412) | (96,525) |
| Net cash provided by investing activities | 87,824 | 18,902 |

See notes to Consolidated Financial Statements.

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

| (in thousands) | Six Months Ended April 30, | |
|--|-------------------------------|------------|
| | 2013 | 2012 |
| Cash Flows From Financing Activities: | | |
| Purchase of additional non-controlling interest | (43,507) | - |
| Proceeds from issuance of subsidiary equity | 1,092 | - |
| Proceeds from issuance of Voting Common Stock | - | 56 |
| Proceeds from issuance of Non-Voting Common Stock | 86,536 | 11,687 |
| Repurchase of Voting Common Stock | (73) | - |
| Repurchase of Non-Voting Common Stock | (22,723) | (51,669) |
| Principal repayments on notes receivable from stock option exercises | 1,611 | 481 |
| Excess tax benefit of stock option exercises | 13,118 | 1,162 |
| Dividends paid | (166,980) | (43,982) |
| Net subscriptions received from (redemptions/distributions paid to) non-controlling interest holders | 37,189 | 18,666 |
| Consolidated CLO entity financing activities: | | |
| Principal repayments of senior notes | (83,742) | - |
| Net cash used for financing activities | (177,479) | (63,599) |
| Effect of currency rate changes on cash and cash equivalents | (194) | 94 |
| Net (decrease) increase in cash and cash equivalents | (141,941) | 3,755 |
| Cash and cash equivalents, beginning of period | 462,076 | 510,913 |
| Cash and cash equivalents, end of period | \$320,135 | \$514,668 |
| Supplemental Cash Flow Information: | | |
| Cash paid for interest | \$16,478 | \$16,320 |
| Cash paid for interest by consolidated CLO entity | 7,920 | 8,715 |
| Cash paid for income taxes, net of refunds | 61,016 | 86,090 |
| Supplemental Disclosure of Non-Cash Information: | | |
| Increase in equipment and leasehold improvements due to non-cash additions | \$- | \$180 |
| Exercise of stock options through issuance of notes receivable | 4,734 | 211 |
| Deconsolidations of Sponsored Investment Funds: | | |
| Decrease in investments | \$(14,461) | \$(6,639) |
| Decrease in non-controlling interests | (13,969) | (6,276) |

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

Notes to Consolidated Financial Statements (unaudited)

1. Basis of Presentation

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

2. Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its controlled affiliates. The Company consolidates any voting interest entity in which the Company’s ownership exceeds 50 percent or where the Company has control. In addition, the Company consolidates any variable interest entity (“VIE”) (including the collateralized loan obligation (“CLO”) entity referred to in Note 9) for which the Company is considered the primary beneficiary. The Company recognizes non-controlling and other beneficial interests in consolidated affiliates in which the Company’s ownership is less than 100 percent. All intercompany accounts and transactions have been eliminated in consolidation.

From time to time, the Company may maintain a controlling interest in an Eaton Vance open-end registered investment company (a “sponsored fund”). Upon consolidation, the Company retains the specialized accounting treatment of the sponsored fund. Under the specialized accounting guidance for investment companies, underlying investments held by consolidated sponsored funds are carried at fair value, with corresponding changes in fair value reflected in gains and other investment income, net, in the Company’s Consolidated Statements of Income.

With limited exceptions, each of the Company’s sponsored funds is organized as a separately managed component (or “series”) of a series trust. All assets of a series irrevocably belong to that series and are subject to the liabilities of that series; under no circumstances are the liabilities of one series payable by another series. Series trusts themselves have no equity investment at risk, but decisions regarding the trustees of the trust and certain key activities of each sponsored fund within the trust, such as appointment of each sponsored fund’s investment adviser, typically reside at

the trust level. As a result, shareholders of a sponsored fund that is organized as a series of a series trust lack the ability to control the key decision-making processes that most directly affect the performance of the sponsored fund. Accordingly, the Company believes that each trust is a VIE and each sponsored fund is a silo of a VIE that also meets the definition of a VIE. Having concluded that each silo is a VIE, the primary beneficiary evaluation defaults to an analysis of economic interest. The Company typically holds the majority of the shares of a sponsored fund corresponding to a majority economic interest during the seed investment stage when the fund's investment track record is being established or when the fund is in the early stages of soliciting third-party investors. The Company consolidates the fund as primary beneficiary during this period. While the sponsored fund is consolidated, fee revenue is recorded, but is eliminated in consolidation.

The Company regularly seeds new sponsored funds and therefore may consolidate a variety of sponsored funds during a given reporting period. Due to the similarity of risks related to the Company's involvement with each sponsored fund, disclosures required under the VIE model are aggregated, such as those disclosures regarding

the carrying amount and classification of assets of the sponsored funds, and the gains and losses that the Company recognizes from the sponsored funds.

When the Company is no longer deemed to control a sponsored fund, typically when either the Company redeems its shares or shares held by third parties exceed the number of shares held by the Company, the Company deconsolidates the sponsored fund and removes the related assets, liabilities and non-controlling interests from balance sheet accounts and classifies the Company's remaining investment as either an equity method investment or an available-for-sale investment as applicable. Because consolidated sponsored funds utilize fair-value measurements, there is no incremental gain or loss recognized upon deconsolidation.

The extent of the Company's exposure to loss with respect to a consolidated sponsored fund is the amount of the Company's investment in the sponsored fund. The Company is not obligated to provide financial support to sponsored funds, and the assets of sponsored funds can only be used to settle obligations of the sponsored funds. Beneficial interest holders of sponsored funds do not have recourse to the general credit of the Company.

3. New Accounting Standards Not Yet Adopted

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the Financial Accounting Standards Board ("FASB") issued new guidance on reporting a cumulative translation adjustment ("CTA") with respect to foreign currency. The new guidance addresses the accounting for a CTA when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The Company is evaluating the impact of this change and will adopt the new guidance on November 1, 2014.

Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued new guidance on reporting amounts reclassified out of accumulated other comprehensive income ("AOCI"). The new guidance does not change the requirements for reporting net income or other comprehensive income in the financial statements, but requires new footnote disclosures regarding the reclassification of AOCI by component into net income. The Company will implement the new disclosure requirements in the first quarter of fiscal 2014.

4. Consolidated Funds

Underlying investments held by consolidated sponsored funds were included in investments on the Company's Consolidated Balance Sheets and classified as investment securities, trading, at April 30, 2013 and October 31, 2012. Net investment income related to consolidated sponsored funds was included in gains and other investment income, net, on the Company's Consolidated Statements of Income for all periods presented. Net investment income was partially offset by amounts attributable to non-controlling interest holders, which are recorded in net income attributable to non-controlling and other beneficial interest holders in the Company's Consolidated Statements of Income for all periods presented.

The following table sets forth the balances related to consolidated sponsored funds that are included on the Company's Consolidated Balance Sheets at April 30, 2013 and October 31, 2012 as well as the Company's net interest in these funds:

| (in thousands) | April 30, 2013 | October 31, 2012 |
|---|-------------------|------------------------|
| Investments | \$243,657 | \$157,405 |
| Other assets | 7,329 | 5,594 |
| Other liabilities | (18,328) | (16,928) |
| Redeemable non-controlling interests | (55,114) | (20,072) |
| Net interest in consolidated sponsored funds ⁽¹⁾ | \$177,544 | \$125,999 |

⁽¹⁾Excludes the Company's investment in its consolidated CLO entity, which is discussed in Note 9.

During the six months ended April 30, 2013 and 2012, the Company deconsolidated a total of three sponsored funds in each period.

5. Investments

The following is a summary of investments at April 30, 2013 and October 31, 2012:

| (in thousands) | April 30, 2013 | October 31, 2012 |
|---|-------------------|------------------------|
| Investment securities, trading: | | |
| Consolidated sponsored funds | \$243,657 | \$157,405 |
| Separately managed accounts | 41,364 | 32,848 |
| Total investment securities, trading | 285,021 | 190,253 |
| Investment securities, available-for-sale | 19,770 | 31,148 |
| Investment in non-consolidated CLO entity | 314 | 350 |
| Investments in equity method investees | 229,422 | 257,652 |
| Investments, other | 7,531 | 7,530 |
| Total investments ⁽¹⁾ | \$542,058 | \$486,933 |

⁽¹⁾Excludes the Company's investment in its consolidated CLO entity, which is discussed in Note 9.

Investment securities, trading

Edgar Filing: EATON VANCE CORP - Form 10-Q

Investment securities, trading, consist of debt and equity securities held in the portfolios of consolidated sponsored funds and separately managed accounts. A separately managed account seeded by the Company for product development purposes is not a legal entity subject to consolidation but rather an individual portfolio of securities in the Company's name managed to establish an investment track record. As a result, the Company looks through the construct of the portfolio to the underlying debt and equity securities and treats these securities as trading investments for accounting and disclosure purposes. The following is a summary of the fair value of investments classified as trading at April 30, 2013 and October 31, 2012:

| (in thousands) | April 30, 2013 | October 31, 2012 |
|--------------------------------------|-------------------|------------------------|
| Debt securities | \$98,225 | \$70,805 |
| Equity securities | 186,796 | 119,448 |
| Total investment securities, trading | \$285,021 | \$190,253 |

The Company seeds new investment strategies on a regular basis as a means of establishing investment records that can be used in marketing those strategies to retail and institutional clients. New investment strategies may

be seeded as either sponsored funds or separately managed accounts. During the six months ended April 30, 2013, the Company seeded investments in 9 sponsored funds and 14 separately managed accounts; during the six months ended April 30, 2012, the Company seeded investments in 13 sponsored funds and 3 separately managed accounts.

The Company recognized trading gains related to trading securities still held at the reporting date of \$6.4 million and \$1.0 million for the three months ended April 30, 2013 and 2012, respectively, and \$15.9 million and \$6.8 million for the six months ended April 30, 2013 and 2012, respectively.

Investment securities, available-for-sale

Investment securities, available-for-sale, consist exclusively of seed investments in certain sponsored funds, privately offered equity funds and closed-end funds, where the company has less than a 20 percent interest in the fund. The following is a summary of the gross unrealized gains and (losses) included in accumulated other comprehensive income related to securities classified as available-for-sale at April 30, 2013 and October 31, 2012:

| April 30, 2013 | | Gross Unrealized | | |
|---|----------|------------------|----------|------------|
| (in thousands) | Cost | Gains | Losses | Fair Value |
| Investment securities, available-for-sale | \$13,851 | \$5,931 | \$ (12) | \$19,770 |

| October 31, 2012 | | Gross Unrealized | | |
|---|----------|------------------|----------|------------|
| (in thousands) | Cost | Gains | Losses | Fair Value |
| Investment securities, available-for-sale | \$22,331 | \$8,835 | \$ (18) | \$31,148 |

Net unrealized holding gains (losses) on investment securities, available-for-sale, included in other comprehensive (loss) income were \$1.0 million and \$1.5 million for the three months ended April 30, 2013 and 2012, respectively, and \$(2.9) million and \$2.7 million for the six months ended April 30, 2013 and 2012, respectively.

The Company reviewed gross unrealized losses of \$12,000 as of April 30, 2013 and determined that these losses were not other-than-temporary, primarily because the Company has both the ability and intent to hold the investments for a period of time sufficient to recover such losses. The aggregate fair value of investments with unrealized losses was \$0.9 million at April 30, 2013. No investment with a gross unrealized loss has been in a loss position for greater than one year.

The following is a summary of the Company's realized gains and losses upon disposition of investments classified as available-for-sale for the three and six months ended April 30, 2013 and 2012:

| | Three Months Ended April 30, | | Six Months Ended April 30, | |
|--------------------|---------------------------------------|-------|----------------------------------|-------|
| (in thousands) | 2013 | 2012 | 2013 | 2012 |
| Gains | \$342 | \$162 | \$5,251 | \$247 |
| Losses | - | (101) | - | (123) |
| Net realized gains | \$342 | \$61 | \$5,251 | \$124 |

14

Investments in equity method investees

On August 6, 2012, the Company completed the purchase of a 49 percent interest in Hexavest Inc. (“Hexavest”), a Montreal, Canada-based investment advisor that provides discretionary management of equity and tactical asset allocations using a predominantly top-down investment style. The Company accounted for the purchase using the equity method. As of April 30, 2013, the investment in Hexavest was comprised of \$4.5 million of equity in the net assets of Hexavest, intangible assets of \$41.2 million, goodwill of \$145.7 million and a deferred tax liability of \$11.1 million, for a total carrying value of \$180.3 million. As of October 31, 2012, the investment in Hexavest was comprised of \$3.4 million of equity in the net assets of Hexavest, intangible assets of \$42.7 million, goodwill of \$146.6 million and a deferred tax liability of \$11.5 million, for a total carrying value of \$181.2 million. The Company will be obligated to make two additional payments in respect of the acquired interest if Hexavest exceeds defined annual revenue thresholds in the first and second twelve-month periods following the closing. These payments, if made, will be considered goodwill and will be recorded as additions to the carrying amount of the equity method investment. The Company’s interest in finite-lived intangible assets acquired in the transaction is being amortized over an estimated useful life of seventeen years.

In connection with the transaction, the Company also acquired an option, exercisable in fiscal 2017, to purchase an additional 26 percent interest in Hexavest. As part of the purchase price allocation, a value of \$8.3 million was assigned to this option. The option is included in other assets in the Company’s Consolidated Balance Sheet at April 30, 2013 and October 31, 2012.

The Company has a 7 percent equity interest in a private equity partnership managed by a third party that invests in companies in the financial services industry. The Company’s investment in the partnership was \$5.3 million and \$9.8 million at April 30, 2013 and October 31, 2012, respectively.

The Company had equity-method investments in the following sponsored funds as of April 30, 2013 and October 31, 2012:

| (dollar amounts in thousands) | Equity Ownership Interest (%) | | Carrying Value (\$) ⁽¹⁾ | |
|---|-------------------------------|------------------|------------------------------------|------------------|
| | April 30, 2013 | October 31, 2012 | April 30, 2013 | October 31, 2012 |
| Eaton Vance Real Estate Fund | 39 % | 48 % | \$ 14,365 | \$ 16,494 |
| Eaton Vance Municipal Opportunities Fund | 31 % | - | 11,240 | - |
| Eaton Vance Focused Value Opportunities Fund | 41 % | - | 6,190 | - |
| Eaton Vance Tax-Advantaged Bond Strategies Long Term Fund | 23 % | 31 % | 6,113 | 10,346 |
| Eaton Vance Focused Growth Opportunities Fund | 41 % | - | 5,922 | - |
| Eaton Vance Richard Bernstein All Asset Strategy Fund | - | 44 % | - | 23,341 |
| AGF Floating Rate Income Fund | - | 21 % | - | 15,334 |
| Eaton Vance Parametric Structured Currency Fund | - | 33 % | - | 1,043 |
| Total | | | \$ 43,830 | \$ 66,558 |

The carrying value of equity method investments in Eaton Vance-managed funds is measured based on the funds' net asset values. The Company has the ability to redeem its investments in these funds at any time. Not shown are
⁽¹⁾ *Company investments in certain of the above-listed funds that were not accounted for as equity method investments as of the indicated date.*

The Company did not recognize any impairment losses related to its investments in equity method investees during the three and six months ended April 30, 2013 and 2012, respectively.

During the six months ended April 30, 2013 and 2012, the Company received dividends of \$10.2 million and \$10.5 million, respectively, from its investments in equity method investees.

6. Fair Value Measurements

The following tables summarize financial assets and liabilities measured at fair value on a recurring basis and their assigned levels within the valuation hierarchy at April 30, 2013 and October 31, 2012:

April 30, 2013

| (in thousands) | Level 1 | Level 2 | Level 3 | Other Assets Not Held at Fair Value | Total |
|--|-----------|-----------|-----------|---|-------------|
| Financial assets: | | | | | |
| Cash equivalents | \$10,222 | \$126,947 | \$- | \$- | \$137,169 |
| Investments: | | | | | |
| Investment securities, trading – debt | 37,846 | 60,379 | - | - | 98,225 |
| Investment securities, trading – equity | 124,808 | 61,988 | - | - | 186,796 |
| Investment securities, available-for-sale | 14,686 | 5,084 | - | - | 19,770 |
| Investment in non-consolidated CLO entity ⁽¹⁾ | - | - | - | 314 | 314 |
| Investments in equity method investees ⁽²⁾ | - | - | - | 229,422 | 229,422 |
| Investments, other ⁽³⁾ | - | 61 | - | 7,470 | 7,531 |
| Derivative instruments | - | 1,174 | - | - | 1,174 |
| Assets of consolidated CLO entity: | | | | | |
| Cash equivalents | 59,485 | - | - | - | 59,485 |
| Bank loans and other investments | - | 316,502 | 2,819 | - | 319,321 |
| Total financial assets | \$247,047 | \$572,135 | \$2,819 | \$237,206 | \$1,059,207 |
| Financial liabilities: | | | | | |
| Derivative instruments | \$- | \$6,453 | \$- | \$- | \$6,453 |
| Securities sold, not yet purchased | - | 1,603 | - | - | 1,603 |
| Liabilities of consolidated CLO entity: | | | | | |
| Senior and subordinated note obligations | - | 2,667 | 365,460 | - | 368,127 |
| Total financial liabilities | \$- | \$10,723 | \$365,460 | \$- | \$376,183 |

October 31, 2012

| (in thousands) | Level 1 | Level 2 | Level 3 | Other Assets Not Held at Fair Value | Total |
|--|------------|------------|------------|---|--------------|
| Financial assets: | | | | | |
| Cash equivalents | \$ 16,390 | \$ 139,469 | \$ - | \$ - | \$ 155,859 |
| Investments: | | | | | |
| Investment securities, trading – debt | 4,512 | 66,293 | - | - | 70,805 |
| Investment securities, trading – equity | 87,991 | 31,457 | - | - | 119,448 |
| Investment securities, available-for-sale | 26,736 | 4,412 | - | - | 31,148 |
| Investment in non-consolidated CLO entity ⁽¹⁾ | - | - | - | 350 | 350 |
| Investments in equity method investees ⁽²⁾ | - | - | - | 257,652 | 257,652 |
| Investments, other ⁽³⁾ | - | 60 | - | 7,470 | 7,530 |
| Derivative instruments | - | 2,229 | - | - | 2,229 |
| Assets of consolidated CLO entity: | | | | | |
| Cash equivalents | 34,561 | - | - | - | 34,561 |
| Bank loans and other investments | 98 | 428,282 | 2,203 | - | 430,583 |
| Total financial assets | \$ 170,288 | \$ 672,202 | \$ 2,203 | \$ 265,472 | \$ 1,110,165 |
| Financial liabilities: | | | | | |
| Derivative instruments | \$ - | \$ 788 | \$ - | \$ - | \$ 788 |
| Securities sold, not yet purchased | - | 26,142 | - | - | 26,142 |
| Liabilities of consolidated CLO entity: | | | | | |
| Senior and subordinated note obligations | - | 2,659 | 443,946 | - | 446,605 |
| Total financial liabilities | \$ - | \$ 29,589 | \$ 443,946 | \$ - | \$ 473,535 |

The Company's investment in this CLO entity is measured at fair value on a non-recurring basis using Level 3 inputs. The investment is carried at amortized cost unless facts and circumstances indicate that the investment has

(1) been impaired, at which time the investment is written down to fair value. There was no re-measurement of this asset during the six month period ended April 30, 2013 or the twelve month period ended October 31, 2012.

(2) Investments in equity method investees are not measured at fair value in accordance with GAAP.

(3) Investments, other include investments carried at cost that are not measured at fair value in accordance with GAAP.

