

EATON VANCE CORP  
Form 10-Q  
March 08, 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 January 31, 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

Edgar Filing: EATON VANCE CORP - Form 10-Q

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 | <input checked="" type="checkbox"/> | Accelerated filer                           | <input type="checkbox"/>                           |
| Non-accelerated filer   | <input type="checkbox"/>            | (Do not check if smaller reporting company) | Smaller reporting company <input type="checkbox"/> |

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 January 31, 2013:

Voting Common Stock – 399,240 shares

Non-Voting Common Stock – 120,049,619 shares

Eaton Vance Corp.

Form 10-Q

As of January 31, 2013 and for the

Three Month Period Ended January 31, 2013

## Table of Contents

| <b>Required<br/>Information</b>                                                               | <b>Page<br/>Number<br/>Reference</b> |
|-----------------------------------------------------------------------------------------------|--------------------------------------|
| Part I Financial Information                                                                  |                                      |
| Item 1. Consolidated Financial Statements                                                     | 3                                    |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 34                                   |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 56                                   |
| Item 4. Controls and Procedures                                                               | 56                                   |
| Part II Other Information                                                                     |                                      |
| Item 1. Legal Proceedings                                                                     | 56                                   |
| Item 1A. Risk Factors                                                                         | 56                                   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | 57                                   |
| Item 6. Exhibits                                                                              | 57                                   |
| Signatures                                                                                    | 58                                   |

Part I - Financial Information

Item 1. Consolidated Financial Statements

Eaton Vance Corp.

Consolidated Balance Sheets (unaudited)

| (in thousands)                                                        | January 31,<br>2013 | October<br>31,<br>2012 |
|-----------------------------------------------------------------------|---------------------|------------------------|
| Assets                                                                |                     |                        |
| Cash and cash equivalents                                             | \$218,283           | \$462,076              |
| Investment advisory fees and other receivables                        | 148,648             | 133,589                |
| Investments                                                           | 482,329             | 486,933                |
| Assets of consolidated collateralized loan obligation ("CLO") entity: |                     |                        |
| Cash and cash equivalents                                             | 48,296              | 36,758                 |
| Bank loans and other investments                                      | 380,672             | 430,583                |
| Other assets                                                          | 870                 | 1,107                  |
| Deferred sales commissions                                            | 18,742              | 19,336                 |
| Deferred income taxes                                                 | 52,861              | 51,234                 |
| Equipment and leasehold improvements, net                             | 52,911              | 54,889                 |
| Intangible assets, net                                                | 81,610              | 59,228                 |
| Goodwill                                                              | 227,623             | 154,636                |
| Other assets                                                          | 90,688              | 89,122                 |
| Total assets                                                          | \$1,803,533         | \$1,979,491            |

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

## Consolidated Balance Sheets (unaudited) (continued)

| (in thousands, except share data)                                        | January 31,<br>2013 | October<br>31,<br>2012 |
|--------------------------------------------------------------------------|---------------------|------------------------|
| Liabilities, Temporary Equity and Permanent Equity                       |                     |                        |
| Liabilities:                                                             |                     |                        |
| Accrued compensation                                                     | \$60,360            | \$145,338              |
| Accounts payable and accrued expenses                                    | 65,090              | 59,397                 |
| Dividend payable                                                         | -                   | 23,250                 |
| Debt                                                                     | 500,000             | 500,000                |
| Liabilities of consolidated CLO entity:                                  |                     |                        |
| Senior and subordinated note obligations                                 | 411,583             | 446,605                |
| Other liabilities                                                        | 628                 | 766                    |
| Other liabilities                                                        | 98,646              | 91,785                 |
| Total liabilities                                                        | 1,136,307           | 1,267,141              |
| Commitments and contingencies                                            |                     |                        |
| Temporary Equity:                                                        |                     |                        |
| Redeemable non-controlling interests                                     | 89,918              | 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, 120,049,619 and 115,878,384 shares, respectively | 469                 | 453                    |
| Additional paid-in capital                                               | 93,534              | 26,730                 |
| Notes receivable from stock option exercises                             | (7,688 )            | (4,155 )               |
| Accumulated other comprehensive income                                   | 1,596               | 3,923                  |
| Appropriated retained earnings                                           | 15,369              | 18,699                 |
| Retained earnings                                                        | 472,587             | 566,420                |
| Total Eaton Vance Corp. shareholders' equity                             | 575,869             | 612,072                |
| Non-redeemable non-controlling interests                                 | 1,439               | 1,513                  |
| Total permanent equity                                                   | 577,308             | 613,585                |
| Total liabilities, temporary equity and permanent equity                 | \$1,803,533         | \$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<br>January 31, |           |
|---------------------------------------------------------------------------|-----------------------------------|-----------|
|                                                                           | 2013                              | 2012      |
| Revenue:                                                                  |                                   |           |
| Investment advisory and administrative fees                               | \$263,281                         | \$239,452 |
| Distribution and underwriter fees                                         | 22,751                            | 22,515    |
| Service fees                                                              | 31,130                            | 32,299    |
| Other revenue                                                             | 1,355                             | 1,340     |
| Total revenue                                                             | 318,517                           | 295,606   |
| Expenses:                                                                 |                                   |           |
| Compensation and related costs                                            | 108,829                           | 96,683    |
| Distribution expense                                                      | 33,889                            | 32,328    |
| Service fee expense                                                       | 28,264                            | 28,673    |
| Amortization of deferred sales commissions                                | 4,783                             | 5,820     |
| Fund-related expenses                                                     | 7,424                             | 6,651     |
| Other expenses                                                            | 34,648                            | 32,631    |
| Total expenses                                                            | 217,837                           | 202,786   |
| Operating income                                                          | 100,680                           | 92,820    |
| Non-operating income (expense):                                           |                                   |           |
| Gains and other investment income, net                                    | 5,207                             | 8,177     |
| Interest expense                                                          | (8,570 )                          | (8,413 )  |
| Other income (expense) of consolidated CLO entity:                        |                                   |           |
| Gains and other investment income, net                                    | 1,793                             | 10,280    |
| Interest expense                                                          | (4,221 )                          | (4,311 )  |
| Total non-operating (expense) income                                      | (5,791 )                          | 5,733     |
| Income before income taxes and equity in net income of affiliates         | 94,889                            | 98,553    |
| Income taxes                                                              | (35,939 )                         | (35,187 ) |
| Equity in net income of affiliates, net of tax                            | 3,177                             | 1,504     |
| Net income                                                                | 62,127                            | 64,870    |
| Net income attributable to non-controlling and other beneficial interests | (12,322 )                         | (17,599 ) |
| Net income attributable to Eaton Vance Corp. shareholders                 | \$49,805                          | \$47,271  |
| Earnings per share:                                                       |                                   |           |
| Basic                                                                     | \$0.39                            | \$0.41    |
| Diluted                                                                   | \$0.38                            | \$0.40    |
| Weighted average shares outstanding:                                      |                                   |           |
| Basic                                                                     | 114,925                           | 112,768   |
| Diluted                                                                   | 119,112                           | 114,901   |
| Dividends declared per share                                              | \$1.20                            | \$0.19    |

See notes to Consolidated Financial Statements.



Eaton Vance Corp.

Consolidated Statements of Comprehensive Income (unaudited)

| (in thousands)                                                                                                                | Three Months<br>Ended<br>January 31, |          |
|-------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------|
|                                                                                                                               | 2013                                 | 2012     |
| Net income                                                                                                                    | \$62,127                             | \$64,870 |
| Other comprehensive income (loss):                                                                                            |                                      |          |
| Amortization of loss on derivatives, net of income taxes of \$40 and \$39, respectively                                       | 72                                   | 72       |
| Unrealized holding (losses) gains on available-for-sale investments, net of income taxes of \$1,476 and (\$440), respectively | (2,403 )                             | 733      |
| Foreign currency translation adjustments, net of income taxes of \$1 and \$85, respectively                                   | 4                                    | (142 )   |
| Other comprehensive (loss) income, net of tax                                                                                 | (2,327 )                             | 663      |
| Total comprehensive income                                                                                                    | 59,800                               | 65,533   |
| Comprehensive income attributable to non-controlling and other beneficial interests                                           | (12,322)                             | (17,599) |
| Total comprehensive income attributable to Eaton Vance Corp. shareholders                                                     | \$47,478                             | \$47,934 |

See notes to Consolidated Financial Statements.

Eaton Vance Corp.

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

| (in thousands)                                  | 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 | Retained Earnings | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Redeemable Non-Controlling Interests |
| Balance, November 1, 2012                       | \$2                 | \$453                   | \$26,730                   | \$(4,155)                                    | \$3,923                                | \$18,699                       | \$566,420         | \$1,513                                  | \$613,585              | \$98,765                             |
| Net income                                      | -                   | -                       | -                          | -                                            | -                                      | (3,330)                        | 49,805            | 1,196                                    | 47,671                 | 14,456                               |
| Other comprehensive income                      | -                   | -                       | -                          | -                                            | (2,327)                                | -                              | -                 | -                                        | (2,327)                | -                                    |
| Dividends declared                              | -                   | -                       | -                          | -                                            | -                                      | -                              | (143,638)         | -                                        | (143,638)              | -                                    |
| Issuance of Non-Voting Common Stock:            |                     |                         |                            |                                              |                                        |                                |                   |                                          |                        |                                      |
| On exercise of stock options                    | -                   | 12                      | 61,079                     | (4,464)                                      | -                                      | -                              | -                 | -                                        | 56,627                 | -                                    |
| Under employee stock purchase plan              | -                   | -                       | 1,761                      | -                                            | -                                      | -                              | -                 | -                                        | 1,761                  | -                                    |
| Under employee incentive plan                   | -                   | -                       | 1,279                      | -                                            | -                                      | -                              | -                 | -                                        | 1,279                  | -                                    |
| Under restricted stock plan, net of forfeitures | -                   | 6                       | -                          | -                                            | -                                      | -                              | -                 | -                                        | 6                      | -                                    |
| Stock-based compensation                        | -                   | -                       | 14,023                     | -                                            | -                                      | -                              | -                 | -                                        | 14,023                 | -                                    |
| Tax benefit of stock option exercises           | -                   | -                       | 8,253                      | -                                            | -                                      | -                              | -                 | -                                        | 8,253                  | -                                    |
| Repurchase of Voting Common Stock               | -                   | -                       | (73)                       | -                                            | -                                      | -                              | -                 | -                                        | (73)                   | -                                    |
| Repurchase of Non-Voting Common                 | -                   | (2)                     | (13,280)                   | -                                            | -                                      | -                              | -                 | -                                        | (13,282)               | -                                    |
| Principal repayments on notes receivable        | -                   | -                       | -                          | 931                                          | -                                      | -                              | -                 | -                                        | 931                    | -                                    |
| from stock option exercises                     | -                   | -                       | -                          | -                                            | -                                      | -                              | -                 | -                                        | -                      | -                                    |
| Net subscriptions                               | -                   | -                       | -                          | -                                            | -                                      | -                              | -                 | (1,046)                                  | (1,046)                | 9,970                                |
| (redemptions/distributions) of non-             |                     |                         |                            |                                              |                                        |                                |                   |                                          |                        |                                      |

Edgar Filing: EATON VANCE CORP - Form 10-Q

|                                            |     |       |          |           |         |          |           |         |           |          |
|--------------------------------------------|-----|-------|----------|-----------|---------|----------|-----------|---------|-----------|----------|
| controlling interest holders               |     |       |          |           |         |          |           |         |           |          |
| Deconsolidation                            | -   | -     | -        | -         | -       | -        | -         | -       | -         | (10,15   |
| Reclass to temporary equity                | -   | -     | -        | -         | -       | -        | -         | (224 )  | (224 )    | 224      |
| Purchase of non-controlling interests      | -   | -     | -        | -         | -       | -        | -         | -       | -         | (43,50   |
| Issuance of subsidiary equity              | -   | -     | -        | -         | -       | -        | -         | -       | -         | 13,927   |
| Other changes in non-controlling interests | -   | -     | (6,238 ) | -         | -       | -        | -         | -       | (6,238 )  | 6,238    |
| Balance, January 31, 2013                  | \$2 | \$469 | \$93,534 | \$(7,688) | \$1,596 | \$15,369 | \$472,587 | \$1,439 | \$577,308 | \$89,918 |

*See notes to Consolidated Financial Statements.*

Eaton Vance Corp.

