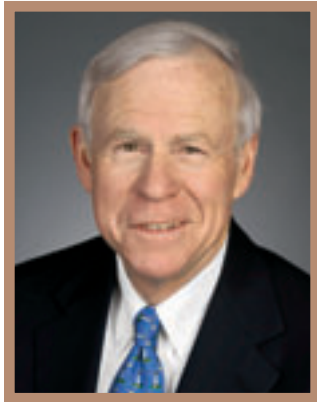


# EATON VANCE CORP.

## 2005 ANNUAL REPORT





James B. Hawkes

**Once again, Eaton Vance led the industry in closed-end fund issuance, raising \$5.0 billion in five new closed-end funds. We gained market share in long-term funds, continuing our long record of market share increases year-by-year.**

## *To Shareholders and Friends of Eaton Vance*

I'm pleased to report that fiscal 2005 was another outstanding year for Eaton Vance. Assets under management grew by 15 percent to a record \$108.5 billion. Internally generated growth was very strong, with gross inflows of \$24.7 billion and net inflows of \$9.6 billion. Our sales team remained an industry leader, as we ranked fourth in the industry through October 31, 2005, in non-proprietary net fund flows. We once again led the industry in closed-end fund issuance, raising \$5.0 billion in five new closed-end funds. We gained market share in long-term funds, continuing our long record of market share increases year by year. In retail managed accounts, we achieved record high levels of assets under management (\$7.1 billion) and sales (\$3.2 billion). We staffed a new institutional marketing and client service team, initiating a major thrust into institutional asset management. We used internally generated cash flow to increase our quarterly dividend by 25 percent in the fourth quarter of fiscal 2005, our 25th consecutive year of dividend increases, and reduced our shares outstanding by 3 percent through stock repurchases. Our stock continued to be a performance leader, measured both long and shorter term. It was indeed a very good year, as these numbers and facts attest.

In evaluating the Company's performance, it's easy to focus on the numbers and to think they are the best measures of our success—to believe we've done a good job because our assets, revenue, earnings and dividends all grew at an above-average rate. While such metrics are certainly an important measure of Company achievement and are the traditional way businesses and shareholders keep score, there's a lot more to consider in evaluating Eaton Vance's performance:

- Did we continue to serve our clients well, meeting their needs and expectations?
- Has our reputation as a Company that follows the highest standards of ethical business conduct remained strong, and do our clients and their financial advisers still trust us?



**We staffed a new Institutional sales and client service team, initiating a major thrust into Institutional asset management.**

**We have consistently, year after year, gained market share, both in funds and in asset management overall. Eaton Vance is now a “big-league player” in the asset management industry.**

- Have we maintained a corporate culture that attracts the best people to Eaton Vance—talent that enables us to grow by serving our clients well?
- Do we have a team that understands business ethics without first having to refer to a business ethics manual or set of procedures?
- Did we retain our position as one of the most innovative and creative companies in the asset management industry?
- Is Eaton Vance still a place where people enjoy coming to work because they love what they do, because they are treated fairly and with respect, and because they are proud to be associated with their colleagues and wear a shirt with an Eaton Vance logo?

I wish I could report to you with great numerical precision just how we performed on each of these factors. Unfortunately, I don't know how to do that. What I can say is that we consider a “yes” answer to these questions critically important to achieving superior long-term returns for our shareholders. And I do believe the evidence supports the proposition that we have succeeded in achieving these corporate goals as well. We certainly understand that there's more to success than just a year's numerical accomplishments. And we continue to focus first and foremost on our clients and our employee team, because we understand these are the two critical variables in achieving favorable long-term results for our shareholders.



**We need to broaden our focus beyond funds to become a leader in new areas with significant growth potential—while remembering the two keys to success: our clients and our employee team.**

#### *An Evolving Strategy*

As mentioned previously, our assets under management passed \$100 billion in fiscal 2005. We have consistently, year after year, gained market share, both in funds and in asset management overall. Eaton Vance is now a “big-league player” in the asset management industry. Consequently, we have the strengths and benefits that come with size. But \$100 billion also means the strategy that got us from \$20 billion to \$100 billion isn’t simply the same strategy to carry us forward. In the past, we’ve been able to exploit niches and grow by becoming an industry leader in smaller sectors of asset management. In the future, we need to become a meaningful participant in more mainstream categories. And we need to broaden our focus beyond mutual funds to become a leader in new areas with significant growth potential—while remembering the two keys to success: our clients and our employee team. I’d like to share with you my thoughts about our strategy for the future. I don’t believe there is a company in the asset management industry that is stronger or better positioned for continued growth.



**Our closed-end fund assets have grown fifteen-fold, from \$1.4 billion in 2000 to \$21.1 billion at fiscal year end, as we have moved in ranking in only five years from number 23 to number 2 in closed-end fund assets managed.**

#### *Funds*

Eaton Vance is now a major player in the fund industry. At fiscal year end, we ranked number 16 among a universe of approximately 600 fund sponsors, up from number 25 a year ago and number 37 in 1997. We are strong in both open-end and closed-end funds. In recent years, we have pursued a strategy to develop a leading position in closed-end funds as a complement to our open-end fund business. As the table on the inside front cover indicates, we've been remarkably successful in achieving this objective. Since launching our first bank loan closed-end fund in 1998, our lineup of sponsored closed-end funds has grown to encompass 34 products: 21 municipal bond funds, eight equity income funds, three bank loan funds and two multi-sector low duration income funds. This year was the third consecutive year that the Company raised more closed-end fund assets than any other firm in the industry. We now manage \$21.1 billion in closed-end fund assets and rank as the second largest manager of closed-end funds. In 2006, we will continue to seek opportunities to create and offer innovative, value-added products to meet the needs of closed-end fund investors.





**Our goal is to become a much more meaningful participant in the non tax-managed equity category.**

In open-end funds, we have long been recognized as a leading manager of income-oriented products. Eaton Vance is the market leader in floating-rate bank loan funds, with more than twice as many assets under management as our nearest competitor and a record of attractive risk-adjusted returns in this low-volatility asset class. Our family of municipal bond funds is the broadest in the industry, with more national and state-specific municipal funds than any other firm, and has an outstanding performance track record. We are also widely regarded as a leading manager of taxable bond funds, with dedicated high-yield, high-grade, government and global investment teams with highly competitive performance over multiple time periods.

In equity funds, we have the leading position in tax-managed and tax-advantaged funds—funds that appeal to investors who pay taxes on their investment returns and seek high after-tax returns. We currently offer the broadest family of mutual funds in the tax-managed/advantaged category and have the largest asset base. However, there are tremendous opportunities for Eaton Vance in non tax-managed equity funds, which represent a much larger part of fund industry equity assets and are appropriate for purchase by retirement plans, such as IRA and 401(k) programs.



**Eaton Vance entered the retail managed account arena in 2001 as a way to leverage our distribution strengths at the retail level and to provide an additional “engine” for growth.**

Our goal is to become a much more meaningful participant in the non tax-managed equity category. We have a growing family of non tax-managed funds with exceptional performance, led by our large-cap value and utilities funds. We intend to strengthen our asset management teams and broaden our fund lineup in this category. This is a primary focus for 2006 and beyond, as non tax-managed funds provide an avenue to continued growth in funds at an above-average rate. During the course of fiscal 2006, the Company plans to introduce a number of new equity funds.

#### *Retail Managed Accounts*

Retail managed accounts (RMAs), a relatively new structure in the asset management industry, offer the benefits of professional management and diversification to smaller individual investors in a separate account format. RMAs are typically distributed by the same financial services firms that offer mutual funds to their clients. In fact, RMAs are competitive products to funds and are growing much faster than funds (from a smaller base). Eaton Vance entered the retail managed account arena in 2001 as a way to leverage our distribution strengths at the retail level and to provide an additional “engine” for growth. I’m pleased to report that our assets and sales have grown consistently, year by year, since we entered this sector. We have a great opportunity to become a true industry leader in RMAs. Our affiliates, Atlanta Capital Management, Fox Asset Management and Parametric Portfolio Associates, provide asset management and technology capabilities that complement Eaton



**Retail managed accounts have the potential to be a very significant source of future growth. Our goal in 2006 and beyond is to become a true leader in this sector.**

Vance's asset management and distribution strengths. We intend to focus in the future on expanding our RMA product line and on leveraging the outstanding specialized RMA sales team that we have developed in recent years. Retail managed accounts have the potential to be a significant source of growth for the Company. Our goal in 2006 and beyond is to become a true leader in this sector.

#### *Institutional*

While Eaton Vance Management has had success in recent years as a manager of income portfolios for institutional investors, particularly in bank loans, our primary focus on tax-managed equities has limited our ability to compete for equity mandates among institutional investors. As we highlight our well-regarded large-cap value and other non tax-managed capabilities and add new products over time, we have an opportunity to substantially grow our asset base in institutional equities. During fiscal 2005, we made a significant commitment to this effort. Lisa Jones, an executive with experience and demonstrated success in institutional markets, joined Eaton Vance in May to build and lead an institutional marketing and service team. I'm pleased to report that the team is now largely in place and has made significant headway in building relationships with institutional consultants and investors.

Eaton Vance also added a distinctive institutional asset management capability in June 2005 when the Company hired Dan Strelow and Jeff Rawlins, two veteran fixed-income managers, to head the newly formed liability-based solutions group. This group provides customized investment management portfolios to institutional clients seeking to hedge and outperform their future liabilities. In constructing and managing client portfolios, the liability-based





**We have a significant opportunity to grow our asset base in institutional equity categories. During fiscal 2005, we made a significant commitment to this effort.**

solutions group draws upon the extensive resources and expertise of Eaton Vance's entire fixed-income management team. Liability-based solutions join the Company's bank loan, large-cap value, high-yield and high-grade investment disciplines as institutional products with significant current market appeal.

While it will likely take several years to capitalize on our institutional opportunity, the market is very large and our market share is insignificant. We now have a fully functional institutional marketing and service team in place, a strong culture and performance records to leverage, and essentially unlimited growth opportunities to pursue. There's certainly much work to be done, but the growth opportunities for the Company in the institutional business are substantial. Like Retail Managed Accounts, institutional asset management is a key component of the Company's growth plan. Opportunities for growth in institutional businesses arise, not only from Eaton Vance Management, but from affiliates Atlanta



**We now have a fully functional institutional marketing and service team in place, a strong culture and performance records to leverage, and essentially unlimited growth opportunities to pursue.**

Capital Management, Fox Asset Management and Parametric Portfolio Associates.

#### *Investment Counsel*

Eaton Vance's history of providing customized asset management and counseling services to high-net-worth investors dates to the founding of Eaton & Howard in 1924. Over the past two years, we have taken a number of steps to expand and build momentum in this attractive business. At the beginning of 2004, Westy Saltonstall, a seasoned executive with long experience in the investment counsel market, joined Eaton Vance to lead our counsel group. Under Westy's leadership, we have grown the counsel business primarily by acquisitions, including one small transaction during fiscal 2005 and the purchase of Voyageur Asset Management, a Boston investment counsel firm with approximately \$440 million in assets under management and seven employees, on December 1, 2005. Through the acquisitions completed to date, Eaton Vance has expanded the number of investment counselors from 8 to 18 and built investment counsel assets from \$0.9 billion to \$3.4 billion, in less than two years. Today, we have momentum and critical mass in investment counsel. We are positioned to compete aggressively and successfully in this market, offering individuals and families sophisticated advice and quality service from a firm they respect and trust.



On December 1, 2005, after the close of fiscal 2005, the Company acquired Voyager Asset Management, a Boston investment counsel firm with approximately \$440 million in assets under management and seven employees.

We are viewed as an attractive employer and as an attractive business partner because of our employee-oriented corporate culture and our reputation as a Company that deals ethically and fairly with others.

### *The Benefits of Size*

With assets under management of over \$100 billion, Eaton Vance is financially and strategically stronger today than at any other time in its history. We have over \$350 million in cash, short-term investments and receivables, very little debt, and we continue to generate healthy cash flows from operations. We have sufficient cash resources to make strategic acquisitions if and when the right opportunities arise. While we believe that organic growth is the most profitable way to grow, we continue to look actively for opportunities to strengthen Eaton Vance by expanding our product offerings and investment skills. We are viewed as an attractive employer and as an attractive business partner because of our employee-oriented corporate culture and our reputation as a Company that deals ethically and fairly with others. Eaton Vance is therefore well-positioned to attract talent and to compete for any acquisition opportunities that offer compelling strategic benefits.

Effective distribution is critical to our future success. Our size allows us to field and support one of the largest and most sophisticated retail sales forces in the industry. As a “top-twenty” industry participant, we have developed strong relationships with the leading financial intermediaries serving the retail investor. A growing distribution team, coupled with a broad and expanding product line offering superior investment performance, is a combination to support strong future growth.





**The Eaton Vance team is our principal asset. Our employees are the Company, and each should be recognized. It's their enthusiasm, energy, creativity, and integrity that differentiate Eaton Vance from the competition.**

#### *Eaton Vance's Competitive Advantage*

As readers of past Eaton Vance annual reports will recognize, our practice for a number of years has been to list all Eaton Vance employees, ranked by years of service, on the back of the report. We do this for the simple reason that the Eaton Vance team is our principal asset. Our employees are the Company, and each should be recognized. It's their enthusiasm, energy, creativity, and integrity that differentiate Eaton Vance from the competition. I wish we could put a picture of every individual in this report, because every one has had a hand in the Company's accomplishments. Because that's impractical, we've instead selected a montage of photographs of the Eaton Vance team at work and at work-related functions. Many of the photos were taken by employees using their own cameras, without any thought that the photos would appear in the Company's annual report. So the quality of every photograph may not be top-notch. But I hope you see what I see in the photos—a very special group of people who truly love what they do—at their desks, at birthday parties, at wedding and baby showers, at “Eaton Vance at the Red Sox” night. It's a very special team, and they make Eaton Vance a very special Company. They are the reason we consistently, year after year, are listed at the top of the asset management industry leaderboard. They are the reason I'm confident we'll stay there in the future. They are our competitive advantage.

Sincerely yours,



James B. Hawkes

*Chairman, President and Chief Executive Officer*

**December 2004**

- Eaton Vance Corp. (EV) finishes the year as the best-performing publicly traded U.S. stock for the past 25 years, with a 32% annualized return.
- EV raises more closed-end fund assets than any other issuer in calendar 2004.
- EV announces a 2-for-1 stock split, the fourth since 1987 and the seventh in the Company's history.

**January 2005**

- EV raises \$815 million in the Initial Public Offering (IPO) of Eaton Vance Enhanced Equity Income Fund II.

**February 2005**

- EV raises \$357 million in the IPO of Eaton Vance Short Duration Income Fund, which will reach \$550 million after leverage.

**March 2005**

- EV announces the appointment of Bill Dodge as Chief Executive Officer and Chief Investment Officer of Fox Asset Management.

**April 2005**

- EV raises \$450 million in the IPO of Eaton Vance Tax-Managed Buy-Write Income Fund.

#### **May 2005**

- EV finishes the month with over \$100 billion in assets under management (AUM).
- EV is named Boston Business Journal's "Company of the Year."
- Lisa Jones joins EV as Head of Institutional.

#### **June 2005**

- EV raises \$1.1 billion in the IPO of Eaton Vance Tax-Managed Buy-Write Opportunities Fund.
- Dan Strelow and Jeffrey Rawlins join EV to launch the Liability-Based Solutions Group.

#### **August 2005**

- EV acquires Weston Asset Management, adding over \$100 million in investment counsel AUM.

#### **September 2005**

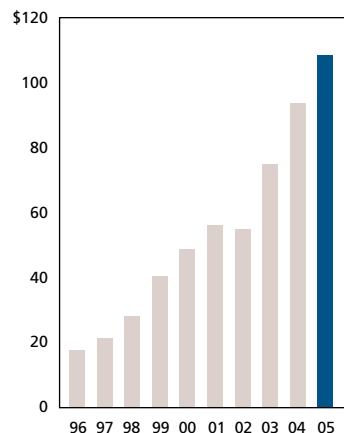
- EV raises \$2 billion in the IPO of Eaton Vance Tax-Managed Global Buy-Write Opportunities Fund.