Valuation methodologies

The following is a description of the valuation methodologies used for financial assets and liabilities measured at fair value on a recurring basis as well as the general classification of those assets and liabilities pursuant to the valuation hierarchy:

Cash equivalents

Cash equivalents consist of investments in money market funds and agency securities. Money market funds are valued using published net asset values and are classified as Level 1 within the valuation hierarchy. Agency securities are valued based upon quoted market prices for similar assets in active markets, quoted prices for identical or similar assets that are not active, and inputs other than quoted prices that are observable or

corroborated by observable market data. Depending on the nature of the inputs, these assets are generally classified as Level 1 or 2 within the valuation hierarchy.

Investment securities, trading – debt

Investment securities, trading – debt, consist of debt obligations held in the portfolios of consolidated sponsored funds and separately managed accounts. Debt obligations (including short-term obligations with a remaining maturity of more than sixty days) are generally valued on the basis of valuations provided by third-party pricing services, as derived from such services' pricing models. Inputs to the models may include, but are not limited to, reported trades, executable bid and asked prices, broker-dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. The pricing services may use a matrix approach, which considers information regarding securities with similar characteristics to determine the valuation for a security. Short-term obligations purchased with a remaining maturity of sixty days or less (excluding those that are non-U.S. denominated, which typically are valued by a third-party pricing service or dealer quotes) are generally valued at amortized cost, which approximates market value. Depending upon the nature of the inputs, investment securities, trading – debt, are generally classified as Level 1 or 2 within the valuation hierarchy.

Investment securities, trading – equity

Investment securities, trading – equity, consist of foreign and domestic equity securities held in the portfolios of consolidated sponsored funds and separately managed accounts. Equity securities listed on a U.S. securities exchange generally are valued at the last sale or closing price on the day of valuation or, if no sales took place on such date, at the mean between the closing bid and asked prices on the exchange where such securities are principally traded. Equity securities listed on the NASDAQ Global or Global Select market generally are valued at the NASDAQ official closing price. Unlisted or listed securities for which closing prices or closing quotations are not available are valued at the mean between the latest available bid and asked prices. When valuing foreign equity securities that meet certain criteria as established by our fair value pricing service, the portfolios use a fair value service that values such securities to reflect market trading that occurs after the close of the applicable foreign markets of comparable securities or other instruments that have a strong correlation to the fair-valued securities. The service utilizes a multi-factor model that considers such information as an issue's local closing price and post-closing fluctuations in relevant general market and sector indices, currencies, depositary receipts and futures, as applicable. The size of the adjustment is determined by the observed changes in these factors since the close of the applicable foreign market. The pricing service uses a multiple regression methodology and back testing to validate the quality and correlations of their evaluations. In addition, the Company performs its own independent back test review of fair values versus the subsequent local market opening prices when available. Depending upon the nature of the inputs, investment securities, trading – equity are generally classified as Level 1 or 2 within the valuation hierarchy.

Investment securities, available-for-sale

Investment securities, available-for-sale, consist of investments in sponsored mutual funds and privately offered equity funds. Sponsored mutual funds that are listed on an active exchange are valued using published net asset values and are classified as Level 1 within the valuation hierarchy. Investments in sponsored privately offered equity funds

and portfolios that are not listed on an active exchange but have net asset values that are comparable to mutual funds and have no redemption restrictions are classified as Level 2 within the valuation hierarchy.

Derivative instruments

Derivative instruments, which include foreign exchange contracts, stock index futures contracts and commodity futures contracts, are recorded as either other assets or other liabilities on the Company's Consolidated Balance Sheets. Foreign exchange contracts are valued by interpolating a value using the spot foreign exchange rate and forward points, which are based on spot rate and currency interest rate differentials. Index futures contracts and

commodity futures contracts are valued using a third-party pricing service that determines fair value based on bid and ask prices. Derivative instruments are generally classified as Level 2 within the valuation hierarchy.

Assets of consolidated CLO entity

Assets of the consolidated CLO entity include investments in money market funds, equity securities, debt securities, bank loans and warrants. Fair value is determined utilizing unadjusted quoted market prices when available. Interests in senior floating-rate loans for which reliable market quotations are readily available are valued generally at the average mid-point of bid and ask quotations obtained from a third-party pricing service. Fair value may also be based upon valuations obtained from independent third-party brokers or dealers utilizing matrix pricing models that consider information regarding securities with similar characteristics. In certain instances, fair value has been determined utilizing discounted cash flow analyses or single broker non-binding quotes. Depending on the nature of the inputs, these assets are classified as Level 1, 2 or 3 within the valuation hierarchy.

Securities sold, not yet purchased

Securities sold, not yet purchased, are recorded as other liabilities on the Company's Consolidated Balance Sheets and are valued by a third-party pricing service that determines fair value based on bid and ask prices. Securities sold, not yet purchased, are generally classified as Level 2 within the valuation hierarchy.

Liabilities of consolidated CLO entity

Liabilities of the consolidated CLO entity include debt securities and senior and subordinated note obligations of the consolidated CLO entity. The debt securities are valued based upon quoted prices for identical or similar liabilities that are not active and inputs other than quoted prices that are observable or corroborated by observable market data. The senior and subordinated notes are valued based upon model-based valuation techniques in which one or more significant inputs are unobservable in the market. Depending on the nature of the inputs, these liabilities are classified as Level 2 or 3 within the valuation hierarchy.

Transfers in and/or out of Levels

The following table summarizes fair value transfers between Level 1 and Level 2 for the three and six months ended April 30, 2013 and 2012:

| Three Months Ended April 30, | Six Months Ended April 30, |
|---------------------------------|-------------------------------|
|---------------------------------|-------------------------------|

Edgar Filing: EATON VANCE CORP - Form 10-Q

| (in thousands) | 2013 | 2012 | 2013 | 2012 |
|--|--------|-------|--------|----------|
| Transfers from Level 1 into Level 2 ⁽¹⁾ | \$ 120 | \$ - | \$ 120 | \$ 7,204 |
| Transfers from Level 2 into Level 1 ⁽²⁾ | 137 | 2,620 | 1,743 | - |

⁽¹⁾ *Transfers from Level 1 into Level 2 primarily represent debt and equity securities that were valued based on prices of similar securities because unadjusted quoted market prices were not available in the current period.*

⁽²⁾ *Transfers from Level 2 into Level 1 primarily represent debt and equity securities due to the availability of unadjusted quoted market prices in active markets.*

Level 3 assets and liabilities

The following table shows a reconciliation of the beginning and ending fair value measurements of assets and liabilities that are valued on a recurring basis and classified as Level 3 for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended April 30, 2013 | | Three Months Ended April 30, 2012 | |
|--|---|--|---|--|
| | Bank loans and other investments of consolidated CLO entity | Senior and subordinated note obligations of consolidated CLO entity | Bank loans and other investments of consolidated CLO entity | Senior and subordinated note obligations of consolidated CLO entity |
| Beginning balance | \$ 2,658 | \$ 408,924 | \$ 4,728 | \$ 480,345 |
| Net gains (losses) on investments and note obligations included in net income ⁽¹⁾ | 57 | 1,671 | (9) | 5,301 |
| Principal paydown | - | (45,135) | - | - |
| Transfers into Level 3 ⁽²⁾ | 104 | - | 15 | - |
| Transfers out of Level 3 ⁽³⁾ | - | - | (2,584) | (2,584) |
| Ending balance | \$ 2,819 | \$ 365,460 | \$ 2,150 | \$ 483,062 |
| Change in unrealized (losses) gains included in net income relating to assets and liabilities held | \$ 57 | \$ 1,671 | \$ (9) | \$ 5,301 |

| (in thousands) | Six Months Ended April 30, 2013 | | Six Months Ended April 30, 2012 | |
|--|---|--|---|--|
| | Bank loans and other investments of consolidated CLO entity | Senior and subordinated note obligations of consolidated CLO entity | Bank loans and other investments of consolidated CLO entity | Senior and subordinated note obligations of consolidated CLO entity |
| Beginning balance | \$ 2,203 | \$ 443,946 | \$ 5,910 | \$ 477,699 |
| Net gains (losses) on investments and note obligations included in net income ⁽¹⁾ | 21 | 5,256 | (49) | 7,947 |
| Principal paydown | - | (83,742) | - | - |
| Transfers into Level 3 ⁽²⁾ | 595 | - | 15 | - |
| Transfers out of Level 3 ⁽³⁾ | - | - | (3,726) | (2,584) |
| Ending balance | \$ 2,819 | \$ 365,460 | \$ 2,150 | \$ 483,062 |
| Change in unrealized (losses) gains included in net income relating to assets and liabilities held | \$ 21 | \$ 5,256 | \$ (49) | \$ 7,947 |

Substantially all net gains and losses on investments and note obligations attributable to the assets and borrowings (1) of the Company's consolidated CLO entity are allocated to non-controlling and other beneficial interests on the Company's Consolidated Statements of Income.

Transfers into Level 3 were the result of a reduction in the availability of significant observable inputs used in (2) determining the fair value of a second lien term loan. Fair value was determined utilizing a discounted cash flow analysis.

(3) Transfers out of Level 3 into Level 2 were due to an increase in the observability of the inputs used in determining the fair value of certain instruments.

The following table shows the valuation technique and significant unobservable inputs utilized in the fair value measurement of Level 3 liabilities at April 30, 2013 and October 31, 2012:

| April 30, 2013 (\$ in thousands) | Fair Value | Valuation Technique | Unobservable Inputs ⁽¹⁾ | Range |
|--|---------------|------------------------|--|-------------|
| Liabilities of consolidated CLO entity: | | | | |
| | | | Prepayment rate | 30 percent |
| | | | Recovery rate | 70 percent |
| | | | Default rate | 200 bps |
| Senior and subordinated note obligations | \$365,460 | Income approach | Discount rate | 105-450 bps |
| | | | | |
| October 31, 2012 (\$ in thousands) | Fair Value | Valuation Technique | Unobservable Inputs ⁽¹⁾ | Range |
| Liabilities of consolidated CLO entity: | | | | |
| | | | Prepayment rate | 30 percent |
| | | | Recovery rate | 70 percent |
| | | | Default rate | 200 bps |
| Senior and subordinated note obligations | \$443,946 | Income approach | Discount rate | 135-700 bps |

Discount rate refers to spread over LIBOR. Lower spreads relate to the more senior tranches in the CLO note structure; higher spreads relate to the less senior tranches. The default rate refers to the constant annual default (1) rate. Prepayment rate is the rate at which the underlying collateral is expected to repay principal. Recovery rate is the expected recovery of defaulted amounts received through asset sale or recovery through bankruptcy restructuring or other settlement processes.

Valuation process

The Company elected the fair value option for both the collateral assets held and senior and subordinated notes issued by its consolidated CLO entity upon consolidation to mitigate any accounting inconsistencies between the carrying value of the assets held to provide cash flows for the note obligations and the carrying value of those note obligations.

Senior and subordinated note obligations of the Company's consolidated CLO entity are issued in various tranches with different risk profiles. The notes are valued on a quarterly basis by the Company's bank loan investment team utilizing an income approach that projects the cash flows of the collateral assets using the team's projected default rate, prepayment rate, recovery rate and discount rate, as well as observable assumptions about market yields, collateral

reimbursement assumptions, callability and other market factors that vary based on the nature of the investments in the underlying collateral pool. Once the undiscounted cash flows of the collateral assets have been determined, the bank loan team applies appropriate discount rates that it believes a reasonable market participant would use to determine the discounted cash flow valuation of the notes. The bank loan team routinely monitors market conditions and model inputs for cyclical and secular changes in order to identify any material factors that could influence the Company's valuation method. The bank loan team reports directly to the Chief Income Investment Officer.

Sensitivity to changes in significant unobservable inputs

For senior and subordinated notes issued by the Company's consolidated CLO entity, a change in the assumption used for the probability of default is generally accompanied by a directionally similar change in the assumption used for discount rates. Significant increases in either of these inputs would result in a significantly lower measurement of fair value.

Although the Company believes the valuation methods described above are appropriate, the use of different methodologies or assumptions to determine fair value could result in a different estimate of fair value at the reporting date.

7. Derivative Financial Instruments

Derivative financial instruments designated as cash flow hedges

During the six months ended April 30, 2013 and 2012, the Company reclassified into interest expense \$0.2 million of the loss on the Treasury lock transaction in connection with the Company's issuance of ten-year senior notes in October 2007. At April 30, 2013, the remaining unamortized loss on this transaction was \$2.0 million. During the next twelve months, the Company expects to reclassify approximately \$0.4 million of the loss on the Treasury lock transaction into interest expense.

Other derivative financial instruments not designated for hedge accounting

The Company has entered into a series of foreign exchange contracts, stock index futures contracts and commodity futures contracts to hedge currency risk exposure and market risk associated with its investments in separately managed accounts and consolidated sponsored funds seeded for new product development purposes.

At April 30, 2013, the Company had 53 foreign exchange contracts outstanding with three counterparties with an aggregate notional value of \$54.5 million; 2,264 stock index futures contracts outstanding with one counterparty with an aggregate notional value of \$155.7 million; and 200 commodity futures contracts outstanding with one counterparty with an aggregate notional value of \$11.1 million.

Edgar Filing: EATON VANCE CORP - Form 10-Q

The following tables present the fair value of derivative instruments not designated as hedging instruments as of April 30, 2013 and October 31, 2012:

April 30, 2013

| (in thousands) | Assets | | Liabilities | |
|-------------------------------|---------------|---------|-------------------|---------|
| | Balance Sheet | Fair | Balance Sheet | Fair |
| | Location | Value | Location | Value |
| Foreign exchange contracts | Other assets | \$ 141 | Other liabilities | \$915 |
| Stock index futures contracts | Other assets | 424 | Other liabilities | 5,361 |
| Commodity futures contracts | Other assets | 609 | Other liabilities | 177 |
| Total | | \$1,174 | | \$6,453 |

23

October 31, 2012

| (in thousands) | Assets | | Liabilities | |
|-------------------------------|------------------------|------------|------------------------|------------|
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Foreign exchange contracts | Other assets | \$226 | Other liabilities | \$ 300 |
| Stock index futures contracts | Other assets | 1,505 | Other liabilities | 367 |
| Commodity futures contracts | Other assets | 498 | Other liabilities | 121 |
| Total | | \$2,229 | | \$ 788 |

The following is a summary of the net gains (losses) recognized in income for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Income Statement Location | Three Months Ended April 30, | | Six Months Ended April 30, | |
|-------------------------------|--|------------------------------|-----------|----------------------------|-----------|
| | | 2013 | 2012 | 2013 | 2012 |
| Foreign exchange contracts | Gains and other investment income, net | \$848 | \$195 | \$1,194 | \$428 |
| Stock index futures contracts | Gains and other investment income, net | (8,881) | (5,756) | (18,911) | (9,901) |
| Commodity futures contracts | Gains and other investment income, net | 1,043 | 519 | 694 | 1,013 |
| Total | | \$(6,990) | \$(5,042) | \$(17,023) | \$(8,460) |

8. Fair Value Measurements of Other Financial Instruments

Certain financial instruments are not carried at fair value. The following is a summary of the carrying amounts and estimated fair values of these financial instruments at April 30, 2013 and October 31, 2012:

| (in thousands) | April 30, 2013 | | | October 31, 2012 | | |
|--------------------|----------------|------------|------------------|------------------|------------|------------------|
| | Carrying Value | Fair Value | Fair Value Level | Carrying Value | Fair Value | Fair Value Level |
| Investments, other | \$7,470 | \$7,470 | 3 | \$7,470 | \$7,470 | 3 |
| Other assets | \$8,254 | \$8,254 | 3 | \$8,307 | \$8,307 | 3 |
| Debt | \$500,000 | \$602,672 | 2 | \$500,000 | \$604,316 | 2 |

Included in investments, other, is a \$6.6 million non-controlling capital interest in Atlanta Capital Management Holdings, LLC ("ACM Holdings"), a partnership that owns certain non-controlling interests of Atlanta Capital Management LLC ("Atlanta Capital"). The Company's interest in ACM Holdings is non-voting and entitles the

Company to receive \$6.6 million when put or call options for certain non-controlling interests of Atlanta Capital are exercised. The carrying value of this investment approximates fair value. The fair value of the investment is determined using a cash flow model which projects future cash flows based upon contractual obligations. Once the undiscounted cash flows have been determined, the Company applies an appropriate discount rate. The inputs to the model are considered Level 3.

Included in other assets is a five-year option to acquire an additional 26 percent interest in Hexavest. The \$8.3 million carrying value of this option approximates fair value. The fair value of the option is determined using a Monte Carlo model which simulates potential future market multiples of earnings before interest and taxes (“EBIT”) and compares this to the contractually fixed multiple of Hexavest’s EBIT at which the option can be exercised. The Monte Carlo model uses this array of simulated multiples and their difference from the contractual multiple times the projected EBIT for Hexavest to estimate the future exercise value of the option, which is then adjusted to present value. The inputs to the model are considered Level 3.

The fair value of the Company’s debt has been determined using publicly available market prices, which are considered Level 2 inputs.

9. VIEs

In the normal course of business, the Company maintains investments in sponsored CLO entities, sponsored funds and privately offered equity funds that are considered VIEs. These variable interests generally represent seed investments made by the Company, as collateral manager or investment advisor, to launch or market these vehicles. The Company receives management fees for the services it provides as collateral manager or investment advisor to these entities. These fees may also be considered variable interests.

To determine whether or not the Company should be treated as the primary beneficiary of a VIE, management must make significant estimates and assumptions regarding probable future cash flows of the VIE. These estimates and assumptions relate primarily to market interest rates, credit default rates, prepayment rates, discount rates, the marketability of certain securities and the probability of certain outcomes.

Investments in VIEs that are consolidated

Sponsored funds

From time to time the Company invests in investment companies that meet the definition of a VIE. Disclosure regarding such consolidated sponsored funds is included in Note 4. In the ordinary course of business the Company may elect to contractually waive investment advisory fees that it is entitled to receive from sponsored funds, and these waivers are disclosed in Note 19.

Consolidated CLO entity

The Company is the primary beneficiary of one CLO entity where it has, by design and in its role as collateral manager, the power to direct the activities that most significantly impact the economic performance of the entity. In developing its conclusion that it is the primary beneficiary of this entity, the Company determined that it has variable interests in the entity by virtue of both its residual interest in, and collateral management fees it receives from, the entity and that these variable interests may represent an obligation to absorb losses of or a right to receive benefits from the entity that could potentially be significant to the entity. Quantitative distinguishing factors supporting the Company's qualitative conclusion included the relative size of the Company's economic interest (approximately 8 percent, which is greater than the Company's investment in the non-consolidated CLO entities in which the Company holds variable interests and serves as collateral manager) and the presence of an incentive management fee which, when combined with returns on the Company's residual interest, may result in more than an insignificant economic interest in the total returns of the entity. In consideration of these factors, the Company concluded that it was the primary beneficiary of that CLO entity for consolidation accounting purposes.

The Company irrevocably elected the fair value option for all financial assets and liabilities of the consolidated CLO entity. Unrealized gains and losses on assets and liabilities for which the fair value option has been elected are reported in gains and other investment income, net, in the Company's Consolidated Statements of Income. Although the subordinated note obligations of the CLO entity have certain equity characteristics, the Company

has determined that the subordinated notes should be recorded as liabilities in the Company's Consolidated Balance Sheets.

The assets of this CLO entity are held solely as collateral to satisfy the obligations of the entity. The Company has no right to the benefits from, nor does the Company bear the risks associated with, the assets held by the entity beyond the Company's minimal direct investment and beneficial interest therein and management fees generated from the entity. The note holders of the CLO entity have no recourse to the Company's general assets. There are no explicit arrangements nor does the Company hold implicit variable interests that would require the Company to provide any ongoing financial support to the entity.