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

| (in thousands)                                                                    | 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 | Non-Redeemable Non-Controlling Interests | Total Permanent Equity | Redeemable Non-Controlling Interests |
| Balance, November 1, 2011                                                         | \$2                 | \$450                   | \$-                        | \$(4,441)                                    | \$1,340                                | \$(3,867)                                | \$466,931         | \$889                                    | \$461,304              | \$100,824                            |
| Net income                                                                        | -                   | -                       | -                          | -                                            | -                                      | 4,991                                    | 47,271            | 808                                      | 53,070                 | 11,800                               |
| Other comprehensive income                                                        | -                   | -                       | -                          | -                                            | 663                                    | -                                        | -                 | -                                        | 663                    | -                                    |
| Dividends declared                                                                | -                   | -                       | -                          | -                                            | -                                      | -                                        | (22,022)          | -                                        | (22,022)               | -                                    |
| Issuance of Non-Voting Common Stock:                                              |                     |                         |                            |                                              |                                        |                                          |                   |                                          |                        |                                      |
| On exercise of stock options                                                      | -                   | 1                       | 2,735                      | (137)                                        | -                                      | -                                        | -                 | -                                        | 2,599                  | -                                    |
| 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                                                          | -                   | -                       | 16,342                     | -                                            | -                                      | -                                        | -                 | -                                        | 16,342                 | -                                    |
| Tax benefit of stock option exercises                                             | -                   | -                       | 225                        | -                                            | -                                      | -                                        | -                 | -                                        | 225                    | -                                    |
| Repurchase of Non-Voting Common Stock                                             | -                   | (6)                     | (19,766)                   | -                                            | -                                      | -                                        | (15,028)          | -                                        | (34,800)               | -                                    |
| Principal repayments on notes receivable from stock option exercises              | -                   | -                       | -                          | 460                                          | -                                      | -                                        | -                 | -                                        | 460                    | -                                    |
| Net subscriptions (redemptions/distributions) of non-controlling interest holders | -                   | -                       | -                          | -                                            | -                                      | -                                        | -                 | (800)                                    | (800)                  | 19,334                               |
| Deconsolidation                                                                   | -                   | -                       | -                          | -                                            | -                                      | -                                        | -                 | -                                        | -                      | (16,564)                             |
| Reclass to temporary equity                                                       | -                   | -                       | -                          | -                                            | -                                      | -                                        | -                 | (132)                                    | (132)                  | 132                                  |
| Other changes in non-controlling interests                                        | -                   | -                       | (2,968)                    | -                                            | -                                      | -                                        | -                 | -                                        | (2,968)                | 2,968                                |
| Balance, January 31, 2012                                                         | \$2                 | \$451                   | \$-                        | \$(4,118)                                    | \$2,003                                | \$1,124                                  | \$477,152         | \$765                                    | \$477,379              | \$118,494                            |

See notes to Consolidated Financial Statements.



Eaton Vance Corp.

Consolidated Statements of Cash Flows (unaudited)

| (in thousands)                                                                 | Three Months<br>Ended<br>January 31, |          |
|--------------------------------------------------------------------------------|--------------------------------------|----------|
|                                                                                | 2013                                 | 2012     |
| Cash Flows From Operating Activities:                                          |                                      |          |
| Net income                                                                     | \$62,127                             | \$64,870 |
| Adjustments to reconcile net income to net cash used for operating activities: |                                      |          |
| Depreciation and amortization                                                  | 5,736                                | 6,314    |
| Amortization of deferred sales commissions                                     | 4,801                                | 5,827    |
| Stock-based compensation                                                       | 14,023                               | 16,342   |
| Deferred income taxes                                                          | (192 )                               | (3,821 ) |
| Net gains on investments and derivatives                                       | (4,751 )                             | (6,430 ) |
| Equity in net income of affiliates, net of amortization                        | (3,859 )                             | (2,417 ) |
| Dividends received from affiliates                                             | 3,092                                | 10,225   |
| Consolidated CLO entity operating activities:                                  |                                      |          |
| Net losses (gains) on bank loans, other investments and note obligations       | 3,052                                | (4,736 ) |
| Amortization of investments                                                    | (201 )                               | (256 )   |
| Net (decrease) increase in other assets and liabilities, including cash        | (11,438)                             | 2,771    |
| Changes in operating assets and liabilities:                                   |                                      |          |
| Investment advisory fees and other receivables                                 | (8,941 )                             | 3,785    |
| Investments in trading securities                                              | (40,908)                             | (70,263) |
| Deferred sales commissions                                                     | (4,207 )                             | (2,322 ) |
| Other assets                                                                   | (7,167 )                             | 3,964    |
| Accrued compensation                                                           | (86,898)                             | (87,633) |
| Accounts payable and accrued expenses                                          | (2,251 )                             | 9,647    |
| Other liabilities                                                              | 5,776                                | 45,918   |
| Net cash used for operating activities                                         | (72,206)                             | (8,215 ) |
| Cash Flows From Investing Activities:                                          |                                      |          |
| Additions to equipment and leasehold improvements                              | (1,002 )                             | (1,486 ) |
| Net cash paid in acquisition                                                   | (81,269)                             | -        |
| Proceeds from sale of investments                                              | 44,102                               | 14,542   |
| Purchase of investments                                                        | (344 )                               | (6,126 ) |
| Consolidated CLO entity investing activities:                                  |                                      |          |
| Proceeds from sales and maturities of bank loans and other investments         | 74,972                               | 32,512   |
| Purchase of bank loans and other investments                                   | (24,327)                             | (35,221) |
| Net cash provided by investing activities                                      | 12,132                               | 4,221    |

See notes to Consolidated Financial Statements.



Eaton Vance Corp.

## Consolidated Statements of Cash Flows (unaudited) (continued)

| (in thousands)                                                                                       | Three Months Ended<br>January 31, |             |
|------------------------------------------------------------------------------------------------------|-----------------------------------|-------------|
|                                                                                                      | 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 Non-Voting Common Stock                                                    | 59,673                            | 6,037       |
| Repurchase of Voting Common Stock                                                                    | (73 )                             | -           |
| Repurchase of Non-Voting Common Stock                                                                | (13,282 )                         | (34,800 )   |
| Principal repayments on notes receivable from stock option exercises                                 | 931                               | 460         |
| Excess tax benefit of stock option exercises                                                         | 8,253                             | 225         |
| Dividends paid                                                                                       | (166,979)                         | (21,967 )   |
| Net subscriptions received from (redemptions/distributions paid to) non-controlling interest holders | 8,924                             | 18,534      |
| Consolidated CLO entity financing activities:                                                        |                                   |             |
| Principal repayments of senior notes                                                                 | (38,607 )                         | -           |
| Net cash used for financing activities                                                               | (183,575)                         | (31,511 )   |
| Effect of currency rate changes on cash and cash equivalents                                         | (144 )                            | (38 )       |
| Net decrease in cash and cash equivalents                                                            | (243,793)                         | (35,543 )   |
| Cash and cash equivalents, beginning of period                                                       | 462,076                           | 510,913     |
| Cash and cash equivalents, end of period                                                             | \$218,283                         | \$475,370   |
| Supplemental Cash Flow Information:                                                                  |                                   |             |
| Cash paid for interest                                                                               | \$113                             | \$36        |
| Cash paid for interest by consolidated CLO entity                                                    | 4,600                             | 722         |
| Cash paid for income taxes, net of refunds                                                           | 3,812                             | 9,683       |
| Supplemental Disclosure of Non-Cash Information:                                                     |                                   |             |
| Increase in equipment and leasehold improvements due to non-cash additions                           | \$565                             | \$142       |
| Exercise of stock options through issuance of notes receivable                                       | 4,464                             | 137         |
| Deconsolidations of Sponsored Investment Funds:                                                      |                                   |             |
| Decrease in investments                                                                              | \$(10,533 )                       | \$(16,470 ) |
| Decrease in non-controlling interests                                                                | (10,155 )                         | (16,564 )   |

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.

During the second quarter of fiscal 2012, the Company combined the following line items previously reported within non-operating income (expense) into gains and other investment income, net; interest and other income; net gains (losses) on investments and derivatives; and net foreign currency gains (losses). Also during the second quarter of fiscal 2012, interest income and net gains (losses) on bank loans, other investments, and note obligations of the consolidated collateralized loan obligation entity ("CLO") were combined into gains and other investment income, net, of the consolidated CLO entity. These reclassifications, which simplify the financial statement presentation, had no impact on previously reported net income or financial position and do not represent a restatement of any previously reported financial results. See Note 14 for the components of gains and other investment income, net.

**2. Principles of Consolidation**

The Consolidated Financial Statements include the accounts of the Company and its controlled subsidiaries. The Company consolidates all investments in affiliates 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 CLO 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 subsidiaries for which the Company's ownership is less than 100 percent. The equity method of accounting is used for investments in non-controlled affiliates in which the Company's ownership ranges from 20 to 50 percent, or in instances in which the Company is able to exercise significant influence but not control (such as representation on the investee's Board of Directors). All intercompany accounts and transactions have been eliminated in consolidation.

From time to time, the Company may maintain a controlling financial interest in a sponsored fund. Upon consolidation, the Company applies the specialized accounting treatment of the fund. All of the underlying investments held by consolidated 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. When the Company is no longer deemed to control the fund, the fund is deconsolidated and accounted for under another accounting method.

### **3. New Accounting Standards Not Yet Adopted**

#### ***Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income***

On February 5, 2013, the Financial Accounting Standards Board ("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 second quarter of fiscal 2013.

#### 4. Consolidated Funds

The Company consolidates Eaton Vance-managed funds in which the Company holds a controlling financial interest. All investments held by consolidated funds were included in investments on the Company's Consolidated Balance Sheets and classified as investment securities, trading, at January 31, 2013 and October 31, 2012. Net investment income related to these 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 were 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 funds that were included on the Company's Consolidated Balance Sheets at January 31, 2013 and October 31, 2012 as well as the Company's net interest in these funds:

| (in thousands)                                    | January<br>31, 2013 | October<br>31, 2012 |
|---------------------------------------------------|---------------------|---------------------|
| Investments                                       | \$ 176,269          | \$ 157,405          |
| Other assets                                      | 34,040              | 5,594               |
| Other liabilities                                 | (19,420 )           | (16,928 )           |
| Redeemable non-controlling interests              | (23,722 )           | (20,072 )           |
| Net interest in consolidated funds <sup>(1)</sup> | \$ 167,167          | \$ 125,999          |

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

#### 5. Investments

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

| (in thousands)                            | January<br>31,<br>2013 | October<br>31,<br>2012 |
|-------------------------------------------|------------------------|------------------------|
| Investment securities, trading:           |                        |                        |
| Consolidated sponsored funds              | \$ 176,269             | \$ 157,405             |
| Separately managed accounts               | 38,965                 | 32,848                 |
| Total investment securities, trading      | 215,234                | 190,253                |
| Investment securities, available-for-sale | 23,072                 | 31,148                 |

Edgar Filing: EATON VANCE CORP - Form 10-Q

|                                           |           |           |
|-------------------------------------------|-----------|-----------|
| Investment in non-consolidated CLO entity | 398       | 350       |
| Investments in equity method investees    | 236,095   | 257,652   |
| Investments, other                        | 7,530     | 7,530     |
| Total investments <sup>(1)</sup>          | \$482,329 | \$486,933 |

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

### ***Investment securities, trading***

Investment securities, trading, consist of debt and equity securities held in the portfolios of consolidated sponsored funds and separately managed accounts. The following is a summary of the fair value of investments classified as trading at January 31, 2013 and October 31, 2012:

|                                      | January<br>31,<br>2013 | October<br>31,<br>2012 |
|--------------------------------------|------------------------|------------------------|
| (in thousands)                       |                        |                        |
| Debt securities                      | \$51,882               | \$70,805               |
| Equity securities                    | 163,352                | 119,448                |
| Total investment securities, trading | \$215,234              | \$190,253              |

The Company recognized trading gains related to trading securities still held at the reporting date of \$9.5 million and \$5.8 million for the three months ended January 31, 2013 and 2012, respectively.

