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Karla M. Shannon Marilyn R. Irvin Louise E. Kelley Diane Brissette David L. Stokkink William H. Ahern Jr. Rosemary Leavitt Scott H. Page Lynn W. Ostberg Marie Y. Calixte
Rebecca W. Olson Kathleen McManus James A. Thebado Brian D. Langstraat Lynne M. Hetu Mary K. McTague Clifford H. Krauss Payson F. Swaffield Cornelius J. Sullivan
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Jeffrey P. Beale Mark D. Nelson Linda D. Newkirk A J. Murphy Deanna R. Berry Jane A. Rudnick Walter W. Shults Leighton Young III Geoffrey G. Marshall Robert H. Bortnick
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Jerome A. Vainisi James C. Queen Melissa E. Haskell Thomas P. Huggins Michelle A. Green Roseann Sulano Bree E. Barletto Yana S. Barton Michael Botthof Vincent M. Cottone
Kurt L. Galley Tyson E. Alexander Deborah Trachtenberg Martha Locke Norah C. Castillo John P. Redding Paul M. O'Neil Kristin S. Anagnost Duke E. Laflamme Sotiria Kourtelidis
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2008 Annual Report

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Aamir Moin Robert D. Carson Anatoliy A. Eybelman Kathryn A. McElroy William E. Dodge Jr. Michael P. Curran Richard P. Wyke Kevin M. Connerty Rebecca L. Burke Janet G. Daubenspeck

"Basically great economic and psychological forces are at work presenting both problems and opportunities to us as investors."

Charles F. Eaton Jr.
January 1933

Eaton Vance Corp. was formed by the 1979 merger of two Boston-based investment management firms: Eaton & Howard, Inc., founded in 1924, and Vance, Sanders & Company, organized in 1934. Throughout our history, Eaton Vance and its predecessors have followed a consistent approach to investing that emphasizes the prudent care of client assets. The lessons of experience inform our intuition and judgments in addressing today's challenging markets.

To Shareholders and Friends of Eaton Vance:

The twelve months coinciding with Eaton Vance Corp.'s fiscal 2008 will long be remembered as a period of profound distress for global markets and the global economy. What started as a correction in the U.S. housing market and disruption in subprime mortgage finance grew into a financial meltdown affecting virtually every business around the world. Particularly following the collapse of Lehman Brothers Holdings in mid-September, market convulsions and a contraction in credit availability drove a sharp decline in consumer and business spending.

Thomas E. Faust Jr.

The steep equity market declines and flight to quality in income markets over the past twelve months have taken a significant toll on nearly all types of investments. No investment management firm has been immune from the effects, including Eaton Vance. But while fiscal 2008 was a time of major challenges for the Company, it was also a period of significant accomplishment on many fronts.

We earned $1.57 per diluted share in fiscal 2008 compared to $1.06 per diluted share in fiscal 2007, an increase of 48 percent. Our fiscal 2008 earnings were reduced approximately $0.13 per diluted share by net realized and unrealized losses and impairments on the Company's investments. Fiscal 2007 earnings were reduced approximately $0.65 cents per diluted share by closed-end fund-related expenses and $0.05 per diluted share by other one-time items.

Assets under management were $123.1 billion at October 31, 2008, down 24 percent from the start of the fiscal year. This decline occurred over a period in which the Dow Jones Industrial Average was off 33 percent and the S&P 500 Index was down 37 percent. While year-end assets under management were down, average assets under management for the year were up five percent, contributing to record revenues of $1.1 billion. **Operating income increased 56 percent over fiscal 2007 largely as a result of $143 million in closed-end fund-related expenses in fiscal 2007 that did not recur in fiscal 2008.** Adjusted operating income, a non-GAAP internal performance measure that varies from operating income by excluding certain items that we consider non-operating in nature, increased two percent to $411 million in fiscal 2008.