The following tables present, as of April 30, 2013 and October 31, 2012, the fair value of the consolidated CLO entity's assets and liabilities subject to fair value accounting:

April 30, 2013

| (in thousands) | CLO Bank Loan Investments | | |
|--|---------------------------------|--------------------------|--|
| | Total CLO bank loan investments | 90 days or more past due | Senior and subordinated note obligations |
| Unpaid principal balance | \$ 312,301 | \$ 1,150 | \$ 387,811 |
| Unpaid principal balance (over) under fair value | 541 | (629) | (19,684) |
| Fair value | \$ 312,842 | \$ 521 | \$ 368,127 |

October 31, 2012

| (in thousands) | CLO Bank Loan Investments | | |
|--|---------------------------------|--------------------------|--|
| | Total CLO bank loan investments | 90 days or more past due | Senior and subordinated note obligations |
| Unpaid principal balance | \$ 425,153 | \$ 500 | \$ 471,546 |
| Unpaid principal balance over fair value | (863) | (485) | (24,941) |
| Fair value | \$ 424,290 | \$ 15 | \$ 446,605 |

During the three months ended April 30, 2013 and 2012, the changes in the fair values of the CLO entity's bank loans and other investments resulted in net gains of \$2.0 million and \$8.5 million, respectively, while changes in the fair value of the CLO's note obligations resulted in net losses of \$1.7 million and \$5.3 million, respectively. The combined net gains of \$0.3 million and \$3.2 million for the three months ended April 30, 2013 and 2012, respectively, were recorded as gains and other investment income, net, of the consolidated CLO entity in the Company's Consolidated Statement of Income for those periods.

During the six months ended April 30, 2013 and 2012, the changes in the fair values of the CLO entity's bank loans and other investments resulted in net gains of \$2.5 million and \$15.9 million, respectively, while changes in the fair value of the CLO's note obligations resulted in net losses of \$5.2 million and \$7.9 million, respectively. The combined net losses of \$2.7 million and net gains of \$8.0 million for the six months ended April 30, 2013 and 2012, respectively, were recorded as gains and other investment income, net, of the consolidated CLO entity in the Company's Consolidated Statement of Income for those periods.

Substantially all gains (losses) related to the CLO entity's bank loans, other investments and note obligations recorded in earnings for the periods were attributable to changes in instrument-specific credit risk.

The CLO entity's note obligations bear interest at variable rates based on LIBOR plus a pre-defined spread, which ranges from 0.21 percent to 1.50 percent. The principal amounts outstanding of the note obligations issued by the CLO entity mature on April 20, 2019. It is expected that prepayments received will be used to pay down the entity's note obligations. During the six months ended April 30, 2013, \$83.7 million of prepayments were used to pay down the entity's note obligations. The holders of a majority of the subordinated notes have the option to liquidate the CLO entity, provided there is sufficient value to repay the senior notes in full.

Interest income and expense are recorded on an accrual basis and reported as gains and other investment income, net and as interest expense in other income (expense) of the consolidated CLO entity in the Company's Consolidated Statements of Income for the three and six months ended April 30, 2013 and 2012, respectively.

The following carrying amounts related to the consolidated CLO entity were included in the Company's Consolidated Balance Sheets at April 30, 2013 and October 31, 2012:

| (in thousands) | April 30, 2013 | October 31, 2012 |
|--|-------------------|---------------------|
| Assets of consolidated CLO entity: | | |
| Cash and cash equivalents | \$61,244 | \$ 36,758 |
| Bank loans and other investments | 319,321 | 430,583 |
| Other assets | 5,538 | 1,107 |
| Liabilities of consolidated CLO entity: | | |
| Senior and subordinated note obligations | 368,127 | 446,605 |
| Other liabilities | 489 | 766 |
| Appropriated retained earnings | 15,466 | 18,699 |
| Net interest in consolidated CLO entity | \$2,021 | \$ 2,378 |

The Company had a subordinated interest in the consolidated CLO entity of \$1.6 million and \$1.9 million as of April 30, 2013 and October 31, 2012, respectively, which was eliminated in consolidation.

For the three months ended April 30, 2013 and 2012, the Company recorded net income of \$1.2 million and \$4.7 million, respectively, related to the consolidated CLO entity. The Company recorded net income attributable to other beneficial interests of \$0.1 million and \$3.9 million for three months ended April 30, 2013 and 2012, respectively, reflecting the interests of third-party note holders of the consolidated CLO entity. Net income attributable to Eaton Vance Corp. shareholders included \$1.2 million and \$0.8 million related to the consolidated CLO entity for each of

the three months ended April 30, 2013 and 2012, respectively.

For the six months ended April 30, 2013 and 2012, the Company recorded a net loss of \$1.3 million and net income of \$10.5 million, respectively, related to the consolidated CLO entity. The Company recorded a \$3.2 million net loss attributable to other beneficial interests and net income attributable to other beneficial interests of \$8.9 million for the six months ended April 30, 2013 and 2012, respectively, reflecting the interests of third-party note holders of the consolidated CLO entity. Net income attributable to Eaton Vance Corp. shareholders included \$1.9 million and \$1.6 million related to the consolidated CLO entity for each of the six months ended April 30, 2013 and 2012, respectively.

Investments in VIEs that are not consolidated

Sponsored funds

The Company classifies its investments in certain sponsored funds that are considered VIEs as either equity method investments (generally when the Company owns more than 20 percent but less than 50 percent of the fund) or as available-for-sale investments (generally when the Company owns less than 20 percent of the fund), when it is not considered the primary beneficiary of those VIEs. The Company has provided aggregated disclosures with respect to these non-consolidated sponsored fund VIEs in Note 5.

Non-consolidated CLO entities

The Company is not deemed the primary beneficiary of several CLO entities in which it holds variable interests. In its role as collateral manager, the Company has the power to direct the activities of the CLO entities that most significantly impact the economic performance of these entities. In developing its conclusion that it is not the primary beneficiary of these entities, the Company determined that, although it has variable interests in each such entity by virtue of its residual interest therein and the collateral management fees it receives, its variable interests neither individually nor in the aggregate represent an obligation to absorb losses of or a right to receive benefits from any such entity that could potentially be significant to that entity. Quantitative factors supporting the Company's qualitative conclusion in each case included the relative size of the Company's residual interest (in each instance representing less than 6 percent of the residual interest tranche and less than 1 percent of the total capital of the entity) and the overall magnitude and design of the collateral management fees within each structure.

These non-consolidated entities had total assets of \$1.8 billion as of April 30, 2013 and October 31, 2012. The Company's investment in these entities totaled \$0.3 million and \$0.4 million as of April 30, 2013 and October 31, 2012, respectively, and collateral management fees receivable for these entities totaled \$2.0 million on April 30, 2013 and October 31, 2012. In the first six months of fiscal 2013, the Company did not provide any financial or other support to these entities that it was not previously contractually required to provide. The Company's risk of loss with respect to these entities is limited to the carrying value of its investments in, and collateral management fees receivable from, the CLO entities as of April 30, 2013.

The Company's investment in non-consolidated CLO entities is carried at amortized cost and is disclosed as a component of investments in Note 5. Income from non-consolidated CLO entities is recorded as a component of gains and other investment income, net, in the Company's Consolidated Statements of Income, based upon projected investment yields.

Other entities

The Company holds variable interests in, but is not deemed to be the primary beneficiary of, certain sponsored privately offered equity funds with total assets of \$9.3 billion and \$9.0 billion as of April 30, 2013 and October 31, 2012, respectively. The Company's variable interests in these entities consist of the Company's direct ownership in these entities and any investment advisory fees earned but uncollected. The Company held investments in these entities totaling \$5.1 million and \$4.4 million on April 30, 2013 and October 31, 2012, respectively, and investment advisory fees receivable totaling \$0.4 million on April 30, 2013 and October 31, 2012. In the first six months of fiscal 2013, the Company did not provide any financial or other support to these entities that it was not previously contractually required to provide. The Company's risk of loss with respect to these managed entities is limited to the carrying value of its investments in and investment advisory fees receivable from the entities as of April 30, 2013.

The Company's investments in privately offered equity funds are carried at fair value and included in investment securities, available for sale, which are disclosed as a component of investments in Note 5. The Company records any change in fair value, net of income tax, in other comprehensive income (loss).

10. Acquisitions

The Clifton Group Investment Management Company (“Clifton”)

On December 31, 2012, the Company’s subsidiary, Parametric Portfolio Associates LLC (“Parametric”), acquired Clifton. The operating results of Clifton have been included in the Company’s consolidated statements since that date. Pro forma results of operations have not been presented because the results of operations would not have been materially different from those reported in the accompanying Consolidated Statements of Income. Clifton is a provider of futures- and options-based overlay services and risk management solutions for institutional investors based in Minneapolis, Minnesota. The Clifton acquisition complements and expands the range of engineered portfolio solutions offered by Parametric. The Company paid \$72.3 million in cash and issued an indirect ownership interest in Parametric with a fair market value of \$12.8 million to certain Clifton principals. These indirect interests are subject to certain put and call arrangements at fair value that may be executed over a five-year period. There are no future contingent payments to be made in connection with the acquisition. Upon closing, Clifton became a division of Parametric.

In conjunction with the purchase, the Company recorded \$24.5 million of intangible assets, which consist primarily of client relationship intangible assets acquired. The client relationship intangible assets will be amortized over an eighteen-year period. The Company also recorded goodwill of \$60.1 million, which is deductible for tax purposes. During the three months ended April 30, 2013, revenue and earnings from Clifton were \$6.3 million and \$1.7 million, respectively. During the six months ended April 30, 2013, revenue and earnings from Clifton were \$8.4 million and \$2.2 million, respectively.

Tax Advantaged Bond Strategies (“TABS”)

In fiscal 2009, the Company acquired the TABS business of M.D. Sass Investors Services, a privately held investment manager based in New York, New York for cash and future consideration. During the first quarter of fiscal 2013, the Company made a contingent payment of \$14.1 million to the selling group based upon prescribed multiples of TABS’s revenue for the twelve months ended December 31, 2012. The payment increased goodwill by \$14.1 million. The Company will be obligated to make three additional annual contingent payments to certain remaining members of the selling group based on prescribed multiples of TABS’s revenue for the twelve months ending December 31, 2014, 2015 and 2016. All future payments will be in cash and will result in an addition to goodwill. These payments are not contingent upon any member of the selling group remaining an employee of the Company.

Parametric

In December 2012, certain non-controlling interest holders of Parametric exercised their final put option pursuant to the terms of the original acquisition agreement requiring the Company to purchase an additional 3.4 percent capital and 5.7 percent profit interest in the entity. The \$43.5 million exercise price of the put option was based on a multiple of estimated earnings before taxes for the calendar year ended December 31, 2012. The payment was treated as an

equity transaction and reduced redeemable non-controlling interests at closing on December 20, 2012. Indirect profit interests granted to Parametric employees under a long-term equity incentive plan of that entity increased to 4.9 percent on April 30, 2013, reflecting a 0.76 percent profit interest granted on November 1, 2012 under the plan. Indirect capital and profit interests in Parametric held by the principals of Clifton totaled 1.9 percent on April 30, 2013, reflecting indirect interests issued in conjunction with the Clifton acquisition on December 31, 2012. Capital and profit interests in Parametric held by the Company increased to 98.1 percent and 93.3 percent, respectively, on April 30, 2013, reflecting the transactions described above.

11. Intangible Assets

The following is a summary of intangible assets at April 30, 2013 and October 31, 2012:

April 30, 2013

| (dollars in thousands) | Gross carrying amount | Accumulated amortization | Net carrying amount |
|--|-----------------------|--------------------------|---------------------|
| Amortizing intangible assets: | | | |
| Client relationships acquired | \$ 133,927 | \$ (63,083) | \$ 70,844 |
| Intellectual property acquired | 1,000 | (158) | 842 |
| Trademark acquired | 900 | (43) | 857 |
| Non-amortizing intangible assets: | | | |
| Mutual fund management contract acquired | 6,708 | - | 6,708 |
| Total | \$ 142,535 | \$ (63,284) | \$ 79,251 |

October 31, 2012

| (dollars in thousands) | Gross carrying amount | Accumulated amortization | Net carrying amount |
|--|-----------------------|--------------------------|---------------------|
| Amortizing intangible assets: | | | |
| Client relationships acquired | \$ 110,327 | \$ (58,681) | \$ 51,646 |
| Intellectual property acquired | 1,000 | (126) | 874 |
| Non-amortizing intangible assets: | | | |
| Mutual fund management contract acquired | 6,708 | - | 6,708 |
| Total | \$ 118,035 | \$ (58,807) | \$ 59,228 |

Amortization expense was \$2.4 million and \$2.0 million for the three months ended April 30, 2013 and 2012 and \$4.5 million and \$4.0 million for the six months ended April 30, 2013 and 2012, respectively. Estimated remaining amortization expense for the next five fiscal years, on a straight-line basis, is as follows:

| Year Ending October 31, (in thousands) | Estimated Amortization Expense |
|---|--------------------------------|
| Remaining 2013 | \$ 4,717 |
| 2014 | 9,408 |

Edgar Filing: EATON VANCE CORP - Form 10-Q

| | |
|------|-------|
| 2015 | 9,183 |
| 2016 | 8,741 |
| 2017 | 8,628 |
| 2018 | 8,188 |

12. Stock-Based Compensation Plans

The Company recognized total compensation cost related to its stock-based compensation plans as follows:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| 2008 Plan: | | | | |
| Stock options | \$3,677 | \$6,260 | \$7,525 | \$15,443 |
| Restricted shares | 8,008 | 5,892 | 16,437 | 12,007 |
| Phantom stock units | 129 | 69 | 273 | 124 |
| Employee Stock Purchase Plan | - | - | 376 | 108 |
| Incentive Plan – Stock Alternative | 2 | - | 198 | 126 |
| Atlanta Capital Plan | 352 | 232 | 703 | 463 |
| Parametric Plan | 822 | 594 | 1,645 | 1,173 |
| Total stock-based compensation expense | \$12,990 | \$13,047 | \$27,157 | \$29,444 |

The total income tax benefit recognized for stock-based compensation arrangements was \$5.0 million and \$4.0 million for the three months ended April 30, 2013 and 2012, respectively, and \$10.5 million and \$9.2 million for the six months ended April 30, 2013 and 2012, respectively.

2008 Omnibus Incentive Plan (“2008 Plan”)

The 2008 Plan, which is administered by the Compensation Committee of the Board, allows for awards of stock options, restricted shares and phantom stock units to eligible employees and non-employee Directors. A total of 19.8 million shares of Non-Voting Common Stock have been reserved for issuance under the 2008 Plan. Through April 30, 2013, 6.0 million restricted shares and options to purchase 14.5 million shares have been issued pursuant to the 2008 Plan.

Stock Options

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management’s

judgment. The Company's stock volatility assumption is based upon its historical stock price fluctuations. The Company uses historical data to estimate option forfeiture rates and the expected term of options granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve at the time of grant.

The weighted-average fair value per share of stock options granted during the six months ended April 30, 2013 and 2012 using the Black-Scholes option pricing model were as follows:

Edgar Filing: EATON VANCE CORP - Form 10-Q

| | | |
|---|--------------|--------------|
| | 2013 | 2012 |
| Weighted-average grant date fair value of options granted | \$7.68 | \$6.68 |
| Assumptions: | | |
| Dividend yield | 2.8% to 5.5% | 2.9% to 3.1% |
| Volatility | 36 | 36 |
| | | % |
| Risk-free interest rate | 1.2% to 1.3% | 1.5 |
| | | % |
| Expected life of options | 7.1 years | 7.2 years |

Stock option transactions under the 2008 Plan and predecessor plans for the six months ended April 30, 2013 are summarized in the below table.

| (share and intrinsic value figures in thousands) | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|--|----------|---------------------------------|--|---------------------------|
| Options outstanding, beginning of period | 27,653 | \$ 26.90 | | |
| Granted | 2,251 | 28.31 | | |
| Exercised | (4,207) | 20.97 | | |
| Forfeited/expired | (207) | 29.96 | | |
| Options outstanding, end of period | 25,490 | \$ 27.98 | 5.1 | \$ 324,971 |
| Options exercisable, end of period | 16,601 | \$ 28.77 | 3.6 | \$ 206,028 |
| Vested or expected to vest | 25,135 | \$ 28.00 | 5.1 | \$ 320,213 |

The number of shares subject to option and the weighted-average exercise price of options reflected in the table above have been adjusted pursuant to certain anti-dilution provisions of the Company's 2008 Plan and predecessor plans to reflect the effect of a \$1.00 per share special dividend declared and paid in December 2012.

The Company received \$83.5 million and \$8.2 million related to the exercise of options for the six months ended April 30, 2013 and 2012, respectively. Options exercised represent newly issued shares. The total intrinsic value of options exercised during the six months ended April 30, 2013 and 2012 was \$56.6 million and \$5.0 million, respectively. The total fair value of options that vested during the six months ended April 30, 2013 was \$28.0 million.

As of April 30, 2013, there was \$35.0 million of compensation cost related to unvested stock options granted not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.3 years.

Restricted Shares

Compensation expense related to restricted share grants is recorded over the forfeiture period of the restricted shares, as they are contingently forfeitable. As of April 30, 2013, there was \$84.8 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.4 years.

A summary of the Company's restricted share activity for the six months ended April 30, 2013 under the 2008 Plan and predecessor plans is summarized in the below table:

| (share figures in thousands) | Shares | Weighted-Average Grant Date Fair Value |
|-------------------------------|--------|--|
| Unvested, beginning of period | 3,233 | \$ 26.43 |
| Granted | 1,601 | 29.11 |
| Vested | (756) | 26.29 |
| Forfeited | (103) | 28.15 |
| Unvested, end of period | 3,975 | \$ 27.53 |

The total fair value of restricted stock that vested during the six months ended April 30, 2013 and 2012 was \$19.9 million and \$12.2 million, respectively.

Phantom Stock Units

In the six months ended April 30, 2013, 9,465 phantom stock units were issued to non-employee Directors pursuant to the 2008 Plan. Because these units are contingently forfeitable, compensation expense is recorded over the forfeiture period. The total liability paid out associated with phantom stock during the six months ended April 30, 2013 and 2012 was \$0.3 million and \$0.2 million, respectively. As of April 30, 2013, there was \$0.4 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 1.2 years.

13. Common Stock Repurchases

The Company's current share repurchase program was announced on October 26, 2011. The Board authorized management to repurchase and retire up to 8.0 million shares of its Non-Voting Common Stock on the open market and in private transactions in accordance with applicable securities laws. The timing and amount of share purchases are subject to management's discretion. The Company's share repurchase program is not subject to an expiration date.

In the first six months of fiscal 2013, the Company purchased and retired approximately 0.7 million shares of its Non-Voting Common Stock under the current repurchase authorization. Approximately 3.2 million additional shares may be repurchased under the current authorization.

14. Non-operating Income (Expense)

The components of non-operating income (expense) for the three and six months ended April 30, 2013 and 2012 were as follows:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| Non-operating income (expense): | | | | |
| Interest and other income | \$3,423 | \$1,956 | \$4,027 | \$3,693 |
| Net gains on investments and derivatives | 1,475 | 1,250 | 6,226 | 7,680 |
| Net foreign currency gains (losses) | 145 | (410) | (3) | (400) |
| Gains and other investment income, net | 5,043 | 2,796 | 10,250 | 10,973 |
| Interest expense | (8,572) | (8,412) | (17,142) | (16,825) |
| Other income (expense) of consolidated CLO entity: | | | | |
| Interest income | 4,071 | 5,668 | 8,916 | 11,212 |
| Net gains (losses) on bank loans, other investments and note obligations | 313 | 3,227 | (2,739) | 7,963 |
| Gains and other investment income, net | 4,384 | 8,895 | 6,177 | 19,175 |
| Interest expense | (3,051) | (4,134) | (7,272) | (8,445) |
| Total non-operating (expense) income | \$(2,196) | \$(855) | \$(7,987) | \$4,878 |

15. Income Taxes

The provision for income taxes was \$38.2 million and \$35.2 million, or 36.1 percent and 35.9 percent of pre-tax income, for the three months ended April 30, 2013 and 2012, respectively. The provision for income taxes was \$74.1 million and \$70.4 million, or 36.9 percent and 35.8 percent of pre-tax income, for the six months ended April 30, 2013 and 2012, respectively. The provision for income taxes in the three and six months ended April 30, 2013 and 2012 is comprised of federal, state, and foreign taxes. The primary differences between the Company's effective tax rate and the statutory federal rate of 35.0 percent are state income taxes, income recognized by the consolidated CLO entity, other non-controlling interests and the tax benefit of disqualifying dispositions of incentive stock options.