### ***Investment securities, available-for-sale***

Investment securities, available-for-sale, consist exclusively of seed investments in certain Company-sponsored funds. 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 January 31, 2013 and October 31, 2012:

| January 31, 2013 |          | Gross<br>Unrealized |         |               |
|------------------|----------|---------------------|---------|---------------|
| (in thousands)   | Cost     | Gains               | Losses  | Fair<br>Value |
| Sponsored funds  | \$18,133 | \$4,941             | \$ (2 ) | \$23,072      |

| October 31, 2012 |          | Gross<br>Unrealized |          |               |
|------------------|----------|---------------------|----------|---------------|
| (in thousands)   | Cost     | Gains               | Losses   | Fair<br>Value |
| Sponsored funds  | \$22,331 | \$8,835             | \$ (18 ) | \$31,148      |

Net unrealized holding (losses) gains on investment securities, available-for-sale, included in other comprehensive (loss) income were \$(3.9) million and \$1.2 million for the three months ended January 31, 2013 and 2012 respectively.

The Company reviewed gross unrealized losses of \$2,000 as of January 31, 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 \$0.3 million at January 31, 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 sponsored funds classified as available-for-sale for the three months ended January 31, 2013 and 2012:

|                    | Three Months<br>Ended<br>January 31, |      |
|--------------------|--------------------------------------|------|
| (in thousands)     | 2013                                 | 2012 |
| Gains              | \$4,909                              | \$84 |
| Losses             | -                                    | (21) |
| Net realized gains | \$4,909                              | \$63 |

*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 January 31, 2013, the investment in Hexavest was comprised of \$4.5 million of equity in the net assets of Hexavest, intangible assets of \$42.1 million, goodwill of \$146.7 million and a deferred tax liability of \$11.3 million, for a total carrying value of \$182.0 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 would 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 January 31, 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 \$9.5 million and \$9.8 million at January 31, 2013 and October 31, 2012, respectively.

The Company had equity-method investments in the following Eaton Vance-managed funds as of January 31, 2013 and October 31, 2012:

|                                                           | Equity<br>Ownership<br>Interest (%) |                        | Carrying Value<br>(\$) <sup>(1)</sup> |                        |
|-----------------------------------------------------------|-------------------------------------|------------------------|---------------------------------------|------------------------|
|                                                           | January<br>31,<br>2013              | October<br>31,<br>2012 | January<br>31,<br>2013                | October<br>31,<br>2012 |
| (dollar amounts in thousands)                             |                                     |                        |                                       |                        |
| Eaton Vance Richard Bernstein All Asset Strategy Fund     | 24 %                                | 44                     | % \$14,166                            | \$23,341               |
| Eaton Vance Real Estate Fund                              | 39 %                                | 48                     | % 13,213                              | 16,494                 |
| Eaton Vance Municipal Opportunities Fund                  | 35 %                                | -                      | 11,170                                | -                      |
| Eaton Vance Tax-Advantaged Bond Strategies Long Term Fund | 21 %                                | 31                     | % 6,055                               | 10,346                 |

Edgar Filing: EATON VANCE CORP - Form 10-Q

|                                                 |   |    |   |          |          |
|-------------------------------------------------|---|----|---|----------|----------|
| AGF Floating Rate Income Fund                   | - | 21 | % | -        | 15,334   |
| Eaton Vance Parametric Structured Currency Fund | - | 33 | % | -        | 1,043    |
| Total                                           |   |    |   | \$44,604 | \$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*  
<sup>(1)</sup> *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 months ended January 31, 2013 or 2012, respectively.

During the three months ended January 31, 2013 and 2012, the Company received dividends of \$3.1 million and \$10.2 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 January 31, 2013 and October 31, 2012:

January 31, 2013

| (in thousands)                                           | Level 1   | Level 2   | Level 3   | Other<br>Assets Not<br>Held at<br>Fair<br>Value | Total     |
|----------------------------------------------------------|-----------|-----------|-----------|-------------------------------------------------|-----------|
| Financial assets:                                        |           |           |           |                                                 |           |
| Cash equivalents                                         | \$3,248   | \$39,491  | \$-       | \$ -                                            | \$42,739  |
| Investments:                                             |           |           |           |                                                 |           |
| Investment securities, trading – debt                    | 5,835     | 46,047    | -         | -                                               | 51,882    |
| Investment securities, trading – equity                  | 115,127   | 48,225    | -         | -                                               | 163,352   |
| Investment securities, available-for-sale                | 18,282    | 4,790     | -         | -                                               | 23,072    |
| Investment in non-consolidated CLO entity <sup>(1)</sup> | -         | -         | -         | 398                                             | 398       |
| Investments in equity method investees <sup>(2)</sup>    | -         | -         | -         | 236,095                                         | 236,095   |
| Investments, other <sup>(3)</sup>                        | -         | 60        | -         | 7,470                                           | 7,530     |
| Derivative instruments                                   | -         | 1,138     | -         | -                                               | 1,138     |
| Assets of consolidated CLO entity:                       |           |           |           |                                                 |           |
| Cash equivalents                                         | 47,422    | -         | -         | -                                               | 47,422    |
| Bank loans and other investments                         | -         | 378,014   | 2,658     | -                                               | 380,672   |
| Total financial assets                                   | \$189,914 | \$517,765 | \$2,658   | \$ 243,963                                      | \$954,300 |
| Financial liabilities:                                   |           |           |           |                                                 |           |
| Derivative instruments                                   | \$-       | \$8,492   | \$-       | \$ -                                            | \$8,492   |
| Securities sold, not yet purchased                       | -         | 3,187     | -         | -                                               | 3,187     |
| Liabilities of consolidated CLO entity:                  |           |           |           |                                                 |           |
| Senior and subordinated note obligations                 | -         | 2,659     | 408,924   | -                                               | 411,583   |
| Total financial liabilities                              | \$-       | \$14,338  | \$408,924 | \$ -                                            | \$423,262 |

October 31, 2012

| (in thousands)                                           | Level 1    | Level 2    | Level 3    | Other<br>Assets Not<br>Held at<br>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 <sup>(1)</sup> | -          | -          | -          | 350                                          | 350          |
| Investments in equity method investees <sup>(2)</sup>    | -          | -          | -          | 257,652                                      | 257,652      |
| Investments, other <sup>(3)</sup>                        | -          | 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 three month period ended January 31, 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. The daily valuation of exchange-traded foreign securities generally is determined as of the close of trading on the principal exchange on which such securities trade. Events occurring after the close of trading on foreign exchanges may result in adjustments to the valuation of foreign securities to more accurately reflect their fair values as of the close of regular trading on the New York Stock Exchange. 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 months ended January 31, 2013:

| (in thousands)                                     | Three Months Ended<br>January 31, 2013 |
|----------------------------------------------------|----------------------------------------|
| Transfers from Level 1 into Level 2                | \$ -                                   |
| Transfers from Level 2 into Level 1 <sup>(1)</sup> | 1,611                                  |

<sup>(1)</sup> *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.*

There were no significant transfers between Level 1 and Level 2 during the three months ended January 31, 2012.

*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 months ended January 31, 2013

and 2012:

18

| (in thousands)                                                                                     | Three Months Ended<br>January 31, 2013                                              |                                                                                       | Three Months Ended<br>January 31, 2012                                              |                                                                                       |
|----------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------|
|                                                                                                    | Bank<br>loans<br>and<br>other<br>investments<br>of<br>consolidated<br>CLO<br>entity | Senior and<br>subordinated<br>note<br>obligations<br>of<br>consolidated<br>CLO entity | Bank<br>loans<br>and<br>other<br>investments<br>of<br>consolidated<br>CLO<br>entity | Senior and<br>subordinated<br>note<br>obligations<br>of<br>consolidated<br>CLO entity |
| Beginning balance                                                                                  | \$2,203                                                                             | \$ 443,946                                                                            | \$5,910                                                                             | \$ 477,699                                                                            |
| Net gains (losses) on investments and note obligations included in net income <sup>(1)</sup>       | (36 )                                                                               | 3,585                                                                                 | (40 )                                                                               | 2,646                                                                                 |
| Principal paydown                                                                                  | -                                                                                   | (38,607 )                                                                             | -                                                                                   | -                                                                                     |
| Transfers into Level 3 <sup>(2)</sup>                                                              | 491                                                                                 | -                                                                                     | -                                                                                   | -                                                                                     |
| Net transfers out of Level 3 <sup>(3)</sup>                                                        | -                                                                                   | -                                                                                     | (1,142)                                                                             | -                                                                                     |
| Ending balance                                                                                     | \$2,658                                                                             | \$ 408,924                                                                            | \$4,728                                                                             | \$ 480,345                                                                            |
| Change in unrealized (losses) gains included in net income relating to assets and liabilities held | \$(36 )                                                                             | \$ 3,585                                                                              | \$(40 )                                                                             | \$ 2,646                                                                              |

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.

(2) Transfers into Level 3 were the result of a reduction in the availability of significant observable inputs used in determining the fair value of the securities including a loan that utilized a discount applied to the demanded yield.

(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 January 31, 2013 and October 31, 2012:

| January 31, 2013<br>(\$ in thousands)       | Fair<br>Value | Valuation<br>Technique | Unobservable<br>Inputs <sup>(1)</sup> | Range       |
|---------------------------------------------|---------------|------------------------|---------------------------------------|-------------|
| Liabilities of consolidated CLO entity:     |               |                        |                                       |             |
| Senior and subordinated<br>note obligations | \$408,924     | Income approach        | Prepayment rate                       | 30 percent  |
|                                             |               |                        | Recovery rate                         | 70 percent  |
|                                             |               |                        | Default rate                          | 200 bps     |
|                                             |               |                        | Discount rate                         | 120-550 bps |



| October 31, 2012                         |            | Valuation       | Unobservable          |             |
|------------------------------------------|------------|-----------------|-----------------------|-------------|
| (\$ in thousands)                        | Fair Value | Technique       | Inputs <sup>(1)</sup> | Range       |
| Liabilities of consolidated CLO entity:  |            |                 |                       |             |
| Senior and subordinated note obligations | \$443,946  | Income approach | Prepayment rate       | 30 percent  |
|                                          |            |                 | Recovery rate         | 70 percent  |
|                                          |            |                 | Default rate          | 200 bps     |
|                                          |            |                 | 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 issued by 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 and they report 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 three months ended January 31, 2013 and 2012, the Company reclassified into interest expense \$0.1 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 January 31, 2013, the remaining unamortized loss on this transaction was \$2.1 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 January 31, 2013, the Company had 60 foreign exchange contracts outstanding with six counterparties with an aggregate notional value of \$54.0 million; 2,167 stock index futures contracts outstanding with one counterparty with an aggregate notional value of \$137.2 million; and 246 commodity futures contracts outstanding with one counterparty with an aggregate notional value of \$14.6 million.

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

## January 31, 2013

| (in thousands)                | Assets        |         | Liabilities       |         |
|-------------------------------|---------------|---------|-------------------|---------|
|                               | Balance Sheet | Fair    | Balance Sheet     | Fair    |
|                               | Location      | Value   | Location          | Value   |
| Foreign exchange contracts    | Other assets  | \$998   | Other liabilities | \$654   |
| Stock index futures contracts | Other assets  | 72      | Other liabilities | 7,252   |
| Commodity futures contracts   | Other assets  | 68      | Other liabilities | 586     |
| Total                         |               | \$1,138 |                   | \$8,492 |

## October 31, 2012

| (in thousands)                | Assets        |          |         | Liabilities       |          |        |
|-------------------------------|---------------|----------|---------|-------------------|----------|--------|
|                               | Balance Sheet | Location | Fair    | Balance Sheet     | Location | Fair   |
|                               |               |          | Value   |                   |          | 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 months ended January 31, 2013 and 2012:

## Income Statement

Edgar Filing: EATON VANCE CORP - Form 10-Q

|                               |                                        | Three Months<br>Ended<br>January 31, |           |
|-------------------------------|----------------------------------------|--------------------------------------|-----------|
| (in thousands)                | Location                               | 2013                                 | 2012      |
| Foreign exchange contracts    | Gains and other investment income, net | \$346                                | \$233     |
| Stock index futures contracts | Gains and other investment income, net | (10,030)                             | (4,145)   |
| Commodity futures contracts   | Gains and other investment income, net | (349 )                               | 494       |
| Total                         |                                        | \$(10,033)                           | \$(3,418) |

**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 January 31, 2013 and October 31, 2012:

| (in thousands)     | January 31, 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       | \$8,312          | \$8,312    | 3                | \$8,307          | \$8,307    | 3                |
| Debt               | \$500,000        | \$598,331  | 1                | \$500,000        | \$604,316  | 1                |

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. 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 1 inputs.