#### **October 2005**

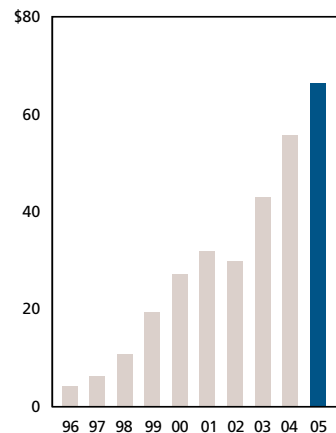
- EV signs agreement to purchase Voyager Asset Management, which has over \$440 million in advisory AUM.
- EV is on pace to be the leader in closed-end fund issuance for the third straight calendar year.
- EV achieves record AUM, Revenue, Earnings and Dividends.



**Assets Under Management**  
(in billions)

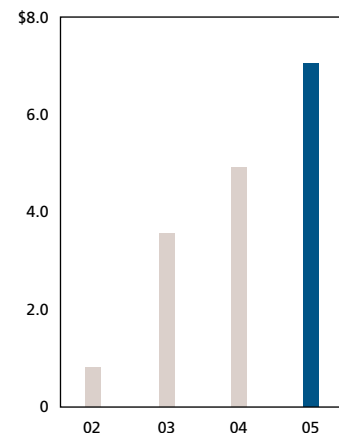


**Equity Assets Under Management**  
(in billions)

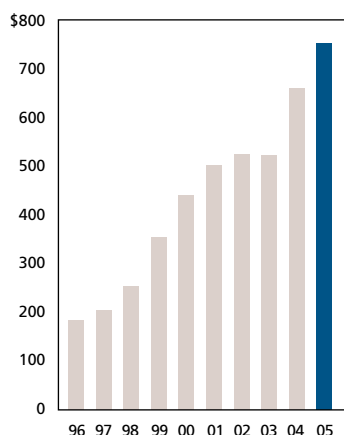


*Includes Balanced Accounts*

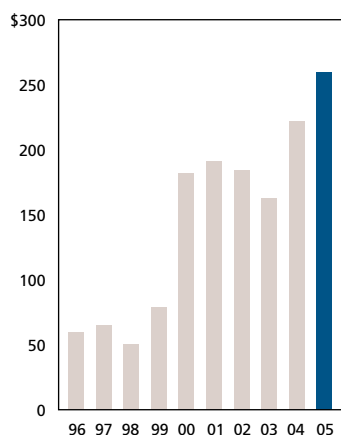
**Retail Managed Account Assets Under Management** (in billions)



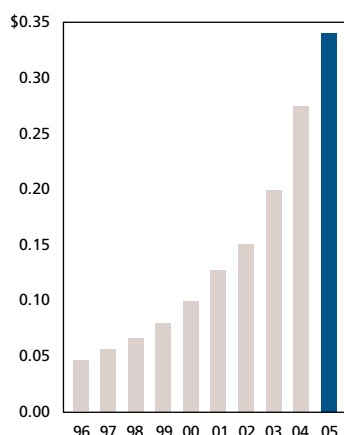
**Revenue**  
(in millions)



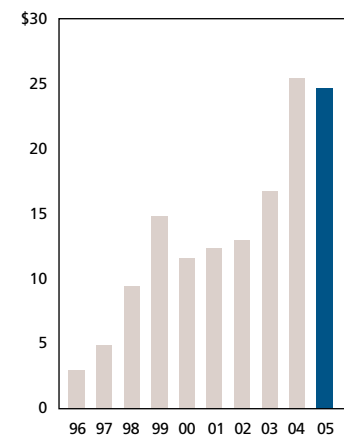
**Operating Income**  
(in millions)



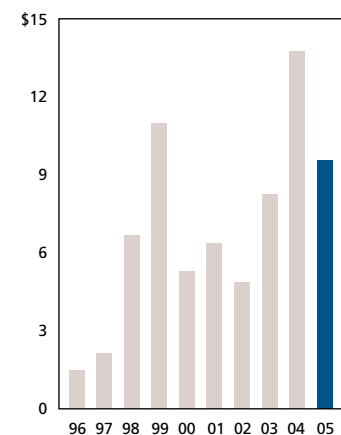
**Dividends Per Share**  
10 Year Compound Annual Growth Rate: 24%



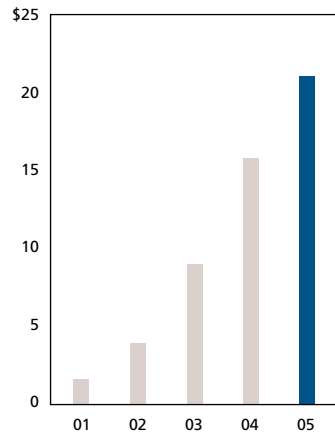
**Gross Sales/Inflows**  
(in billions)



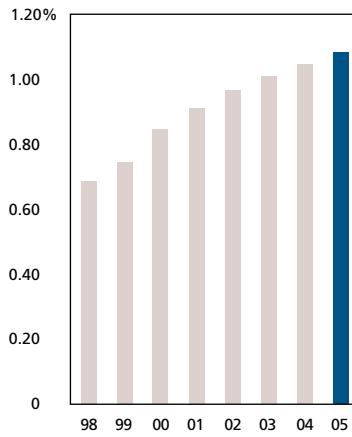
**Net Sales/Inflows**  
(in billions)



**Closed-End Assets Under Management (in billions)**

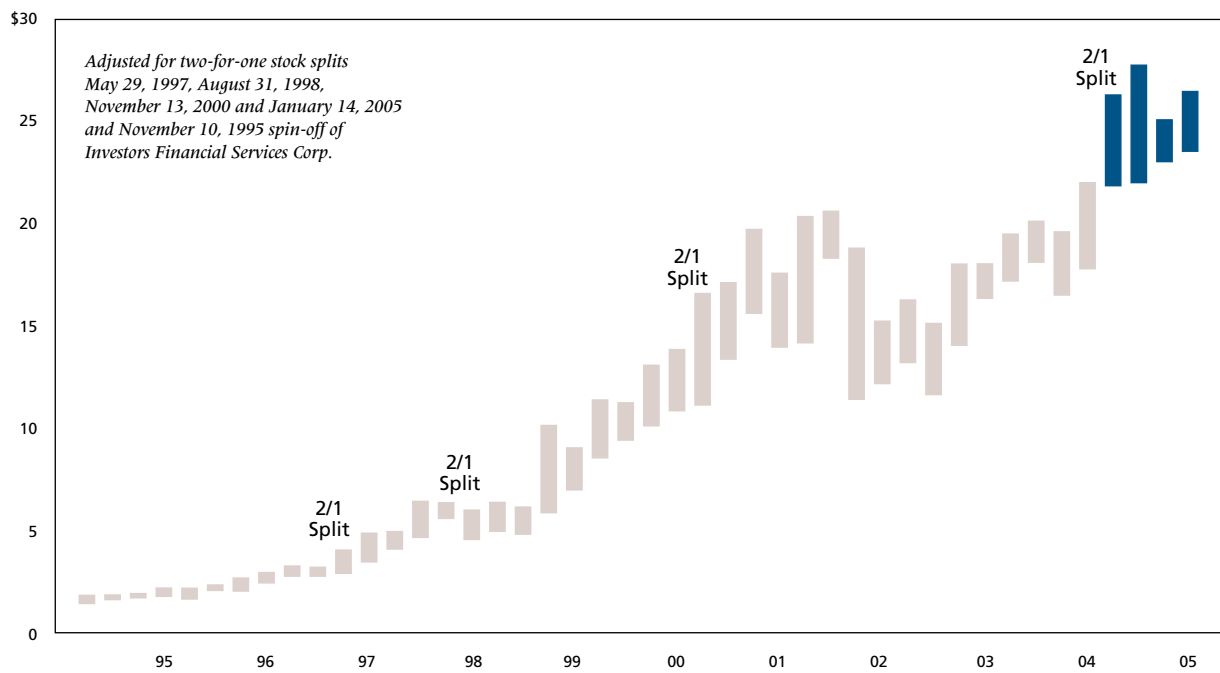


**Eaton Vance Market Share Long-Term Fund Assets**



Source: Strategic Insight

**Quarterly High and Low Stock Prices**



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	2005	Years Ended October 31,			
		2004	2003	2002	2001
<i>(in thousands, except per share figures)</i>					
<b>Income Statement Data</b>					
<b>Revenue:</b>					
Investment adviser and administration fees	<b>\$503,085</b>	\$413,102	\$296,344	\$280,794	\$252,332
Distribution and underwriter fees	<b>139,043</b>	150,018	146,907	162,071	170,892
Service fees	<b>104,644</b>	92,087	74,605	77,833	77,777
Other revenue	<b>6,403</b>	6,606	5,277	2,287	1,558
Total revenue	<b>753,175</b>	661,813	523,133	522,985	502,559
<b>Expenses:</b>					
Compensation of officers and employees	<b>177,856</b>	150,489	115,429	105,331	91,428
Amortization of deferred sales commissions	<b>63,535</b>	81,202	85,192	83,690	79,997
Service fee expense	<b>86,197</b>	76,620	64,285	63,852	60,524
Distribution expense	<b>103,447</b>	81,559	54,790	50,398	50,847
Other expenses	<b>61,726</b>	49,381	40,293	35,791	28,870
Total expenses	<b>492,761</b>	439,251	359,989	339,062	311,666
Operating income	<b>260,414</b>	222,562	163,144	183,923	190,893
<b>Other Income (Expense):</b>					
Interest income	<b>4,354</b>	2,799	4,848	9,019	6,765
Interest expense	<b>(1,464)</b>	(5,898)	(5,761)	(7,098)	(2,209)
Gain (loss) on investments	<b>38</b>	275	2,346	1,344	(2,649)
Foreign currency gain (loss)	<b>(32)</b>	(85)	18	8	—
Impairment loss on long-term investments <sup>(1)</sup>	<b>(2,120)</b>	—	—	—	(15,101)
Income before income taxes, minority interest and equity in net income of affiliates	<b>261,190</b>	219,653	164,595	187,196	177,699
Income taxes	<b>(97,500)</b>	(77,434)	(57,050)	(65,048)	(62,131)
Minority interest	<b>(5,037)</b>	(4,559)	(1,593)	(1,344)	(177)
Equity in net income of affiliates, net of tax	<b>1,231</b>	1,283	171	253	629
Net income	<b>\$159,884</b>	\$138,943	\$106,123	\$121,057	\$116,020
<b>Earnings per share:</b>					
Basic	<b>\$ 1.21</b>	\$ 1.03	\$ 0.77	\$ 0.88	\$ 0.85
Diluted	<b>\$ 1.13</b>	\$ 0.99	\$ 0.75	\$ 0.83	\$ 0.76
Dividends declared, per share	<b>\$ 0.34</b>	\$ 0.28	\$ 0.20	\$ 0.15	\$ 0.13
Weighted average shares outstanding	<b>131,591</b>	134,938	137,832	138,302	137,500
Weighted average shares outstanding assuming dilution	<b>141,632</b>	144,313	145,917	151,001	153,654
<b>Balance Sheet Data</b>					
Total assets	<b>\$702,544</b>	\$743,566	\$658,702	\$616,619	\$675,301
Long-term debt	<b>\$ 75,467</b>	\$ 74,347	\$118,736	\$124,118	\$215,488
Shareholders' equity	<b>\$454,953</b>	\$449,506	\$416,277	\$372,302	\$301,126
Shareholders' equity per share	<b>\$ 3.51</b>	\$ 3.37	\$ 3.05	\$ 2.69	\$ 2.20

(1) In fiscal 2005 and 2001, the Company recognized impairment losses totaling \$2.1 million and \$15.1 million, respectively, related to the Company's minority equity investments in collateralized debt obligation entities whose collateral assets are managed by the Company.

Management's discussion and analysis 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 Annual Report regarding our financial position, business strategy and other plans and objectives for future operations are forward-looking statements. Although we believe that the assumptions and expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations reflected in such forward-looking statements will prove to have been correct or that we will take any actions that may presently be planned. Certain important factors that could cause actual results to differ materially from our expectations are disclosed in the "Certain Factors That May Affect Future Results" section of this Annual Report. All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.

### General

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

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

The Company's principal marketing strategy is to distribute its retail products (including funds and retail managed accounts) primarily through financial intermediaries in the advice channel. The Company has a broad reach in this marketplace, with distribution partners including national and regional broker/dealers, independent broker/dealers, independent financial advisory firms, banks and insurance companies. Eaton Vance supports these distribution partners with a team of approximately 150 regional and Boston-based representatives serving the needs of the Company's partners and clients across the country. Specialized sales and marketing teams supporting the regional and Boston-based representatives noted above provide the increasingly sophisticated information required for distributing the Company's privately placed funds, retail managed accounts, retirement products and charitable giving vehicles.

The Company is also committed to serving institutional and high-net-worth clients who access investment advice outside of traditional retail broker/dealer channels. The Company and its majority-owned subsidiaries, including Atlanta Capital Management Company, LLC (“Atlanta Capital”), Fox Asset Management LLC (“Fox Asset Management”) and Parametric Portfolio Associates LLC (“Parametric Portfolio Associates”), have a broad range of clients in the institutional marketplace, including corporations, endowments, foundations, family offices and public and private employee retirement plans. Specialized sales teams at each of the Company’s affiliates focus exclusively on developing relationships in this market and deal directly with these clients, often on the basis of independent referrals.

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

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

### **Assets Under Management**

Assets under management of \$108.5 billion on October 31, 2005 were 15 percent higher than the \$94.3 billion reported a year earlier. Long-term fund net inflows contributed \$8.6 billion to growth in assets under management over the fiscal year, including \$3.6 billion of open-end and other fund net inflows and \$5.0 billion of closed-end fund assets raised. Separate account net inflows contributed \$1.0 billion, reflecting \$1.6 billion of retail managed account net inflows offset by \$0.6 billion of institutional and high-net-worth net outflows. Market price appreciation, reflecting moderately favorable equity markets, contributed \$4.7 billion to the increase in assets under management.

**Ending Assets Under Management by Investment Objective**

	October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in billions)</i>					
Equity assets	\$ 66.2	\$55.8	\$43.1	19%	29%
Fixed income assets	23.2	21.7	21.6	7%	0%
Floating-rate bank loan assets	19.1	16.8	10.3	14%	63%
Total	\$108.5	\$94.3	\$75.0	15%	26%

Equity assets represented 61 percent of total assets under management at October 31, 2005, up from 59 percent at October 31, 2004 and 57 percent at October 31, 2003. Assets in equity funds managed for after-tax returns totaled \$34.6 billion, \$29.1 billion and \$23.2 billion at October 31, 2005, 2004 and 2003, respectively. Fixed income assets, including money market funds, represented 21 percent of total assets under management at October 31, 2005, down from 23 percent at October 31, 2004 and 29 percent at October 31, 2003. Fixed income assets included \$11.7 billion, \$10.7 billion and \$10.6 billion of tax-exempt municipal bond funds at October 31, 2005, 2004 and 2003, respectively. Floating-rate bank loan assets represented 18 percent of total assets under management at October 31, 2005, compared to 18 percent at October 31, 2004 and 14 percent at October 31, 2003.

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

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in billions)</i>					
Long-term funds:					
Closed-end funds	\$ 5.0	\$ 6.3	\$5.0	-21%	26%
Open-end and other funds	3.6	4.9	2.2	-27%	123%
Total long-term fund net inflows	8.6	11.2	7.2	-23%	56%
Institutional/HNW <sup>(1)</sup> accounts	(0.6)	1.7	0.4	-135%	NM <sup>(2)</sup>
Retail managed accounts	1.6	0.9	0.6	78%	50%
Total separate account net inflows	1.0	2.6	1.0	-62%	160%
Total net inflows	\$ 9.6	\$13.8	\$8.2	-30%	68%

(1) High-net-worth ("HNW")

(2) Not meaningful ("NM")



Long-term fund net inflows totaled \$8.6 billion in fiscal 2005 compared to \$11.2 billion in fiscal 2004 and \$7.2 billion in fiscal 2003. The decrease in fund net inflows in fiscal 2005 can be attributed primarily to lower sales and higher redemptions in the Company's retail bank loan funds. Despite the decrease in sales and the increase in redemptions, bank loan fund net flows remain positive and the funds continue to appeal to both retail and institutional investors in the current rising interest rate environment. Closed-end fund offerings contributed significantly to net inflows in all three periods, with \$5.0 billion in closed-end fund assets added in fiscal 2005, compared to \$6.3 billion in fiscal 2004 and \$5.0 billion in fiscal 2003. Open-end and other long-term fund net inflows of \$3.6 billion, \$4.9 billion and \$2.2 billion for fiscal 2005, 2004 and 2003, respectively, reflect gross inflows of \$13.6 billion, \$13.5 billion and \$8.7 billion, respectively, net of redemptions of \$10.0 billion, \$8.6 billion and \$6.5 billion, respectively. Long-term fund redemptions were 13 percent of average long-term fund assets under management for each of the last three years. According to the Investment Company Institute, the industry average redemption rate for long-term funds, by comparison, exceeded 20 percent of average long-term fund assets under management for each of the last three years.