The Company records a valuation allowance when necessary to reduce deferred tax assets to an amount that is more likely than not to be realized. There was no valuation allowance recorded as of April 30, 2013 or October 31, 2012.

The Company is currently under audit by several states. One state previously provided the Company with a draft position that may result in a proposed adjustment to the Company's previously filed tax returns. During the six months ended April 30, 2013, this state provided additional background to the Company on the state's draft position. The Company has evaluated this recent correspondence and determined that there is no new information that causes the Company to change its initial conclusion regarding the technical merits of its position. The Company intends to continue its discussions with the state on this matter. If an adjustment is proposed, the Company intends to vigorously defend its positions. It is possible the ultimate resolution of the proposed adjustment, if unfavorable, may be material to the results of operations in the period it occurs. Pending receipt of a formal assessment, an estimate of the range of the reasonably possible change in unrecognized tax benefits over the next twelve months cannot be made.

16. Non-controlling and Other Beneficial Interests

Net income attributable to non-controlling and other beneficial interest holders totaled \$7.4 million and \$9.9 million for the three months ended April 30, 2013 and 2012, respectively, and \$19.8 million and \$27.5 million for the six months ended April 30, 2013 and 2012, respectively.

The components of net income attributable to non-controlling and other beneficial interest holders for the three and six months ended April 30, 2013 and 2012 were as follows:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|------------------|------------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| Consolidated sponsored funds | \$(2,986) | \$(1,182) | \$(4,092) | \$(2,328) |
| Majority-owned subsidiaries | (3,690) | (3,751) | (7,589) | (7,111) |
| Non-controlling interest value adjustments ⁽¹⁾ | (666) | (1,097) | (11,313) | (9,199) |
| Consolidated CLO entity | (97) | (3,870) | 3,233 | (8,861) |
| Net income attributable to non-controlling and other beneficial interests | \$(7,439) | \$(9,900) | \$(19,761) | \$(27,499) |

⁽¹⁾Relates to non-controlling interests redeemable at other than fair value.

17. Earnings per Share

The following table sets forth the calculation of earnings per basic and diluted share for the three and six months ended April 30, 2013 and 2012 using the two-class method:

| (in thousands, except per share data) | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|-----------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| Net income attributable to Eaton Vance Corp. shareholders | \$63,681 | \$52,870 | \$113,486 | \$100,141 |
| Less: Allocation of earnings to participating restricted shares | 2,094 | 1,524 | 5,445 | 2,792 |
| Net income available to common shareholders | \$61,587 | \$51,346 | \$108,041 | \$97,349 |
| Weighted-average shares outstanding – basic | 117,102 | 112,418 | 115,900 | 112,541 |
| Incremental common shares | 6,228 | 3,463 | 5,335 | 2,783 |
| Weighted-average shares outstanding – diluted | 123,330 | 115,881 | 121,235 | 115,324 |
| Earnings per share: | | | | |

Edgar Filing: EATON VANCE CORP - Form 10-Q

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | \$0.53 | \$0.46 | \$0.93 | \$0.87 |
| Diluted | \$0.50 | \$0.44 | \$0.89 | \$0.84 |

Antidilutive common shares related to stock options excluded from the computation of earnings per diluted share were approximately 3.0 million and 14.5 million for the three months ended April 30, 2013 and 2012, respectively, and were approximately 3.1 million and 15.1 million for the six months ended April 30, 2013 and 2012, respectively.

18. Commitments and Contingencies

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, information technology agreements, distribution agreements and service agreements. In certain circumstances, these indemnities in favor of third parties relate to service agreements entered into by investment funds managed and/or advised by Eaton Vance Management or Boston Management and Research, both wholly owned subsidiaries of the Company. The Company has also agreed to indemnify its directors, officers and employees in accordance with the Company's Articles of Incorporation, as amended. Certain agreements do not contain any limits on the Company's liability and, therefore, it is not possible to estimate the Company's potential liability under these indemnities. In certain cases, the Company has recourse against third parties with respect to these indemnities. Further, the Company maintains insurance policies that may provide coverage against certain claims under these indemnities.

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

In July 2006, the Company committed to invest \$15.0 million in a private equity partnership that invests in companies in the financial services industry. The Company has invested \$13.9 million of the total \$15.0 million of committed capital at April 30, 2013. The Company believes the remaining \$1.1 million will likely be invested by March 2015.

The Company has entered into transactions in financial instruments in which it has sold securities, not yet purchased as part of its corporate hedging program. As of April 30, 2013, the Company has \$1.6 million included within other liabilities on its Consolidated Balance Sheet related to securities sold, not yet purchased.

19. Related Party Transactions

Funds

The Company is an investment advisor to, and has administrative agreements with, certain sponsored funds, privately offered equity funds and closed-end funds for which certain employees are officers and/or directors. Substantially all of the services to these entities for which the Company earns a fee, including investment advisory, distribution, shareholder and administrative, are provided under contracts that set forth the services to be provided and the fees to be charged. These contracts are subject to annual review and approval by the funds' boards of directors or trustees.

Edgar Filing: EATON VANCE CORP - Form 10-Q

Revenue for services provided or related to these funds for the three and six months ended April 30, 2013 and 2012 are as follows:

| (in thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|-----------|-------------------|-----------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| Investment advisory and administrative fees | \$201,790 | \$188,669 | \$393,982 | \$372,153 |
| Distribution fees | 19,845 | 20,298 | 39,918 | 40,775 |
| Service fees | 31,132 | 32,065 | 62,262 | 64,364 |
| Shareholder services fees | 548 | 630 | 1,088 | 1,227 |
| Other revenue | 268 | - | 403 | - |
| Total | \$253,583 | \$241,662 | \$497,653 | \$478,519 |

For the three months ended April 30, 2013 and 2012, the Company had investment advisory agreements with certain sponsored funds pursuant to which the Company contractually waived \$1.6 million and \$2.1 million of investment advisory fees it was otherwise entitled to receive, respectively. For the six months ended April 30, 2013 and 2012, the Company waived \$4.4 million and \$4.5 million, respectively, of investment advisory fees it was otherwise entitled to receive.

Sales proceeds and net realized gains from investments in sponsored funds classified as available-for-sale for the three and six months ended April 30, 2013 and 2012 are as follows:

| | Three Months Ended | | Six Months Ended | |
|---------------------|--------------------|----------|------------------|----------|
| | April 30, 2013 | 2012 | April 30, 2013 | 2012 |
| (in thousands) | | | | |
| Proceeds from sales | \$18,474 | \$32,804 | \$39,290 | \$40,006 |
| Net realized gains | 342 | 61 | 5,251 | 124 |

The Company bears the non-advisory expenses of certain sponsored funds for which it earns an all-in management fee and provides subsidies to startup and other smaller sponsored funds to enhance their competitiveness. For the three months ended April 30, 2013 and 2012, expenses of \$5.6 million and \$4.3 million, respectively, were incurred by the Company pursuant to these arrangements. For the six months ended April 30, 2013 and 2012, expenses of \$10.7 million and \$8.7 million, respectively, were incurred by the Company pursuant to these arrangements.

Included in investment advisory fees and other receivables at April 30, 2013 and October 31, 2012 are receivables due from sponsored funds of \$87.7 million and \$84.4 million, respectively.

Employee Loan Program

The Company has established an Employee Loan Program under which a program maximum of \$10.0 million is available for loans to officers (other than executive officers) and other key employees of the Company for purposes of financing the exercise of employee stock options. Loans are written for a seven-year period, at varying fixed interest rates (currently ranging from 0.9 percent to 5.0 percent), are payable in annual installments commencing with the third year in which the loan is outstanding, and are collateralized by the stock issued upon exercise of the option. Loans outstanding under this program, which are full recourse in nature, are reflected as notes receivable from stock option exercises in shareholders' equity and amounted to \$7.3 million and \$4.2 million at April 30, 2013 and October 31, 2012, 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. The terms “may”, “will”, “could”, “anticipate”, “plan”, “continue”, “project”, “intend”, “estimate”, “believe”, “expect” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such words. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that they will prove to have been correct or that we will take any actions that may now be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the “Risk Factors” section of this Form 10-Q and Item 1A in our latest annual report on Form 10-K. 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. We do not assume any obligation to update any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

General

Our principal business is managing investment funds and providing investment management and advisory services to high-net-worth individuals and institutions. Our core strategy is to develop and sustain management expertise across a range of investment disciplines and to offer leading investment products and services through multiple distribution channels. In executing this strategy, we have developed broadly diversified investment management capabilities and a powerful marketing, distribution and customer service organization. Although we manage and distribute a wide range of investment products and services, we operate in one business segment, namely as an investment adviser to funds and separate accounts.

We are a market leader in a number of investment areas, including value equity, equity income, quality core and growth equity, systematic emerging market equity, floating-rate bank loan, municipal bond, investment grade, global and high-yield bond investing. Through our subsidiary Parametric Portfolio Associates LLC (“Parametric”) we offer a leading range of engineered portfolio implementation services, including tax-managed core and specialty index strategies, futures- and options-based portfolio overlays and centralized portfolio management of multi-manager portfolios. Our breadth of investment management capabilities supports a wide range of products and services offered to fund shareholders, retail managed account investors, institutional investors and high-net-worth clients. Our equity strategies encompass a diversity of investment objectives, risk profiles, income levels and geographic representation. Our income investment strategies cover a broad duration and credit quality range and encompass both taxable and tax-free investments. We offer a range of alternative investment strategies, including commodity-based investments and a spectrum of absolute return strategies. As of April 30, 2013, we had \$260.3 billion in assets under management.

Our principal retail marketing strategy is to distribute funds and separately managed accounts through financial intermediaries in the advice channel. We have a broad reach in this marketplace, with distribution partners including national and regional broker-dealers, independent broker-dealers, independent financial advisory firms, banks and insurance companies. We support these distribution partners with a team of approximately 135 sales professionals covering U.S. and international markets.

We also commit significant resources to serving institutional and high-net-worth clients who access investment management services on a direct basis. Through our wholly owned affiliates and consolidated subsidiaries we manage investments for a broad range of clients in the institutional and high-net-worth global marketplace,

including corporations, sovereign wealth funds, endowments, foundations, family offices and public and private employee retirement plans.

Our revenue is derived primarily from investment advisory, administrative, distribution and service fees received from Eaton Vance funds and investment advisory fees received from separate accounts. Our fees are based primarily on the value of the investment portfolios we manage and fluctuate with changes in the total value and mix of assets under management. As a matter of course, investors in our sponsored open-end funds and separate accounts have the ability to redeem their shares or investments at any time, without prior notice, and there are no material restrictions that would prevent them from doing so. Our major expenses are employee compensation, distribution-related expenses, facilities expense and information technology expense.

Our discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to goodwill and intangible assets, income taxes, investments and stock-based compensation. We base our estimates on historical experience and on various assumptions that we believe to be reasonable under current circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Business Developments

The first six months of fiscal 2013 was a period of favorable market action, as reflected by the 14.4 percent total return of the S&P 500 Index. Over the last twelve months, the S&P 500 Index has returned 16.9 percent.

The Company’s ending consolidated assets under management increased by \$60.8 billion, or 30 percent, in the first six months of fiscal 2013 to \$260.3 billion on April 30, 2013, reflecting the acquisition of The Clifton Group Investment Management Company (“Clifton”) on December 31, 2012, strong net inflows into floating-rate income, alternative and implementation services mandates, and favorable market action. Average consolidated assets under management increased sequentially by \$37.3 billion, or 17 percent, to \$253.5 billion in the second quarter of fiscal 2013, reflecting a full quarter of Clifton ownership.

The Clifton acquisition, as anticipated, has had a significant impact on both our overall average effective fee rate and our average effective investment advisory and administrative fee rate in the first half of fiscal 2013. Upon acquisition, the Clifton business had an average effective fee rate of approximately 7 basis points. The acquisition reduced our

overall average effective fee rate to 52 basis points and 55 basis points in the second quarter and first six months of fiscal 2013, respectively, from 62 basis points in both the second quarter and first six months of fiscal 2012. Our average effective investment advisory and administrative fee rate similarly decreased to 44 basis points and 46 basis points in the second quarter and first six months of fiscal 2013, respectively, from 51 basis points in both the second quarter and first six months of last year. The primary driver of our overall average effective fee rate continues to be the mix of assets by distribution channel and mandate.

Consolidated Assets under Management

Consolidated assets under management of \$260.3 billion on April 30, 2013 were \$62.8 billion, an increase of 32 percent over the \$197.5 billion of managed assets reported a year earlier. Consolidated assets under management on April 30, 2013 included \$127.0 billion in long-term funds, \$84.7 billion in institutional separate accounts, \$18.0 billion in high-net-worth separate accounts, \$30.4 billion in retail managed accounts and \$0.1 billion in cash management fund assets. Long-term fund net inflows of \$6.9 billion over the last twelve months reflect gross inflows of \$35.2 billion offset by outflows of \$28.3 billion. Long-term fund net inflows include \$0.2

billion raised in the initial public offering of Eaton Vance Municipal Income Term Trust in the second quarter of fiscal 2013. Institutional separate account net inflows were \$3.9 billion, high-net-worth separate account net inflows were \$1.2 billion and retail managed account net inflows were \$0.8 billion over the past twelve months. Clifton assets acquired totaled \$34.8 billion and net price appreciation in managed assets increased assets under management by \$15.4 billion over the last twelve months. A decrease in cash management assets reduced assets under management by \$0.2 billion.

We report managed assets and flow data by investment mandate. The “Alternative” category includes a range of absolute return strategies, as well as commodity- and currency-linked investments. In fiscal 2013, we added a new category, “Implementation Services,” to reflect the growing importance to our business of Parametric’s tax-managed core, centralized portfolio management and specialty index businesses and the former Clifton Group’s futures- and options-based overlay services.

Consolidated Assets under Management by Investment Mandate ⁽¹⁾ ⁽⁴⁾

| (in millions) | April 30, | | | | | | | |
|--|-----------|---------------|-----------|---------------|-------------|---|--|---|
| | 2013 | % of Total | 2012 | % of Total | % Change | | | |
| Equity ⁽²⁾ | \$89,534 | 35 % | \$86,040 | 43 % | 4 | % | | % |
| Fixed income | 49,949 | 19 % | 46,891 | 24 % | 7 | % | | % |
| Floating-rate income | 33,679 | 13 % | 24,847 | 13 % | 36 | % | | % |
| Alternative | 16,022 | 6 % | 10,517 | 5 % | 52 | % | | % |
| Implementation services ⁽³⁾ | 70,966 | 27 % | 28,852 | 15 % | 146 | % | | % |
| Cash management | 127 | 0 % | 340 | 0 % | -63 | % | | % |
| Total | \$260,277 | 100 % | \$197,487 | 100 % | 32 | % | | % |

⁽¹⁾Consolidated Eaton Vance Corp. See table on page 45 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

⁽²⁾Balances include assets in balanced accounts holding income securities.

⁽³⁾Balances include amounts reclassified from equity for the prior year period.

⁽⁴⁾Assets under management for which we estimate fair value are not material to the total value of the assets we manage.

Equity and implementation services assets under management included \$59.1 billion and \$51.7 billion of assets managed for after-tax returns on April 30, 2013 and 2012, respectively. Fixed income assets included \$29.6 billion

and \$27.9 billion of tax-exempt municipal bond assets on April 30, 2013 and 2012, respectively.

Net inflows totaled \$6.6 billion in the second quarter of fiscal 2013 compared to net inflows of \$0.6 billion in the second quarter of fiscal 2012. Long-term fund net inflows of \$6.1 billion in the second quarter of fiscal 2013 reflect gross inflows of \$12.6 billion, net of redemptions of \$6.5 billion. Long-term fund net inflows in the second quarter of fiscal 2013 reflect the \$0.2 billion initial public offering of Eaton Vance Municipal Income Term Trust. Long-term fund net outflows of \$1.2 billion in the second quarter of fiscal 2012 reflect gross inflows of \$6.6 billion, net of redemptions of \$7.8 billion.

Separate account net inflows totaled \$0.5 billion in the second quarter of fiscal 2013, compared to \$1.7 billion in the second quarter of fiscal 2012. Institutional separate account net outflows totaled \$1.0 billion in the second quarter of fiscal 2013 compared to net inflows of \$0.5 billion in the second quarter of fiscal 2012, reflecting gross inflows of \$8.1 billion and \$3.3 billion in the second quarter of fiscal 2013 and 2012, respectively, net of redemptions of \$9.1 billion and \$2.8 billion, respectively. High-net-worth separate account net inflows of \$0.9 billion in the second quarter of fiscal 2013 reflect gross inflows of \$1.5 billion net of redemptions of \$0.6

billion. In the second quarter of fiscal 2012 high-net-worth separate account gross inflows of \$1.3 billion were offset by \$0.5 billion of gross outflows. Retail managed account net inflows of \$0.6 billion in the second quarter of fiscal 2013 reflect gross inflows of \$2.4 billion, net of redemptions of \$1.9 billion. In the second quarter of fiscal 2012, retail managed account gross inflows of \$2.0 billion were offset by gross redemptions of \$1.5 billion.