**9. VIEs**

In the normal course of business, the Company maintains investments in sponsored CLO entities 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***

*Consolidated CLO entity*

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 neither 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 January 31, 2013 and October 31, 2012, the fair value of the consolidated CLO entity's assets and liabilities subject to fair value accounting:

January 31, 2013

| (in thousands)                                  | CLO Bank Loan<br>Investments             |                                         |  | Senior and<br>subordinated<br>note<br>obligations |
|-------------------------------------------------|------------------------------------------|-----------------------------------------|--|---------------------------------------------------|
|                                                 | Total<br>CLO<br>bank loan<br>investments | 90<br>days<br>or<br>more<br>past<br>due |  |                                                   |
| Unpaid principal balance                        | \$375,351                                | \$500                                   |  | \$ 432,939                                        |
| Excess unpaid principal balance over fair value | (984 )                                   | (485 )                                  |  | (21,356 )                                         |
| Fair Value                                      | \$374,367                                | \$15                                    |  | \$ 411,583                                        |

October 31, 2012

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

During the three months ended January 31, 2013 and 2012, the changes in the fair values of the CLO entity's bank loans and other investments resulted in net gains of \$0.5 million and \$7.3 million, respectively, while changes in the fair value of the CLO's note obligations resulted in net losses of \$3.6 million and \$2.6 million, respectively. The combined net losses of \$3.1 million and net gains of \$4.7 million for the three months ended January 31, 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 three months ended January 31, 2013, \$38.6 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 months ended January 31, 2013 and 2012.

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

| (in thousands)                           | January 31,<br>2013 | October 31,<br>2012 |
|------------------------------------------|---------------------|---------------------|
| Assets of consolidated CLO entity:       |                     |                     |
| Cash and cash equivalents                | \$ 48,296           | \$ 36,758           |
| Bank loans and other investments         | 380,672             | 430,583             |
| Other assets                             | 870                 | 1,107               |
| Liabilities of consolidated CLO entity:  |                     |                     |
| Senior and subordinated note obligations | 411,583             | 446,605             |
| Other liabilities                        | 628                 | 766                 |
| Appropriated retained earnings           | 15,369              | 18,699              |
| Net interest in consolidated CLO entity  | \$ 2,258            | \$ 2,378            |

The Company had a subordinated interest in the consolidated CLO entity of \$1.8 million and \$1.9 million as of January 31, 2013 and October 31, 2012, respectively, which was eliminated in consolidation.

For the three months ended January 31, 2013 and 2012, the Company recorded a net loss of \$2.5 million and net income of \$5.8 million, respectively, related to the consolidated CLO entity. The Company recorded a \$3.3 million net loss attributable to other beneficial interests and net income attributable to other beneficial interests of \$5.0 million for the three months ended January 31, 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 \$0.8 million related to the consolidated CLO entity for each of the three months ended January 31, 2013 and 2012.

### ***Investments in VIEs that are not consolidated***

#### ***Non-consolidated CLO entities***

The Company is not deemed the primary beneficiary of several CLO entities in which it holds variable interests. These non-consolidated entities had total assets of \$1.8 billion as of January 31, 2013 and October 31, 2012. The Company's variable interests in these entities consist of the Company's direct ownership in these entities and any collateral management fees earned but uncollected. The Company maintains an investment in one of these entities

totaling \$0.4 million as of January 31, 2013 and October 31, 2012. Collateral management fees receivable for these CLO entities totaled \$2.1 million and \$2.0 million on January 31, 2013 and October 31, 2012, respectively. In the first three 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 CLO entities is limited to the carrying value of its investments in, and collateral management fees receivable from, the CLO entities as of January 31, 2013.

The Company's investment in the CLO entity identified above is carried at amortized cost and is disclosed as a component of investments in Note 5. Income from these 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 \$9.1 billion and \$9.0 billion as of January 31, 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 \$4.8 million and \$4.4 million on January 31, 2013 and October 31, 2012, respectively, and investment advisory fees receivable totaling \$0.4 million on January 31, 2013 and October 31, 2012. In the first three 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 January 31, 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. At closing, the Company paid \$67.2 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 \$58.9 million, which is deductible for tax purposes.

***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 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 at January 31, 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 January 31, 2013, reflecting indirect interests issued in conjunction with the Clifton acquisition on December 31, 2012. Capital and profit interests held by the Company increased to 98.1 percent and 93.3 percent, respectively, on January 31, 2013, reflecting the transactions described above.

## 11. Intangible Assets

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

### January 31, 2013

| (dollars in thousands)                   | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>amount |
|------------------------------------------|-----------------------------|-----------------------------|---------------------------|
| Amortizing intangible assets:            |                             |                             |                           |
| Client relationships acquired            | \$ 133,927                  | \$ (60,772 )                | \$ 73,155                 |
| Intellectual property acquired           | 1,000                       | (142 )                      | 858                       |
| Trademark acquired                       | 900                         | (11 )                       | 889                       |
| Non-amortizing intangible assets:        |                             |                             |                           |
| Mutual fund management contract acquired | 6,708                       | -                           | 6,708                     |
| Total                                    | \$ 142,535                  | \$ (60,925 )                | \$ 81,610                 |

### October 31, 2012

| (dollars in thousands)                   | Gross<br>carrying<br>amount | Accumulated<br>amortization | Net<br>carrying<br>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 \$2.1 million and \$2.0 million for the three months ended January 31, 2013 and 2012, respectively. Estimated remaining amortization expense for the next five years, on a straight-line basis, is as follows:

Edgar Filing: EATON VANCE CORP - Form 10-Q

| Year Ending October 31, Estimated Amortization<br>(in thousands) | <b>Expense</b> |
|------------------------------------------------------------------|----------------|
| Remaining 2013                                                   | \$ 7,076       |
| 2014                                                             | 9,408          |
| 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<br>Ended<br>January 31, |          |
|----------------------------------------|--------------------------------------|----------|
|                                        | 2013                                 | 2012     |
| 2008 Plan:                             |                                      |          |
| Stock options                          | \$3,848                              | \$9,183  |
| Restricted shares                      | 8,429                                | 6,115    |
| Phantom stock units                    | 144                                  | 55       |
| Employee Stock Purchase Plan           | 376                                  | 108      |
| Incentive Plan – Stock Alternative     | 196                                  | 126      |
| Atlanta Capital Plan                   | 351                                  | 231      |
| Parametric Plan                        | 823                                  | 579      |
| Total stock-based compensation expense | \$14,167                             | \$16,397 |

The total income tax benefit recognized for stock-based compensation arrangements was \$5.5 million and \$5.3 million for the three months ended January 31, 2013 and 2012, respectively.

### 2008 Omnibus Incentive 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 January 31, 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 three months ended January 31, 2013 and 2012 using the Black-Scholes option pricing model were as follows:

|                                                           |               |               |
|-----------------------------------------------------------|---------------|---------------|
|                                                           | 2013          | 2012          |
| Weighted-average grant date fair value of options granted | \$7.67        | \$6.68        |
| Assumptions:                                              |               |               |
| Dividend yield                                            | 2.8% to 5.5 % | 3.0% to 3.1 % |
| Volatility                                                | 36 %          | 35% to 36 %   |
| Risk-free interest rate                                   | 1.2% to 1.3 % | 1.5% to 1.6 % |
| Expected life of options                                  | 7.1 years     | 7.2 years     |

Stock option transactions under the 2008 Plan and predecessor plans for the three months ended January 31, 2013 are summarized in the below table.

| (share and intrinsic value figures in thousands) | Shares   | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|--------------------------------------------------|----------|---------------------------------|---------------------------------------------|---------------------------|
| Options outstanding, beginning of period         | 27,653   | \$ 26.90                        |                                             |                           |
| Granted                                          | 2,247    | 28.29                           |                                             |                           |
| Exercised                                        | (2,987 ) | 20.45                           |                                             |                           |
| Forfeited/expired                                | (160 )   | 29.53                           |                                             |                           |
| Options outstanding, end of period               | 26,753   | \$ 27.72                        | 5.3                                         | \$259,467                 |
| Options exercisable, end of period               | 17,808   | \$ 28.33                        | 3.8                                         | \$172,748                 |
| Vested or expected to vest                       | 26,395   | \$ 27.73                        | 5.2                                         | \$255,998                 |

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 \$56.6 million and \$2.6 million related to the exercise of options for the three months ended January 31, 2013 and 2012, respectively. Options exercised represent newly issued shares. The total intrinsic value of options exercised during the three months ended January 31, 2013 and 2012 was \$35.3 million and \$1.1 million, respectively. The total fair value of options that vested during the three months ended January 31, 2013 was \$27.8 million.

As of January 31, 2013, there was \$39.1 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 3.4 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 January 31, 2013, there was \$91.6 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.5 years.

A summary of the Company's restricted share activity for the three months ended January 31, 2013 under the 2008 Plan and predecessor plans is presented below:

|                               |        | Weighted-<br>Average<br>Grant<br>Date Fair |
|-------------------------------|--------|--------------------------------------------|
| (share figures in thousands)  | Shares | Value                                      |
| Unvested, beginning of period | 3,233  | \$ 26.43                                   |
| Granted                       | 1,588  | 29.02                                      |
| Vested                        | (744 ) | 26.27                                      |
| Forfeited                     | (72 )  | 28.42                                      |
| Unvested, end of period       | 4,005  | \$ 27.49                                   |

The total fair value of restricted stock vested during the three months ended January 31, 2013 and 2012 was \$19.5 million and \$12.1 million, respectively.

#### Phantom Stock Units

In the three months ended January 31, 2013, 9,365 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 three months ended January 31, 2013 and 2012 was \$0.3 million and \$0.2 million, respectively. As of January 31, 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 1.4 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 three months of fiscal 2013, the Company purchased and retired approximately 0.5 million shares of its Non-Voting Common Stock under the current repurchase authorization. Approximately 3.5 million additional shares may be repurchased under the current authorization.

**14. Non-operating Income (Expense)**

The components of non-operating (expense) income for the three months ended January 31, 2013 and 2012 were as follows:

| (in thousands)                                                           | Three Months Ended<br>January 31, |          |
|--------------------------------------------------------------------------|-----------------------------------|----------|
|                                                                          | 2013                              | 2012     |
| Non-operating income (expense):                                          |                                   |          |
| Interest and other income                                                | \$ 604                            | \$ 1,737 |
| Net gains on investments and derivatives                                 | 4,751                             | 6,430    |
| Net foreign currency (losses) gains                                      | (148 )                            | 10       |
| Gains and other investment income, net                                   | 5,207                             | 8,177    |
| Interest expense                                                         | (8,570 )                          | (8,413 ) |
| Other income (expense) of consolidated CLO entity:                       |                                   |          |
| Interest income                                                          | 4,845                             | 5,544    |
| Net (losses) gains on bank loans, other investments and note obligations | (3,052 )                          | 4,736    |
| Gains and other investment income, net                                   | 1,793                             | 10,280   |
| Interest expense                                                         | (4,221 )                          | (4,311 ) |
| Total non-operating (expense) income                                     | \$ (5,791 )                       | \$ 5,733 |

**15. Income Taxes**

The provision for income taxes was \$35.9 million and \$35.2 million, or 37.9 percent and 35.7 percent of pre-tax income, for the three months ended January 31, 2013 and 2012, respectively. The provision for income taxes in the three months ended January 31, 2013 and 2012 is comprised of federal, state, and foreign taxes. The primary difference 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 and other non-controlling interests.

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 January 31, 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 three months ended January 31, 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, and on February 5, 2013 requested mediation. 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 \$12.3 million and \$17.6 million for the three months ended January 31, 2013 and 2012, respectively.