The Company experienced net inflows of separate account assets of \$1.0 billion in fiscal 2005, compared to net inflows of \$2.6 billion and \$1.0 billion in fiscal 2004 and 2003, respectively. Retail managed account net flows increased to \$1.6 billion in fiscal 2005 from \$0.9 billion and \$0.6 billion in fiscal 2004 and 2003, respectively. Retail managed account net flows reflect strong net sales of Parametric Portfolio Associates' tax efficient overlay and core equity products, as well as strong net sales of Eaton Vance Management's municipal bond products. Institutional and high-net-worth net outflows totaled \$0.6 billion in fiscal 2005 compared to net inflows of \$1.7 billion and \$0.4 billion in fiscal 2004 and 2003, respectively. Institutional and high-net-worth account net outflows of \$1.0 billion in the first half of fiscal 2005 reflected client withdrawals at Fox Asset Management and Atlanta Capital. Institutional and high-net-worth net inflows of \$0.4 billion in the second half of fiscal 2005 reflected improving investment performance and better asset retention at both Fox Asset Management and Atlanta Capital, as well as strong institutional and high-net-worth net inflows at Eaton Vance Management and Parametric Portfolio Associates.

The following table summarizes the asset flows by investment objective for fiscal years ended October 31, 2005, 2004 and 2003:

**Asset Flows**

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in billions)</i>					
Equity fund assets – beginning	\$ 36.9	\$28.9	\$22.9	28%	26%
Sales/inflows	9.7	9.8	4.2	-1%	133%
Redemptions/outflows	(4.3)	(4.1)	(2.8)	5%	46%
Exchanges	—	0.1	—	-100%	NM
Market value change	2.9	2.2	3.9	32%	-44%
Assets acquired	—	—	0.7	NM	-100%
Equity fund assets – ending	\$ 45.2	\$36.9	\$28.9	22%	28%
Fixed income fund assets – beginning	\$ 17.6	\$17.8	\$13.3	-1%	34%
Sales/inflows	3.7	2.4	6.4	54%	-63%
Redemptions/outflows	(2.4)	(2.3)	(2.2)	4%	5%
Exchanges	(0.1)	(0.2)	(0.1)	-50%	100%
Market value change	(0.2)	(0.1)	0.4	100%	-125%
Fixed income fund assets – ending	\$ 18.6	\$17.6	\$17.8	6%	-1%
Floating-rate bank loan fund assets – beginning	\$ 15.0	\$ 9.5	\$ 7.7	58%	23%
Sales/inflows	5.2	7.6	3.1	-32%	145%
Redemptions/outflows	(3.3)	(2.2)	(1.5)	50%	47%
Exchanges	—	0.1	—	-100%	NM
Market value change	(0.1)	—	0.2	NM	-100%
Floating-rate bank loan fund assets – ending	\$ 16.8	\$15.0	\$ 9.5	12%	58%
Total long-term fund assets – beginning	\$ 69.5	\$56.2	\$43.9	24%	28%
Sales/inflows	18.6	19.8	13.7	-6%	45%
Redemptions/outflows	(10.0)	(8.6)	(6.5)	16%	32%
Exchanges	(0.1)	—	(0.1)	NM	-100%
Market value change	2.6	2.1	4.5	24%	-53%
Assets acquired	—	—	0.7	NM	-100%
Total long-term fund assets – ending	\$ 80.6	\$69.5	\$56.2	16%	24%
Separate accounts – beginning	\$ 24.4	\$18.4	\$10.8	33%	70%
Inflows – HNW and institutional	2.9	3.7	2.1	-22%	76%
Outflows – HNW and institutional	(3.5)	(2.0)	(1.7)	75%	18%
Inflows – retail managed accounts	3.2	2.0	0.9	60%	122%
Outflows – retail managed accounts	(1.6)	(1.1)	(0.3)	45%	267%
Market value change	2.1	1.5	2.0	40%	-25%
Assets acquired	0.1	1.9	4.6	-95%	-59%
Separate accounts – ending	\$ 27.6	\$24.4	\$18.4	13%	33%
Money market fund assets – ending	0.3	0.4	0.4	-25%	NM
Assets under management – ending	\$108.5	\$94.3	\$75.0	15%	26%

**Ending Assets Under Management by Asset Class**

	October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in billions)</i>					
Class A <sup>(1)</sup>	\$ 18.8	\$15.4	\$ 8.2	22%	88%
Class B <sup>(2)</sup>	7.7	8.7	13.1	-11%	-34%
Class C <sup>(3)</sup>	7.4	7.1	6.1	4%	16%
Class I <sup>(4)</sup>	1.5	1.1	0.5	36%	120%
Private funds <sup>(5)</sup>	21.8	19.6	17.8	11%	10%
Closed-end funds	21.1	15.8	9.1	34%	74%
Other	2.6	2.2	1.8	18%	22%
Total fund assets	80.9	69.9	56.6	16%	23%
HNW and institutional account assets	20.5	19.5	14.8	5%	32%
Retail managed account assets	7.1	4.9	3.6	45%	36%
Total separate account assets	27.6	24.4	18.4	13%	33%
Total	\$108.5	\$94.3	\$75.0	15%	26%

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

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

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

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

(5) Share class includes privately offered equity and bank loan funds and collateralized debt obligation entities.

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

Fund assets represented 75 percent of total assets under management at October 31, 2005, compared to 74 percent and 75 percent at October 31, 2004 and 2003, respectively. Class A share assets increased to 17 percent of total assets under management at October 31, 2005 from 16 percent and 11 percent at October 31, 2004 and 2003, respectively, while Class B shares dropped to 7 percent at October 31, 2005 from 9 percent and 17 percent at October 31, 2004 and 2003, respectively. The shift from Class B share assets to Class A share assets reflects the overall increasing popularity of Class A shares in the industry and the declining popularity of Class B shares as an asset class. The 34 percent decline in ending Class B share assets under management in fiscal 2004 can also be partly attributed to the implementation of the automatic conversion of Class B shares to Class A shares after eight years of ownership for certain of the Company's mutual funds. Private funds and closed-end funds collectively increased to 40 percent of the Company's total assets under management at October 31, 2005 from 38 percent and 36 percent at October 31, 2004 and 2003, respectively.

The shift in fund asset mix experienced by the Company over the last twelve-month period impacted the Company's revenue and expense structure. The decline in Class B share sales and assets resulted in a reduction in both distribution income (distribution plan payments received) and amortization of deferred sales commissions. As a result of the decline in distribution plan

payments received, the Company's overall effective fee rate, defined as total revenue as a percentage of average assets under management, declined to 74 basis points in fiscal 2005 from 77 basis points and 85 basis points in fiscal 2004 and 2003, respectively. The decrease in distribution plan payments in fiscal 2005 was largely offset by a 22 percent decrease in the amortization of deferred sales commissions over the same period. The Company's operating margin increased to 35 percent in fiscal 2005 from 34 percent and 31 percent in fiscal 2004 and 2003, respectively.

Separate account assets, including high-net-worth, institutional and retail managed account assets, totaled \$27.6 billion at October 31, 2005, up from \$24.4 billion and \$18.4 billion at October 31, 2004 and 2003, respectively. High-net-worth and institutional account assets increased by 5 percent and 32 percent in fiscal 2005 and 2004, respectively, while retail managed account assets increased by 45 percent and 36 percent in the same periods. As noted above, high-net-worth and institutional net inflows were negatively impacted in fiscal 2005 by client withdrawals at Fox Asset Management and Atlanta Capital. Retail managed account assets were positively impacted by strong net sales of Parametric Portfolio Associates' tax-efficient overlay and core equity products as well as Eaton Vance Management's municipal bond products.

#### *Average Assets Under Management by Asset Class <sup>(1)</sup>*

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

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in billions)</i>					
Class A <sup>(2)</sup>	\$ 17.2	\$12.2	\$ 6.9	41%	77%
Class B <sup>(3)</sup>	8.3	10.8	12.7	-23%	-15%
Class C <sup>(4)</sup>	7.3	6.7	5.6	9%	20%
Class I <sup>(5)</sup>	1.2	0.8	0.5	50%	60%
Private funds <sup>(6)</sup>	20.9	18.8	16.0	11%	18%
Closed-end funds	18.2	12.9	6.1	41%	111%
Other	2.3	2.0	0.9	15%	122%
Total fund assets	75.4	64.2	48.7	17%	32%
HNW and institutional account assets	20.0	17.1	11.0	17%	55%
Retail managed account assets	6.1	4.3	1.5	42%	187%
Total separate account assets	26.1	21.4	12.5	22%	71%
Total	\$101.5	\$85.6	\$61.2	19%	40%

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

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

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

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

(6) Share class includes privately offered funds and collateralized debt obligation entities.



## Results of Operations

Net income increased by 15 percent in fiscal 2005 and 31 percent in fiscal 2004. The increases in net income in both fiscal 2005 and 2004 can be attributed primarily to increases in average assets under management of 19 percent and 40 percent, respectively, stable investment adviser and administration fee rates and disciplined cost control in a period of rapid growth.

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in thousands)</i>					
Net income	<b>\$159,884</b>	\$138,943	\$106,123	15%	31%
Earnings per share:					
Basic	<b>\$ 1.21</b>	\$ 1.03	\$ 0.77	17%	34%
Diluted	<b>\$ 1.13</b>	\$ 0.99	\$ 0.75	14%	32%
Operating margin	<b>35%</b>	34%	31%	NM	NM

## Revenue

The Company's effective fee rate (total revenue as a percentage of average assets under management) decreased to 74 basis points in fiscal 2005 from 77 basis points in fiscal 2004 and 85 basis points in fiscal 2003, largely as a result of the change in the Company's long-term fund asset mix. As Class B shares have decreased as a percentage of total long-term fund assets under management, distribution and underwriter fees have decreased in both absolute dollars and as a percentage of total revenue. Distribution and underwriter fees as a percentage of total revenue decreased to 18 percent in 2005 from 23 percent in fiscal 2004 and 28 percent in fiscal 2003. The impact of the decline in the Company's effective fee rate was offset in part by a reduction in deferred sales commissions amortization expense, as deferred sales commissions paid on Class B share sales also declined with the change in asset mix.

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in thousands)</i>					
Investment adviser and administration fees	<b>\$503,085</b>	\$413,102	\$296,344	22%	39%
Distribution and underwriter fees	<b>139,043</b>	150,018	146,907	-7%	2%
Service fees	<b>104,644</b>	92,087	74,605	14%	23%
Other revenue	<b>6,403</b>	6,606	5,277	-3%	25%
Total revenue	<b>\$753,175</b>	\$661,813	\$523,133	14%	27%

## Investment adviser and administration fees

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

The increase in investment adviser and administration fees of 22 percent and 39 percent in fiscal 2005 and 2004, respectively, over the same periods a year earlier can be attributed primarily to an increase in average assets under management and secondarily to the shift in asset mix from lower fee fixed income to higher fee equity and floating-rate bank loan. Average assets under management increased by 19 percent and 40 percent in fiscal 2005 and 2004, respectively, over the same periods a year earlier.

#### *Distribution and underwriter fees*

Distribution plan payments, which are made under contractual agreements with the Company's sponsored funds, are calculated as a percentage of average assets under management in specific share classes of the Company's mutual funds (principally Class B and Class C), as well as certain private funds. These fees fluctuate with both the level of average assets under management and the relative mix of assets between share classes. Underwriter commissions are earned on the sale of shares of the Company's sponsored mutual funds on which investors pay a sales charge at the time of purchase (Class A share sales). Sales charges and underwriter commissions are waived or reduced on sales that exceed specified minimum amounts and on fee-based accounts. Underwriter commissions fluctuate with both the level of Class A share sales and the mix of Class A shares offered with and without sales charges.

Distribution and underwriter fees decreased by 7 percent in fiscal 2005 compared to the same period a year ago, primarily reflecting a decrease in average Class B share assets under management. As noted in the table "Average Assets Under Management by Asset Class," average Class B share assets under management declined 23 percent year-over-year in fiscal 2005, principally as a result of net redemptions in the asset class over the last twelve months. The decrease in average Class B share assets under management was in contrast to a 10 percent increase in average Class C share and private fund assets under management. As noted above, Class C shares and certain private funds are also subject to distribution fees.

Distribution and underwriter fees increased by 2 percent in fiscal 2004 over the same period a year earlier, primarily reflecting an increase in average assets under management of fund Class C shares and certain private funds, offset by a decrease in average Class B share assets under management. As noted in the table "Average Assets Under Management," average Class B share assets under management declined 15 percent over the same period a year earlier as a result of lower Class B share sales and the implementation of an 8-year Class B to Class A share conversion feature for certain of the Company's mutual funds in the second quarter of fiscal 2004.

#### *Service fees*

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

Service fee revenue increased by 14 percent in fiscal 2005 over the same period a year ago, primarily reflecting an 11 percent increase in average Class A, B, C and certain private fund assets under management. Service fee revenue increased by 23 percent in fiscal 2004, reflecting a 17 percent increase in average Class A, B, C and certain private fund assets under management.

#### *Other revenue*

Other revenue, which consists primarily of investment income related to two consolidated short-term income funds, shareholder service fees and realized and unrealized gains and losses on investments classified as trading, declined by 3 percent in fiscal 2005 over the same period a year ago. The decrease in other revenue can be attributed primarily to an increase in realized and unrealized losses on investments classified as trading.

In April 2005, the Company stopped consolidating the larger of the two short-term income funds when the Company's investment dropped below 50 percent of the total net asset value of the fund. Effective April 1, 2005, the Company's investment in the deconsolidated fund was accounted for under the equity method. Other revenue includes \$2.0 million of investment income related to the deconsolidated fund for the fiscal year ended October 31, 2005 and \$2.0 million for the fiscal year ended October 31, 2004.

Other revenue increased by 25 percent in fiscal 2004 over the same period a year earlier, primarily due to the effect of consolidating the larger of the two short-term income funds beginning in the second quarter of fiscal 2003.

#### *Expenses*

Operating expenses increased by 12 percent in fiscal 2005 and 22 percent in fiscal 2004 because of increases in compensation, service fees, distribution and other expenses.

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in thousands)</i>					
Compensation of officers and employees	<b>\$177,856</b>	\$150,489	\$115,429	18%	30%
Amortization of deferred sales commissions	<b>63,535</b>	81,202	85,192	-22%	-5%
Service fee expense	<b>86,197</b>	76,620	64,285	12%	19%
Distribution expense	<b>103,447</b>	81,559	54,790	27%	49%
Other expenses	<b>61,726</b>	49,381	40,293	25%	23%
Total expenses	<b>\$492,761</b>	\$439,251	\$359,989	12%	22%

#### *Compensation of officers and employees*

Compensation expense increased by 18 percent and 30 percent in fiscal 2005 and fiscal 2004, respectively, over the same periods a year earlier. The increase in compensation expense in fiscal 2005 can be primarily attributed to a 10 percent increase in headcount, higher operating income-based employee bonus accruals, higher marketing incentives associated with the Company's separately managed account business, and higher marketing incentives associated with the increase in long-term fund sales. The 10 percent increase in headcount in fiscal 2005 reflects additions to the Company's investment management, marketing and operational teams to support the significant growth in assets under management as well as the build-out of the Company's institutional sales team.

The increase in compensation expense in fiscal 2004 can be attributed to higher marketing incentives associated with a 35 percent increase in fund and retail managed account sales, including the offering of \$6.3 billion of new closed-end funds, the inclusion of Parametric Portfolio Associates employee compensation for a full fiscal year and higher operating income-based bonus accruals.