The following tables summarize our consolidated assets under management and asset flows by investment mandate and investment vehicle for the three and six months ended April 30, 2013 and 2012:

Consolidated Net Flows by Investment Mandate⁽¹⁾

| (in millions) | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|----------|-------------------|-------------------|-----------|-------------|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change |
| Equity assets - beginning of period ⁽²⁾ | \$86,518 | \$84,957 | 2 % | \$80,782 | \$84,281 | -4 % |
| Sales and other inflows | 5,270 | 4,416 | 19 % | 9,766 | 9,192 | 6 % |
| Redemptions/outflows | (4,990) | (6,998) | -29 % | (9,949) | (13,472) | -26 % |
| Net flows | 280 | (2,582) | NM ⁽³⁾ | (183) | (4,280) | -96 % |
| Assets acquired ⁽⁴⁾ | - | - | NM | 1,572 | - | NM |
| Exchanges | 124 | (5) | NM | 116 | (13) | NM |
| Market value change | 2,612 | 3,670 | -29 % | 7,247 | 6,052 | 20 % |
| Equity assets - end of period | \$89,534 | \$86,040 | 4 % | \$89,534 | \$86,040 | 4 % |
| Fixed income assets - beginning of period | 49,679 | 45,514 | 9 % | 49,003 | 43,708 | 12 % |
| Sales and other inflows | 3,289 | 3,626 | -9 % | 6,666 | 6,253 | 7 % |
| Redemptions/outflows | (3,348) | (2,276) | 47 % | (6,723) | (4,729) | 42 % |
| Net flows | (59) | 1,350 | NM | (57) | 1,524 | NM |
| Assets acquired ⁽⁴⁾ | - | - | NM | 472 | - | NM |
| Exchanges | (59) | - | NM | (81) | 40 | NM |
| Market value change | 388 | 27 | NM | 612 | 1,619 | -62 % |
| Fixed income assets - end of period | \$49,949 | \$46,891 | 7 % | \$49,949 | \$46,891 | 7 % |
| Floating-rate income assets - beginning of period | 28,656 | 24,376 | 18 % | 26,388 | 24,322 | 8 % |
| Sales and other inflows | 6,092 | 1,662 | 267 % | 9,352 | 3,122 | 200 % |
| Redemptions/outflows | (1,153) | (1,451) | -21 % | (2,512) | (2,740) | -8 % |
| Net flows | 4,939 | 211 | NM | 6,840 | 382 | NM |
| Exchanges | 50 | 27 | 85 % | 83 | 19 | 337 % |
| Market value change | 34 | 233 | -85 % | 368 | 124 | 197 % |
| Floating-rate income assets - end of period | \$33,679 | \$24,847 | 36 % | \$33,679 | \$24,847 | 36 % |
| Alternative assets - beginning of period | 14,345 | 10,462 | 37 % | 12,864 | 10,650 | 21 % |
| Sales and other inflows | 2,767 | 1,121 | 147 % | 4,576 | 2,227 | 105 % |
| Redemptions/outflows | (960) | (1,036) | -7 % | (2,015) | (2,238) | -10 % |
| Net flows | 1,807 | 85 | NM | 2,561 | (11) | NM |
| Assets acquired ⁽⁴⁾ | - | - | NM | 650 | - | NM |
| Exchanges | (103) | (23) | 348 % | (116) | (62) | 87 % |
| Market value change | (27) | (7) | 286 % | 63 | (60) | NM |
| Alternative assets - end of period | \$16,022 | \$10,517 | 52 % | \$16,022 | \$10,517 | 52 % |
| Implementation services assets - beginning of period ⁽⁵⁾ | 68,420 | 25,864 | 165 % | 30,302 | 24,574 | 23 % |
| Sales and other inflows | 7,252 | 2,401 | 202 % | 13,731 | 3,928 | 250 % |
| Redemptions/outflows | (7,576) | (898) | 744 % | (10,892) | (2,094) | 420 % |
| Net flows | (324) | 1,503 | NM | 2,839 | 1,834 | 55 % |
| Assets acquired ⁽⁴⁾ | - | - | NM | 32,064 | - | NM |
| Exchanges | (15) | (1) | NM | (15) | (1) | NM |
| Market value change | 2,885 | 1,486 | 94 % | 5,776 | 2,445 | 136 % |

Edgar Filing: EATON VANCE CORP - Form 10-Q

| | | | | | | | | |
|--|-----------|-----------|-----|---|-----------|-----------|-----|---|
| Implementation services assets - end of period | \$70,966 | \$28,852 | 146 | % | \$70,966 | \$28,852 | 146 | % |
| Long-term assets - beginning of period | 247,618 | 191,173 | 30 | % | 199,339 | 187,535 | 6 | % |
| Sales and other inflows | 24,670 | 13,226 | 87 | % | 44,091 | 24,722 | 78 | % |
| Redemptions/outflows | (18,027) | (12,659) | 42 | % | (32,091) | (25,273) | 27 | % |
| Net flows | 6,643 | 567 | NM | | 12,000 | (551) | NM | |
| Assets acquired ⁽⁴⁾ | - | - | NM | | 34,758 | - | NM | |
| Exchanges | (3) | (2) | 50 | % | (13) | (17) | -24 | % |
| Market value change | 5,892 | 5,409 | 9 | % | 14,066 | 10,180 | 38 | % |
| Total long-term assets - end of period | \$260,150 | \$197,147 | 32 | % | \$260,150 | \$197,147 | 32 | % |
| Cash management fund assets - end of period | 127 | 340 | -63 | % | 127 | 340 | -63 | % |
| Total assets under management - end of period | \$260,277 | \$197,487 | 32 | % | \$260,277 | \$197,487 | 32 | % |

⁽¹⁾ Consolidated Eaton Vance Corp. See table on page 45 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

⁽²⁾ Balances include assets in balanced accounts holding income securities.

⁽³⁾ Not meaningful ("NM")

⁽⁴⁾ Balances represent Clifton assets acquired on December 31, 2012.

⁽⁵⁾ Balances include amounts reclassified from equity for fiscal 2012.

Consolidated Net Flows by Investment Vehicle⁽¹⁾

| (in millions) | Three Months Ended | | | Six Months Ended | | |
|---|--------------------|-------------------|--------------|-------------------|-------------------|--------------|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change |
| Long-term fund assets - beginning of period | \$ 119,162 | \$ 112,664 | 6 % | \$ 113,249 | \$ 111,705 | 1 % |
| Sales and other inflows | 12,629 | 6,648 | 90 % | 21,708 | 13,553 | 60 % |
| Redemptions/outflows | (6,506) | (7,818) | -17 % | (13,382) | (15,930) | -16 % |
| Net flows | 6,123 | (1,170) | NM | 8,326 | (2,377) | NM |
| Assets acquired ⁽²⁾ | - | - | NM | 638 | - | NM |
| Exchanges | (3) | (2) | 50 % | (22) | (16) | 38 % |
| Market value change | 1,732 | 2,537 | -32 % | 4,823 | 4,717 | 2 % |
| Long-term fund assets - end of period | \$ 127,014 | \$ 114,029 | 11 % | \$ 127,014 | \$ 114,029 | 11 % |
| Institutional separate account assets - beginning of period | 83,350 | 38,726 | 115 % | 43,338 | 38,003 | 14 % |
| Sales and other inflows | 8,102 | 3,261 | 148 % | 14,887 | 5,085 | 193 % |
| Redemptions/outflows | (9,071) | (2,794) | 225 % | (12,892) | (5,009) | 157 % |
| Net flows | (969) | 467 | NM | 1,995 | 76 | NM |
| Assets acquired ⁽²⁾ | - | - | NM | 34,120 | - | NM |
| Exchanges | - | 40 | NM | 5 | 11 | -55 % |
| Market value change | 2,343 | 1,650 | 42 % | 5,266 | 2,793 | 89 % |
| Institutional separate account assets - end of period | \$ 84,724 | \$ 40,883 | 107 % | \$ 84,724 | \$ 40,883 | 107 % |
| High-net-worth separate account assets - beginning of period | 16,245 | 13,255 | 23 % | 15,036 | 13,256 | 13 % |
| Sales and other inflows | 1,497 | 1,338 | 12 % | 2,876 | 2,359 | 22 % |
| Redemptions/outflows | (573) | (534) | 7 % | (1,771) | (1,086) | 63 % |
| Net flows | 924 | 804 | 15 % | 1,105 | 1,273 | -13 % |
| Exchanges | 9 | (42) | NM | (6) | (999) | -99 % |
| Market value change | 849 | 687 | 24 % | 1,892 | 1,174 | 61 % |
| High-net-worth separate account assets - end of period | \$ 18,027 | \$ 14,704 | 23 % | \$ 18,027 | \$ 14,704 | 23 % |
| Retail managed account assets - beginning of period | 28,861 | 26,528 | 9 % | 27,716 | 24,571 | 13 % |
| Sales and other inflows | 2,442 | 1,979 | 23 % | 4,620 | 3,725 | 24 % |
| Redemptions/outflows | (1,877) | (1,513) | 24 % | (4,046) | (3,248) | 25 % |
| Net flows | 565 | 466 | 21 % | 574 | 477 | 20 % |
| Exchanges | (9) | 2 | NM | 10 | 987 | -99 % |
| Market value change | 968 | 535 | 81 % | 2,085 | 1,496 | 39 % |
| Retail managed account assets - end of period | \$ 30,385 | \$ 27,531 | 10 % | \$ 30,385 | \$ 27,531 | 10 % |
| Total long-term assets - beginning of period | 247,618 | 191,173 | 30 % | 199,339 | 187,535 | 6 % |
| Sales and other inflows | 24,670 | 13,226 | 87 % | 44,091 | 24,722 | 78 % |
| Redemptions/outflows | (18,027) | (12,659) | 42 % | (32,091) | (25,273) | 27 % |
| Net flows | 6,643 | 567 | NM | 12,000 | (551) | NM |
| Assets acquired ⁽²⁾ | - | - | NM | 34,758 | - | NM |

Edgar Filing: EATON VANCE CORP - Form 10-Q

| | | | | | | |
|--|-----------|-----------|-------|-----------|-----------|-------|
| Exchanges | (3) | (2) | 50 % | (13) | (17) | -24 % |
| Market value change | 5,892 | 5,409 | 9 % | 14,066 | 10,180 | 38 % |
| Total long-term assets - end of period | \$260,150 | \$197,147 | 32 % | \$260,150 | \$197,147 | 32 % |
| Cash management fund assets - end of period | 127 | 340 | -63 % | 127 | 340 | -63 % |
| Total assets under management - end of period | \$260,277 | \$197,487 | 32 % | \$260,277 | \$197,487 | 32 % |

(1) Consolidated Eaton Vance Corp. See page 45 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

(2) Balances represent Clifton assets acquired on December 31, 2012.

The following table summarizes our assets under management by investment affiliate as of April 30, 2013 and 2012:

Consolidated Assets under Management by Investment Affiliate ⁽¹⁾

| (in millions) | April 30, | | | |
|---------------------------------------|------------|------------|-------------|---|
| | 2013 | 2012 | % Change | |
| Eaton Vance Management ⁽²⁾ | \$ 142,211 | \$ 133,257 | 7 | % |
| Parametric | 100,760 | 49,245 | 105 | % |
| Atlanta Capital | 17,306 | 14,985 | 15 | % |
| Total | \$ 260,277 | \$ 197,487 | 32 | % |

⁽¹⁾ *Consolidated Eaton Vance Corp. See page 45 for directly managed assets and flows of 49 percent-owned Hexavest Inc.*

Includes managed assets of wholly owned subsidiaries Eaton Vance Investment Counsel and Fox Asset

⁽²⁾ *Management LLC, as well as certain Eaton Vance-sponsored funds and accounts managed by Hexavest and unaffiliated third-party advisors under Eaton Vance supervision.*

As of April 30, 2013, 49 percent-owned affiliate Hexavest Inc. (“Hexavest”) managed \$15.3 billion of client assets, an increase of 26 percent from the \$12.1 billion of managed assets on October 31, 2012. Net outflows from Hexavest-managed funds and separate accounts were \$0.3 billion in the second quarter of fiscal 2013. Other than Eaton Vance-sponsored funds for which Hexavest is advisor or sub-advisor, the managed assets of Hexavest are not included in Eaton Vance consolidated totals. The following table summarizes assets under management and asset flow information for Hexavest for the three and six months ended April 30, 2013:

Hexavest Assets under Management and Net Flows

| (in millions) | Three Months Ended April 30, 2013 | Six Months Ended April 30, 2013 |
|--|---|---------------------------------------|
| Eaton Vance distributed: | | |
| Eaton Vance sponsored funds - beginning of period ⁽¹⁾ | \$ 135 | \$ 37 |
| Sales and other inflows | 17 | 111 |
| Redemptions/outflows | (1 |) (6 |
| Net flows | 16 | 105 |
| Market value change | 10 | 19 |
| Eaton Vance sponsored funds - end of period | \$ 161 | \$ 161 |
| Eaton Vance distributed separate accounts - beginning of period ⁽²⁾ | \$ 1,185 | \$ - |
| Sales and other inflows | 3 | 1,151 |
| Redemptions/outflows | - | - |
| Net flows | 3 | 1,151 |
| Market value change | 95 | 132 |
| Eaton Vance distributed separate accounts - end of period | \$ 1,283 | \$ 1,283 |
| Total Eaton Vance distributed - beginning of period | \$ 1,320 | \$ 37 |
| Sales and other inflows | 20 | 1,262 |
| Redemptions/outflows | (1 |) (6 |
| Net flows | 19 | 1,256 |
| Market value change | 105 | 151 |
| Total Eaton Vance distributed - end of period | \$ 1,444 | \$ 1,444 |
| Hexavest directly distributed - beginning of period ⁽³⁾ | \$ 13,224 | \$ 12,073 |
| Sales and other inflows | 298 | 1,218 |
| Redemptions/outflows | (570 |) (833 |
| Net flows | (272 |) 385 |
| Market value change | 879 | 1,373 |
| Hexavest directly distributed - end of period | \$ 13,831 | \$ 13,831 |
| Total Hexavest assets - beginning of period | \$ 14,544 | \$ 12,110 |
| Sales and other inflows | 318 | 2,480 |
| Redemptions/outflows | (571 |) (839 |
| Net flows | (253 |) 1,641 |
| Market value change | 984 | 1,524 |
| Total Hexavest assets - end of period | \$ 15,275 | \$ 15,275 |

Managed assets and flows of Eaton Vance-sponsored pooled investment vehicles for which Hexavest is advisor or (1) sub-advisor. Eaton Vance receives management and/or distribution revenue on these assets, which are included in the Eaton Vance consolidated results.

(2) Managed assets and flows of Eaton Vance-distributed separate accounts managed by Hexavest. Eaton Vance receives distribution revenue, but not management revenue, on these assets, which are not included in the Eaton

Vance consolidated results.

Managed assets and flows of pre-transaction Hexavest clients and post-transaction Hexavest clients in Canada.

(3) Eaton Vance receives no management or distribution revenue on these assets, which are not included in the Eaton Vance consolidated results.

Consolidated Ending Assets under Management by Asset Class⁽¹⁾

| (in millions) | April 30, | | 2012 | | | % Change |
|-------------------------------|-----------|------------|-----------|------------|-------|----------|
| | 2013 | % of Total | | % of Total | % | |
| Open-end funds: | | | | | | |
| Class A | \$32,035 | 13 % | \$32,110 | 16 % | 0 % | % |
| Class B | 847 | 0 % | 1,121 | 1 % | -24 % | % |
| Class C | 10,077 | 4 % | 9,738 | 5 % | 3 % | % |
| Class I | 38,723 | 15 % | 29,066 | 15 % | 33 % | % |
| Class R | 331 | 0 % | 347 | 0 % | -5 % | % |
| Other ⁽²⁾ | 812 | 0 % | 389 | 0 % | 109 % | % |
| Total open-end funds | 82,825 | 32 % | 72,771 | 37 % | 14 % | % |
| Private funds ⁽³⁾ | 19,910 | 8 % | 18,129 | 9 % | 10 % | % |
| Closed-end funds | 24,406 | 9 % | 23,469 | 12 % | 4 % | % |
| Total fund assets | 127,141 | 49 % | 114,369 | 58 % | 11 % | % |
| Institutional account assets | 84,724 | 32 % | 40,883 | 21 % | 107 % | % |
| High-net-worth account assets | 18,027 | 7 % | 14,704 | 7 % | 23 % | % |
| Retail managed account assets | 30,385 | 12 % | 27,531 | 14 % | 10 % | % |
| Total separate account assets | 133,136 | 51 % | 83,118 | 42 % | 60 % | % |
| Total | \$260,277 | 100 % | \$197,487 | 100 % | 32 % | % |

⁽¹⁾ Consolidated Eaton Vance Corp. See table on page 45 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

⁽²⁾ Includes other classes of Eaton Vance open-end funds.

⁽³⁾ Includes privately offered equity, fixed income and floating-rate bank loan funds and CLO entities.

We currently sell our sponsored open-end mutual funds under four primary pricing structures: front-end load commission (“Class A”); level-load commission (“Class C”); institutional no-load (“Class I”); and retirement plan no-load (“Class R”). We waive the front-end sales load on Class A shares under certain circumstances. In such cases, the shares are sold at net asset value.

Fund assets represented 49 percent of total assets under management on April 30, 2013, down from 58 percent on April 30, 2012, while separate account assets, which include institutional, high-net-worth and retail managed account assets, increased to 51 percent of total assets under management on April 30, 2013 from 42 percent on April 30, 2012. Fund assets under management increased \$13.7 billion, or 12 percent, from \$113.4 billion on October 31, 2012, reflecting 14 percent organic growth, market appreciation of \$4.8 billion and \$0.6 billion of managed assets gained from the Clifton acquisition. Separate account assets under management increased \$47.0 billion, or 55 percent, from

\$86.1 billion on October 31, 2012, reflecting \$34.1 billion of managed assets gained from the Clifton acquisition, organic growth of 9 percent and market appreciation of \$9.2 billion.

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

Consolidated Average Assets under Management by Asset Class⁽¹⁾

| (in millions) | Three Months Ended | | | Six Months Ended | | | | |
|-------------------------------|--------------------|-----------|-------------|-------------------|-----------|-------------|--|--|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | | |
| Open-end funds: | | | | | | | | |
| Class A | \$31,587 | \$32,396 | -2 % | \$31,074 | \$32,505 | -4 % | | |
| Class B | 874 | 1,175 | -26 % | 902 | 1,205 | -25 % | | |
| Class C | 9,939 | 9,737 | 2 % | 9,825 | 9,663 | 2 % | | |
| Class I | 36,340 | 28,839 | 26 % | 34,027 | 27,892 | 22 % | | |
| Class R | 320 | 352 | -9 % | 314 | 356 | -12 % | | |
| Other ⁽²⁾ | 740 | 525 | 41 % | 711 | 558 | 27 % | | |
| Total open-end funds | 79,800 | 73,024 | 9 % | 76,853 | 72,179 | 6 % | | |
| Private funds ⁽³⁾ | 19,391 | 18,157 | 7 % | 18,877 | 17,837 | 6 % | | |
| Closed-end funds | 23,953 | 23,384 | 2 % | 23,658 | 23,045 | 3 % | | |
| Total fund assets | 123,144 | 114,565 | 7 % | 119,388 | 113,061 | 6 % | | |
| Institutional account assets | 83,776 | 39,760 | 111 % | 70,191 | 38,648 | 82 % | | |
| High-net-worth account assets | 17,060 | 13,998 | 22 % | 16,381 | 13,402 | 22 % | | |
| Retail managed account assets | 29,558 | 27,244 | 8 % | 28,789 | 26,336 | 9 % | | |
| Total separate account assets | 130,394 | 81,002 | 61 % | 115,361 | 78,386 | 47 % | | |
| Total | \$253,538 | \$195,567 | 30 % | \$234,749 | \$191,447 | 23 % | | |

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

⁽²⁾ Includes other classes of Eaton Vance open-end funds.

⁽³⁾ Includes privately offered equity, fixed income and floating-rate bank loan funds and CLO entities.

Results of Operations

In evaluating operating performance, we consider net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share, which are calculated on a basis consistent with U.S. GAAP, as well as adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, both of which are internally derived non-U.S. GAAP performance measures.

We define adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share as net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share, respectively, adjusted to exclude changes in the estimated redemption value of non-controlling interests redeemable at other than fair value

(“non-controlling interest value adjustments”), closed-end fund structuring fees and other items management deems non-recurring (such as special dividends) or non-operating in nature. Neither adjusted net income attributable to Eaton Vance Corp. shareholders nor adjusted earnings per diluted share should be construed to be a substitute for, or superior to, net income attributable to Eaton Vance Corp. shareholders nor earnings per diluted share computed in accordance with U.S. GAAP. However, our management and Board of Directors look at these adjusted numbers as a measure of underlying performance, since the excluded items generally do not reflect normal operating performance.