The components of net income attributable to non-controlling and other beneficial interests for the three months ended January 31, 2013 and 2012, were as follows:

|                                                                           | Three Months Ended<br>January 31, |            |
|---------------------------------------------------------------------------|-----------------------------------|------------|
| (in thousands)                                                            | 2013                              | 2012       |
| Consolidated funds                                                        | \$(1,106 )                        | \$(1,146 ) |
| Majority-owned subsidiaries                                               | (3,899 )                          | (3,360 )   |
| Non-controlling interest value adjustments <sup>(1)</sup>                 | (10,647)                          | (8,102 )   |
| Consolidated CLO entity                                                   | 3,330                             | (4,991 )   |
| Net income attributable to non-controlling and other beneficial interests | \$(12,322)                        | \$(17,599) |

<sup>(1)</sup>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 months ended January 31, 2013 and 2012 using the two-class method:

|                                                                 | Three Months Ended<br>January 31, |          |
|-----------------------------------------------------------------|-----------------------------------|----------|
| (in thousands, except per share data)                           | 2013                              | 2012     |
| Net income attributable to Eaton Vance Corp. shareholders       | \$49,805                          | \$47,271 |
| Less: Allocation of earnings to participating restricted shares | 4,581                             | 1,371    |
| Net income available to common shareholders                     | \$45,224                          | \$45,900 |
| Weighted-average shares outstanding – basic                     | 114,925                           | 112,768  |
| Incremental common shares                                       | 4,187                             | 2,133    |
| Weighted-average shares outstanding – diluted                   | 119,112                           | 114,901  |
| Earnings per share:                                             |                                   |          |
| Basic                                                           | \$0.39                            | \$0.41   |
| Diluted                                                         | \$0.38                            | \$0.40   |

Antidilutive common shares related to stock options excluded from the computation of earnings per diluted share were approximately 6.9 million and 19.9 million for the three months ended January 31, 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 January 31, 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 January 31, 2013, the Company has \$3.2 million included within other liabilities on its Consolidated Balance Sheet related to securities sold, not yet purchased.

## 19. Related Party Transactions

### *Sponsored funds*

The Company is an investment advisor to, and has administrative agreements with, sponsored open-end 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. Revenue for services provided or related to these funds for the three months ended January 31, 2013 and 2012 are as follows:

| (in thousands)                              | Three Months Ended<br>January 31, |            |
|---------------------------------------------|-----------------------------------|------------|
|                                             | 2013                              | 2012       |
| Investment advisory and administrative fees | \$ 192,192                        | \$ 183,484 |
| Distribution fees                           | 20,073                            | 20,477     |
| Service fees                                | 31,130                            | 32,299     |
| Shareholder services fees                   | 540                               | 597        |
| Other revenue                               | 135                               | -          |
| Total                                       | \$ 244,070                        | \$ 236,857 |

For the three months ended January 31, 2013 and 2012, the Company had investment advisory agreements with certain sponsored funds pursuant to which the Company contractually waived \$2.8 million and \$2.4 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 months ended January 31, 2013 and 2012 are as follows:

|                     | Three Months<br>Ended<br>January 31, |         |
|---------------------|--------------------------------------|---------|
| (in thousands)      | 2013                                 | 2012    |
| Proceeds from sales | \$20,816                             | \$7,202 |
| Net realized gains  | 4,909                                | 63      |

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 January 31, 2013 and 2012, expenses of \$5.1 million and \$4.4 million, respectively, were incurred by the Company pursuant to these arrangements.

Included in investment advisory and other receivables at January 31, 2013 and October 31, 2012 are receivables due from sponsored funds of \$86.2 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 \$7.7 million and \$4.2 million at January 31, 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 January 31, 2013, we had \$247.8 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.

## **Market Developments**

The first quarter of fiscal 2013 was a period of favorable market action, as reflected by the 6.7 percent total return of the S&P 500 Index. Over the last twelve months, the S&P 500 Index has returned 16.8 percent.

The Company's ending consolidated assets under management increased by \$48.3 billion, or 24 percent, in the first quarter to \$247.8 billion on January 31, 2013, reflecting the acquisition of The Clifton Group Investment Management Company ("Clifton") on December 31, 2012, strong net inflows and favorable market action. Average assets under management increased sequentially by \$19.6 billion, or 10 percent, to \$216.2 billion in the first quarter, reflecting one month of Clifton ownership and the partial effects of the quarter's net inflows and market appreciation.

The Clifton acquisition, as anticipated, had a significant impact on both our overall effective fee rate and our effective investment advisory and administrative fee rate in the quarter. Upon acquisition, the Clifton business had an overall effective fee rate of approximately 7 basis points. The acquisition drove our overall effective fee rate to 59 basis points in the first quarter of fiscal 2013 from 63 basis points in the first quarter of fiscal 2012. Our effective investment

advisory and administrative fee rate similarly decreased to 49 basis points in the first quarter of fiscal 2013 from 51 basis points in the first quarter of last year.

### **Consolidated Assets under Management**

Consolidated assets under management of \$247.8 billion on January 31, 2013 increased 29 percent from the \$191.7 billion reported on January 31, 2012. Long-term net inflows for the last twelve months reflect long-term fund net outflows of \$0.4 billion, institutional separate account net inflows of \$5.3 billion, high-net-worth separate account net inflows of \$1.0 billion, and retail managed account net inflows of \$0.7 billion. Clifton assets acquired contributed \$34.8 billion, while net price appreciation in managed assets increased assets under management by \$15.0 billion. A decrease in cash management assets reduced assets under management by \$0.4 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 the first quarter of 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<sup>(1)(4)</sup>**

| (in millions)                          | January 31, |            |  | 2012      |            |  | 2011     |  |
|----------------------------------------|-------------|------------|--|-----------|------------|--|----------|--|
|                                        | 2013        | % of Total |  | 2012      | % of Total |  | % Change |  |
| Equity <sup>(2)</sup>                  | \$86,518    | 35 %       |  | \$84,957  | 44 %       |  | 2 %      |  |
| Fixed income                           | 49,679      | 20 %       |  | 45,514    | 24 %       |  | 9 %      |  |
| Floating-rate income                   | 28,656      | 11 %       |  | 24,376    | 13 %       |  | 18 %     |  |
| Alternative                            | 14,345      | 6 %        |  | 10,462    | 6 %        |  | 37 %     |  |
| Implementation services <sup>(3)</sup> | 68,420      | 28 %       |  | 25,864    | 13 %       |  | 165 %    |  |
| Cash management                        | 155         | 0 %        |  | 533       | 0 %        |  | -71 %    |  |
| Total                                  | \$247,773   | 100 %      |  | \$191,706 | 100 %      |  | 29 %     |  |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 39 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

<sup>(2)</sup> Balances include assets in balanced accounts holding income securities.

<sup>(3)</sup> Balances include amounts reclassified from equity for the prior year period.

<sup>(4)</sup> 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 \$55.7 billion and \$49.5 billion of assets managed for after-tax returns on January 31, 2013 and 2012, respectively. Fixed income assets included \$29.6 billion and \$27.2 billion of tax-exempt municipal bond assets on January 31, 2013 and 2012, respectively.

Net inflows totaled \$5.4 billion in the first quarter of fiscal 2013 compared to net outflows of \$1.1 billion in the first quarter of fiscal 2012. Long-term fund net inflows of \$2.2 billion in the first quarter of fiscal 2013 reflect gross inflows of \$9.1 billion, net of redemptions of \$6.9 billion. Long-term fund net outflows of \$1.2 billion in the first quarter of fiscal 2012 reflect gross inflows of \$6.9 billion, net of redemptions of \$8.1 billion.

Separate account net inflows totaled \$3.2 billion in the first quarter of fiscal 2013 compared to net inflows of \$0.1 billion in the first quarter of fiscal 2012. Institutional separate account net inflows totaled \$3.0 billion in the first quarter of fiscal 2013 compared to net outflows of \$0.4 billion in the first quarter of fiscal 2012, reflecting gross inflows of \$6.8 billion and \$1.8 billion in the first quarter of fiscal 2013 and 2012, respectively, net of withdrawals of \$3.8 billion and \$2.2 billion, respectively. High-net-worth account net inflows totaled \$0.2 billion in the first quarter of fiscal 2013 compared to \$0.5 billion in the first quarter of fiscal 2012, reflecting gross inflows of \$1.4 billion and \$1.0 billion in the first quarter of fiscal 2013 and 2012, respectively, net of withdrawals of \$1.2 billion and \$0.6 billion, respectively. Retail managed account gross inflows of \$2.2 billion were offset by withdrawals of \$2.2 billion in the first quarter of fiscal 2013, while retail managed account gross inflows of \$1.7 billion were offset by withdrawals of \$1.7 billion in the first quarter of fiscal 2012.

The following tables summarize our assets under management and asset flows by investment mandate and investment vehicle for the three months ended January 31, 2013 and 2012:

*Consolidated Net Flows by Investment Mandate<sup>(1)</sup>*

| (in millions)                                                       | Three Months Ended |           |        |     |
|---------------------------------------------------------------------|--------------------|-----------|--------|-----|
|                                                                     | January 31,        |           | %      |     |
|                                                                     | 2013               | 2012      | Change |     |
| Equity assets - beginning of period <sup>(2)</sup>                  | \$80,782           | \$84,281  | -4     | %   |
| Sales and other inflows                                             | 4,496              | 4,777     | -6     | %   |
| Redemptions/outflows                                                | (4,959 )           | (6,476 )  | -23    | %   |
| Net flows                                                           | (463 )             | (1,699 )  | -73    | %   |
| Assets acquired <sup>(4)</sup>                                      | 1,572              | -         | NM     | (3) |
| Exchanges                                                           | (8 )               | (8 )      | 0      | %   |
| Market value change                                                 | 4,635              | 2,383     | 95     | %   |
| Equity assets - end of period                                       | \$86,518           | \$84,957  | 2      | %   |
| Fixed income assets - beginning of period                           | 49,003             | 43,708    | 12     | %   |
| Sales and other inflows                                             | 3,377              | 2,627     | 29     | %   |
| Redemptions/outflows                                                | (3,375 )           | (2,453 )  | 38     | %   |
| Net flows                                                           | 2                  | 174       | -99    | %   |
| Assets acquired <sup>(4)</sup>                                      | 472                | -         | NM     |     |
| Exchanges                                                           | (22 )              | 40        | NM     |     |
| Market value change                                                 | 224                | 1,592     | -86    | %   |
| Fixed income assets - end of period                                 | \$49,679           | \$45,514  | 9      | %   |
| Floating-rate income assets - beginning of period                   | 26,388             | 24,322    | 8      | %   |
| Sales and other inflows                                             | 3,260              | 1,460     | 123    | %   |
| Redemptions/outflows                                                | (1,359 )           | (1,289 )  | 5      | %   |
| Net flows                                                           | 1,901              | 171       | NM     |     |
| Exchanges                                                           | 33                 | (8 )      | NM     |     |
| Market value change                                                 | 334                | (109 )    | NM     |     |
| Floating-rate income assets - end of period                         | \$28,656           | \$24,376  | 18     | %   |
| Alternative assets - beginning of period                            | 12,864             | 10,650    | 21     | %   |
| Sales and other inflows                                             | 1,809              | 1,105     | 64     | %   |
| Redemptions/outflows                                                | (1,055 )           | (1,202 )  | -12    | %   |
| Net flows                                                           | 754                | (97 )     | NM     |     |
| Assets acquired <sup>(4)</sup>                                      | 650                | -         | NM     |     |
| Exchanges                                                           | (13 )              | (38 )     | -66    | %   |
| Market value change                                                 | 90                 | (53 )     | NM     |     |
| Alternative assets - end of period                                  | \$14,345           | \$10,462  | 37     | %   |
| Implementation services assets - beginning of period <sup>(5)</sup> | 30,302             | 24,574    | 23     | %   |
| Sales and other inflows                                             | 6,479              | 1,527     | 324    | %   |
| Redemptions/outflows                                                | (3,316 )           | (1,196 )  | 177    | %   |
| Net flows                                                           | 3,163              | 331       | 856    | %   |
| Assets acquired <sup>(4)</sup>                                      | 32,064             | -         | NM     |     |
| Market value change                                                 | 2,891              | 959       | 201    | %   |
| Implementation services assets - end of period                      | \$68,420           | \$25,864  | 165    | %   |
| Long-term assets - beginning of period                              | 199,339            | 187,535   | 6      | %   |
| Sales and other inflows                                             | 19,421             | 11,496    | 69     | %   |
| Redemptions/outflows                                                | (14,064 )          | (12,616 ) | 11     | %   |

Edgar Filing: EATON VANCE CORP - Form 10-Q

|                                               |           |           |     |   |
|-----------------------------------------------|-----------|-----------|-----|---|
| Net flows                                     | 5,357     | (1,120 )  | NM  |   |
| Assets acquired <sup>(4)</sup>                | 34,758    | -         | NM  |   |
| Exchanges                                     | (10 )     | (14 )     | -29 | % |
| Market value change                           | 8,174     | 4,772     | 71  | % |
| Total long-term assets - end of period        | \$247,618 | \$191,173 | 30  | % |
| Cash management fund assets - end of period   | 155       | 533       | -71 | % |
| Total assets under management - end of period | \$247,773 | \$191,706 | 29  | % |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 39 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

<sup>(2)</sup> Balances include assets in balanced accounts holding income securities.