Compensation costs of Parametric Portfolio Associates after its acquisition by the Company in September 2003 totaled \$9.5 million in fiscal 2004 and \$1.1 million in fiscal 2003.

*Amortization of deferred sales commissions*

Amortization of deferred sales commissions decreased by 22 percent and 5 percent in fiscal 2005 and 2004, respectively, over the same periods a year earlier. Amortization expense is affected by ongoing sales and redemptions of mutual fund Class B shares, Class C shares and certain private funds. In both fiscal 2005 and 2004, increases in Class C share and private fund sales were offset by a decrease in Class B share sales. As amortization expense is a function of the Company's product mix, a continuing shift away from Class B sales and assets to other classes over time will most likely result in further reductions in amortization expense.

*Service fees*

Service fees the Company receives from sponsored funds are generally retained by the Company in the first year and paid to broker/dealers after the first year pursuant to third-party service arrangements. These fees are calculated as a percent of average assets under management in specific share classes of the Company's mutual funds (principally Classes A, B and C) as well as certain private funds. Service fee expense increased by 12 percent in fiscal 2005 and 19 percent in fiscal 2004, reflecting increases in average long-term fund assets retained more than one year in funds and share classes that are subject to service fees.

*Distribution expense*

Distribution expense consists primarily of payments made to distribution partners pursuant to third-party distribution arrangements (calculated as a percentage of average Class C share and closed-end fund assets under management), commissions paid to broker/dealers on the sale of Class A shares at net asset value and other marketing expenses, including marketing expenses associated with revenue sharing arrangements with the Company's distribution partners. Distribution expense increased by 27 percent in fiscal 2005 and 49 percent in fiscal 2004, largely as a result of increases in closed-end fund assets and other assets subject to third-party distribution and revenue-sharing arrangements.

*Other expenses*

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

Other expenses increased by 25 percent in fiscal 2005 over the same period a year ago, primarily reflecting increases in fund-related expenses and the amortization of intangible assets. The increase in fund-related expenses can be attributed to costs borne by the Company to support product development prior to new product launch and payments made to external investment advisers for subadvisory services provided. The increase in the amortization of intangible assets can be attributed to a \$0.9 million impairment loss recognized in the second quarter of fiscal 2005 relating to terminations of management contracts acquired by a majority-owned subsidiary in fiscal 2003.

Other expenses increased by 23 percent in fiscal 2004, primarily as a result of including the facilities, information technology, consulting and amortization expenses of Parametric Portfolio Associates following its acquisition by the Company in the fourth quarter of fiscal 2003.



### Other Income and Expense

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in thousands)</i>					
Interest income	\$ 4,354	\$ 2,799	\$ 4,848	56%	-42%
Interest expense	(1,464)	(5,898)	(5,761)	-75%	2%
Gain on investments	38	275	2,346	-86%	-88%
Foreign currency gain (loss)	(32)	(85)	18	-62%	NM
Impairment loss on investments	(2,120)	—	—	NM	NM
Total other income (expense)	\$ 776	\$(2,909)	\$ 1,451	NM	NM

Interest income increased by 56 percent in fiscal 2005 over the same period a year ago, primarily due to an increase in short-term interest rates offset by a decrease in interest income earned on the Company's minority equity investments in three collateralized debt obligation entities.

Interest income earned on investments classified as available-for-sale is included in interest income. Interest and dividend income earned by the Company's consolidated funds, which invest in short-term debt instruments, is recorded in other revenue. Effective April 1, 2005, the Company stopped consolidating one of two consolidated funds and adopted the equity method of accounting for this investment. Investment income earned by the deconsolidated fund is included in equity in net income of affiliates for the period April 1, 2005 through October 31, 2005.

Interest expense decreased by 75 percent in fiscal 2005 over the same period a year ago, primarily reflecting a decrease in average long-term debt balances. The decrease in average long-term debt balances is attributed to the retirement of Eaton Vance Management's ("EVM's") 6.22 percent notes in March 2004 and the repurchase of \$46.0 million of EVM's zero-coupon exchangeable senior notes in August 2004.

Interest expense increased by 2 percent in fiscal 2004 over the same period a year earlier, reflecting the recognition of additional interest expense (\$0.2 million) in conjunction with the Company's Internal Revenue Service audits for the fiscal years ended October 31, 1999 and 2000, offset by a decrease in average long-term debt balances as described above.

In fiscal 2005, the Company recognized a \$2.1 million impairment loss related to its investment in a collateralized debt obligation entity. The impairment loss resulted from the effect of tightening credit spreads and higher than forecasted prepayment rates on the entity's investments. The Company continues to earn management fees on the underlying collateral pool.

### Income Taxes

The Company's effective tax rate (income taxes as a percentage of income before minority interest, equity in net income of affiliates and income taxes) increased to 37 percent in fiscal 2005 from 35 percent in fiscal 2004. The Company's policy for accounting for income taxes includes monitoring its business activities and tax policies to ensure that the Company is in compliance with federal, state and foreign tax laws. In the ordinary course of business, various taxing authorities may not agree with certain tax positions taken by the Company, or applicable law may not be clear. The Company periodically reviews these tax positions and provides for and adjusts as necessary estimated liabilities relating to such positions as part of its overall tax provision. During the year

ended October 31, 2005, the Company increased its provision for income taxes by \$1.9 million related to uncertain tax positions.

In January 2004, the Internal Revenue Service issued a new regulation that changed the tax treatment of deferred sales commissions recoverable pursuant to Rule 12b-1 plans. The new tax regulation, which allowed for the immediate deduction of these commissions when paid, was applied prospectively to such commissions paid in fiscal year 2004 and retroactively to such commissions paid during fiscal years 2003 and 2002. Sales commission payments made in fiscal years 2003 and 2002 were previously capitalized for tax purposes and deducted over their useful lives. Unamortized balances relating to fiscal years 2003 and 2002 were deducted for tax purposes in fiscal 2004. The change in tax accounting treatment did not require amendments to prior year returns and had no impact on the Company's effective tax rate. As discussed in "Changes in Financial Condition and Liquidity and Capital Resources," deferred income taxes increased by approximately 74 percent in fiscal 2004 as a result of the change in tax accounting treatment.

#### ***Minority Interest***

Minority interest increased by 10 percent in fiscal 2005, primarily due to the increased profitability of two of the Company's majority-owned subsidiaries, Atlanta Capital and Parametric Portfolio Associates. Minority interest increased by 186 percent in fiscal 2004, primarily due to the increased minority interest of unaffiliated investors in the Company's consolidated short-term income funds, the acquisition of Parametric Portfolio Associates in September of 2003 and the increased profitability of the Company's other majority-owned subsidiaries over the prior year. As noted in "Other Revenue," the Company stopped consolidating one of the two consolidated short-term income funds in the second quarter of fiscal 2005.

Minority interest is not adjusted for taxes due to the underlying tax status of the Company's majority-owned subsidiaries. Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates are limited liability companies that are treated as partnerships for tax purposes. The short-term income funds consolidated by the Company are registered investment companies that are treated as pass-through entities for tax purposes.

#### ***Equity in Net Income of Affiliates, Net of Tax***

Equity in net income of affiliates, net of tax, decreased by 4 percent in fiscal 2005, largely as a result of calendar year-end bonuses paid and expensed by Lloyd George Management in December 2004. Equity in net income of affiliates reflects the Company's 20 percent minority equity interest in Lloyd George Management as well as the Company's 30 percent minority equity interest in the Eaton Vance Short-Term Income Fund.

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

The following table summarizes certain key financial data relating to the Company's liquidity and capital resources on October 31, 2005, 2004 and 2003 and for the years then ended:

	For the Years Ended October 31,			2005 vs.	2004 vs.
	2005	2004	2003	2004	2003
<i>(in thousands)</i>					
Balance sheet data:					
Cash and cash equivalents	<b>\$146,389</b>	\$ 147,137	\$138,328	-1%	6%
Short-term investments	<b>127,858</b>	210,429	104,484	-39%	101%
Long-term investments	<b>61,766</b>	36,895	36,490	67%	1%
Deferred sales commissions	<b>126,113</b>	162,259	199,322	-22%	-19%
Current portion of long-term debt	<b>—</b>	—	7,143	NM	-100%
Long-term debt	<b>75,467</b>	74,347	118,736	2%	-37%
Deferred income taxes	<b>51,147</b>	57,644	33,203	-11%	74%
Cash flow data:					
Operating cash flows	<b>\$107,594</b>	\$ 117,085	\$ 43,809	-8%	167%
Investing cash flows	<b>(30,276)</b>	(2,635)	25,895	NM	-110%
Financing cash flows	<b>(77,990)</b>	(105,723)	(75,516)	26%	-40%

The Company's financial condition is highly liquid, with a significant percentage of the Company's assets represented by cash, cash equivalents and short-term investments. Short-term investments consist principally of investments in the Company's sponsored money market and short-term income funds. The decrease in short-term investments can be attributed to the deconsolidation of the larger of two majority-owned short-term income funds in April of 2005. The Company's investment in this previously consolidated fund, net of previously recorded minority interest, remains in short-term investments and is accounted for under the equity method of accounting. Long-term investments consist principally of investments in certain of the Company's sponsored mutual funds and minority equity investments in collateralized debt obligation entities.

Deferred sales commissions paid to broker/dealers in connection with the distribution of the Company's Class B and Class C fund shares, as well as certain private funds, decreased by 22 percent in fiscal 2005 and 19 percent in fiscal 2004, primarily reflecting the decline in Class B share sales and assets over the last two fiscal years. Deferred income taxes, which relate principally to deferred sales commissions, also decreased by 11 percent in fiscal 2005. Deferred income taxes increased by 74 percent in fiscal 2004, reflecting a change in the federal tax treatment of deferred sales commissions in fiscal 2004. The change in the timing of the deduction of sales commission payments had the effect of increasing deferred income taxes and reducing current income tax payments in fiscal 2004.

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

<i>Contractual Obligations</i>	Payments due				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
<i>(in millions)</i>					
Operating leases – facilities and equipment	\$37.6	\$7.7	\$15.4	\$6.9	\$7.6

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

Also excluded from the table above are EVM's zero-coupon exchangeable senior notes ("Notes"). On August 13, 2001, EVM issued 314,000 Notes due August 13, 2031 in a private placement to qualified institutional buyers at an initial offering price of \$638.70 per \$1,000 principal amount at maturity. The discounted price reflects a yield to maturity of 1.5 percent per year. Upon certain events, each Note is exchangeable into 28.7314 shares of the Company's non-voting common stock, subject to adjustment. EVM may redeem the Notes on or after August 13, 2006 at their accreted value. At the option of Note holders, EVM may be required to repurchase the Notes at their accreted value on August 13, 2006 and at five-year intervals thereafter until maturity or in the event that the credit rating of the Notes is decreased by three or more rating subcategories below its initial rating by either Moody's or Standard & Poor's. Such repurchases can be paid in cash, shares of the Company's non-voting common stock, or a combination of both, at the Company's election.

Note holders also have the right to surrender their Notes for exchange into shares of the Company's non-voting common stock in any fiscal quarter if, as of the last day of the preceding fiscal quarter, the closing sale price of Eaton Vance Corp.'s non-voting common stock for at least 20 of the last 30 consecutive trading days is more than a specified percentage of the accreted exchange price per share on that date. On October 31, 2005, the contingent conversion price for the Company's non-voting common stock was \$28.01. EVM has the right to settle the exchange in cash, shares of the Company's non-voting common stock, or a combination of both. On October 31, 2005, 110,945 Notes remained outstanding (\$110.9 million principal amount at maturity).

On December 21, 2004, the Company executed a new revolving credit facility with several banks. The facility, which expires on December 21, 2009, provides that the Company may borrow up to \$180 million at LIBOR-based rates of interest that vary depending on the level of usage of the facility and credit ratings of the Notes. The agreement contains financial covenants with respect to leverage and interest coverage and requires the Company to pay an annual commitment fee on any unused portion. At October 31, 2005, the Company had no outstanding borrowings under its revolving credit facility.



### *Operating Cash Flows*

Operating cash flows consist primarily of the operating results of the Company adjusted to reflect changes in current assets and liabilities, deferred sales commissions, deferred income taxes and investments classified as trading. Cash provided by operating activities totaled \$107.6 million, \$117.1 million and \$43.8 million in the fiscal years ended October 31, 2005, 2004 and 2003, respectively. The decrease in cash provided by operating activities in fiscal 2005 can be attributed to a change in the timing of advisory, administration, distribution and service fee payments by the Company's sponsored funds. Prior to July 31, 2005, the sponsored funds made all fee payments on the last business day of the month. Effective July 31, 2005, the sponsored funds pay all fees on the third business day of the following month. As a result, investment adviser fees and other receivables increased at October 31, 2005 and cash and cash equivalents decreased in comparison to October 31, 2004. The decrease in operating cash flows can also be attributed to a decrease in cash provided by the purchase and sale of trading securities by the Company's two consolidated short-term income funds in fiscal 2005, which regularly purchase and sell short-term debt instruments. Net cash used in the purchase and sale of trading securities totaled \$68.8 million, \$105.8 million and \$103.4 million in fiscal 2005, 2004 and 2003, respectively.

Capitalized sales commissions paid to financial intermediaries for the distribution of the Company's Class B and Class C fund shares and certain private funds decreased by \$16.9 million in fiscal 2005 and \$6.1 million in fiscal 2004 due primarily to a decline in Class B share sales. Although the Company anticipates that the payment of capitalized sales commissions will continue to be a significant use of cash in the future, the payment of sales commissions will likely continue to decline if sales of Class B shares continue to decline. The amortization of deferred sales commissions and contingent deferred sales charges received will likely be similarly affected.

Deferred income taxes reduced operating cash flows by \$7.9 million in fiscal 2005. In fiscal 2004, deferred income taxes contributed \$24.1 million to operating cash flows, primarily as a result of the change in the tax treatment of deferred sales commissions paid as described in "Income Taxes." In fiscal 2003, prior to the change in the tax treatment, deferred income taxes reduced operating cash flows by \$16.2 million.

### *Investing Cash Flows*

Investing activities consist primarily of the purchase of equipment and leasehold improvements and the purchase and sale of investments in the Company's sponsored mutual funds. Cash provided by (used for) investing activities totaled (\$30.3) million, (\$2.6) million and \$25.9 million in fiscal 2005, 2004 and 2003, respectively. The increase in cash used for investing activities in fiscal 2005 reflects the Company's investment in certain sponsored funds. The decrease in cash provided by investing activities in fiscal 2004 reflects the Company's sale of certain available-for-sale securities in fiscal 2003 and the investment of those proceeds in two consolidated mutual funds (see discussion of purchase and sale of trading securities described in "Operating Cash Flows").

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

Financing cash flows primarily reflect the issuance and repayment of long-term debt, the issuance and repurchase of the Company's non-voting common stock and the payment of dividends to the Company's shareholders. Financing cash flows also include proceeds from the issuance of capital stock by the Company's two consolidated mutual fund subsidiaries (one of which was deconsolidated in April of 2005) and cash paid to meet redemptions by minority shareholders of these mutual fund subsidiaries. Cash used for financing activities totaled \$78.0 million, \$105.7 million and \$75.5 million in fiscal 2005, 2004 and 2003, respectively, reflecting net proceeds from the issuance of the Company's mutual fund subsidiaries' capital stock of \$84.6 million, \$58.8 million and \$3.9 million in fiscal 2005, 2004 and 2003, respectively.

The Company repaid \$53.2 million and \$18.0 million in long-term debt in fiscal 2004 and 2003, respectively. The Company made no long-term debt payments in fiscal 2005. Debt repayments in fiscal 2004 included the retirement of EVM's 6.22 percent senior loan and the repurchase of \$46.0 million at accreted value of EVM's zero-coupon exchangeable notes issued in August 2001. Debt repayments in fiscal 2003 included a principal installment of \$7.1 million on EVM's 6.22 percent senior loan and the retirement of \$10.8 million of debt carried by Parametric Portfolio Associates at the date of acquisition.

In fiscal 2005, the Company repurchased a total of 5.4 million shares of its non-voting common stock for \$132.6 million under its authorized repurchase program and issued 1.4 million shares of non-voting common stock in connection with the exercise of stock options and employee stock purchases for total proceeds of \$17.1 million. The Company has authorization to purchase an additional 5.3 million shares under its present share repurchase authorization and anticipates that future repurchases will continue to be a significant use of cash. The Company's dividends per share were \$0.34 in fiscal 2005, \$0.28 in fiscal 2004 and \$0.20 in fiscal 2003. The Company increased its quarterly dividend by 25 percent to \$0.10 per share in the fourth quarter of fiscal 2005.