The following table provides a reconciliation of net income attributable to Eaton Vance Corp. shareholders and earnings per diluted share to adjusted net income attributable to Eaton Vance Corp. shareholders and adjusted earnings per diluted share, respectively, for the three and six months ended April 30, 2013 and 2012:

| (in thousands, except per share data) | Three Months Ended | | | Six Months Ended | | | |
|--|--------------------|----------|----------|------------------|-----------|----------|--|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | |
| Net income attributable to Eaton Vance Corp. shareholders | \$63,681 | \$52,870 | 20 % | \$113,486 | \$100,141 | 13 % | |
| Non-controlling interest value adjustments ⁽¹⁾ | 666 | 1,097 | -39 % | 11,313 | 9,199 | 23 % | |
| Closed-end fund structuring fees, net of tax ⁽²⁾ | 1,677 | - | NM | 1,677 | - | NM | |
| Adjusted net income attributable to Eaton Vance Corp. shareholders | \$66,024 | \$53,967 | 22 % | \$126,476 | \$109,340 | 16 % | |
| Earnings per diluted share | \$0.50 | \$0.44 | 14 % | \$0.89 | \$0.84 | 6 % | |
| Non-controlling interest value adjustments | 0.01 | 0.01 | 0 % | 0.09 | 0.08 | 13 % | |
| Closed-end fund structuring fees, net of tax | 0.01 | - | NM | 0.01 | - | NM | |
| Special dividend adjustment ⁽³⁾ | - | - | NM | 0.02 | - | NM | |
| Adjusted earnings per diluted share | \$0.52 | \$0.45 | 16 % | \$1.01 | \$0.92 | 10 % | |

⁽¹⁾ Please see page 58, "Net Income Attributable to Non-controlling and Other Beneficial Interests," for a further discussion of the

non-controlling interest value adjustments referenced above.

⁽²⁾ Closed-end fund structuring fees, net of tax, associated with the initial public offering of Eaton Vance Municipal Income Term Trust.

⁽³⁾ Reflects the impact of the special dividend on our earnings per diluted share calculation due to the disproportionate allocation of distributions in excess of earnings to common shareholders under the two-class method.

We reported net income attributable to Eaton Vance Corp. shareholders of \$63.7 million, or \$0.50 per diluted share, in the second quarter of fiscal 2013 compared to net income attributable to Eaton Vance Corp. shareholders of \$52.9 million, or \$0.44 per diluted share, in the second quarter of fiscal 2012. We reported adjusted net income attributable to Eaton Vance Corp. shareholders of \$66.0 million, or \$0.52 per diluted share, in the second quarter of fiscal 2013 compared to adjusted net income attributable to Eaton Vance Corp. shareholders of \$54.0 million, or \$0.45 per diluted share, in the second quarter of fiscal 2012. The change in net income and adjusted net income attributable to Eaton Vance Corp. shareholders can be primarily attributed to the following:

An increase in revenue of \$26.9 million, or 9 percent, primarily due to a 30 percent increase in average assets under management, offset by a decrease in our annualized effective fee rate to 52 basis points in the second quarter of fiscal 2013 from 62 basis points in the second quarter of fiscal 2012 as a result of the Clifton acquisition.

An increase in expenses of \$17.7 million, or 9 percent, reflecting increases in compensation, distribution, service fee, fund-related and other expenses offset by reduced amortization of deferred sales commissions.

A \$2.2 million increase in gains and other investment income, net, reflecting an increase in investment income earned on our seed capital portfolio.

A \$3.4 million decrease in other income of the Company's consolidated collateralized loan obligation ("CLO") entity which can be attributed to a decrease in gains and other investment income recognized by the Company's consolidated CLO entity.

An increase in income taxes of \$3.0 million, or 9 percent, reflecting the 8 percent increase in income before taxes quarter-over-quarter.

An increase in equity in net income of affiliates, net of tax, of \$3.5 million reflecting our 49 percent equity interest in Hexavest and an increase in the Company's proportionate net interest in earnings of sponsored funds accounted for under the equity method.

A \$2.5 million decrease in net income attributable to non-controlling and other beneficial interest holders, primarily reflecting the decrease in net gains recognized by the Company's consolidated CLO entity in the second quarter of fiscal 2013 that are allocated to other beneficial interest holders, offset by an increase in net income attributable to non-controlling interest holders in the Company's consolidated funds.

Weighted average diluted shares outstanding increased by 7.4 million shares, or 6 percent, in the second quarter of fiscal 2013 over the second quarter of fiscal 2012. The change reflects an increase in the total number of shares outstanding due to the exercise of employee stock options and an increase in the dilutive effect of in-the-money options resulting from a 42 percent increase in the quarterly average share price of the Company's Non-Voting Common Stock.

We reported net income attributable to Eaton Vance Corp. shareholders of \$113.5 million, or \$0.89 per diluted share, in the first six months of fiscal 2013 compared to net income attributable to Eaton Vance Corp. shareholders of \$100.1 million, or \$0.84 per diluted share, in the first six months of fiscal 2012. We reported adjusted net income attributable to Eaton Vance Corp. shareholders of \$126.5 million, or \$1.01 adjusted earnings per diluted share, in the first six months of fiscal 2013 compared to adjusted net income attributable to Eaton Vance Corp. shareholders of \$109.3 million, or \$0.92 adjusted earnings per diluted share, in the first six months of fiscal 2012. The change in net income and adjusted net income attributable to Eaton Vance Corp. shareholders can be primarily attributed to the following:

An increase in revenue of \$49.8 million, or 8 percent, primarily due to a 23 percent increase in average assets under management offset by a decrease in our annualized effective fee rate to 55 basis points in the first six months of fiscal 2013 from 62 basis points in the first six months of fiscal 2012, as a result of the Clifton acquisition.

An increase in expenses of \$32.7 million, or 8 percent, reflecting increases in compensation, distribution, service fee, fund-related and other expenses offset by reduced amortization of deferred sales commissions.

A decrease of \$0.7 million, or 7 percent, in gains and other investment income, net, reflecting a decrease in investment gains recognized on our seed capital portfolio, offset by an increase in investment income earned by our consolidated funds.

An \$11.8 million decrease in other expense of the Company's consolidated CLO entity, reflecting lower gains recognized by the entity in the first six months of fiscal 2013.

An increase in income taxes of \$3.8 million, or 5 percent, reflecting the 2 percent increase in income before taxes and an increase in the Company's effective tax rate period-over-period. The increase in the Company's effective tax rate period-over-period can be attributed to the decrease in consolidated CLO entity income that is allocated to other beneficial interest holders and therefore not subject to the Company's tax provision.

An increase in equity in net income of affiliates, net of tax, of \$5.1 million reflecting our 49 percent equity interest in Hexavest and an increase in the Company's proportionate net interest in earnings of sponsored funds accounted for

under the equity method of accounting.

A decrease in net income attributable to non-controlling and other beneficial interest holders of \$7.7 million, primarily reflecting a decrease in the net gains recognized by the Company's consolidated CLO

entity that are borne by other beneficial interest holders, partially offset by an increase in the annual adjustment made to the estimated redemption value of non-controlling interests in the Company's majority-owned subsidiaries and an increase in net income attributable to non-controlling interest holders in the Company's consolidated funds.

Weighted average diluted shares outstanding increased by 5.9 million shares, or 5 percent, in the first six months of fiscal 2013 over the first six months of fiscal 2012. The change reflects an increase in the total number of shares outstanding due to the exercise of employee stock options and an increase in the dilutive effect of in-the-money options resulting from a 37 percent increase in the average share price of the Company's Non-Voting Common Stock.

Revenue

Our overall average effective fee rate (total revenue, excluding other revenue, as a percentage of average assets under management) was 52 basis points and 55 basis points in the second quarter and first six months of fiscal 2013, respectively, compared to 62 basis points in both the second quarter and first six months of fiscal 2012. As noted above, the decrease in our overall average effective fee rate can be primarily attributed to the acquisition of Clifton, whose business operates at a significantly lower average effective fee rate.

The following table shows our investment advisory and administrative fees, distribution and underwriter fees, service fees and other revenue for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended | | | Six Months Ended | | | |
|---|--------------------|-----------|-------------|-------------------|-----------|-------------|---|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | |
| Investment advisory and administrative fees | \$276,921 | \$248,888 | 11 | % \$540,202 | \$488,340 | 11 | % |
| Distribution and underwriter fees | 22,165 | 22,551 | -2 | % 44,916 | 45,066 | 0 | % |
| Service fees | 31,132 | 32,065 | -3 | % 62,262 | 64,364 | -3 | % |
| Other revenue | 1,474 | 1,266 | 16 | % 2,829 | 2,606 | 9 | % |
| Total revenue | \$331,692 | \$304,770 | 9 | % \$650,209 | \$600,376 | 8 | % |

Investment advisory and administrative fees

Investment advisory and administrative fees are determined by contractual agreements with our sponsored funds and separate accounts, and are generally based upon a percentage of the market value of assets under management. Net

asset flows and changes in the market value of managed assets affect the amount of managed assets on which investment advisory and administrative fees are earned, while changes in asset mix among different investment mandates and products affect our average effective fee rate. Investment advisory and administrative fees represented 83 percent of total revenue in the second quarter and first six months of fiscal 2013 compared to 82 percent and 81 for the second quarter and first six months of fiscal 2012, respectively.

The increase in investment advisory and administrative fees of 11 percent, or \$28.0 million, in the second quarter of fiscal 2013 from the same period a year earlier can be primarily attributed to the 30 percent increase in average assets under management, offset by lower effective fee rates due primarily to a shift in product mix resulting from the Clifton acquisition. Fund assets, which had an average effective fee rate of 66 basis points in both the second quarter of fiscal 2013 and 2012, decreased to 49 percent of total assets under management on April 30, 2013 from 58 percent of total assets under management on April 30, 2012, while separately managed

account assets, which had an average effective fee rate of 23 basis points in the second quarter of fiscal 2013 and 30 basis points in the second quarter of fiscal 2012, increased to 51 percent of total assets under management on April 30, 2013 from 42 percent of total assets under management on April 30, 2012.

The increase in investment advisory and administrative fees of 11 percent, or \$51.9 million, in the first six months of fiscal 2013 over the same period a year earlier can be primarily attributed to the 23 percent increase in average assets under management, offset by lower effective fee rates due primarily to the shift in product mix discussed above. Fund assets had an effective fee rate of 66 basis points in both the six months ended April 30, 2013 and 2012, while separately managed account assets had an average effective fee rate of 25 basis points and 30 basis points in the six months ended April 30, 2013 and 2012, respectively.

Distribution and underwriter fees

Distribution plan payments, which are made under contractual agreements with certain share classes of our sponsored funds and private funds, are calculated as a percentage of average assets under management. These fees fluctuate with both the level of average assets under management and the relative mix of assets. Underwriter commissions are earned on the sale of shares of our sponsored mutual funds on which investors pay a sales charge at the time of purchase (Class A share sales). Sales charges and underwriter commissions are waived or reduced on shareholder purchases that exceed specified minimum amounts and on certain categories of investors. Underwriter commissions fluctuate with the level of Class A share sales and the mix of Class A shares sold with and without sales charges.

Distribution plan payments decreased 2 percent, or \$0.5 million, to \$19.8 million in the second quarter of fiscal 2013 from the same period a year earlier, reflecting decreases in average Class B, Class R and certain private fund distribution fees, offset by an increase in average Class A and Class C fund assets subject to distribution fees.

Distribution plan payments decreased 2 percent, or \$0.9 million, to \$39.9 million in the first six months of fiscal 2013 from the same period a year earlier, reflecting decreases in average Class B, Class R and certain private fund distribution fees, offset by an increase in average Class A and Class C fund assets subject to distribution fees.

The following table shows the total distribution payments with respect to our Class A, Class B, Class C, Class R and private funds for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|----------------|--------------------|------|-------------|-------------------|------|-------------|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change |
| | | | | | | |

Edgar Filing: EATON VANCE CORP - Form 10-Q

| | | | | | | | | |
|----------------------------------|-----------|-----------|-----|---|----------|----------|-----|---|
| Class A | \$ 257 | \$ 162 | 59 | % | \$469 | \$322 | 46 | % |
| Class B | 1,401 | 1,941 | -28 | % | 2,954 | 4,016 | -26 | % |
| Class C | 17,057 | 16,929 | 1 | % | 34,279 | 33,906 | 1 | % |
| Class R | 195 | 216 | -10 | % | 386 | 439 | -12 | % |
| Private funds | 935 | 1,050 | -11 | % | 1,830 | 2,093 | -13 | % |
| Total distribution plan payments | \$ 19,845 | \$ 20,298 | -2 | % | \$39,918 | \$40,776 | -2 | % |

Underwriter fees and other distribution income was substantially unchanged at \$2.3 million for the second quarter of fiscal 2013.

Underwriter fees and other distribution income increased to \$5.0 million in the first six months of fiscal 2013, an increase of 16 percent, or \$0.7 million, over the same period a year earlier, primarily reflecting an increase of \$0.3 million in underwriter fees received on sales of Class A shares and an increase of \$0.4 million in contingent deferred sales charges received on certain Class A share redemptions.

Service fees

Service fees, which are paid to Eaton Vance Distributors, Inc. (“EVD”) pursuant to distribution or service plans adopted by our sponsored mutual funds, are calculated as a percent of average assets under management in certain mutual fund share classes (principally Classes A, B, C and R). Certain private funds also make service fee payments to EVD. Service fees are paid to EVD as principal underwriter or placement agent to the funds for service and/or the maintenance of shareholder accounts.

Service fee revenue decreased 3 percent, or \$0.9 million, to \$31.1 million in the second quarter of fiscal 2013 from the same period a year earlier, primarily reflecting a 1 percent decrease in average assets under management in funds and classes of funds subject to service fees.

Service fee revenue decreased 3 percent, or \$2.1 million, to \$62.3 million in the first six months of fiscal 2013 from the same period a year earlier, primarily reflecting a 3 percent decrease in average assets under management in funds and classes of funds subject to service fees.

Other revenue

Other revenue, which consists primarily of sub-transfer agent fees, miscellaneous dealer income, custody fees, revenue agreements related to Hexavest, and sublease income increased by \$0.2 million in the second quarter and first six months of fiscal 2013 from the same periods a year ago, primarily reflecting an increase in revenue related to our revenue agreements with Hexavest.

Expenses

Operating expenses increased by 9 percent, or \$17.7 million, in the second quarter of fiscal 2013 from the same period a year earlier and by 8 percent, or \$32.7 million, in the first six months of fiscal 2013 from the same period a year earlier, reflecting increases in compensation, distribution, service fee, fund-related and other expenses, offset by reduced amortization of deferred sales commissions as more fully described below.

The following table shows our operating expenses for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended | | | Six Months Ended | | | |
|--|--------------------|-----------|-------------|-------------------|-----------|-------------|--|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | |
| Compensation and related costs: | | | | | | | |
| Cash compensation | \$97,022 | \$84,519 | 15 % | \$191,684 | \$164,805 | 16 % | |
| Stock-based compensation | 12,990 | 13,047 | 0 % | 27,157 | 29,444 | -8 % | |
| Total compensation and related costs | 110,012 | 97,566 | 13 % | 218,841 | 194,249 | 13 % | |
| Distribution expense | 35,304 | 32,960 | 7 % | 69,193 | 65,288 | 6 % | |
| Service fee expense | 29,211 | 28,088 | 4 % | 57,475 | 56,761 | 1 % | |
| Amortization of deferred sales commissions | 4,752 | 5,533 | -14 % | 9,535 | 11,353 | -16 % | |
| Fund-related expenses | 8,074 | 6,590 | 23 % | 15,498 | 13,241 | 17 % | |
| Other expenses | 36,269 | 35,222 | 3 % | 70,917 | 67,853 | 5 % | |
| Total expenses | \$223,622 | \$205,959 | 9 % | \$441,459 | \$408,745 | 8 % | |

Compensation and related costs

Compensation expense increased by 13 percent, or \$12.4 million, in the second quarter of fiscal 2013 from the same quarter a year earlier, reflecting increases in sales-and operating income-based incentives, increases in base salaries and benefits, offset by a decrease in other compensation.

Compensation expense increased by 13 percent, or \$24.6 million, in the first six months of fiscal 2013 from the same period a year earlier, reflecting increases in sales-and operating income-based incentives, increases in base salaries and benefits, offset by a decrease in stock-based compensation and other compensation.

The following table shows our compensation and related costs for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended | | | Six Months Ended | | | |
|-------------------------------------|--------------------|----------|-------------|-------------------|-----------|-------------|--|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | |
| Base salaries and employee benefits | \$46,002 | \$41,648 | 10 % | \$92,497 | \$83,753 | 10 % | |
| Stock-based compensation | 12,990 | 13,047 | 0 % | 27,157 | 29,444 | -8 % | |
| Operating income-based incentives | 32,393 | 27,958 | 16 % | 63,145 | 54,784 | 15 % | |
| Sales and revenue-based incentives | 17,859 | 12,922 | 38 % | 33,448 | 22,762 | 47 % | |
| Other compensation expense | 768 | 1,991 | -61 % | 2,594 | 3,506 | -26 % | |
| Total | \$110,012 | \$97,566 | 13 % | \$218,841 | \$194,249 | 13 % | |

Base salaries and employee benefits increased by 10 percent, or \$4.4 million, in the second quarter of fiscal 2013 primarily reflecting a full quarter of Clifton salaries, an increase in base compensation associated with higher headcount and annual merit increases, and increases in employee benefits and payroll taxes. Operating-income based

incentives increased by 16 percent, or \$4.4 million, primarily reflecting a 9 percent increase in pre-bonus adjusted operating income. Sales and revenue-based incentives increased by 38 percent, or \$4.9 million, primarily due to the 87 percent increase in gross sales and other inflows reflecting strong retail sales and

the closed-end fund initial public offering of Eaton Vance Municipal Income Term Trust. Other compensation expense decreased by 61 percent, or \$1.2 million, reflecting lower severance costs and sign-on bonuses.

Base salaries and employee benefits increased by 10 percent, or \$8.7 million, in the first six months of fiscal 2013 primarily reflecting the Clifton acquisition, an increase in base compensation associated with higher headcount and annual merit increases, and increases in employee benefits and payroll taxes. Operating-income based incentives increased by 15 percent, or \$8.4 million, primarily reflecting a 7 percent increase in pre-bonus adjusted operating income. Sales and revenue-based incentives increased by 47 percent, or \$10.7 million, primarily due to the 78 percent increase in gross sales and other inflows reflecting strong retail sales. Stock-based compensation decreased by 8 percent, or \$2.3 million, reflecting revised retirement terms of newly granted employee stock options. Other compensation expense decreased by 26 percent, or \$0.9 million, reflecting lower severance costs and sign-on bonuses.

Distribution expense

Distribution expense consists primarily of commissions paid to broker-dealers on the sale of Class A shares at net asset value, ongoing asset-based payments made to distribution partners pursuant to third-party distribution arrangements for certain Class C share and closed-end funds, marketing support payments to distribution partners and other discretionary marketing expenses.

The following table shows our distribution expense for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended | | | Six Months Ended | | |
|--|--------------------|-----------|-------------|-------------------|-----------|-------------|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change |
| Class A share commissions | \$ 2,018 | \$ 1,504 | 34 % | \$ 4,213 | \$ 2,836 | 49 % |
| Class C share distribution fees | 13,542 | 13,783 | -2 % | 27,365 | 27,425 | 0 % |
| Closed-end fund structuring fees | 2,714 | - | NM | 2,714 | - | NM |
| Closed-end fund dealer compensation payments | 4,328 | 4,227 | 2 % | 8,658 | 8,402 | 3 % |
| Intermediary marketing support payments | 9,390 | 10,224 | -8 % | 19,130 | 18,688 | 2 % |
| Discretionary marketing expenses | 3,312 | 3,222 | 3 % | 7,113 | 7,937 | -10 % |
| Total | \$ 35,304 | \$ 32,960 | 7 % | \$ 69,193 | \$ 65,288 | 6 % |

Class A share commissions increased by 34 percent, or \$0.5 million, in the second quarter of fiscal 2013 reflecting an increase in certain Class A fund sales on which we pay a commission. Class C share distribution fees decreased by 2 percent, or \$0.2 million, reflecting a decrease in Class C share assets held more than one year on which those fees are based. The \$2.7 million in closed-end fund structuring fees are associated with the initial public offering of Eaton Vance Municipal Income Term Trust in the second quarter of 2013. Closed-end fund dealer compensation payments increased 2 percent, or \$0.1 million, reflecting an increase in average assets under management subject to those arrangements. Marketing expenses associated with intermediary marketing support payments to distribution partners

decreased by 8 percent, or \$0.8 million, reflecting decreases in average assets subject to those arrangements. Discretionary marketing expenses increased by 3 percent, or \$0.1 million, primarily reflecting an increase in the use of outside marketing consultants.