<sup>(3)</sup> Not meaningful ("NM")

<sup>(4)</sup> Balances represent Clifton assets acquired on December 31, 2012.

<sup>(5)</sup> Balances include amounts reclassified from equity for the prior year period.

**Consolidated Net Flows by Investment Vehicle<sup>(1)</sup>**

| (in millions)                                                | Three Months Ended |            |        |   |
|--------------------------------------------------------------|--------------------|------------|--------|---|
|                                                              | January 31,        |            | %      |   |
|                                                              | 2013               | 2012       | Change |   |
| Long-term fund assets - beginning of period                  | \$ 113,249         | \$ 111,705 | 1      | % |
| Sales and other inflows                                      | 9,079              | 6,905      | 31     | % |
| Redemptions/outflows                                         | (6,876 )           | (8,113 )   | -15    | % |
| Net flows                                                    | 2,203              | (1,208 )   | NM     |   |
| Assets acquired <sup>(2)</sup>                               | 638                | -          | NM     |   |
| Exchanges                                                    | (19 )              | (14 )      | 36     | % |
| Market value change                                          | 3,091              | 2,181      | 42     | % |
| Long-term fund assets - end of period                        | \$ 119,162         | \$ 112,664 | 6      | % |
| Institutional separate account assets - beginning of period  | 43,338             | 38,003     | 14     | % |
| Sales and other inflows                                      | 6,785              | 1,824      | 272    | % |
| Redemptions/outflows                                         | (3,821 )           | (2,215 )   | 73     | % |
| Net flows                                                    | 2,964              | (391 )     | NM     |   |
| Assets acquired <sup>(2)</sup>                               | 34,120             | -          | NM     |   |
| Exchanges                                                    | 5                  | (29 )      | NM     |   |
| Market value change                                          | 2,923              | 1,143      | 156    | % |
| Institutional separate account assets - end of period        | \$ 83,350          | \$ 38,726  | 115    | % |
| High-net-worth separate account assets - beginning of period | 15,036             | 13,256     | 13     | % |
| Sales and other inflows                                      | 1,379              | 1,021      | 35     | % |
| Redemptions/outflows                                         | (1,198 )           | (552 )     | 117    | % |
| Net flows                                                    | 181                | 469        | -61    | % |
| Exchanges                                                    | (15 )              | (957 )     | -98    | % |
| Market value change                                          | 1,043              | 487        | 114    | % |
| High-net-worth separate account assets - end of period       | \$ 16,245          | \$ 13,255  | 23     | % |
| Retail managed account assets - beginning of period          | 27,716             | 24,571     | 13     | % |
| Sales and other inflows                                      | 2,178              | 1,746      | 25     | % |
| Redemptions/outflows                                         | (2,169 )           | (1,736 )   | 25     | % |
| Net flows                                                    | 9                  | 10         | -10    | % |
| Exchanges                                                    | 19                 | 986        | -98    | % |
| Market value change                                          | 1,117              | 961        | 16     | % |
| Retail managed account assets - end of period                | \$ 28,861          | \$ 26,528  | 9      | % |
| Total long-term assets - beginning of period                 | 199,339            | 187,535    | 6      | % |
| Sales and other inflows                                      | 19,421             | 11,496     | 69     | % |
| Redemptions/outflows                                         | (14,064 )          | (12,616 )  | 11     | % |
| Net flows                                                    | 5,357              | (1,120 )   | NM     |   |
| Assets acquired <sup>(2)</sup>                               | 34,758             | -          | NM     |   |
| Exchanges                                                    | (10 )              | (14 )      | -29    | % |
| Market value change                                          | 8,174              | 4,772      | 71     | % |
| Total long-term assets - end of period                       | \$ 247,618         | \$ 191,173 | 30     | % |
| Cash management fund assets - end of period                  | 155                | 533        | -71    | % |
| Total assets under management - end of period                | \$ 247,773         | \$ 191,706 | 29     | % |

*(1) Consolidated Eaton Vance Corp. See page 39 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 for the three months ended January 31, 2013 and 2012:

**Consolidated Assets under Management by Investment Affiliate <sup>(1)</sup>**

| (in millions)                         | Three Months Ended<br>January 31, |            | %<br>Change |   |
|---------------------------------------|-----------------------------------|------------|-------------|---|
|                                       | 2013                              | 2012       |             |   |
| Eaton Vance Management <sup>(2)</sup> | \$ 134,554                        | \$ 133,538 | 1           | % |
| Parametric                            | 96,725                            | 44,179     | 119         | % |
| Atlanta Capital                       | 16,494                            | 13,989     | 18          | % |
| Total                                 | \$ 247,773                        | \$ 191,706 | 29          | % |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See below 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

<sup>(2)</sup> 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 January 31, 2013, 49 percent-owned affiliate Hexavest Inc. (“Hexavest”) managed \$14.5 billion of client assets, an increase of 20 percent from the \$12.1 billion of managed assets on October 31, 2012. Net inflows into Hexavest-managed funds and separate accounts were \$1.9 billion in the first 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 months ended January 31, 2013:

**Hexavest Assets under Management and Net Flows**

| Three Months Ended January 31, 2013 |                         |              |              |
|-------------------------------------|-------------------------|--------------|--------------|
| Hexavest                            | Eaton Vance-Distributed |              | Total        |
|                                     | Eaton Vance-            | Eaton Vance- |              |
| Directly                            | Sponsored               | Separate     | Eaton Vance- |

Edgar Filing: EATON VANCE CORP - Form 10-Q

| (in millions)                        | Total    | Distributed <sup>(1)</sup> | Funds <sup>(2)</sup> | Accounts <sup>(3)</sup> | Distributed |
|--------------------------------------|----------|----------------------------|----------------------|-------------------------|-------------|
| Managed assets - beginning of period | \$12,110 | \$ 12,073                  | \$37                 | \$ -                    | \$ 37       |
| Sales and other inflows              | 2,162    | 920                        | 94                   | 1,148                   | 1,242       |
| Redemptions/outflows                 | (268 )   | (263 )                     | (5 )                 | -                       | (5 )        |
| Net flows                            | 1,894    | 657                        | 89                   | 1,148                   | 1,237       |
| Market value change                  | 540      | 494                        | 9                    | 37                      | 46          |
| Managed assets - end of period       | \$14,544 | \$ 13,224                  | \$135                | \$ 1,185                | \$ 1,320    |

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

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

*Managed assets and flows of Eaton Vance-sponsored pooled investment vehicles for which Hexavest is advisor or (2) sub-advisor. Eaton Vance receives management and/or distribution revenue on these assets, which are included in the Eaton Vance consolidated results.*

*Managed assets and flows of Eaton Vance-distributed separate accounts managed by Hexavest. Eaton Vance (3) receives distribution revenue, but not management revenue, on these assets, which are not included in the Eaton Vance consolidated results.*

**Consolidated Assets under Management by Asset Class<sup>(1)</sup>**

| (in millions)                 | January 31, |               |           |               |             |  |  |  |
|-------------------------------|-------------|---------------|-----------|---------------|-------------|--|--|--|
|                               | 2013        | % of<br>Total | 2012      | % of<br>Total | %<br>Change |  |  |  |
| Open-end funds:               |             |               |           |               |             |  |  |  |
| Class A                       | \$31,058    | 13 %          | \$32,295  | 17 %          | -4 %        |  |  |  |
| Class B                       | 911         | 0 %           | 1,220     | 1 %           | -25 %       |  |  |  |
| Class C                       | 9,841       | 4 %           | 9,695     | 5 %           | 2 %         |  |  |  |
| Class I                       | 33,601      | 14 %          | 28,027    | 15 %          | 20 %        |  |  |  |
| Class R                       | 310         | 0 %           | 351       | 0 %           | -12 %       |  |  |  |
| Other <sup>(2)</sup>          | 716         | 0 %           | 579       | 0 %           | 24 %        |  |  |  |
| Total open-end funds          | 76,437      | 31 %          | 72,167    | 38 %          | 6 %         |  |  |  |
| Private funds <sup>(3)</sup>  | 19,131      | 8 %           | 17,895    | 9 %           | 7 %         |  |  |  |
| Closed-end funds              | 23,749      | 9 %           | 23,135    | 12 %          | 3 %         |  |  |  |
| Total fund assets             | 119,317     | 48 %          | 113,197   | 59 %          | 5 %         |  |  |  |
| Institutional account assets  | 83,350      | 34 %          | 38,726    | 20 %          | 115 %       |  |  |  |
| High-net-worth account assets | 16,245      | 6 %           | 13,255    | 7 %           | 23 %        |  |  |  |
| Retail managed account assets | 28,861      | 12 %          | 26,528    | 14 %          | 9 %         |  |  |  |
| Total separate account assets | 128,456     | 52 %          | 78,509    | 41 %          | 64 %        |  |  |  |
| Total                         | \$247,773   | 100 %         | \$191,706 | 100 %         | 29 %        |  |  |  |

<sup>(1)</sup> Consolidated Eaton Vance Corp. See table on page 39 for directly managed assets and flows of 49 percent-owned Hexavest Inc.

<sup>(2)</sup> Includes other classes of Eaton Vance open-end funds.

<sup>(3)</sup> 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 48 percent of total assets under management on January 31, 2013, down from 59 percent on January 31, 2012, while separate account assets, which include institutional, high-net-worth and retail managed account assets, increased to 52 percent of total assets under management on January 31, 2013 from 41 percent on January 31, 2012. Fund assets under management increased \$5.9 billion, or 5 percent, from \$113.4 billion on October 31, 2012, reflecting 8 percent organic growth and market appreciation of \$3.1 billion. Separate account assets under management increased \$42.4 billion, or 49 percent, from \$86.1 billion on October 31, 2012, reflecting \$34.8 billion of managed assets gained in the Clifton acquisition, 15 percent organic growth and market appreciation of \$5.1 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<sup>(1)</sup>**

| (in millions)                 | Three Months Ended  |           |             |   |
|-------------------------------|---------------------|-----------|-------------|---|
|                               | January 31,<br>2013 | 2012      | %<br>Change |   |
| Open-end funds:               |                     |           |             |   |
| Class A                       | \$30,556            | \$32,562  | -6          | % |
| Class B                       | 932                 | 1,239     | -25         | % |
| Class C                       | 9,716               | 9,595     | 1           | % |
| Class I                       | 31,609              | 26,978    | 17          | % |
| Class R                       | 307                 | 359       | -14         | % |
| Other <sup>(2)</sup>          | 684                 | 596       | 15          | % |
| Total open-end funds          | 73,804              | 71,329    | 3           | % |
| Private funds <sup>(3)</sup>  | 18,361              | 17,532    | 5           | % |
| Closed-end funds              | 23,385              | 22,729    | 3           | % |
| Total fund assets             | 115,550             | 111,590   | 4           | % |
| Institutional account assets  | 56,969              | 37,555    | 52          | % |
| High-net-worth account assets | 15,668              | 12,769    | 23          | % |
| Retail managed account assets | 28,037              | 25,477    | 10          | % |
| Total separate account assets | 100,674             | 75,801    | 33          | % |
| Total                         | \$216,224           | \$187,391 | 15          | % |

(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 months ended January 31, 2013 and 2012:

| (in thousands, except per share data)                              | Three Months Ended |          |          |   |
|--------------------------------------------------------------------|--------------------|----------|----------|---|
|                                                                    | January 31, 2013   | 2012     | % Change |   |
| Net income attributable to Eaton Vance Corp. shareholders          | \$49,805           | \$47,271 | 5        | % |
| Non-controlling interest value adjustments <sup>(1)</sup>          | 10,647             | 8,102    | 31       | % |
| Adjusted net income attributable to Eaton Vance Corp. shareholders | \$60,452           | \$55,373 | 9        | % |
| Earnings per diluted share                                         | \$0.38             | \$0.40   | -5       | % |
| Non-controlling interest value adjustments                         | 0.09               | 0.07     | 29       | % |
| Special dividend adjustment <sup>(2)</sup>                         | 0.03               | -        | NM       |   |
| Adjusted earnings per diluted share                                | \$0.50             | \$0.47   | 6        | % |

(1) Please see page 49, "Net Income Attributable to Non-controlling and Other Beneficial Interests," for a further discussion of the non-controlling interest value adjustment referenced above.