Through the downturn, we have continued to achieve strong relative investment returns across most investment areas. In the annual *Barron's* rankings of the composite performance of mutual fund families released in February, Eaton Vance ranked second among 67 fund families for one-year performance, fifth among 61 families for five-year performance and twelfth among 52 families for ten-year performance. Our relative returns have been particularly strong in equities, with top performance achieved across a spectrum of styles and categories, including value and growth, large cap and small cap, U.S. and international, tax-managed and non-tax-managed, diversified and specialty. As of the end of October, we had 17 equity funds with overall Morningstar ratings of four or five stars for at least one class of shares. On an asset-weighted basis, roughly 90 percent of our equity funds have beaten their Lipper peer group averages over the past one, three, five and ten years.

Fiscal 2008 gross sales and other inflows of $45.7 billion were the second best in Company history, trailing only last year's $46.4 billion, which included $10 billion of closed-end fund inflows. The $14.7 billion of net inflows in fiscal 2008 made this also our second best year ever by this measure. Excluding closed-end fund flows, the Company achieved record inflows on both a gross and net basis in fiscal 2008. Our $14.7 billion of net inflows for the fiscal year represents a nine percent annual internal growth rate (net inflows divided by beginning assets), among the highest organic growth rates in the industry over this period.

Our strong sales results in fiscal 2008 were largely driven by record flows in our two largest product categories, open-end funds and retail managed accounts. Open-end fund sales were $25.9 billion, an increase of 25 percent from fiscal 2007. Led by our large-cap value franchise, open-end equity fund sales more than doubled to $17.6 billion. Strong equity fund flows more than compensated for weaker fixed- and floating-rate income fund sales, which suffered from the ongoing dislocation in the credit markets.

The Company's retail managed account business achieved record gross and net sales in fiscal 2008. Gross sales of $9.8 billion were 58 percent above fiscal 2007 levels. The $5.6 billion of net flows into our retail managed account products translates to a 38 percent internal growth rate, making this our fastest growing business. We enter fiscal 2009 with expanding growth opportunities in retail managed accounts. Not only do we continue to raise assets in our flagship large-cap value and tax-managed core disciplines, but we have high expectations in this market for our pending acquisition of the tax-advantaged bond strategies business discussed on page 4.

Our open-end fund and retail managed account products are distributed through financial advisors by our retail distribution company, Eaton Vance Distributors, Inc. (EVD). In last year's letter I described the ongoing restructuring of EVD under the direction of new EVD president Matt Witkos. Although we cannot measure the precise contribution to our sales success of the changes implemented to date, I believe it is telling that in fiscal 2008 we achieved record open-end fund and retail separate account sales amid a brutal market environment, growing our business and gaining share while many of our competitors were struggling.

Fiscal 2008 also saw major progress in achieving our vision of making Eaton Vance Management (EVM) a significant player in the institutional market. EVM entered this business in earnest in 2005 when Lisa Jones joined us as Head of Institutional. Since then, we have built a top-quality institutional marketing and client service capability and positioned Eaton Vance to compete for institutional mandates across the many investment disciplines in which we have expertise. The strong relative performance of our equity investment groups is a major advantage for us in seeking to capitalize on institutional opportunities. Our large-cap value, structured emerging markets, and small-cap core equity products are all generating high levels of interest from consultants and potential clients. On the income side, our floating-rate bank loan and high-yield bond businesses are attracting interest from institutions seeking to take advantage of the extraordinary values that are available today in the depressed corporate credit markets. In fiscal 2008, EVM's institutional team was awarded over $4 billion in client mandates, including those expected to fund in the first quarter of fiscal 2009. Our subsidiaries Fox Asset Management LLC and Atlanta Capital Management Company, LLC also enjoyed continued strong relative investment performance in 2008, positioning those organizations for renewed growth as markets stabilize.

A milestone marked in September was the fifth anniversary of the acquisition by the Company of a controlling interest in Parametric Portfolio Associates LLC (Parametric), a leader in structured equity portfolio management based in Seattle. Parametric offers three principal products: tax-managed core equity portfolios that seek to outperform client-specified benchmarks on an after-tax basis; overlay portfolio management for retail managed accounts; and quantitative active portfolio management, with a focus on emerging markets. Through its affiliate Parametric Risk Advisors LLC, Parametric also offers investment programs utilizing equity and equity index options and other derivative instruments. Since joining Eaton Vance, Parametric has seen growth in managed assets from $5.3 billion to $21.2 billion and has contributed importantly to the Company's reputation as a leading provider of innovative investment solutions for sophisticated investors.