On December 15, 2004, the Company's Board of Directors authorized, and the Company's voting shareholders approved, a two-for-one stock split of the Company's outstanding common stock. The split entitled each shareholder of record as of December 31, 2004, to receive one additional share of the same class for every one share of common stock held on the record date.

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

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

### **Critical Accounting Policies**

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

#### ***Deferred Sales Commissions***

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

#### ***Goodwill and Intangible Assets***

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

#### ***Deferred Income Taxes***

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the Company's assets and liabilities. The Company's deferred taxes relate principally to capitalized sales commissions paid to broker/dealers. As noted previously, IRS regulations issued in 2004 provide that commission payments made after November 1, 2003, are deductible for tax purposes at the time of payment. While the Company has considered future taxable income and ongoing tax planning in assessing its taxes, changes in tax laws may result in a change to the Company's tax position and effective tax rate.

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

The Company acts as collateral manager for five collateralized debt obligation entities and Eaton Vance Variable Leveraged Fund (collectively the "CDO entities") pursuant to collateral management agreements between the Company and each CDO entity. At October 31, 2005, combined assets under management in the collateral pools of these CDO entities were approximately \$1.9 billion. The Company had combined minority equity investments of \$21.9 million in four of these entities on October 31, 2005.

The Company accounts for its investments in CDO entities under Emerging Issues Task Force (“EITF”) 99-20, “Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.” The excess of future cash flows over the initial investment at the date of purchase is recognized as interest income over the life of the investment using the effective yield method. The Company reviews cash flow estimates throughout the life of each CDO investment pool to determine whether an impairment of its equity investments should be recognized. Cash flow estimates are based on the underlying pool of collateral securities and take into account the overall credit quality of the issuers of the collateral securities, the forecasted default rate of the collateral securities and the Company’s past experience in managing similar securities. If the updated estimate of future cash flows (taking into account both timing and amounts) is less than the last revised estimate, an impairment loss is recognized based on the excess of the carrying amount of the investment over its fair value. Fair value is determined using current information, notably market yields and projected cash flows based on forecasted default and recovery rates that a market participant would use in determining the current fair value of the equity interest. Market yields, default rates and recovery rates used in the Company’s estimate of fair value vary based on the nature of the investments in the underlying collateral pools. In periods of rising credit default rates and lower debt recovery rates, the fair value, and therefore carrying value, of the Company’s investments in these CDO entities may be adversely affected. The Company’s risk of loss in the CDO entities is limited to the \$21.9 million carrying value of the minority equity investments on the Company’s Consolidated Balance Sheet at October 31, 2005.

A CDO entity issues non-recourse debt securities, which are sold in a private offering by an underwriter to institutional and high-net-worth investors. The CDO debt securities issued by the CDO entity are secured by collateral in the form of high-yield bonds and/or floating-rate income instruments that the CDO entity purchases. The Company manages the collateral securities for a fee and, in most cases, is a minority investor in the equity interests of the CDO entity. An equity interest in a CDO entity is subordinated to all other interests in the CDO entity and entitles the investor to receive the residual cash flows, if any, from the CDO entity. As a result, the Company’s equity investment in a CDO entity is sensitive to changes in the credit quality of the issuers of the collateral securities, including changes in the forecasted default rates and any declines in anticipated recovery rates. The Company’s financial exposure to the CDOs it manages is limited to its equity interests in the CDO entities as reflected in the Company’s Consolidated Balance Sheet.

#### ***Loss Contingencies***

The Company continuously reviews any investor, employee or vendor complaints and pending or threatened litigation. The likelihood that a loss contingency exists is evaluated under the criteria of Statement of Financial Accounting Standards (“SFAS”) No. 5, “Accounting for Contingencies,” through consultation with legal counsel and a loss contingency is recorded if the contingency is probable and reasonably estimable at the date of the financial statements. There are no losses of this nature that are probable and reasonably estimable, and thus none have been recorded in the financial statements included in this report.

#### **Accounting Developments**

In June 2005, the Financial Accounting Standards Board (“FASB”) ratified the EITF consensus on EITF Issue No. 04-05, “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.” The Task

Force reached a consensus that for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, the guidance is effective after June 29, 2005. The Task Force also reached a consensus that for general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of the consensus will not have a material effect on the consolidated results of operations or the consolidated financial position of the Company.

In December 2004, the FASB revised SFAS No. 123, "Accounting for Stock-Based Compensation," requiring public companies to recognize the cost resulting from all share-based payment transactions in their financial statements based on the grant-date fair value of those awards. The Company intends to apply the modified version of retrospective application for periods prior to the required effective date and will adjust results on a basis consistent with the pro forma disclosures previously made under SFAS No. 123. The revised statement is effective for the Company's first fiscal quarter beginning November 1, 2005. Had the Company implemented the provisions of SFAS No. 123 as revised for the years ended October 31, 2005, 2004 and 2003, diluted earnings per share would have been \$0.99, \$0.87 and \$0.67, respectively.

In its calculations of stock option expense for the purposes of pro forma disclosure, the Company previously chose to recognize forfeitures when they occurred rather than estimate them at grant date. Upon implementation, if actual forfeitures of awards granted prior to the adoption of SFAS No. 123 as revised differ from the calculation of expected forfeitures for these awards, the Company will be required to recognize the difference in income as an adjustment to compensation cost. The Company does not anticipate that this adjustment will be material to the Company's consolidated financial statements.

In October 2004, the FASB ratified the consensus of the EITF regarding the effect of contingently convertible debt on diluted earnings per share. EITF 04-08, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," states that any shares of common stock that may be issued to settle contingently convertible securities must be considered issued in the calculation of diluted earnings per share, regardless of whether the market price trigger (or other contingent feature) has been met. The consensus, which was effective for all reporting periods ending after December 15, 2004, required the restatement of diluted earnings per share for all prior periods presented. The retroactive application of EITF 04-08 had the effect of reducing the Company's earnings per share by \$0.02, \$0.01 and \$0.01 for the years ended October 31, 2005, 2004 and 2003, respectively.

#### **Certain Factors That May Affect Future Results**

The Company is subject to substantial competition in all aspects of its business. The Company's ability to market investment products is highly dependent on access to the various distribution systems of national and regional securities dealer firms, which generally offer competing internally and externally managed investment products. Although the Company has historically been successful in maintaining access to these channels, there can be no assurance that it will continue to do so. The inability to have such access could have a material adverse effect on the Company's business.

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



competing with the Company have greater resources than the Company. The Company competes with other providers of investment products on the basis of the products offered, the investment performance of such products, quality of service, fees charged, the level and type of financial intermediary compensation, the manner in which such products are marketed and distributed, and the services provided to investors.

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

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

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

### **Market Risk**

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

The Company's primary exposure to equity price risk arises from its investments in sponsored equity funds. Equity price risk as it relates to these investments represents the potential future loss of value that would result from a decline in the fair values of the fund shares. The Company's investments in sponsored equity funds totaled \$26.9 million at October 31, 2005, and are carried at fair value on the Company's Consolidated Balance Sheets.

The Company's primary exposure to interest rate risk arises from its investment in fixed and floating-rate income funds sponsored by the Company and short-term debt securities. The negative effect on the Company's pre-tax interest income of a 50 basis point (0.50%) decline in interest rates would be approximately \$0.7 million based on fixed-income and floating-rate bank loan income investments of \$130.2 million as of October 31, 2005. A 50 basis point decline in interest rates is a hypothetical scenario used to demonstrate potential risk and does not represent management's view of future market changes. The Company is not exposed to interest rate risk in its issued debt instruments as the Company's only funded debt instruments accrete interest at a fixed rate.

The Company's primary exposure to credit risk arises from its minority equity interests in four CDO entities that are included in long-term investments in the Company's Consolidated Balance Sheets. As a minority equity investor in a CDO entity, the Company is entitled to only a residual interest in the CDO entity, making these investments highly sensitive to the default rates of the underlying issuers of the high-yield bonds or floating-rate income instruments held by the CDO entity. The Company's minority equity investments are subject to an impairment loss in the event that the cash flows generated by the collateral securities are not sufficient to allow equity holders to recover their investments. If there is deterioration in the credit quality of the issuers underlying the collateral securities and a corresponding increase in the number of defaults, cash flows generated by the collateral securities may be adversely impacted and the Company may be unable to recover its investment. The Company's total investment in minority equity interests in CDO entities is approximately \$21.9 million at October 31, 2005, which represents the total value at risk with respect to such entities as of October 31, 2005.

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

In evaluating market risk, it is also important to note that most of the Company's revenue is based on the market value of assets under management. As noted in "Certain Factors That May Affect Future Results," declines of financial market values will negatively impact the Company's revenue and net income.

#### **Evaluation of Disclosure Controls and Procedures**

As of October 31, 2005, the Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Disclosure controls and procedures are the controls and other procedures that the Company designed to ensure that it records, processes, summarizes and reports in a timely manner the information it must disclose in reports that it files with or submits to the Securities and Exchange Commission ("SEC"). The Company's Chief Executive Officer and Chief Financial Officer participated in this evaluation. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the date of their evaluation, the Company's disclosure controls and procedures were effective.

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

# CONSOLIDATED STATEMENTS OF INCOME

	Years Ended October 31,		
	2005	2004	2003
<i>(in thousands, except per share figures)</i>			
<b>Revenue:</b>			
Investment adviser and administration fees	\$503,085	\$413,102	\$296,344
Distribution and underwriter fees	139,043	150,018	146,907
Service fees	104,644	92,087	74,605
Other revenue	6,403	6,606	5,277
Total revenue	753,175	661,813	523,133
<b>Expenses:</b>			
Compensation of officers and employees	177,856	150,489	115,429
Amortization of deferred sales commissions	63,535	81,202	85,192
Service fee expense	86,197	76,620	64,285
Distribution expense	103,447	81,559	54,790
Other expenses	61,726	49,381	40,293
Total expenses	492,761	439,251	359,989
Operating income	260,414	222,562	163,144
<b>Other Income (Expense):</b>			
Interest income	4,354	2,799	4,848
Interest expense	(1,464)	(5,898)	(5,761)
Gain on investments	38	275	2,346
Foreign currency gain (loss)	(32)	(85)	18
Impairment loss on investments	(2,120)	—	—
Income before income taxes, minority interest and equity in net income of affiliates	261,190	219,653	164,595
Income taxes	(97,500)	(77,434)	(57,050)
Minority interest	(5,037)	(4,559)	(1,593)
Equity in net income of affiliates, net of tax	1,231	1,283	171
Net income	\$159,884	\$138,943	\$106,123
Earnings per share:			
Basic	\$ 1.21	\$ 1.03	\$ 0.77
Diluted	\$ 1.13	\$ 0.99	\$ 0.75
Weighted average shares outstanding:			
Basic	131,591	134,938	137,832
Diluted	141,632	144,313	145,917

See notes to consolidated financial statements.

# CONSOLIDATED BALANCE SHEETS

	October 31,	
	2005	2004
<i>(in thousands, except share figures)</i>		
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$146,389	\$147,137
Short-term investments	127,858	210,429
Investment adviser fees and other receivables	83,868	32,249
Other current assets	10,473	4,861
Total current assets	368,588	394,676
<b>Other Assets:</b>		
Deferred sales commissions	126,113	162,259
Goodwill	89,634	89,281
Other intangible assets, net	40,644	43,965
Long-term investments	61,766	36,895
Equipment and leasehold improvements, net	12,764	12,413
Other assets	3,035	4,077
Total other assets	333,956	348,890
Total assets	\$702,544	\$743,566
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities:</b>		
Accrued compensation	\$ 62,880	\$ 52,299
Accounts payable and accrued expenses	27,987	23,789
Dividend payable	12,952	10,660
Other current liabilities	12,538	7,451
Total current liabilities	116,357	94,199
<b>Long-Term Liabilities:</b>		
Long-term debt	75,467	74,347
Deferred income taxes	51,147	57,644
Total long-term liabilities	126,614	131,991
Total liabilities	242,971	226,190
Minority interest	4,620	67,870
Commitments and contingencies	—	—
<b>Shareholders' Equity:</b>		
Common stock, par value \$0.00390625 per share:		
Authorized, 1,280,000 shares		
Issued and outstanding, 309,760 shares	1	1
Non-voting common stock, par value \$0.00390625 per share:		
Authorized, 190,720,000 shares		
Issued and outstanding, 129,243,023 and 133,271,560 shares, respectively	505	521
Notes receivable from stock option exercises	(2,741)	(2,718)
Deferred compensation	(2,600)	(2,400)
Accumulated other comprehensive income	2,566	1,854
Retained earnings	457,222	452,248
Total shareholders' equity	454,953	449,506
Total liabilities and shareholders' equity	\$702,544	\$743,566

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND  
COMPREHENSIVE INCOME**

	Common and Non-Voting Common Shares	Common Stock	Non-Voting Common Stock	Additional Paid-In Capital
<i>(in thousands)</i>				
Balance, October 31, 2002	138,514	\$ 1	\$540	\$ —
Net income	—	—	—	—
Other comprehensive income:				
Unrealized losses on investments, net of tax	—	—	—	—
Foreign currency translation adjustments, net of tax	—	—	—	—
Total comprehensive income				
Dividends declared (\$0.20 per share)	—	—	—	—
Issuance of non-voting common stock:				
On exercise of stock options	848	—	3	5,753
Under employee stock purchase plan	162	—	1	2,099
Under employee incentive plan	120	—	—	1,581
Tax benefit of stock option exercises	—	—	—	487
Repurchase of non-voting common stock	(2,834)	—	(11)	(9,920)
Principal repayments	—	—	—	—
Compensation expense related to restricted stock issuance	—	—	—	—
Balance, October 31, 2003	136,810	1	533	—
Net income	—	—	—	—
Other comprehensive income:				
Unrealized gains on investments, net of tax	—	—	—	—
Foreign currency translation adjustments, net of tax	—	—	—	—
Total comprehensive income				
Dividends declared (\$0.28 per share)	—	—	—	—
Issuance of non-voting common stock:				
On exercise of stock options	878	—	3	8,194
Under employee stock purchase plan	140	—	1	2,024
Under employee incentive plan	108	—	1	1,695
Under restricted stock plan	171	—	1	2,999
Tax benefit of stock option exercises	—	—	—	1,865
Repurchase of non-voting common stock	(4,526)	—	(18)	(16,777)
Principal repayments	—	—	—	—
Compensation expense related to restricted stock issuance	—	—	—	—
Balance, October 31, 2004	133,581	1	521	—
Net income	—	—	—	—
Other comprehensive income:				
Unrealized gains on investments, net of tax	—	—	—	—
Foreign currency translation adjustments, net of tax	—	—	—	—
Total comprehensive income				
Dividends declared (\$0.34 per share)	—	—	—	—
Issuance of non-voting common stock:				
On exercise of stock options	1,075	—	4	12,623
Under employee stock purchase plan	134	—	1	2,424
Under employee incentive plan	126	—	—	2,641
Under restricted stock plan	46	—	—	1,000
Tax benefit of stock option exercises	—	—	—	3,542
Repurchase of non-voting common stock	(5,409)	—	(21)	(22,230)
Principal repayments	—	—	—	—
Compensation expense related to restricted stock issuance	—	—	—	—
Balance, October 31, 2005	129,553	\$ 1	\$505	\$ —

See notes to consolidated financial statements.