Class A share commissions increased by 49 percent, or \$1.4 million, in the first six months of fiscal 2013 reflecting an increase in certain Class A fund sales on which we pay a commission. Class C share distribution fees remained substantially unchanged at \$27.4 million. The \$2.7 million in closed-end fund structuring fees are associated with the initial public offering of Eaton Vance Municipal Income Term Trust in the second quarter of

2013. Closed-end fund dealer compensation payments increased 3 percent, or \$0.3 million, reflecting an increase in average assets under management subject to those arrangements. Marketing expenses associated with intermediary marketing support payments to distribution partners increased by 2 percent, or \$0.4 million, reflecting increases in average assets subject to those arrangements. Discretionary marketing expenses decreased by 10 percent, or \$0.8 million, primarily reflecting a decrease in the use of outside marketing consultants.

Service fee expense

Service fees we receive from sponsored funds are generally retained in the first year and paid to broker/dealers thereafter pursuant to third-party service arrangements. These fees are calculated as a percent of average assets under management in certain share classes of our mutual funds (principally Classes A, B, C and R), as well as certain private funds. Service fee expense increased by 4 percent, or \$1.1 million, in the second quarter of fiscal 2013 from the same quarter a year earlier, reflecting an increase in average fund assets retained more than one year in funds and share classes that are subject to service fees. Service fee expense increased by 1 percent, or \$0.7 million, in the first six months of fiscal 2013 from the same period a year earlier, also reflecting an increase in average fund assets retained more than one year in funds and share classes that are subject to service fees.

Amortization of deferred sales commissions

Amortization expense is affected by ongoing sales and redemptions of mutual fund Class C shares and certain private funds and redemptions of Class B shares. Amortization expense decreased 14 percent, or \$0.8 million, in the second quarter of fiscal 2013 from the same period a year earlier, reflecting a decrease in average Class B shares and private fund deferred sales commissions offset by an increase in Class C shares. In the second quarter of fiscal 2013, 18 percent of total amortization related to Class B shares, 77 percent to Class C shares and 5 percent to private funds. In the second quarter of fiscal 2012, 30 percent of total amortization related to Class B shares, 55 percent to Class C shares and 15 percent to private funds.

Amortization expense decreased 16 percent, or \$1.8 million, in the first six months of fiscal 2013 compared to the same period a year earlier, reflecting a decrease in average Class B share and private fund deferred sales commissions offset by an increase in Class C shares.

Fund-related expenses

Fund-related expenses consist primarily of fees paid to sub-advisors, compliance costs and other fund-related expenses we incur. Fund-related expenses increased 23 percent, or \$1.5 million, in the second quarter of fiscal 2013 from the same period a year earlier, primarily reflecting increases in sub-advisory fees paid and non-advisory expenses borne by us on certain institutional co-mingled funds for which we are paid an all-in management fee, as well as \$0.3 million of fund-related costs associated with the launch of the closed-end fund in the second quarter of fiscal 2013. Fund-related expenses increased 17 percent or \$2.3 million, in the first six months of fiscal 2013 over the same period a year earlier due to increased non-advisory expenses borne by us on certain funds for which we are paid

an all-in management fee, an increase in sub-advisory fees paid, and \$0.3 million of fund-related costs associated with the launch of the closed-end fund in the second quarter of fiscal 2013.

Other expenses

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

The following table shows our other expense for the three and six months ended April 30, 2013 and 2012:

| (in thousands) | Three Months Ended | | | Six Months Ended | | | |
|-------------------------|--------------------|-----------|-------------|-------------------|-----------|-------------|--|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | |
| Travel | \$ 3,559 | \$ 2,925 | 22 % | \$ 6,830 | \$ 6,146 | 11 % | |
| Communications | 1,371 | 1,426 | -4 % | 2,611 | 2,569 | 2 % | |
| Information technology | 14,034 | 11,593 | 21 % | 26,135 | 22,558 | 16 % | |
| Professional services | 2,667 | 4,020 | -34 % | 5,642 | 6,206 | -9 % | |
| Facilities-related | 9,704 | 10,836 | -10 % | 19,638 | 21,499 | -9 % | |
| Other corporate expense | 4,934 | 4,422 | 12 % | 10,061 | 8,875 | 13 % | |
| Total | \$ 36,269 | \$ 35,222 | 3 % | \$ 70,917 | \$ 67,853 | 5 % | |

Other expenses increased by 3 percent, or \$1.0 million, in the second quarter of fiscal 2013 from the same period a year earlier, primarily reflecting increases in information technology expense of \$2.4 million, travel expenses of \$0.6 million and other corporate expenses of \$0.5 million, offset by a decrease in professional services of \$1.4 million, facilities-related expenses of \$1.1 million and communications of \$0.1 million. The increase in information technology expense can be attributed to increases in outside custody and other back office services, other information technology consulting expenses and software license expense, offset by a decrease in system maintenance and repairs. The increase in travel expense relates to an overall increase in general travel accruals. The increase in other corporate expenses reflects an increase in other corporate taxes and the amortization of intangible assets related to the Clifton acquisition, offset by a decrease in charitable giving. The decrease in professional services expense can be attributed to decreases in external legal costs associated with various corporate initiatives. The decrease in facilities-related expenses can be primarily attributed to a decrease in depreciation expense and other operating expenses and real estate taxes.

Other expenses increased by 5 percent, or \$3.1 million, in the first six months of fiscal 2013 from the same period a year earlier, primarily reflecting increases in information technology expense of \$3.6 million, other corporate expenses of \$1.2 million and travel expense of \$0.7 million, offset by decreases in facilities-related expenses of \$1.9 million and professional services of \$0.6 million. The increase in information technology expense can be attributed to increases in system maintenance and repairs, outside custody and other back office services, other information technology consulting expenses and software license costs associated with budgeted technology projects. The increase in other corporate expenses reflects an increase in charitable giving, other corporate taxes and the amortization of intangible assets related to the Clifton acquisition, offset by a decrease in general corporate banking fees. The increase in travel can be attributed to an increase in general travel accruals. The decrease in facilities-related expenses can be primarily attributed to a decrease in depreciation expense. The decrease in professional services expense can be attributed to decreases in external legal costs and recruiting offset, by an increase in general corporate consulting engagements.

Non-operating Income (Expense)

| (in thousands) | Three Months Ended | | | Six Months Ended | | | |
|--|--------------------|-----------|-------------|-------------------|----------|-------------|---|
| | April 30, 2013 | 2012 | % Change | April 30, 2013 | 2012 | % Change | |
| Gains and other investment income, net | \$ 5,043 | \$ 2,796 | 80 | % \$10,250 | \$10,973 | -7 | % |
| Interest expense | (8,572) | (8,412) | 2 | % (17,142) | (16,825) | 2 | % |
| Other income (expense) of consolidated CLO entity: | | | | | | | |
| Gains and other investment income, net | 4,384 | 8,895 | -51 | % 6,177 | 19,175 | -68 | % |
| Interest expense | (3,051) | (4,134) | -26 | % (7,272) | (8,445) | -14 | % |
| Total non-operating (expense) income | \$ (2,196) | \$ (855) | 157 | % \$(7,987) | \$4,878 | NM | |

Gains and other investment income, net, increased 80 percent in the second quarter of fiscal 2013 compared to the same period a year ago, primarily reflecting an increase in investment income earned by our consolidated sponsored funds. Gains and other investment income, net, decreased 7 percent in the first six months of fiscal 2013 compared to the same period a year ago primarily reflecting a decrease in gains earned by our seed capital investments. In the first six months of fiscal 2012, we recognized \$2.4 million of investment gains related to the April 2011 sale of our equity interest in Lloyd George Management, representing additional settlement payments received during the first quarter of fiscal 2012.

Interest expense was substantially unchanged for both the three-and-six month periods, reflecting constant levels of interest accrued on our fixed-rate senior notes.

Net income (loss) of our consolidated CLO entity totaled \$1.2 million and (\$1.3) million in the second quarter and first six months of fiscal 2013, representing \$1.3 million and (\$1.1) million of other income (loss) partly offset by \$0.1 million and \$0.2 million of other operating expenses, respectively. (\$0.1) million and \$3.2 million of consolidated CLO entity net income (loss) was included in net income attributable to non-controlling and other beneficial interests, reflecting third-party note holders' proportionate interests in the net income (loss) of the entity. \$1.2 million and \$1.9 million for the second quarter and first six months of fiscal 2013, respectively, was included in net income attributable to Eaton Vance Corp. shareholders, representing the management fees earned and the Company's proportionate interest in the net income (loss) of the entity.

Income Taxes

Our effective tax rate calculated as income taxes as a percentage of income before income taxes and equity in net income of affiliates was 36.1 percent and 36.9 percent in the second quarter and first six months of fiscal 2013, respectively, compared to 35.9 percent and 35.8 percent in the second quarter and first six months of fiscal 2012. The slight increase in our overall effective tax rate in the second quarter of fiscal 2013 from the same period a year ago can be primarily attributed to lower consolidated CLO entity income allocated to other beneficial interest holders and

therefore not subject to the Company's tax provision. Excluding the effect of the consolidated CLO entity net income (loss) allocated to other beneficial interest holders, our effective tax rate would have been 36.1 percent and 36.4 percent in the second quarter and first six months of fiscal 2013, respectively. Excluding the effect of the consolidated CLO entity net income (loss) allocated to other beneficial interest holders, our effective tax rate would have been 37.3 percent in the second quarter and first six months of fiscal 2012.

Our policy for accounting for income taxes includes monitoring our business activities and tax policies for compliance with federal, state and foreign tax laws. In the ordinary course of business, various taxing authorities may not agree with certain tax positions we have taken, or applicable law may not be clear. We periodically review these tax positions and provide for and adjust as necessary estimated liabilities relating to such positions as part of our overall tax provision. There were no significant changes in our estimates surrounding these positions in either of the periods presented.

Equity in Net Income of Affiliates, Net of Tax

Equity in net income of affiliates, net of tax, for the second quarter of fiscal 2013 primarily reflects our 49 percent equity interest in Hexavest, 7 percent minority equity interest in a private equity partnership and equity interests in funds we sponsor, notably Eaton Vance Focused Growth Opportunities Fund, Eaton Vance Focused Value Opportunities Fund, Eaton Vance Municipal Opportunities Fund, Eaton Vance Real Estate Fund and Eaton Vance Tax-Advantaged Bond Strategies Long-Term Fund. Equity in net income of affiliates, net of tax, increased \$3.5 million in the second quarter of fiscal 2013 versus the same quarter a year earlier primarily due to the inclusion of our 49 percent equity interest in Hexavest and an increase in the Company's proportionate net interest in the earning of sponsored funds. Equity in net income of affiliates, net of tax, increased by \$5.1 million in the first six months of fiscal 2013 from the same period a year earlier, for the same reasons as described above.

Net Income Attributable to Non-controlling and Other Beneficial Interests

Net income attributable to non-controlling and other beneficial interests decreased by \$2.5 million in the second quarter of fiscal 2013 from the same period a year earlier, reflecting a \$3.8 million decrease in net income attributable to other beneficial interest holders of the Company's consolidated CLO entity, a \$0.4 million decrease in non-controlling interest value adjustments related to our majority-owned subsidiaries, offset by a \$1.8 million increase in net income attributable to non-controlling interest holders in the Company's consolidated funds.

Net income attributable to non-controlling and other beneficial interests decreased by \$7.7 million in the first six months of fiscal 2013 from the same period a year earlier, reflecting a \$12.1 million decrease in net income attributable to other beneficial interest holders of the Company's consolidated CLO entity, offset by a \$2.1 million increase in non-controlling interest value adjustments related to our majority-owned subsidiaries, primarily related to Parametric and Parametric Risk Advisors, a \$1.8 million increase in net income attributable to non-controlling interest holders in the Company's consolidated funds and a \$0.5 million increase in net income attributable to non-controlling interest holders in our majority-owned subsidiaries.

Net income attributable to non-controlling and other beneficial interests is not adjusted for taxes due to the underlying tax status of our consolidated subsidiaries. Parametric, Parametric Risk Advisors and Atlanta Capital Management Company LLC (“Atlanta Capital”) are limited liability companies that are treated as partnerships for tax purposes. Funds and the CLO entity we consolidate are registered investment companies or private funds that are treated as pass-through entities for tax purposes.

Changes in Financial Condition, Liquidity and Capital Resources

The assets and liabilities of our consolidated CLO entity do not affect our liquidity or capital resources. The collateral assets of our consolidated CLO entity are held solely to satisfy the obligations of the CLO entity and we have no right to these assets beyond our direct investment in and management fees generated from the entity, both of which are eliminated in consolidation. The note holders of the CLO entity have no recourse to the

general credit of the Company. As a result, the assets and liabilities of our consolidated CLO entity are excluded from the discussion of liquidity and capital resources below.

The following table summarizes certain key financial data relating to our liquidity and capital resources on April 30, 2013 and October 31, 2012 and uses of cash for the six months ended April 30, 2013 and 2012.

Balance Sheet and Cash Flow Data

| <i>(in thousands)</i> | April 30, 2013 | October 31, 2012 |
|--|-------------------|---------------------|
| Balance sheet data: | | |
| Assets: | | |
| Cash and cash equivalents | \$ 320,135 | \$ 462,076 |
| Investment advisory fees and other receivables | 153,135 | 133,589 |
| Total liquid assets | \$473,270 | \$ 595,665 |
| Investments | \$542,058 | \$ 486,933 |
| Liabilities: | | |
| Debt | \$500,000 | \$ 500,000 |

| <i>(in thousands)</i> | Six Months Ended April 30, | |
|-----------------------|-------------------------------|----------|
| | 2013 | 2012 |
| Cash flow data: | | |
| Operating cash flows | \$(52,092) | \$48,358 |
| Investing cash flows | 87,824 | 18,902 |
| Financing cash flows | (177,479) | (63,599) |

Liquidity and Capital Resources

Liquid assets consist of cash and cash equivalents and investment advisory fees and other receivables. Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to cash. Investment advisory fees and other receivables primarily represent receivables due from sponsored funds and separately managed accounts for investment advisory and distribution services provided. Liquid assets represented 32 percent and 39 percent of total assets attributable to Eaton Vance Corp. shareholders on April 30, 2013 and October 31, 2012, respectively, excluding those assets identified as assets of the consolidated CLO entity. The Company's seed investments in consolidated funds and separate accounts are not treated as liquid assets because they may be longer term in nature.

The \$122.4 million decrease in liquid assets in the first six months of fiscal 2013 primarily reflects net cash used for operating activities of \$52.1 million, the payment of \$167.0 million in regular and special dividends to shareholders, the repurchase of \$22.7 million of non-voting common stock, net cash paid for acquisitions of \$86.4 million and the payment of \$43.5 million to acquire interests in Parametric, offset by proceeds from the issuance of non-voting common stock of \$86.5 million, net proceeds from the sale of available securities of \$62.5 million, net inflows into consolidated funds from non-controlling interest holders of \$37.2 million and \$30.4 million reflecting the impact of our consolidated CLO entity's investing and financing activities.

On April 30, 2013, our debt consisted of \$500.0 million in aggregate principal amount of 6.5 percent ten-year unsecured notes due in 2017. We also maintain a \$300.0 million unsecured revolving credit facility with several banks that expires on June 4, 2015. The facility provides that we may borrow at LIBOR-based rates of interest that vary depending on the level of usage of the facility and our credit ratings. The agreement contains financial covenants with respect to leverage and interest coverage and requires us to pay an annual commitment fee on any unused portion. We had no borrowings under our revolving credit facility at April 30, 2013 or at any point during the first six months of fiscal 2013. We were in compliance with all debt covenants as of April 30, 2013.

We continue to monitor our liquidity daily. We remain committed to growing our business and expect that our main uses of cash will be to invest in new products, acquire shares of our Non-Voting Common Stock, pay dividends, make strategic acquisitions, enhance technology infrastructure and pay the operating expenses of the business, which are largely variable in nature and fluctuate with revenue and assets under management. We believe that our existing liquid assets, cash flows from operations and borrowing capacity under our existing credit facility are sufficient to meet our current and forecasted operating cash needs and to satisfy our future commitments as more fully described in Contractual Obligations below. The risk exists, however, that if we determine we need to raise additional capital or refinance existing debt in the future, resources may not be available to us in sufficient amounts or on acceptable terms. Our ability to enter the capital markets in a timely manner depends on a number of factors, including the state of global credit and equity markets, interest rates, credit spreads and our credit ratings. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our Non-Voting Common Stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely impacted.

Recoverability of our Investments

Our \$542.1 million of investments as of April 30, 2013 consisted of our 49 percent equity interest in Hexavest and positions in Eaton Vance-managed funds and separate accounts entered into for investment and business development purposes. Investments in Eaton Vance-managed funds and separate accounts are generally in liquid debt or equity securities and are carried at fair market value. We test our investments, excluding our equity method investments but including our investments in non-consolidated CLO entities and investments classified as available-for-sale, for impairment on a quarterly basis. We evaluate our investments in non-consolidated CLO entities and investments classified as available-for-sale for impairment using quantitative factors, including how long the investment has been in a net unrealized loss position, and qualitative factors, including the

underlying credit quality of the issuer and our ability and intent to hold the investment. If markets deteriorate during the quarters ahead, our assessment of impairment on a quantitative basis may lead us to impair investments that were in an unrealized loss position at April 30, 2013.

We test our investments in equity method investees, goodwill and indefinite-lived intangible assets in the fourth quarter of each fiscal year and as facts and circumstances indicate that additional analysis is warranted. There have been no significant changes in financial condition in the first six months of fiscal 2013 that would indicate that an impairment loss exists at April 30, 2013.

We periodically review our deferred sales commissions and identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There have been no significant changes in financial condition in the first six months of fiscal 2013 that would indicate that an impairment loss exists at April 30, 2013.

Operating Cash Flows

Our operating cash flows are calculated by adjusting net income to reflect other significant sources and uses of cash, certain significant non-cash items and timing differences in the cash settlement of other assets and liabilities. Significant sources and uses of cash that are not reflected in either revenue or operating expenses include net cash flows associated with our deferred sales commission assets (capitalized sales commissions paid net of contingent deferred sales charges received) as well as net cash flows associated with the purchase and sale of investments within the portfolios of our consolidated funds and separate accounts (proceeds received from the sale of trading investments net of cash outflows associated with the purchase of trading investments). Significant non-cash items include the amortization of deferred sales commissions and other intangible assets, depreciation, stock-based compensation and the net change in deferred income taxes.

Cash used for operating activities totaled \$52.1 million in the first six months of fiscal 2013, a decrease of \$100.5 million from \$48.4 million of cash provided by operating activities in the first six months of fiscal 2012. The decrease in net cash used for operating activities year-over-year primarily reflects a net decrease of \$74.2 million related to timing differences in the cash settlement of other assets and liabilities and a decrease of \$25.4 million related to the operating activities of our consolidated CLO entity.

Investing Cash Flows

Cash flows from investing activities consist primarily of the purchase of equipment and leasehold improvements, cash paid in acquisitions and the purchase and sale of available-for-sale investments in sponsored funds that we do not consolidate.

Cash provided by investing activities totaled \$87.8 million in the first six months of fiscal 2013 compared to \$18.9 million in the first six months of fiscal 2012. The increase in cash provided by investing activities year-over-year can be primarily attributed to an increase of \$21.4 million in net proceeds from the sale of available for sale securities, a \$121.4 million increase in net proceeds from the sale and maturities of investments within our consolidated CLO entity, offset by our acquisition of Clifton for \$72.3 million and an increase of \$1.8 million in the contingent payment to the sellers of TABS under the terms of the 2008 acquisition agreement.