Reflects the impact of the special dividend on our earnings per diluted share calculation due to the (2) 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 \$49.8 million, or \$0.38 per diluted share, in the first quarter of fiscal 2013 compared to net income attributable to Eaton Vance Corp. shareholders of \$47.3 million, or \$0.40 per diluted share, in the first quarter of fiscal 2012. We reported adjusted net income attributable to Eaton Vance Corp. shareholders of \$60.5 million, or \$0.50 per diluted share, in the first quarter of fiscal 2013 compared to adjusted net income attributable to Eaton Vance Corp. shareholders of \$55.4 million, or \$0.47 per diluted share, in the first 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 \$22.9 million, or 8 percent, primarily due to a 15 percent increase in average assets under management, offset by a decrease in our annualized effective fee rate to 59 basis points in the first quarter of fiscal 2013 from 63 basis points in the first quarter of fiscal 2012 as a result of the Clifton acquisition.

An increase in expenses of \$15.1 million, or 7 percent, reflecting increases in compensation, distribution, fund-related and other expenses, offset by lower service fees and reduced amortization of deferred sales commissions.

A \$3.0 million decrease in gains and other investment income, reflecting a decrease in investment gains and investment income earned on our seed capital portfolio.

An \$8.4 million decrease in non-operating income (expense) of the Company's consolidated CLO entity which can be attributed to a decline in the performance of the consolidated CLO entity.

An increase in income taxes of \$0.8 million, or 2 percent, reflecting an increase in the Company's effective tax rate for the quarter, offset by the 4 percent decrease in income before taxes. The increase in the Company's effective tax rate relates in part to the inclusion in income before taxes of consolidated CLO entity loss attributable to other beneficial interest holders and therefore not subject to tax recovery by the Company.

An increase in equity in net income of affiliates, net of tax, of \$1.7 million, primarily reflecting our 49 percent equity interest in Hexavest.

A decrease in net income attributable to non-controlling and other beneficial interests of \$5.3 million, primarily reflecting a decrease in consolidated CLO entity net income attributed to other beneficial interest holders, offset by an increase in the estimated redemption value of non-controlling interests in our majority-owned subsidiary Parametric.

Weighted average diluted shares outstanding increased by 4.2 million shares, or 4 percent, in the first quarter of fiscal 2013 over the first 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 the 32 percent increase in the average share price over the prior year period.

## Revenue

Our average overall effective fee rate (total revenue, excluding other revenue, as a percentage of average assets under management) was 59 basis points in the first quarter of fiscal 2013 compared to 63 basis points in the first quarter of fiscal 2012. As noted above, the decrease in our average overall effective fee rate can be primarily attributed to the acquisition of Clifton, whose business operates at a significantly lower overall 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 months ended January 31, 2013 and 2012:

| (in thousands)                              | Three Months Ended  |           |             |   |
|---------------------------------------------|---------------------|-----------|-------------|---|
|                                             | January 31,<br>2013 | 2012      | %<br>Change |   |
| Investment advisory and administrative fees | \$263,281           | \$239,452 | 10          | % |
| Distribution and underwriter fees           | 22,751              | 22,515    | 1           | % |
| Service fees                                | 31,130              | 32,299    | -4          | % |
| Other revenue                               | 1,355               | 1,340     | 1           | % |
| Total revenue                               | \$318,517           | \$295,606 | 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 first quarter of fiscal 2013 compared to 81 percent in the first quarter of fiscal 2012.

The increase in investment advisory and administrative fees of 10 percent, or \$23.8 million, in the first quarter of fiscal 2013 from the same period a year earlier can be primarily attributed to the 15 percent increase in average assets under management, offset by lower average effective fee rates due primarily to the shift in

product mix resulting from the Clifton acquisition. Fund assets, which had an average effective fee rate of 67 basis points in the first quarter of fiscal 2013, decreased to 48 percent of total assets under management on January 31, 2013 from 59 percent of total assets under management on January 31, 2012, while separately managed account assets, which had an average effective fee rate of 28 basis points in the first quarter of fiscal 2013, increased to 52 percent of total assets under management on January 31, 2013 from 41 percent of total assets under management on January 31, 2012.

#### *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 \$0.4 million, to \$20.1 million in the first 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 Class A and Class C 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 months ended January 31, 2013 and 2012:

| (in thousands)                   | Three Months Ended |                  | %      |   |
|----------------------------------|--------------------|------------------|--------|---|
|                                  | January 31, 2013   | January 31, 2012 | Change |   |
| Class A                          | \$212              | \$160            | 33     | % |
| Class B                          | 1,553              | 2,075            | -25    | % |
| Class C                          | 17,222             | 16,976           | 1      | % |
| Class R                          | 191                | 223              | -14    | % |
| Private funds                    | 895                | 1,043            | -14    | % |
| Total distribution plan payments | \$20,073           | \$20,477         | -2     | % |

Underwriter fees and other distribution income increased to \$2.7 million in the first quarter of fiscal 2013, an increase of 31 percent, or \$0.6 million, over the same period a year earlier, primarily reflecting an increase of \$0.2 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 specific 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 4 percent, or \$1.2 million, to \$31.1 million in the first quarter of fiscal 2013 from the same period a year earlier, primarily reflecting a 4 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 and sublease income, was substantially unchanged in the first quarter of fiscal 2013 over the same period a year ago.

*Expenses*

Operating expenses increased by 7 percent, or \$15.1 million, in the first quarter of fiscal 2013 from the same period a year earlier, reflecting increases in compensation, distribution, fund-related and other expenses, offset by lower service fees and reduced amortization of deferred sales commissions as more fully described below.

The following table shows our operating expenses for the three months ended January 31, 2013 and 2012:

| (in thousands)                             | Three Months Ended  |           |             |   |
|--------------------------------------------|---------------------|-----------|-------------|---|
|                                            | January 31,<br>2013 | 2012      | %<br>Change |   |
| Compensation and related costs:            |                     |           |             |   |
| Cash compensation                          | \$94,662            | \$80,286  | 18          | % |
| Stock-based compensation                   | 14,167              | 16,397    | -14         | % |
| Total compensation and related costs       | 108,829             | 96,683    | 13          | % |
| Distribution expense                       | 33,889              | 32,328    | 5           | % |
| Service fee expense                        | 28,264              | 28,673    | -1          | % |
| Amortization of deferred sales commissions | 4,783               | 5,820     | -18         | % |
| Fund-related expenses                      | 7,424               | 6,651     | 12          | % |
| Other expenses                             | 34,648              | 32,631    | 6           | % |
| Total expenses                             | \$217,837           | \$202,786 | 7           | % |

*Compensation and related costs*

Compensation expense increased by \$12.1 million in the first 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 and other compensation, offset by a decrease in stock-based compensation.

The following table shows our compensation and related costs for the three months ended January 31, 2013 and 2012:



|                                     | Three Months<br>Ended<br>January 31, |          | %<br>Change |   |
|-------------------------------------|--------------------------------------|----------|-------------|---|
| (in thousands)                      | 2013                                 | 2012     |             |   |
| Base salaries and employee benefits | \$46,495                             | \$42,105 | 10          | % |
| Stock-based compensation            | 14,167                               | 16,397   | -14         | % |
| Operating income-based incentives   | 30,752                               | 26,827   | 15          | % |
| Sales and revenue-based incentives  | 15,590                               | 9,840    | 58          | % |
| Other compensation expense          | 1,825                                | 1,514    | 21          | % |
| Total                               | \$108,829                            | \$96,683 | 13          | % |

Base salaries and employee benefits increased by 10 percent, or \$4.4 million, 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 \$3.9 million, primarily reflecting the Clifton acquisition and an 8 percent increase in pre-bonus adjusted operating income. Sales and revenue-based incentives increased by 58 percent, or \$5.7 million, primarily due to the increase in gross sales and other inflows and an increase in institutional separate account revenue. Other compensation expense increased by 21 percent, or \$0.3 million, reflecting higher severance costs and sign-on bonuses. Stock-based compensation decreased by 14 percent, or \$2.2 million, reflecting revised retirement terms of newly granted employee stock options.

#### *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 our distribution partners and other discretionary marketing expenses.

The following table shows our distribution expense for the three months ended January 31, 2013 and 2012:

|                                              | Three Months<br>Ended<br>January 31, |          | %<br>Change |   |
|----------------------------------------------|--------------------------------------|----------|-------------|---|
| (in thousands)                               | 2013                                 | 2012     |             |   |
| Class A share commissions                    | \$2,195                              | \$1,332  | 65          | % |
| Class C share distribution fees              | 13,823                               | 13,642   | 1           | % |
| Closed-end fund dealer compensation payments | 4,330                                | 4,175    | 4           | % |
| Intermediary marketing support payments      | 9,740                                | 8,464    | 15          | % |
| Discretionary marketing expenses             | 3,801                                | 4,715    | -19         | % |
| Total                                        | \$33,889                             | \$32,328 | 5           | % |

Class A share commissions increased by 65 percent, or \$0.9 million, reflecting an increase in certain Class A fund sales on which we pay a commission. Class C share distribution fees increased by 1 percent, or \$0.2 million, reflecting an increase in Class C share assets held more than one year on which those fees are based. Closed-end fund dealer compensation payments increased 4 percent, or \$0.2 million, reflecting an increase in average assets under management subject to those arrangements. Marketing expenses associated with intermediary marketing support payments to our distribution partners increased by 15 percent, or \$1.3 million, reflecting increases in average assets subject to those arrangements. Discretionary marketing expenses decreased by 19 percent, or \$0.9 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 decreased by 1 percent, or \$0.4 million, in the first quarter of fiscal 2013 from the same quarter a year earlier, reflecting a decrease in average fund assets retained more than one year in funds and share classes that are subject to service fees as a result of the ongoing shift to low or no-service fee share classes.

*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 18 percent in the first quarter of fiscal 2013 from the same period a year earlier, primarily reflecting a decrease in average Class B share, Class C share and privately offered funds deferred sales commissions. In the first quarter of fiscal 2013, 24 percent of total amortization related to Class B shares, 69 percent to Class C shares and 7 percent to privately offered funds. In the first quarter of fiscal 2012, 24 percent of total amortization related to Class B shares, 62 percent to Class C shares and 14 percent to privately offered funds.

*Fund-related expenses*

Fund-related expenses consist primarily of fees paid to sub-advisors, compliance costs and other fund-related expenses. Fund-related expenses increased 12 percent, or \$0.8 million, in the first quarter of fiscal 2013 over the same period a year earlier, reflecting increases in expenses borne by us on certain funds for which we are paid an all-in fee, offset by reduced subsidies of startup and other small funds provided to enhance their cost competitiveness.

*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.