Notes Receivable From Stock Option Exercises	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity	Comprehensive Income (Loss)
\$ (3,530)	\$ (2,100)	\$ 2,585	\$ 374,806	\$ 372,302	
—	—	—	106,123	106,123	\$ 106,123
—	—	(1,381)	—	(1,381)	(1,381)
—	—	41	—	41	41
					<u>\$ 104,783</u>
—	—	—	(27,499)	(27,499)	
(219)	—	—	—	5,537	
—	—	—	—	2,100	
—	—	—	—	1,581	
—	—	—	—	487	
—	—	—	(34,937)	(44,868)	
754	—	—	—	754	
—	1,100	—	—	1,100	
(2,995)	(1,000)	1,245	418,493	416,277	
—	—	—	138,943	138,943	\$ 138,943
—	—	558	—	558	558
—	—	51	—	51	51
					<u>\$ 139,552</u>
—	—	—	(36,962)	(36,962)	
(577)	—	—	—	7,620	
—	—	—	—	2,025	
—	—	—	—	1,696	
—	(3,000)	—	—	—	
—	—	—	—	1,865	
—	—	—	(68,226)	(85,021)	
854	—	—	—	854	
—	1,600	—	—	1,600	
(2,718)	(2,400)	1,854	452,248	449,506	
—	—	—	159,884	159,884	\$ 159,884
—	—	760	—	760	760
—	—	(48)	—	(48)	(48)
					<u>\$ 160,596</u>
—	—	—	(44,539)	(44,539)	
(615)	—	—	—	12,012	
—	—	—	—	2,425	
—	—	—	—	2,641	
—	(1,000)	—	—	—	
—	—	—	—	3,542	
—	—	—	(110,371)	(132,622)	
592	—	—	—	592	
—	800	—	—	800	
<b>\$ (2,741)</b>	<b>\$ (2,600)</b>	<b>\$ 2,566</b>	<b>\$ 457,222</b>	<b>\$ 454,953</b>	

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended October 31,		
	2005	2004	2003
<i>(in thousands)</i>			
Cash and cash equivalents, beginning of year	\$ 147,137	\$ 138,328	\$ 144,078
<b>Cash Flows From Operating Activities:</b>			
Net income	159,884	138,943	106,123
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment loss on long-term investments	2,120	—	—
(Gain) loss on investments	192	(326)	(2,039)
Equity in net income of affiliates	(1,958)	(2,005)	(263)
Dividends received from affiliate	875	438	394
Minority interest	5,037	4,559	1,593
Interest on long-term debt and amortization of debt issuance costs	1,282	2,969	2,100
Deferred income taxes	(7,910)	24,133	(16,234)
Tax benefit of stock option exercises	3,542	1,865	487
Compensation related to restricted stock issuance	800	1,600	1,100
Depreciation and other amortization	6,830	6,627	5,468
Amortization of deferred sales commissions	63,540	81,202	85,192
Payment of capitalized sales commissions	(46,950)	(63,830)	(69,949)
Contingent deferred sales charges received	19,548	19,691	24,483
Proceeds from sale of trading investments	88,762	19,177	43,487
Purchase of trading investments	(157,562)	(125,015)	(146,923)
Changes in assets and liabilities:			
Investment adviser fees and other receivables	(52,356)	(6,327)	(4,039)
Other current assets	(4,643)	(1,329)	2,315
Other assets	2,688	(1,338)	1,262
Accrued compensation	10,583	16,960	2,325
Accounts payable and accrued expenses	8,199	(33)	7,121
Other current liabilities	5,091	(876)	(194)
Net cash provided by operating activities	107,594	117,085	43,809
<b>Cash Flows From Investing Activities:</b>			
Additions to equipment and leasehold improvements	(3,397)	(3,600)	(1,090)
Net (increase) decrease in notes and receivables from affiliates	592	854	754
Acquisition of subsidiary, net of cash acquired	—	—	(16,689)
Purchase of minority members' interest	(360)	—	—
Purchase of management contracts	(463)	(801)	(1,925)
Proceeds from sale of available-for-sale investments	1,441	3,279	54,960
Purchase of available-for-sale investments	(28,089)	(2,367)	(10,116)
Net cash provided by (used for) investing activities	(30,276)	(2,635)	25,894
<b>Cash Flows From Financing Activities:</b>			
Distributions to minority shareholders	(4,379)	(3,169)	(992)
Long-term debt issuance costs	(428)	—	—
Repayment of debt	—	(53,171)	(17,975)
Proceeds from issuance of non-voting common stock	17,078	11,341	9,219
Repurchase of non-voting common stock	(132,622)	(85,021)	(44,868)
Dividends paid	(42,248)	(34,491)	(24,832)
Proceeds from the issuance of mutual fund subsidiary's capital stock	151,500	76,818	22,000
Redemption of mutual fund subsidiary's capital stock	(66,891)	(18,030)	(18,067)
Net cash used for financing activities	(77,990)	(105,723)	(75,515)
Effect of currency rate changes on cash and cash equivalents	(76)	82	62
Net increase (decrease) in cash and cash equivalents	(748)	8,809	(5,750)
Cash and cash equivalents, end of year	\$ 146,389	\$ 147,137	\$ 138,328
<b>Supplemental Cash Flow Information:</b>			
Interest paid	\$ 182	\$ 3,589	\$ 3,101
Income taxes paid	\$ 100,702	\$ 54,344	\$ 70,183
<b>Supplemental Non-Cash Flow Information –</b>			
Exercise of stock options through issuance of notes receivable	\$ 615	\$ 577	\$ 219

See notes to consolidated financial statements.

## 1. Summary of Significant Accounting Policies

### *Business and Organization*

Eaton Vance Corp. and its subsidiaries (“the Company”) provide investment advisory and distribution services to mutual funds and other investment funds, and investment management and counseling services to individual high-net-worth investors, family offices and institutional clients. Revenue is largely dependent on the total value and composition of assets under management, which include sponsored funds and other investment portfolios. Accordingly, fluctuations in financial markets and in the composition of assets under management impact revenue and the results of operations.

### *Principles of Consolidation*

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

Effective April 1, 2005, the Company’s percentage ownership in one of two consolidated short-term income mutual funds dropped below 50 percent. As a result, the Company adopted the equity method of accounting for this investment and deconsolidated the fund. The decreases in short-term investments and minority interest as of October 31, 2005, can be attributed to the deconsolidation of the fund. Deconsolidation of the fund had no effect on the net book value of the Company.

### *Reclassification and Presentation*

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications were limited to presenting the Company’s interest in net income of affiliates below minority interest and net of related tax expense. There was no effect on reported net income, cash flows or financial position.

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

### *Segment Information*

Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” establishes disclosure requirements relating to operating segments in annual and interim financial statements. Management has determined that the Company operates in one business segment, namely as an investment adviser managing funds and separate accounts.

### *Accounting Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Changes in these estimates may affect amounts reported in future periods.

### *Cash Equivalents*

Cash equivalents consist principally of highly liquid investments in sponsored money market mutual funds, which are readily convertible to cash.

### *Investments*

Marketable securities classified as available-for-sale consist primarily of investments in sponsored funds and are carried at fair value based on quoted market prices. Unrealized holding gains or losses are reported net of deferred tax as a separate component of accumulated other comprehensive income (loss) until realized. Realized gains or losses are reflected as a component of gain (loss) on investments. The average cost method is used to determine the realized gain or loss on securities sold.

Marketable securities classified as trading consist primarily of investments in short-term debt instruments and sponsored funds and are carried at fair value based on quoted market prices. Net unrealized holding gains or losses, as well as realized gains or losses, are reflected as a component of other revenue. The average cost method is used to determine the realized gain or loss on securities sold except for those securities held by the Company's consolidated short-term income funds, which use the first-in-first-out method to determine the realized gain or loss on securities sold.

The Company evaluates the carrying value of marketable securities for impairment on a quarterly basis. In its impairment analysis, the Company takes into consideration numerous criteria, including the duration and extent of any decline in fair value. If the decline in value is determined to be other than temporary, the carrying value of the security is written down to fair value through net income.

Investments in the equity of collateralized debt obligation entities ("CDOs") are carried at fair value based on discounted cash flows. The excess of actual and anticipated future cash flows over the initial investment at the date of purchase is recognized as interest income over the life of the investment using the effective yield method. The Company reviews cash flow estimates throughout the life of each CDO entity. If the updated estimate of future cash flows (taking into account both timing and amounts) is less than the last revised estimate, an impairment loss is recognized based on the excess of the carrying amount of the investment over its fair value. In fiscal 2005, the Company recognized \$2.1 million in impairment losses related to its investments in CDO entities.

Certain other investments are carried at the lower of cost or management's estimate of net realizable value owing primarily to restrictions on resale of the investments.

#### ***Deferred Sales Commissions***

Sales commissions paid by the Company to broker/dealers in connection with the sale of certain classes of shares of open-end funds, bank loan interval funds and private funds are generally capitalized and amortized over the period during which the shareholder is subject to a contingent deferred sales charge, which does not exceed six years. Distribution plan payments received by the Company from these funds are recorded in revenue as earned. Contingent deferred sales charges and early withdrawal charges received by the Company from redeeming shareholders of open-end, bank loan interval and private funds reduce unamortized deferred sales commissions.

The Company evaluates the carrying value of its deferred sales commission asset for impairment on a quarterly basis. In its impairment analysis, the Company compares the carrying value of the deferred sales commission asset to the undiscounted cash flows expected to be generated by the asset over its remaining useful life to determine whether impairment has occurred. If the carrying value of the asset exceeds the undiscounted cash flows, the asset is written down to fair value based on discounted cash flows. Impairment adjustments are recognized in operating income as a component of amortization of deferred sales commissions.

#### ***Goodwill and Other Intangible Assets***

Goodwill represents the excess of the cost of the Company's investment in the net assets of acquired companies over the fair value of the underlying identifiable net assets at the dates of acquisition. Goodwill is not amortized, but is tested at least annually for impairment.

Identifiable intangible assets generally represent the cost of client relationships and management contracts acquired. Identifiable intangible assets with indefinite useful lives are not amortized, but are tested at least annually for impairment. Identifiable intangible assets with discrete useful lives are amortized on a straight-line basis over their weighted average lives, and are tested for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable.

#### ***Equipment and Leasehold Improvements***

Equipment and other fixed assets are recorded at cost and depreciated on a straight-line basis over their estimated useful lives, which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the lease.



### ***Debt Issuance Costs***

Deferred debt issuance costs are amortized on a straight-line basis over the related term of the debt and are included in other assets. The amortization of deferred debt issuance costs is included in interest expense.

### ***Revenue Recognition***

Investment adviser, administration, distribution and service fees for the funds and investment adviser fees for separate accounts managed by the Company are recognized as the services are performed. Such fees are primarily based on predetermined percentages of the market values of the assets under management. With the exception of the Company's separate account investment adviser fees, which are calculated generally as a percentage of either beginning or ending quarterly assets, the Company's investment adviser, administration, distribution and service fees are calculated principally as a percentage of average daily assets. The Company may waive certain fees for investment and administration services at its discretion. Investment adviser and administration fees are recorded gross of any subadvisory arrangements based on the terms of those arrangements, with the corresponding fees paid to any subadvisor included in other expenses. In instances where the Company acts as subadvisor or co-manager, investment adviser fees are recorded net. Distribution and service fees are recorded gross of any third-party distribution and service arrangements; the expenses associated with these third-party distribution and service arrangements are recorded in distribution and service fee expense, respectively.

Sales of shares of investment companies in connection with the Company's activities as principal underwriter are accounted for on a settlement date basis, which approximates trade date basis, with the related commission income and expense recorded on a trade date basis.

Interest income is accrued as earned.

### ***Income Taxes***

Deferred income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts and tax bases of the Company's assets and liabilities measured using rates expected to be in effect when such differences reverse. Deferred taxes relate principally to capitalized sales commissions paid to brokers and dealers. In January 2004, the Internal Revenue Service issued a new regulation that changed the tax treatment of deferred sales commissions recoverable pursuant to Rule 12b-1 plans. The new tax regulation, which allows for the immediate deduction of these commissions when paid, has been applied prospectively to such commissions paid in fiscal year 2004 and retroactively to such commissions paid during fiscal years 2003 and 2002. Sales commission payments made in fiscal years 2003 and 2002 were previously capitalized for tax purposes and deducted over their useful lives. Unamortized balances relating to fiscal years 2003 and 2002 were deducted for tax purposes in fiscal 2004. This change in tax accounting treatment will not require amendments to prior year returns and had no impact on the Company's effective tax rate.

### *Earnings Per Share*

Basic earnings per share are based on the weighted-average number of common shares outstanding during each period less non-vested restricted stock. Diluted earnings per share are based on basic shares as determined above plus the incremental shares that would be issued upon the assumed exercise of in-the-money stock options and non-vested restricted stock using the treasury stock method and contingently convertible debt using the if-converted method.

### *Stock-Based Compensation*

The Company uses the intrinsic value method as described in Accounting Principles Board ("APB") Opinion No. 25 to measure employee stock-based compensation. Under this method, compensation expense is measured as the difference between the current value of the shares involved and the price the employee is required to pay on grant date, if any. Compensation expense is generally measured on the date the awards are granted and recognized over the vesting period, which approximates the anticipated service period. At October 31, 2005, the Company has four stock-based compensation plans, which are described more fully in Note 9. Had compensation cost for the Company's stock-based compensation plans been determined using the fair value method as described in SFAS No. 123, the Company's net income and earnings per share for the years ended October 31, 2005, 2004 and 2003 would have been reduced to the following pro forma amounts:

	2005	2004	2003
<i>(in thousands, except per share figures)</i>			
Net income as reported	\$159,884	\$138,943	\$106,123
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	502	1,024	715
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(21,680)	(18,005)	(12,028)
Pro forma net income	\$138,706	\$121,962	\$ 94,810
Earnings per share:			
Basic – as reported	\$ 1.21	\$ 1.03	\$ 0.77
Basic – pro forma	\$ 1.05	\$ 0.90	\$ 0.69
Diluted – as reported	\$ 1.13	\$ 0.99	\$ 0.75
Diluted – pro forma	\$ 0.99	\$ 0.87	\$ 0.67

For purposes of pro forma disclosure, the estimated fair value of each option grant is amortized to expense ratably over the vesting period of the option. See Note 9 for assumptions as to dividend yield, volatility, risk-free interest rate and the expected life of options used in determining fair value.

### ***Foreign Currency Translation***

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at current exchange rates as of the end of the accounting period. Related revenue and expenses are translated at average exchange rates in effect during the accounting period. Net translation exchange gains and losses are excluded from income and recorded in accumulated other comprehensive income. Foreign currency transaction gains and losses are reflected in other income currently.

### ***Comprehensive Income***

The Company reports all changes in comprehensive income in the Consolidated Statements of Shareholders' Equity and Comprehensive Income. Comprehensive income includes net income, unrealized gains and losses on securities classified as available-for-sale (net of tax) and foreign currency translation adjustments (net of tax).

## **2. Accounting Developments**

In June 2005, the Financial Accounting Standards Board ("FASB") ratified the Emerging Issues Task Force's ("EITF's") consensus on EITF Issue No. 04-05, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." The Task Force reached a consensus that for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified, the guidance is effective after June 29, 2005. The Task Force also reached a consensus that for general partners in all other limited partnerships, the guidance is effective no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of the consensus will not have a material effect on the consolidated results of operations or the consolidated financial position of the Company.

In December 2004, the FASB revised SFAS No. 123, "Accounting for Stock-Based Compensation," requiring public companies to recognize the cost resulting from all share-based payment transactions in their financial statements based on the grant-date fair value of those awards. The Company intends to apply the modified version of retrospective application for periods prior to the required effective date and will adjust results on a basis consistent with the pro forma disclosures previously made under SFAS No. 123. The revised statement is effective for the Company's first fiscal quarter beginning November 1, 2005. Had the Company implemented the provisions of SFAS No. 123 as revised for the years ended October 31, 2005, 2004 and 2003, diluted earnings per share would have been \$0.99, \$0.87 and \$0.67, respectively, compared to diluted earnings per share of \$1.13, \$0.99 and \$0.75 for the same periods.

In its calculations of stock option expense for the purposes of pro forma disclosure, the Company previously chose to recognize forfeitures when they occurred rather than estimate them at grant date. Upon implementation, if actual forfeitures of awards granted prior to the adoption of SFAS No. 123 as revised differ from the calculation of expected forfeitures for these awards, the Company

will be required to recognize the difference in income as an adjustment to compensation cost. The Company does not anticipate that this adjustment will be material to the Company's consolidated financial statements.

In October 2004, the FASB ratified the consensus of the EITF regarding the effect of contingently convertible debt on diluted earnings per share. EITF 04-08, "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share," states that any shares of common stock that may be issued to settle contingently convertible securities must be considered issued in the calculation of diluted earnings per share, regardless of whether the market price trigger (or other contingent feature) has been met. The consensus, which was effective for all reporting periods ending after December 15, 2004, required the restatement of diluted earnings per share for all prior periods presented. The retroactive application of EITF 04-08 had the effect of reducing earnings per share by \$0.02, \$0.01 and \$0.01 for the years ended October 31, 2005, 2004 and 2003, respectively.