Financing Cash Flows

Financing cash flows primarily reflect distributions to non-controlling interest holders of our majority-owned subsidiaries and consolidated funds, the purchase of additional non-controlling interests in our majority-owned subsidiaries, the issuance and repurchase of our Non-Voting Common Stock, excess tax benefits associated with stock option exercises and the payment of dividends to our shareholders. Financing cash flows also include

proceeds from the issuance of capital stock by consolidated investment companies and cash paid to meet redemptions by non-controlling interest holders of these funds.

Cash used for financing activities totaled \$177.5 million in the first six months of fiscal 2013 compared to \$63.6 million in the first six months of fiscal 2012. In the first six months of fiscal 2013 we paid \$43.5 million to acquire additional interests in our majority-owned subsidiary, Parametric and we repurchased and retired a total of 0.7 million shares of our Non-Voting Common Stock for \$22.7 million under our authorized repurchase programs and issued 5.8 million shares of our Non-Voting Common Stock in connection with the grant of restricted share awards, the exercise of stock options and other employee stock purchases for total proceeds of \$86.5 million. We have authorization to purchase an additional 3.2 million shares under our current share repurchase authorization and anticipate that future repurchases will continue to be an ongoing use of cash. Our dividends per share were \$1.40 in the first six months of fiscal 2013, including a special one-time dividend of \$1.00 per share declared and paid in December 2012, compared to \$0.38 per share in the first six months of fiscal 2012. We currently expect to declare and pay comparable regular dividends on our Voting and Non-Voting Common Stock on a quarterly basis. Cash used for financing also included \$83.7 million in principal payments made on senior notes within our consolidated CLO entity.

Contractual Obligations

The following table details our future contractual obligations as of April 30, 2013:

| (in millions) | Payments due | | | | |
|--|---------------------|------------------|--------------|--------------|---------------|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Operating leases – facilities and equipment ⁽¹⁾ | \$386 | \$21 | \$41 | \$38 | \$286 |
| Senior notes | 500 | - | - | 500 | - |
| Interest payments on senior notes | 147 | 33 | 65 | 49 | - |
| Investment in private equity partnership | 1 | - | 1 | - | - |
| Unrecognized tax benefits ⁽²⁾ | 10 | - | 10 | - | - |
| Total | \$1,044 | \$54 | \$117 | \$587 | \$286 |
| Contractual obligations of consolidated CLO: | | | | | |
| Senior and subordinated note obligations | \$388 | \$- | \$- | \$- | \$388 |
| Interest payments on senior notes | 15 | 3 | 5 | 5 | 2 |
| Total contractual obligations of consolidated CLO | \$403 | \$3 | \$5 | \$5 | \$390 |

⁽¹⁾ *Minimum payments have not been reduced by minimum sublease rentals of \$2.7 million due in the future under noncancelable subleases.*

(2) *This amount includes unrecognized tax benefits along with accrued interest and penalties.*

In July 2006, we committed to invest up to \$15.0 million in a private equity partnership that invests in companies in the financial services industry. We had invested \$13.9 million of the \$15.0 million commitment as of April 30, 2013. The remaining commitment is included in the table above.

Interests held by non-controlling interest holders of Parametric Risk Advisors and Atlanta Capital are not subject to mandatory redemption. The purchase of non-controlling interests is predicated, for each subsidiary,

on the exercise of a series of puts held by non-controlling interest holders and calls held by us. Neither the exercise of the puts nor the exercise of the calls is contingent upon the non-controlling interest holders of the acquired entities remaining employed by the Company. The puts provide the non-controlling interest holders the right to require us to purchase these retained interests at specific intervals over time, while the calls provide us with the right to require the non-controlling interest holders to sell their retained equity interests to us at specified intervals over time, as well as upon the occurrence of certain events such as death or permanent disability. As a result, there is significant uncertainty as to the timing of any non-controlling interest purchase in the future. The value assigned to the purchase of an originating non-controlling interest is based, in each case, on a multiple of earnings before interest and taxes of the subsidiary, which is a measure that is intended to represent fair market value. There is no discrete floor or ceiling on any non-controlling interest purchase. As a result, there is significant uncertainty as to the amount of any non-controlling interest purchase in the future. Accordingly, future payments to be made to purchase non-controlling interests have been excluded from the above table, unless a put or call option has been exercised and a mandatory firm commitment exists for us to purchase such non-controlling interests. Although the timing and amounts of these purchases cannot be predicted with certainty, we anticipate that the purchase of non-controlling interests in our consolidated subsidiaries may be a significant use of cash in future years.

We have presented all redeemable non-controlling interests at redemption value on our Consolidated Balance Sheet as of April 30, 2013. We have recorded the current quarter change in the estimated redemption value of non-controlling interests redeemable at fair value as a component of additional paid-in capital and have recorded the current quarter change in the estimated redemption value of non-controlling interests redeemable at other than fair value as a component of net income attributable to non-controlling and other beneficial interests. Based on our calculations, the estimated redemption value of our non-controlling interests, redeemable at either fair value or other than fair value, totaled \$121.3 million on April 30, 2013 compared to \$98.8 million on October 31, 2012.

Redeemable non-controlling interests as of April 30, 2013 consist of third-party investors' ownership in consolidated investment funds of \$55.1 million, non-controlling interests in Parametric Risk Advisors and Atlanta Capital redeemable at other than fair value of \$9.2 million and \$32.1 million, respectively, non-controlling interests in Parametric redeemable at fair value and issued in conjunction with the Clifton acquisition of \$13.9 million and redeemable interests in profit interests granted under subsidiary-specific long-term incentive plans of Parametric and Atlanta Capital of \$6.0 million and \$4.9 million, respectively. Redeemable non-controlling interests as of October 31, 2012 consist of third-party investors' ownership in consolidated investment funds of \$20.1 million, non-controlling interests in Parametric, Parametric Risk Advisors and Atlanta Capital redeemable at other than fair value of \$33.7 million, \$8.7 million and \$32.1 million, respectively, and redeemable interests in profit interests granted under subsidiary-specific long-term incentive plans of Parametric and Atlanta Capital of \$2.0 million and \$2.2 million, respectively.

Related to its acquisition of the TABS business in December 2008, the Company is obligated to make three further annual contingent payments based on prescribed multiples of TABS's revenue for the twelve months ending December 31, 2014, 2015 and 2016. There is no defined floor or ceiling on such payments, resulting in significant uncertainty as to the amount of any payment in the future. Accordingly, future payments to be made have been excluded from the above table until such time as the uncertainty has been resolved. The Company made a contingent payment of \$14.1 million with respect to the twelve months ended December 31, 2012 in the first quarter of fiscal 2013.

In December 2012, certain non-controlling interest holders of Parametric exercised their final put option pursuant to the terms of the original acquisition agreement requiring the Company to purchase an additional 3.4 percent capital and 5.7 percent profit interest in the entity. The \$43.5 million exercise price of the put option was based on a multiple of estimated earnings before taxes for the calendar year ended December 31, 2012. The payment was treated as an equity transaction and reduced redeemable non-controlling interests at closing on

December 20, 2012. Indirect profit interests granted to Parametric's employees under a long-term equity incentive plan of that entity increased to 4.9 percent at April 30, 2013, reflecting a 0.76 percent profit interest granted on November 1, 2012 under the plan. Indirect capital and profit interests in Parametric held by the principals of Clifton totaled 1.9 percent on April 30, 2013, reflecting indirect interests issued in conjunction with the Clifton acquisition on December 31, 2012. Capital and profit interests in Parametric held by the Company increased to 98.1 percent and 93.3 percent, respectively, on April 30, 2013, reflecting the transactions described above.

Profit interests held by non-controlling interest holders in Atlanta Capital, which include direct profit interests as well as indirect profit interests granted as part of a long-term equity incentive plan of that entity, increased to 19.7 percent on April 30, 2013 from 18.1 percent on October 31, 2012, reflecting an additional 1.6 percent profit interest granted on November 1, 2012 under the long-term equity plan.

The Company will be obligated to make additional payments in respect of the acquired interest in Hexavest in fiscal 2013 and 2014 if Hexavest exceeds defined annual revenue thresholds in the first and second twelve-month periods following the closing, respectively. We have the option to acquire an additional 26 percent interest in Hexavest in 2017. There is no defined floor or ceiling on any payment, resulting in significant uncertainty as to the amount of any payment in the future. Accordingly, future payments to be made have been excluded from the above table until such time as the uncertainty has been resolved. Although the amounts of these payments cannot be predicted with certainty, we anticipate they may be a significant use of cash in future years.

Foreign Subsidiaries

We consider the undistributed earnings of our Canadian subsidiary as of April 30, 2013 to be indefinitely re-invested. Accordingly, no U.S. income taxes have been provided thereon. As of April 30, 2013 the Company had approximately \$6.5 million of undistributed earnings in our Canadian subsidiary that is not available to fund domestic operations or to distribute to shareholders unless repatriated. The Company would need to accrue and pay U.S. corporate income taxes if such funds were repatriated. The Company's current plans do not demonstrate a need to repatriate these funds.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

There have been no updates to our critical accounting policies from those disclosed in Management's Discussion and Analysis of Financial Condition in our Form 10-K for the fiscal year ended October 31, 2012.

Accounting Developments

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the Financial Accounting Standards Board ("FASB") issued new guidance on reporting a cumulative translation adjustment ("CTA") with respect to foreign currency. The new guidance addresses the accounting for a CTA when a parent either sells a part of or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business

within a foreign entity. The Company is evaluating the impact of this change and will adopt the new guidance on November 1, 2014.

Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income

In February 2013, the FASB issued new guidance on reporting amounts reclassified out of accumulated other comprehensive income (“AOCI”). The new guidance does not change the requirements for reporting net income or other comprehensive income in the financial statements, but requires new footnote disclosures regarding the reclassification of AOCI by component into net income. The Company will implement the new disclosure requirements in the first quarter of fiscal 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following is an update to Part II., “Item 7A- Quantitative and Qualitative Disclosures About Market Risk” contained in our Form 10-K for the year ended October 31, 2012.

We are required to maintain cash collateral for margin accounts established to support certain derivative positions and securities sold short, not yet purchased. Our initial margin requirements are currently equal to five percent of the initial notional value of the associated stock index futures and commodity futures contracts. Additional margin requirements include daily posting of variation margin equal to the daily change in the position value and 150 percent of the underlying value of securities sold, not yet purchased. We do not have a collateral requirement related to foreign currency forward contracts. Cash collateral supporting margin requirements is classified as restricted cash and is included as a component of other assets on the Company’s Consolidated Balance Sheets.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of April 30, 2013. Disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC’s rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of the date of their evaluation, our disclosure controls and procedures were effective.

In the ordinary course of business, the Company may routinely modify, upgrade and enhance its internal controls and procedures for financial reporting. However, there have been no changes in our internal control over financial

reporting as defined by Rule 13a-15(f) under the Exchange Act that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The following is an update to Part I, “Item 1A- Risk Factors” contained in our Form 10-K for the year ended October 31, 2012.

Our Non-Voting Common Stock lacks voting rights. Non-Voting Common Stock has no voting rights under any circumstances; all voting power resides with the Voting Common Stock. All outstanding shares of the Company's Voting Common Stock are held by officers of the Company and its subsidiaries, and are deposited in a voting trust (the "Voting Trust") in exchange for Voting Trust Receipts. As of April 30, 2013, there were 19 holders of Voting Trust Receipts, each of whom is a Voting Trustee of the Voting Trust, which has a term that expires on October 31, 2013. The Voting Trust Agreement provides that each Voting Trustee shall have one vote and act by a majority if there are six or more Voting Trustees. The Voting Trust Agreement provides the Voting Trustees with unrestricted voting rights, except that the Voting Trustees are prohibited from voting in favor of the sale, mortgage or pledge of all or substantially all of the Company's assets, any change in the capital structure or powers of the Company in connection with a merger, consolidation, reorganization or dissolution of the Company, the termination of the Voting Trust, the addition of a Voting Trustee, the removal of a Voting Trustee by the other Voting Trustees or the renewal of the term of the Voting Trust without the written consent of the holders of Voting Trust Receipts representing at least a majority of Voting Common Stock subject at the time to the Voting Trust Agreement.

We are subject to substantial competition in all aspects of our investment management business. Our funds and separate accounts compete against a large number of investment products and services sold to the public by investment management companies, investment dealers, banks, insurance companies and others. Many institutions we compete with have greater financial resources than us and there are few barriers to entry. We compete with these firms on the basis of investment performance, diversity of products, distribution capability, scope and quality of services, reputation and the ability to develop new investment strategies and products to meet the changing needs of investors. To the extent that current or potential customers decide to invest in products sponsored by our competitors, the sales of our products as well as our market share, revenue and net income could decline.

The investment management industry is highly competitive and investment management customers are increasingly fee sensitive. In the event that competitors charge lower fees for substantially similar products, we may be forced to compete on the basis of price in order to attract and retain customers. Rules and regulations applicable to investment companies provide, in substance, that each investment advisory agreement between a fund and its investment adviser continues in effect from year to year only if its continuation is approved at least annually by the fund's board of trustees. Periodic review of fund advisory agreements could result in pressure on the Company's advisory fee revenues from funds. Fee reductions on existing or future business and/or the impact of evolving industry fee structures could have an adverse impact on both our future revenue and profitability.

Our assets under management, which impact revenue, are subject to significant fluctuations. Our major sources of revenue, including investment advisory, administrative, distribution and service fees, are generally calculated as percentages of assets under management. Fee rates for our investment products generally vary by investment mandate (e.g., equity, fixed income, floating-rate income, alternative or implementation services) and vehicle (e.g., fund or separate account). A change in asset mix by mandate or vehicle, independent of our level of assets under management, may result in a decrease in our overall effective fee rate, thereby reducing our revenue and net income. Any decrease in the level of our assets under management due to a decline in securities prices, a decline in the sales of our investment products or an increase in fund redemptions or client withdrawals generally would also reduce our revenue and net income. Adverse market conditions and/or lack of investor confidence could result in investors withdrawing from the markets or decreasing their rate of investment, either of which could adversely affect our revenue, earnings

and growth prospects.

To the extent that we receive fee revenue from assets under management that is derived from financial leverage, any reduction in leverage (i.e., financing used by the investment vehicle to increase the investable assets of the vehicle) would adversely impact the level of our assets under management, revenue and net income. Leverage

could be reduced due to an adverse change in interest rates, a decrease in the availability of credit on favorable terms or a determination by us to reduce or eliminate leverage on certain products when we determine that the use of leverage is no longer in our clients' best interests.

Poor investment performance of our products could affect our sales or reduce the amount of assets under management, negatively impacting revenue and net income. Investment performance is critical to our success. Poor investment performance on an absolute basis or as compared to third-party benchmarks or competitor products could lead to a decrease in sales and stimulate higher redemptions, thereby lowering the amount of assets under management and reducing the investment advisory fees we earn. A decline in investment performance of any investment franchise could have a material adverse effect on the level of assets under management, revenue and net income of that franchise. Past or present performance in the investment products we manage is not indicative of future performance.

Failure to maintain adequate business continuity plans could have a material adverse impact on us and our products. Significant portions of our business operations and those of our critical third-party service providers are concentrated in a few geographic areas, including Boston, Massachusetts and Seattle, Washington. Critical operations that are geographically concentrated in Boston, Massachusetts include trading operations, information technology, fund administration, and custody and portfolio accounting services for the Company's products. Should we, or our critical service providers, experience a significant local or regional disaster or other business continuity problem, our continued success will depend, in part, on the safety and availability of our personnel, our office facilities, and the proper functioning of our computer, telecommunication and other related systems and operations. The failure by us, or our critical service providers, to maintain updated adequate business continuity plans, including backup facilities, could impede our ability to operate in the event of a disruption, which could cause our earnings to decline. We have developed various backup systems and contingency plans but we cannot be assured that they will be adequate in all circumstances that could arise or that material interruptions and disruptions will not occur. In addition, we rely to varying degrees on outside vendors for disaster contingency support, and we cannot be assured that these vendors will be able to perform in an adequate and timely manner. If we, or our critical service providers, are unable to respond adequately to such an event in a timely manner, we may be unable to continue our business operations, which could lead to a damaged reputation and loss of customers that results in a decrease in assets under management, lower revenues and reduced net income.

Legal and regulatory developments in the mutual fund and investment advisory industry could increase our regulatory burden, cause a loss of mutual fund investors, and reduce our revenues. In recent years, regulators in both the United States and abroad have increased oversight of the financial sector of the economy. Some of the newly adopted and proposed regulations are focused directly on the investment management industry, while others are more broadly focused but impact our industry.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was signed into law. The Dodd-Frank act established enhanced regulatory requirements for non-bank financial institutions designated as "systemically important" by the Financial Stability Oversight Council ("FSOC"). Under this new systemic risk regulation regime, the Company could be designated a systemically important financial institution ("SIFI"). If the

Company were designated a SIFI by FSOC, it could be subject to enhanced prudential measures including capital and liquidity requirements, leverage limits, enhanced public disclosures and risk management requirements, supervisory and other requirements, which, individually or in the aggregate, could adversely impact the Company's business and operations. Additional regulatory guidance is needed in order to determine whether or not the Company would be designated a SIFI. Due to the broad scope of the Dodd-Frank Act, we are not able to predict all of the specific requirements to which a SIFI would be subject.

In February 2012, the Commodity Futures Trading Commission ("CFTC") adopted certain amendments to existing rules that required additional registration for our mutual funds and certain other products we sponsor to

use futures, swaps or other derivatives without additional registration. Eaton Vance Management and Boston Management and Research, both subsidiaries of the Company, as registered entities, registered as Commodity Pool Operators as of January 1, 2013. The Company may incur ongoing costs associated with complying with the periodic reporting requirements of Commodity Pool Operators.

Global regulations on over-the-counter (“OTC”) derivatives are evolving, including proposed rules under the Dodd-Frank Act relating to central clearing counterparties, trade reporting and repositories. There is uncertainty related to the requirements under these new regulations and the extent to which they will impact current trading strategies.

These new laws and regulations will likely result in greater compliance and administrative burdens on us, increasing our expenses.

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

The table below sets forth information regarding purchases of our Non-Voting Common Stock on a monthly basis during the second quarter of fiscal 2013:

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

| Period | (a) Total Number of Shares Purchased | (b) Average price paid per share | (c) Total Number of Shares Purchased of Publicly Announced Plans or Programs ⁽¹⁾ | (d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs |
|--|---|---|--|---|
| February 1, 2013 through February 28, 2013 | 1,613 | \$ 38.19 | 1,613 | 3,489,342 |
| March 1, 2013 through March 31, 2013 | 33,080 | \$ 39.22 | 33,080 | 3,456,262 |
| April 1, 2013 through April 30, 2013 | 208,029 | \$ 38.84 | 208,029 | 3,248,233 |
| Total | 242,722 | \$ 38.88 | 242,722 | 3,248,233 |

We announced a share repurchase program on October 26, 2011, which authorized the repurchase of up to (1)8,000,000 shares of our Non-Voting Common Stock in the open market and in private transactions in accordance with applicable securities laws. This repurchase plan is not subject to a termination date.

Item 6. Exhibits

(a)

Exhibits

Exhibit No. Description

- | | |
|------|---|
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101 | Materials from the Eaton Vance Corp. Quarterly Report on Form 10-Q for the quarter ended April 30, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) related Notes to the Consolidated Financial Statements, tagged in detail (furnished herewith). |

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 7, 2013

/s/Laurie G. Hylton

(Signature)

Laurie G. Hylton

Chief Financial Officer

(Duly Authorized Officer and Principal

Financial Officer)