Other expenses increased by 6 percent, or \$2.0 million, in the first quarter of fiscal 2013 from the same period a year earlier, primarily reflecting increases in information technology expense of \$1.1 million, professional services expense of \$0.8 million, other corporate expenses of \$0.7 million and communications expense of \$0.1 million, offset by a decrease in facilities-related expenses of \$0.7 million. The increase in information technology expense can be attributed to increases in system maintenance and repairs, outside custody and other back office services and other information technology consulting expenses. The increase in professional services expense can be attributed to increases in external legal costs and various corporate consulting engagements associated with various corporate initiatives. The increase in other corporate expenses reflects an increase in charitable giving, other corporate taxes and the amortization of intangibles assets related to the Clifton acquisition, offset by a decrease in general corporate

banking fees. The decrease in facilities-related expenses can be primarily attributed to a decrease in depreciation expense.

## Non-operating Income (Expense)

| (in thousands)                                     | Three Months Ended |          |        |   |
|----------------------------------------------------|--------------------|----------|--------|---|
|                                                    | January 31, 2013   | 2012     | Change | % |
| Gains and other investment income, net             | \$5,207            | \$8,177  | -36    | % |
| Interest expense                                   | (8,570)            | (8,413 ) | 2      | % |
| Other income (expense) of consolidated CLO entity: |                    |          |        |   |
| Gains and other investment income, net             | 1,793              | 10,280   | -83    | % |
| Interest expense                                   | (4,221)            | (4,311 ) | -2     | % |
| Total non-operating (expense) income               | \$(5,791)          | \$5,733  | NM     |   |

Gains and other investment income, net, decreased 36 percent in the first quarter of fiscal 2013 compared to the same period a year ago, primarily reflecting decreases in gains and other investment income earned by our consolidated funds.

Interest expense was substantially unchanged, reflecting constant levels of interest accrued on our fixed-rate senior notes.

Net loss of our consolidated CLO entity totaled \$2.5 million in the first quarter of fiscal 2013, representing \$2.4 million of other expense and \$0.1 million of other operating expenses. \$3.3 million of consolidated CLO entity net loss was included in net income (loss) attributable to non-controlling and other beneficial interests, reflecting third-party note holders' proportionate interest in the net income (loss) of the entity. \$0.8 million of consolidated CLO entity net gain was included in net income attributable to Eaton Vance Corp. shareholders, representing 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 37.9 percent in the first quarter of fiscal 2013 compared to 35.7 percent in the first quarter of fiscal 2012. The increase in our overall effective tax rate in the first quarter of fiscal 2013 from the same period a year earlier relates in part to the consolidated CLO entity net loss allocated to other beneficial interest holders and therefore not subject to tax recovery by the Company. Excluding the effect of the consolidated CLO entity net income (loss) allocated to other beneficial interest holders, our effective tax rate would have been 36.7 percent and 37.5 percent in the first quarter of fiscal 2013 and 2012, respectively.

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 first quarter of fiscal 2013 primarily reflects our 49 percent equity interest in Hexavest, our 7 percent equity interest in a private equity partnership managed by a third party and equity interests in certain funds we sponsor or manage, notably Eaton Vance Municipal Opportunities Fund, Eaton Vance Real Estate Fund, Eaton Vance Tax-Advantaged Bond Strategies Long-Term Fund and Eaton Vance Richard Bernstein All Asset Strategy Fund. Equity in net income of affiliates, net of tax, increased by

\$1.7 million in the first quarter of fiscal 2013 over the same period a year earlier, primarily due to the inclusion of our 49 percent equity interest in Hexavest, offset by a decrease in the net income of the private equity partnership.

***Net Income Attributable to Non-controlling and Other Beneficial Interests***

Net income attributable to non-controlling and other beneficial interests decreased by \$5.3 million in the first quarter of fiscal 2013 from the same period a year earlier, reflecting a \$2.5 million increase in non-controlling interest value adjustments related to our majority owned subsidiaries primarily related to Parametric and a \$0.5 million increase in net income attributable to non-controlling interest holders in the Company's consolidated funds and majority owned subsidiaries, offset by an \$8.3 million decrease in net income (loss) attributable to other beneficial interest holders in the Company's consolidated CLO entity. Non-controlling interest value adjustments of \$10.6 million and \$8.1 million in the first quarter of fiscal 2013 and 2012, respectively, primarily reflect the growth of Parametric over the twelve-month periods ended December 31, 2012 and 2011, respectively.

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 LLC ("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, capital resources and uses of cash on January 31, 2013 and October 31, 2012 and for the three months ended January 31, 2013 and 2012.

## Balance Sheet and Cash Flow Data

|                                                | January<br>31,<br>2013 | October<br>31,<br>2012 |
|------------------------------------------------|------------------------|------------------------|
| (in thousands)                                 |                        |                        |
| Balance sheet data:                            |                        |                        |
| Assets:                                        |                        |                        |
| Cash and cash equivalents                      | \$218,283              | \$462,076              |
| Investment advisory fees and other receivables | 148,648                | 133,589                |
| Total liquid assets                            | \$366,931              | \$595,665              |
| Investments                                    | \$482,329              | \$486,933              |
| Liabilities:                                   |                        |                        |
| Debt                                           | \$500,000              | \$500,000              |

|                | Three Months Ended<br>January 31, |      |
|----------------|-----------------------------------|------|
| (in thousands) | 2013                              | 2012 |

## Cash flow data:

|                      |             |            |
|----------------------|-------------|------------|
| Operating cash flows | \$(72,206 ) | \$(8,215 ) |
| Investing cash flows | 12,132      | 4,221      |
| Financing cash flows | (183,575)   | (31,511)   |

***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 27 percent and 39 percent of total assets attributable to Eaton Vance Corp. shareholders on January 31, 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 \$228.7 million decrease in liquid assets in the first three months of fiscal 2013 primarily reflects net cash used for operating activities of \$72.2 million, the payment of \$167.0 million of regular and special dividends to shareholders, the repurchase of \$13.3 million of Non-Voting Common Stock, net cash paid for acquisitions of \$81.3 million, and the

payment of \$43.5 million to acquire additional interests in Parametric, offset by net proceeds from the sale of available-for-sale securities of \$43.8 million, net inflows into consolidated funds from non-controlling interest holders of \$8.9 million, proceeds from the issuance of Non-Voting Common Stock of \$59.7 million and \$12.0 million reflecting the impact of our consolidated CLO entity's investing and financing activities.

On January 31, 2013, our debt consisted of \$500 million in aggregate principal amount of 6.5 percent ten-year unsecured notes due in 2017. We also maintain a \$300 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 January 31, 2013 or at any point during the fiscal quarter. We were in compliance with all of the covenants as of January 31, 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 our 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 \$482.3 million of investments as of January 31, 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 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 January 31, 2013.

We test our investments in equity method investees, goodwill and indefinite-lived intangible assets in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. There have been no significant changes in financial condition in the first three months of fiscal 2013 that would indicate that an impairment loss exists at January 31, 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 three months of fiscal 2013 that would indicate that an impairment loss exists at January 31, 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 \$72.2 million in the first three months of fiscal 2013, an increase of \$64.0 million from \$8.2 million of cash used for operating activities in the first three months of fiscal 2012. The increase in net cash used for operating activities year-over-year primarily reflects a net decrease of \$47.7 million related to timing differences in the cash settlement of other assets and liabilities and a decrease of \$6.4 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 and equity method investments.

Cash provided by investing activities totaled \$12.1 million in the first three months of fiscal 2013 compared to \$4.2 million in the first three months of fiscal 2012. The increase in cash provided by investing activities year-over-year can be primarily attributed to an increase of \$35.3 million in net proceeds from the sale of available for sale securities, a \$53.4 million increase in net proceeds from the sale and maturities of investments within our consolidated CLO entity, offset by our acquisition of Clifton for \$67.2 million and a contingent payment of \$14.1 million 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 \$183.6 million in the first three months of fiscal 2013 compared to \$31.5 million in the first three months of fiscal 2012. In the first quarter 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 0.5 million shares of our Non-Voting Common Stock for \$13.3 million under our authorized repurchase programs and issued 4.6 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 \$59.7 million. We have authorization to purchase an additional 3.5 million shares under our current share repurchase authorization and anticipate that future repurchases will continue to be an ongoing use of cash. Our dividends per share were \$1.20 in the first three months of fiscal 2013, including a special one-time dividend of \$1.00 per share declared and paid in December 2012, compared to \$0.19 per share in the first three 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.

**Contractual Obligations**

The following table details our future contractual obligations as of January 31, 2013:

| (in millions)                                              | Payments due by period |                  |           |           |               |
|------------------------------------------------------------|------------------------|------------------|-----------|-----------|---------------|
|                                                            | Total                  | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Operating leases – facilities and equipment <sup>(1)</sup> | \$391                  | \$ 21            | \$ 41     | \$ 38     | \$ 291        |
| Senior notes                                               | 500                    | -                | -         | 500       | -             |
| Interest payments on senior notes                          | 163                    | 33               | 65        | 65        | -             |
| Investment in private equity partnership                   | 1                      | -                | 1         | -         | -             |
| Unrecognized tax benefits <sup>(2)</sup>                   | 10                     | -                | 10        | -         | -             |
| Total                                                      | \$1,065                | \$ 54            | \$ 117    | \$ 603    | \$ 291        |
| Contractual obligations of consolidated CLO:               |                        |                  |           |           |               |
| Senior and subordinated note obligations                   | \$433                  | \$ -             | \$ -      | \$ -      | \$ 433        |
| Interest payments on senior notes                          | 17                     | 3                | 5         | 6         | 3             |
| Total contractual obligations of consolidated CLO          | \$450                  | \$ 3             | \$ 5      | \$ 6      | \$ 436        |

<sup>(1)</sup> Minimum payments have not been reduced by minimum sublease rentals of \$3.0 million due in the future under noncancelable subleases.

<sup>(2)</sup> 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 January 31, 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 January 31, 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 \$89.9 million on January 31, 2013 compared to \$98.8 million on October 31, 2012.

Redeemable non-controlling interests as of January 31, 2013 consist of third-party investors' ownership in consolidated investment funds of \$23.7 million, non-controlling interests in Parametric, Parametric Risk Advisors and Atlanta Capital redeemable at other than fair value of \$0.6 million, \$8.7 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 January 31, 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 January 31, 2013, reflecting indirect interests issued in conjunction with the Clifton acquisition on December 31, 2012. Capital and profit interests held by the Company increased to 98.1 percent and 93.3 percent, respectively, on January 31, 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 January 31, 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 January 31, 2013 to be indefinitely re-invested. Accordingly, no U.S. income taxes have been provided thereon. As of January 31, 2013 the Company had approximately \$4.4 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**

#### ***Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income***

On February 5, 2013, the Financial Accounting Standards Board ("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 second quarter of fiscal 2013.



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

There have been no material changes in our Quantitative and Qualitative Disclosures About Market Risk from those previously reported in our Form 10-K for the year ended October 31, 2012.

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

We evaluated the effectiveness of our disclosure controls and procedures as of January 31, 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**

There have been no material changes to our Risk Factors from those previously reported in our Form 10-K for the year ended October 31, 2012.

**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 first quarter of fiscal 2013:

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

| Period                                        | (a) Total<br>Number of<br>Shares<br>Purchased | (b)<br>Average<br>price<br>paid<br>per share | (c) Total<br>Number of<br>Shares<br>Purchased<br>of<br>Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | (d)<br>Maximum<br>Number of<br>Shares that<br>May Yet<br>Be<br>Purchased<br>under the<br>Plans or<br>Programs |
|-----------------------------------------------|-----------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| November 1, 2012 through<br>November 30, 2012 | 408,684                                       | \$ 28.95                                     | 408,684                                                                                                             | 3,535,739                                                                                                     |
| December 1, 2012 through<br>December 31, 2012 | 38,863                                        | \$ 32.04                                     | 38,863                                                                                                              | 3,496,876                                                                                                     |
| January 1, 2013 through<br>January 31, 2013   | 5,921                                         | \$ 34.80                                     | 5,921                                                                                                               | 3,490,955                                                                                                     |
| Total                                         | 453,468                                       | \$ 29.29                                     | 453,468                                                                                                             | 3,490,955                                                                                                     |

*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<br>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 January 31, 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: March 8, 2013      /s/Laurie G. Hylton  
(Signature)  
Laurie G. Hylton  
Chief Financial Officer  
(Duly Authorized Officer and Principal  
Financial Officer)