### **3. Acquisitions**

On September 10, 2003, the Company acquired an 80 percent capital interest and an 81.2 percent profits interest in Parametric Portfolio Associates LLC ("Parametric Portfolio Associates") for an aggregate initial payment of \$28.0 million in cash. Beginning January 1, 2006, certain minority shareholders of Parametric Portfolio Associates will have the right to sell and the Company will have the right to purchase an additional 8.6 percent of the capital of Parametric Portfolio Associates over a three-year period. Beginning January 1, 2008, certain minority shareholders of Parametric Portfolio Associates will have the right to sell and the Company will have the right to purchase the remaining 11.4 percent of the capital of Parametric Portfolio Associates (which entitles the holder to the remaining 18.8 percent profits interest) over a six-year period. The price for acquiring the remaining capital and profits interests in Parametric Portfolio Associates will be based on a multiple of earnings before interest and taxes (a measure that is intended to approximate fair market value) in the previous calendar year. Any additional payments made will be treated as additional purchase price for accounting purposes.

In fiscal 2001, the Company acquired majority interests in Atlanta Capital Management, LLC ("Atlanta Capital") and Fox Asset Management LLC ("Fox Asset Management"). Atlanta Capital's principals held 30 percent of the equity of Atlanta Capital at closing. Atlanta Capital's minority shareholders have the right to sell and the Company has the right to purchase the remaining 30 percent of Atlanta Capital over a five-year period beginning January 1, 2005, at a price based on a multiple of earnings before taxes in the previous calendar year. In June 2005, the minority shareholders of Atlanta Capital exercised a put option whereby units representing a 0.4 percent ownership interest in Atlanta Capital were sold to the Company. As a result of the transaction, the Company's ownership interest in Atlanta Capital increased to 70.4 percent and the Company treated the \$0.4 million paid as additional purchase price for accounting purposes.

Fox Asset Management's principals held 20 percent of the equity of Fox Asset Management at closing. Beginning January 1, 2008, Fox Asset Management's minority shareholders will have the right to sell and the Company will have the right to purchase the remaining 20 percent of Fox Asset Management over a four-year period at a price based on a multiple of earnings before interest and taxes in the previous calendar year. Any additional payments made to the minority shareholders of either Atlanta Capital or Fox Asset Management will be treated as additional purchase price for accounting purposes.

#### 4. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the years ended October 31, 2005 and 2004 are as follows:

	2005	2004
<i>(in thousands)</i>		
Balance, beginning of period	\$89,281	\$88,879
Goodwill acquired	353	402
Balance, end of period	\$89,634	\$89,281

The adjustment to goodwill in fiscal 2005 reflects the put exercised by Atlanta Capital in June 2005. The adjustment to goodwill in fiscal 2004 reflects additional direct costs recognized in connection with the Parametric Portfolio Associates acquisition in fiscal 2003.

The following is a summary of other intangible assets at October 31, 2005 and 2004:

	Weighted Average Amortization Period (In Years)	Gross Carrying Amount	Accumulated Amortization
<i>(in thousands)</i>			
Amortized intangible assets:			
Client relationships and technology acquired	15.3	\$50,449	\$11,116
Non-amortized intangible assets:			
Mutual fund management contract acquired	—	1,311	—
Total		\$51,760	\$11,116

	Weighted Average Amortization Period (In Years)	Gross Carrying Amount	Accumulated Amortization
<i>(in thousands)</i>			
Amortized intangible assets:			
Client relationships and technology acquired	16.0	\$49,986	\$7,332
Non-amortized intangible assets:			
Mutual fund management contract acquired	—	1,311	—
Total		\$51,297	\$7,332



In the second quarter of fiscal 2005, the Company recognized an impairment loss of \$0.9 million relating to the loss of client relationships acquired by a majority-owned subsidiary in fiscal 2003. The impairment loss was computed by comparing the net present value of projected client cash flows to the carrying value of the intangible asset at April 30, 2005. The impairment loss is included in other expenses in the Company's Consolidated Statements of Income for the year ended October 31, 2005.

During fiscal 2005, the Company acquired certain client relationships for \$0.5 million.

Amortization expense was \$3.8 million, \$3.0 million and \$2.1 million for the years ended October 31, 2005, 2004 and 2003, respectively. Estimated amortization expense for the next five years is as follows:

Year Ending October 31,	Estimated Amortization Expense
<i>(in thousands)</i>	
2006	\$2,733
2007	\$2,622
2008	\$2,543
2009	\$2,543
2010	\$2,543

## 5. Investments

The following is a summary of investments at October 31, 2005 and 2004:

	2005	2004
<i>(in thousands)</i>		
Short-term investments:		
Sponsored funds	\$ —	\$ 1,412
Short-term debt securities	10,199	209,017
Investment in affiliate	117,659	—
Total	\$127,858	\$210,429
Long-term investments:		
Sponsored funds	\$ 31,066	\$ 13,164
Collateralized debt obligation entities	21,906	14,388
Investments in affiliates	7,875	8,424
Other investments	919	919
Total	\$ 61,766	\$ 36,895

***Investments in sponsored funds and short-term debt securities***

The following is a summary of the cost and fair value of investments in sponsored funds and short-term debt instruments at October 31, 2005 and 2004:

**2005**

	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(in thousands)</i>				
Sponsored funds –				
Long-term	\$27,066	\$4,048	\$(48)	\$31,066
Short-term debt securities	10,199	—	—	10,199
Total	\$37,265	\$4,048	\$(48)	\$41,265

**2004**

	Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<i>(in thousands)</i>				
Sponsored funds:				
Short-term	\$ 1,012	\$ 400	\$ —	\$ 1,412
Long-term	10,765	2,433	(34)	13,164
Short-term debt securities	209,025	21	(29)	209,017
Total	\$220,802	\$2,854	\$(63)	\$223,593

Gross unrealized gains and losses on investments in sponsored funds that are classified as available-for-sale have been excluded from earnings and reported as a component of accumulated other comprehensive income, net of deferred taxes. No investment with a gross unrealized loss has been in a loss position for greater than one year.

Gross unrealized gains and losses on short-term debt securities that are classified as trading have been reported in income currently as a component of other revenue.

The following is a summary of the Company's realized gains and (losses) upon disposition of sponsored funds and short-term debt securities for the years ended October 31, 2005, 2004 and 2003:

	2005	2004	2003
<i>(in thousands)</i>			
Gains	\$267	\$ 476	\$ 4,572
Losses	(44)	(186)	(2,199)
Net realized gain	\$223	\$ 290	\$ 2,373

***Investments in collateralized debt obligation entities***

The Company provides investment management services for, and has made investments in, a number of CDO entities. The Company's minority equity ownership interests in the CDO entities are reported at fair value. The Company earns investment management fees, including subordinated management fees in some cases, for managing the collateral for the CDO entities, as well as incentive fees that are contingent on certain performance conditions. At October 31, 2005,

combined assets under management in the collateral pools of these CDO entities were approximately \$1.9 billion. The Company's maximum exposure to loss as a result of its investments in the equity of CDO entities was approximately \$21.9 million, which is the carrying value of these investments at October 31, 2005. Investors in CDOs have no recourse against the Company for any losses sustained in the CDO structure. Management has concluded that the Company is not required to consolidate any of the CDO entities in which it has a minority equity investment.

In fiscal 2005, the Company recognized a \$2.1 million impairment loss related to its investment in one collateralized debt obligation entity. The impairment loss resulted from the effect of tightening credit spreads and higher than forecasted prepayment rates on the Company's investment. The Company continues to earn a management fee on the underlying collateral pool.

The carrying value of \$21.9 million and \$14.4 million at October 31, 2005 and 2004, respectively, for the Company's minority equity ownership interests in CDO entities is their estimated fair value.

#### *Investments in affiliates*

The Company has a 30 percent interest in the Eaton Vance Short-Term Income Fund ("EVSI"), an open-end mutual fund that invests in short-term debt securities. In the second quarter of fiscal 2005, the Company deconsolidated EVSI when its investment in EVSI dropped below 50 percent and adopted the equity method of accounting for this investment. The Company elected to classify this investment as a short-term investment for reporting purposes due to the underlying nature of the securities in which the fund invests. Deconsolidation of the fund had no effect on the net book value of the Company. The Company's investment in this fund was \$117.7 million at October 31, 2005. At October 31, 2005, the Company's investment was less than its share of the underlying net assets by \$0.1 million.

The Company has a 20 percent equity interest in Lloyd George Management (BVI) Limited ("LGM"), an independent investment management company based in Hong Kong that primarily manages international equity funds and separate accounts, including several funds sponsored by the Company. The Company's investment in LGM was \$7.1 million and \$8.1 million at October 31, 2005 and 2004, respectively. At October 31, 2005, the Company's investment exceeded its share of the underlying net assets of LGM by \$2.2 million. The Company does not amortize this excess.

The Company has equity interests in excess of 20 percent in various other investment partnerships and funds. The Company's investment in these affiliates totaled \$0.7 million and \$0.3 million at October 31, 2005 and October 31, 2004, respectively.

The Company reviews its equity method investments annually for impairment pursuant to APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock."

### ***Other investments***

Included in other investments are certain investments carried at cost totaling \$0.9 million at both October 31, 2005 and 2004. Management believes that the fair value of these investments approximates their carrying value.

## **6. Equipment and Leasehold Improvements**

The following is a summary of equipment and leasehold improvements at October 31, 2005 and 2004:

	2005	2004
<i>(in thousands)</i>		
Equipment	<b>\$ 20,155</b>	\$ 20,614
Leasehold improvements	<b>10,478</b>	10,394
Subtotal	<b>30,633</b>	31,008
Less: Accumulated depreciation and amortization	<b>(17,869)</b>	(18,595)
Equipment and leasehold improvements, net	<b>\$ 12,764</b>	\$ 12,413

Depreciation and amortization expense was \$3.0 million, \$3.6 million and \$3.3 million for the years ended October 31, 2005, 2004 and 2003, respectively.

## **7. Long-term Debt**

The following is a summary of long-term debt at October 31, 2005 and 2004:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(in thousands)</i>				
1.5% zero-coupon exchangeable senior notes due 2031	<b>\$75,467</b>	<b>\$82,238</b>	\$74,347	\$77,800

### ***Zero-coupon Exchangeable Senior Notes***

On August 13, 2001, the Company's operating subsidiary, Eaton Vance Management ("EVM"), issued 314,000 zero-coupon exchangeable senior notes ("Notes") due August 13, 2031, in a private placement to qualified institutional buyers at an initial offering price of \$638.70 per \$1,000 principal amount at maturity. The discounted price reflects a yield to maturity of 1.5 percent per year. Upon certain events, each Note is exchangeable into 28.7314 shares of the Company's non-voting common stock, subject to adjustment. EVM may redeem the Notes on or after August 13, 2006, at their accreted value. At the option of Note holders, EVM may be required to repurchase the Notes at their accreted value on August 13, 2006, and at five-year intervals thereafter until maturity or in the event that the credit rating of the Notes is decreased by three or more rating subcategories below its initial rating by either Moody's or Standard & Poor's. Such repurchases can be paid in cash, shares of the Company's non-voting common stock or a combination of both, at the Company's election.

Note holders also have the right to surrender their Notes for exchange into shares of the Company's non-voting common stock in any fiscal quarter if, as of the last day of the preceding fiscal quarter, the closing sale price of Eaton Vance Corp.'s non-voting common stock for at least 20 of the last 30 consecutive trading days is more than a specified percentage of the accreted exchange price per share on that date. On October 31, 2005, the contingent conversion price for the Company's non-voting common stock was \$28.01. EVM has the right to settle the exchange in cash, shares of the Company's non-voting common stock, or a combination of both.

On August 14, 2004, EVM repurchased for cash \$46.0 million of the Notes (\$68.9 million principal amount at maturity). The Company expensed approximately \$1.0 million of deferred debt issuance costs in conjunction with the repurchase of Notes on August 14, 2004.

On October 31, 2005, 110,945 Notes remained outstanding (\$110.9 million principal amount at maturity). Shares that may be issued in the event that the Notes are converted are included in the calculation of diluted earnings per share for all periods presented.

For fair value purposes, the Notes have been valued by discounting future cash flows using a market interest rate available for debt with similar terms and remaining maturity.

#### ***Corporate Credit Facility***

In December 2004, the Company executed a revolving credit facility with several banks. Under this facility, the Company may borrow up to \$180 million at LIBOR-based rates of interest that vary depending on the level of usage of the facility and credit ratings of the Notes. The agreement contains financial covenants with respect to leverage and interest coverage and requires the Company to pay an annual commitment fee on any unused portion. At October 31, 2005, the Company had no borrowings outstanding under its revolving credit facility.

## **8. Contingencies**

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, information technology agreements, distribution agreements and service agreements. The Company has also agreed to indemnify its directors and certain of its officers and employees in accordance with the Company's bylaws. 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.

The Company leases certain office space and equipment under noncancelable operating leases. Rent expense under these leases in 2005, 2004 and 2003 amounted to \$6.8 million, \$6.6 million and \$5.6 million, respectively. Future minimum lease commitments are as follows:

Year Ending October 31,	Amount
<i>(in thousands)</i>	
2006	\$ 7,740
2007	7,677
2008	7,735
2009	4,968
2010	1,971
2011 – thereafter	7,535
Total	<b>\$37,626</b>

## 9. Stock Plans

### Stock Option Plan

The Company has a Stock Option Plan (“the 1998 Plan”) administered by the Compensation Committee of the Board of Directors under which options to purchase shares of the Company’s non-voting common stock may be granted to all eligible employees and independent directors of the Company. No stock options may be granted under the plan with an exercise price of less than the fair market value of the stock at the time the stock option is granted. The options expire five to ten years from the date of grant and vest over a five-year period as stipulated in each grant. The 1998 Plan contains provisions that, in the event of a change in control of the Company, may accelerate the vesting of awards. A total of 29.4 million shares have been reserved for issuance under the 1998 Plan. Through October 31, 2005, options to purchase 28.7 million shares have been issued pursuant to this plan.

Stock option transactions under the 1998 Plan and predecessor plans are summarized as follows:

	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<i>(share figures in thousands)</i>						
Options outstanding, beginning of period	<b>20,020</b>	<b>\$13.82</b>	16,106	\$12.40	12,254	\$11.09
Granted	<b>5,318</b>	<b>22.03</b>	5,094	17.58	5,218	14.68
Exercised	<b>(1,075)</b>	<b>11.75</b>	(878)	9.34	(848)	6.79
Forfeited/Expired	<b>(472)</b>	<b>18.15</b>	(302)	15.00	(518)	13.50
Options outstanding, end of period	<b>23,791</b>	<b>\$15.66</b>	20,020	\$13.82	16,106	\$12.40
Options exercisable, end of period	<b>9,922</b>	<b>\$12.25</b>	7,210	\$11.10	4,926	\$ 9.66

Outstanding options to purchase shares of non-voting common stock issued under the 1998 Plan and predecessor plans are summarized as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares Outstanding as of 10/31/05	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares Exercisable as of 10/31/05	Weighted Average Exercise Price
<i>(share figures in thousands)</i>					
\$5.03	12	1.1	\$ 5.03	12	\$ 5.03
\$5.20 – \$5.73	1,338	1.0	5.73	1,338	5.73
\$8.59 – \$9.45	1,471	4.0	8.60	1,471	8.60
\$10.58 – \$12.27	2,733	5.0	12.22	2,148	12.21
\$13.56 – \$15.05	7,949	6.5	14.49	3,890	14.47
\$15.77 – \$17.51	4,794	7.9	17.46	941	17.46
\$17.83 – \$20.16	337	7.5	18.60	118	18.31
\$21.96 – \$22.58	5,026	9.0	21.96	4	21.96
\$24.05 – \$25.39	131	9.4	24.69	—	—
	23,791	6.7	\$15.66	9,922	\$12.25

In November 2005, the Company granted options for the purchase of an additional 4.3 million shares under the 1998 Plan at a price of \$24.87.

The weighted average fair value of options granted on the date of grant using the Black-Scholes option pricing model was as follows:

	2005	2004	2003
Weighted average fair value of options granted	\$7.98	\$6.17	\$5.38
<b>Assumptions:</b>			
Dividend yield	1.61%	1.47%	1.38%
Volatility	28%	29%	30%
Risk-free interest rate	4.6%	4.1%	4.2%
Expected life of options	8 years	8 years	8 years

#### **Restricted Stock Plan**

The Company has a Restricted Stock Plan administered by the Compensation Committee of the Board of Directors under which restricted stock may be granted to key employees. Shares of the Company's non-voting common stock granted under the plan are subject to restrictions on transferability and carry the risk of forfeiture, based in each case on such considerations as the Compensation Committee shall determine. Unless the Compensation Committee determines otherwise, restricted stock that is still subject to restrictions upon termination of employment shall be forfeited. Restrictions on shares granted lapse in three to seven years from date of grant. A total of 2,000,000 shares have been reserved under the plan.

In fiscal 2005 and 2004, 45,546 and 171,330 shares, respectively, were issued pursuant to the plan at a weighted average grant date fair value of \$21.96 and \$17.51 per share, respectively. No such shares were issued in fiscal 2003. Because these shares are contingently forfeitable, compensation

expense is recorded over the forfeiture period. The Company recorded compensation expense of \$0.8 million, \$1.6 million and \$1.1 million for the years ended October 31, 2005, 2004 and 2003, respectively, relating to shares issued in fiscal 2005 and prior years.

#### ***Employee Stock Purchase Plan***

A total of 9.0 million shares of the Company's non-voting common stock have been reserved for issuance under the Employee Stock Purchase Plan. The plan qualifies under Section 423 of the United States Internal Revenue Code and permits eligible employees to direct up to 15 percent of their salaries to a maximum of \$12,500 per six-month offering period toward the purchase of Eaton Vance Corp. non-voting common stock at the lower of 90 percent of the market price of the non-voting common stock at the beginning or at the end of each six-month offering period. Through October 31, 2005, 7.0 million shares have been issued pursuant to this plan. No compensation expense has been recorded for the discounted purchase price because the Company's plan qualifies under Section 423.

#### ***Incentive Plan-Stock Alternative***

A total of 4.8 million shares of the Company's non-voting common stock have been reserved for issuance under the Incentive Plan-Stock Alternative, a plan that qualifies under Section 423 of the United States Internal Revenue Code. The plan permits employees and officers to direct up to half of their monthly and annual incentive bonuses toward the purchase of non-voting common stock at 90 percent of the average market price of the stock for the five days subsequent to the end of the offering period. Through October 31, 2005, 2.8 million shares have been issued pursuant to this plan. No compensation expense has been recorded for the discounted purchase price because the plan qualifies under Section 423.

#### ***Stock Option Income Deferral Plan***

The Company has established an unfunded, non-qualified Stock Option Income Deferral Plan. The Plan is intended to permit key employees to defer recognition of income upon exercise of non-qualified stock options previously granted by the Company. As of October 31, 2005, 1.3 million options have been exercised and placed in trust with the Company.

#### ***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 2.8 percent to 6.7 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 are reflected as notes receivable from stock option exercises in shareholders' equity and amounted to \$2.7 million at October 31, 2005 and 2004.

The fair value of loans receivable has been determined by discounting expected future cash flows using management's estimates of current market interest rates for such receivables. The fair value of these receivables approximates their carrying value (see Note 15).

## **10. Employee Benefit Plans**

### ***Profit Sharing Retirement Plan***

The Company has a profit sharing retirement plan for the benefit of substantially all employees. The Company has contributed \$8.2 million, \$7.2 million and \$6.0 million for the years ended October 31, 2005, 2004 and 2003, respectively, representing 15 percent of eligible compensation for each of the three years.

### ***Savings Plan and Trust***

The Company has a Savings Plan and Trust that is qualified under Section 401 of the Internal Revenue Code. All full-time employees who have met certain age and length of service requirements are eligible to participate in the plan. This plan allows participating employees to make elective deferrals up to the plan's annual limitations. The Company then matches each participant's contribution on a dollar-for-dollar basis up to a maximum of \$1,040. The Company's expense under the plan was \$0.5 million for each of the years ended October 31, 2005, 2004 and 2003, respectively.

### ***Supplemental Profit Sharing Plan***

The Company has an unfunded, non-qualified Supplemental Profit Sharing Plan whereby certain key employees of the Company may receive profit sharing contributions in excess of the amounts allowed under the profit sharing retirement plan. No employee may receive combined contributions in excess of \$31,500 per annum related to the Profit Sharing Retirement Plan and the Supplemental Profit Sharing Plan. The Company's expense under the supplemental plan for each of the years ended October 31, 2005, 2004 and 2003 was \$55,000, \$48,000 and \$94,000, respectively.

## **11. Common Stock**

All outstanding shares of the Company's voting common stock are deposited in a voting trust, the trustees of which have unrestricted voting rights with respect to the voting common stock. The trustees of the voting trust are all officers of the Company. Non-voting common shares do not have voting rights under any circumstances.

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

In fiscal 2005, the Company purchased approximately 2.7 million shares of its non-voting common stock under this share repurchase authorization. Approximately 5.3 million additional shares may be repurchased under the current authorization. In addition, the Company purchased approximately 2.7 million shares of its non-voting common stock under the prior repurchase authorization dated October 22, 2003. In total, the Company repurchased approximately 5.4 million non-voting common shares in fiscal 2005.

## 12. Income Taxes

The provision for income taxes for the years ended October 31, 2005, 2004 and 2003 consists of the following:

	2005	2004	2003
<i>(in thousands)</i>			
Current:			
Federal	\$94,330	\$48,081	\$ 68,925
State	11,080	5,220	4,359
Deferred:			
Federal	(6,951)	22,415	(14,750)
State	(959)	1,718	(1,484)
Total	\$97,500	\$77,434	\$ 57,050

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

	2005	2004
<i>(in thousands)</i>		
Deferred tax assets:		
Capital loss carryforward	\$ 2,700	\$ 2,844
Deferred rent	666	829
Differences between book and tax bases of investments	2,097	437
Differences between book and tax bases of accruals	—	2,011
Other	1,087	1,465
Gross deferred tax asset	6,550	7,586
Valuation allowance	(216)	(594)
Total deferred tax asset	\$ 6,334	\$ 6,992
Deferred tax liabilities:		
Deferred sales commissions	\$(44,002)	\$(51,874)
Accretion on zero-coupon exchangeable notes	(2,206)	(3,746)
Differences between book and tax bases of goodwill and intangibles	(7,861)	(6,630)
Differences between book and tax bases of property	(844)	(1,231)
Unrealized net holding gains on investments	(1,509)	(1,092)
Total deferred tax liability	\$(56,422)	\$(64,573)
Net deferred tax liability	\$(50,088)	\$(57,581)



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

	2005	2004
<i>(in thousands)</i>		
Net current deferred tax asset, included in other current assets	\$ 1,059	\$ 63
Net non-current deferred tax liability	(51,147)	(57,644)
Net deferred tax liability	<b>\$(50,088)</b>	<b>\$(57,581)</b>

A reconciliation from the U.S. Federal statutory income tax rate to the Company's effective income tax rate for the years ended October 31, 2005, 2004 and 2003 is as follows:

	2005	2004	2003
Federal statutory rate	35.0%	35.0%	35.0%
State and local income tax, net of federal income tax benefit	2.8	2.1	1.1
Minority interest	(0.7)	(0.7)	(0.3)
Other	0.2	(1.1)	(1.2)
Effective income tax rate	<b>37.3%</b>	<b>35.3%</b>	<b>34.6%</b>

The Company has recorded deferred income tax assets of \$2.7 million and \$0.3 million as of October 31, 2005, relating to \$7.3 million in capital loss carryforwards and \$6.6 million in state operating loss carryforwards, respectively. A \$0.2 million valuation allowance has been established against the \$0.3 million deferred tax asset associated with the state operating loss carryforwards, reflecting management's belief that not all of the state operating loss carryforwards will be recoverable. All state operating loss carryforwards expire in fiscal 2006. No valuation allowance has been established against the deferred income tax asset associated with the capital loss carryforwards as management believes that this asset is fully recoverable.

The exercise of non-qualified stock options resulted in a reduction of taxes payable of approximately \$3.5 million, \$1.9 million and \$0.5 million for the years ended October 31, 2005, 2004 and 2003, respectively. Such benefit has been reflected as a component of shareholders' equity.

The Company's policy for accounting for income taxes includes monitoring its business activities and tax policies to ensure that the Company is in compliance with federal, state, and foreign tax laws. In the ordinary course of business various taxing authorities may not agree with certain tax positions taken by the Company or applicable law may not be clear. The Company periodically reviews these tax positions and provides for and adjusts as necessary estimated liabilities relating to such tax positions as part of its overall tax provision. During the year ended October 31, 2005, the Company increased its provision for income taxes by \$1.9 million related to uncertain tax positions.

### 13. Comprehensive Income

Total comprehensive income is reported in the Consolidated Statements of Shareholders' Equity and Comprehensive Income and is composed of net income and other comprehensive income (loss), net of tax.

The components of other comprehensive income (loss) at October 31, 2005, 2004 and 2003 are as follows:

	Gross Amount	Tax (Expense) or Benefit	Net Amount
<i>(in thousands)</i>			
<b>2005</b>			
Unrealized gains on investments	\$ 1,201	\$(441)	\$ 760
Foreign currency translation adjustments	(71)	23	(48)
Other comprehensive income/(loss)	\$ 1,130	\$(418)	\$ 712
<b>2004</b>			
Unrealized losses on investments	\$ 885	\$(327)	\$ 558
Foreign currency translation adjustments	82	(31)	51
Other comprehensive income/(loss)	\$ 967	\$(358)	\$ 609
<b>2003</b>			
Unrealized losses on investments	\$(2,149)	\$ 768	\$(1,381)
Foreign currency translation adjustments	62	(21)	41
Other comprehensive income/(loss)	\$(2,087)	\$ 747	\$(1,340)

During the years ended October 31, 2005, 2004 and 2003, the Company reclassified gains of \$0.2 million, \$0.4 million and \$2.7 million, respectively, from other comprehensive income to net income as gains and losses were realized upon the sale of available-for-sale securities.

Accumulated other comprehensive income is reported in the Consolidated Statements of Shareholders' Equity and Comprehensive Income. The components of accumulated other comprehensive income at October 31, 2005 and 2004 are as follows:

	<b>2005</b>	2004
<i>(in thousands)</i>		
Unrealized gains on investments, net of tax	<b>\$2,521</b>	\$1,761
Foreign currency translation adjustments, net of tax	<b>45</b>	93
Total	<b>\$2,566</b>	\$1,854

#### 14. Earnings Per Share

The following table provides a reconciliation of net income and common shares used in the basic and diluted earnings per share computations for the years ended October 31, 2005, 2004 and 2003:

	2005	2004	2003
<i>(in thousands, except per share data)</i>			
Net income – basic	\$159,884	\$138,943	\$106,123
Interest adjustment related to contingently convertible debt, net of tax	740	3,245	3,032
Net income – diluted	\$160,624	\$142,188	\$109,155
Weighted average shares outstanding – basic	131,591	134,938	137,832
Incremental common shares from stock options and restricted stock awards	6,853	4,640	2,918
Incremental common shares related to contingently convertible debt	3,188	4,735	5,167
Weighted average shares outstanding – diluted	141,632	144,313	145,917
Earnings per share:			
Basic	\$ 1.21	\$ 1.03	\$ 0.77
Diluted	\$ 1.13	\$ 0.99	\$ 0.75

The Company uses the treasury stock method to account for the dilutive effect of unexercised stock options and unvested restricted stock in diluted earnings per share. Antidilutive incremental common shares related to stock options excluded from the computation of earnings per share were 63,000, 78,000 and 210,000 for the years ended October 31, 2005, 2004 and 2003, respectively.

#### 15. Fair Value of Financial Instruments

The following is a summary of the carrying amounts and estimated fair values of the Company's financial instruments at October 31, 2005 and 2004:

	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(in thousands)</i>				
Investments:				
Sponsored funds	\$ 31,066	\$ 31,066	\$ 14,576	\$ 14,576
Short-term debt securities	10,199	10,199	209,017	209,017
Collateralized debt obligation entities	21,906	21,906	14,388	14,388
Investments in affiliates and other investments	126,453	126,453	9,343	9,343
Total	\$189,624	\$189,624	\$247,324	\$247,324
Notes receivable from stock option exercises	\$ 2,741	\$ 2,741	\$ 2,718	\$ 2,718
Long-term debt	\$ 75,467	\$ 82,238	\$ 74,347	\$ 77,800

Assumptions used in the determination of fair value have been described in Notes 5, 7 and 9.

## 16. Regulatory Requirements

Eaton Vance Distributors, Inc., a wholly owned subsidiary of the Company and principal underwriter of the Eaton Vance Funds, is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital. For purposes of this rule, the subsidiary had net capital of \$25.5 million, which exceeds its minimum net capital requirement of \$1.3 million at October 31, 2005. The ratio of aggregate indebtedness to net capital at October 31, 2005 was .76-to-1.

## 17. Concentration of Credit Risk and Significant Relationships

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains cash and cash equivalents with various financial institutions. Cash deposits maintained at a financial institution may exceed the federally insured limit.

The following portfolio and related funds provided over 10 percent of the total revenue of the Company:

	2005	2004	2003
<i>(dollar figures in thousands)</i>			
<b><i>Tax-Managed Growth Portfolio and related funds:</i></b>			
Investment adviser and administration fees, underwriting commissions, distribution plan payments, contingent deferred sales charges and service fees	\$190,461	\$185,091	\$161,544
Percent of revenue	25.3%	28.0%	30.9%

## 18. Comparative Quarterly Financial Information (Unaudited)

	2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<i>(in thousands, except per share figures)</i>					
Total revenue	\$181,781	\$182,504	\$190,751	\$198,139	\$753,175
Operating income	\$ 62,859	\$ 61,450	\$ 67,909	\$ 68,196	\$260,414
Net income	\$ 38,409	\$ 37,627	\$ 41,199	\$ 42,649	\$159,884
Earnings per share:					
Basic	\$ 0.29	\$ 0.28	\$ 0.32	\$ 0.33	\$ 1.21
Diluted	\$ 0.27	\$ 0.27	\$ 0.29	\$ 0.31	\$ 1.13
	2004				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
<i>(in thousands, except per share figures)</i>					
Total revenue	\$156,973	\$165,291	\$165,943	\$173,606	\$661,813
Operating income	\$ 50,103	\$ 56,175	\$ 55,398	\$ 60,886	\$222,562
Net income	\$ 30,813	\$ 35,169	\$ 35,033	\$ 37,928	\$138,943
Earnings per share:					
Basic	\$ 0.23	\$ 0.26	\$ 0.26	\$ 0.28	\$ 1.03
Diluted	\$ 0.22	\$ 0.25	\$ 0.25	\$ 0.27	\$ 0.99

**To the Board of Directors and Shareholders of Eaton Vance Corp.:**

We have audited the accompanying consolidated balance sheets of Eaton Vance Corp. and its subsidiaries as of October 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended October 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Eaton Vance Corp. and subsidiaries as of October 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of October 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report (not presented herein) dated January 11, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

**DELOITTE & TOUCHE LLP**

Boston, Massachusetts  
January 11, 2006

## Directors

**John G.L. Cabot<sup>(1,2,3)</sup>**

**Thomas E. Faust Jr.**

**James B. Hawkes**

**Leo I. Higdon, Jr.<sup>(2,3)</sup>**

**Vincent M. O'Reilly<sup>(1,3)</sup>**

**Winthrop H. Smith, Jr.<sup>(1,2,3)</sup>**

**Ralph Z. Sorenson<sup>(1,2,3)</sup>**

*Board Committees:*

- 1. Audit*
- 2. Compensation*
- 3. Nominating and Governance*

## Officers

**James B. Hawkes**

*Chairman, President  
and Chief Executive Officer*

**Thomas E. Faust Jr.**

*Executive Vice President  
and Chief Investment Officer*

**Jeffrey P. Beale**

*Vice President  
and Chief Administrative Officer*

**Alan R. Dynner**

*Vice President, Secretary  
and Chief Legal Officer*

**Laurie G. Hylton**

*Vice President  
and Chief Accounting Officer*

**William M. Steul**

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and Chief Financial Officer*

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