Just after the close of the fiscal year, we announced another acquisition that we believe offers significant growth opportunities: the Tax Advantaged Bond Strategies (TABS) business of M.D. Sass. **The TABS acquisition will bring to Eaton Vance a top-performing tax-advantaged income manager with approximately $6.5 billion of assets under management.** TABS is distinguished in the market by its orientation toward after-tax total return and its relative value trading approach to investing in high quality municipal and U.S. government securities. We believe TABS nicely complements the more credit-intensive and income-oriented approach long employed by Eaton Vance's municipal investment team. As municipal securities and tax-advantaged income strategies grow in popularity, Eaton Vance will be uniquely suited to meet investor demand with a spectrum of products and strategies. We are very excited about the prospect of the TABS investment team joining Eaton Vance, and look forward to helping this outstanding group achieve their full business potential in the years ahead.

During our fiscal 2008, like all asset managers we shared in the challenges presented by volatile and declining markets. A special challenge for us and others active in the closed-end fund business was dealing with the fallout from the collapse in the auction rate securities market in February. When auction markets suddenly stopped functioning, the normal means for providing liquidity to holders of closed-end fund auction preferred shares (APS) was interrupted. Since February, Eaton Vance has worked with other market participants to restore liquidity to APS holders and to provide alternative sources of leverage to our closed-end funds. When the crisis broke, our funds had approximately $5.0 billion of outstanding APS. As of fiscal year end, we had redeemed approximately $3.8 billion of APS, or 76 percent of the original total. We were the first closed-end fund family to redeem all of its equity fund APS, the first to redeem taxable income fund APS and the first to redeem municipal income fund APS. Although the task is not completed, we have made significant progress and continue to work to find solutions that will enable us to redeem the balance of our funds' outstanding APS.

As we look forward into fiscal 2009, there is little doubt that the equity and credit market declines experienced in recent months will put significant pressure on our revenues and earnings. **Our assets under management and revenue run rate going into the new fiscal year are well below average levels of fiscal 2008.** We are fortunate, however, that a substantial percentage of our operating costs, about half overall, automatically adjust upward or downward with changes in assets under management, product sales or operating income. We also have significant opportunities to achieve other cost reductions, and are cutting back wherever feasible to achieve savings that will not affect our ability to manage assets, serve clients and represent our products effectively.

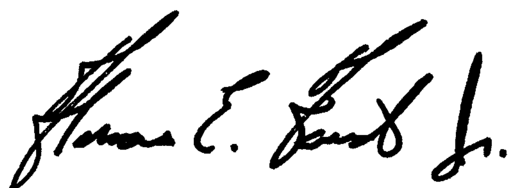
Our financial position is strong. At fiscal year end, we had $367 million in cash, cash equivalents and short-term investments, and there were no borrowings outstanding under our $200 million line of credit. The only debt we have is $500 million in 6.5 percent senior notes due in 2017. We have the resources to withstand whatever the markets may bring our way and to take advantage of special opportunities that may emerge for us, such as the TABS acquisition.

Although I do not know when the current economic crisis will end, I know that it will end. Steps being taken to inject liquidity into the financial system and bolster confidence will, over time, stabilize markets and restore economic growth. In navigating the Company through these difficult times, my goals are twofold: first, to ensure that Eaton Vance gets through the current period of distress with our business and reputation intact, and, second, to position the Company for even stronger performance in the recovery that lies ahead.

As is our tradition, on the cover of this report are listed the names of all Eaton Vance employees, in order of their years of service to the Company. In last year's letter, I talked about the special qualities of our team and culture that have led the Company to be the top performing publicly traded U.S. stock over the period since the merger to form Eaton Vance in 1979 – a distinction that we continue to enjoy. I have long believed that the true measure of any organization is how it performs under adversity. The people of Eaton Vance rose to the challenge of a difficult business environment in fiscal 2008, and I have no doubt that they will continue to do so through the duration of the current crisis.

In these troubled times, we remain focused on our mission to serve clients and employees well, and thereby build shareholder value over the long term. I know of no other investment management organization that is better positioned than Eaton Vance to survive the current downturn and to emerge as a stronger and better company. That is our focus and our commitment.

Sincerely,



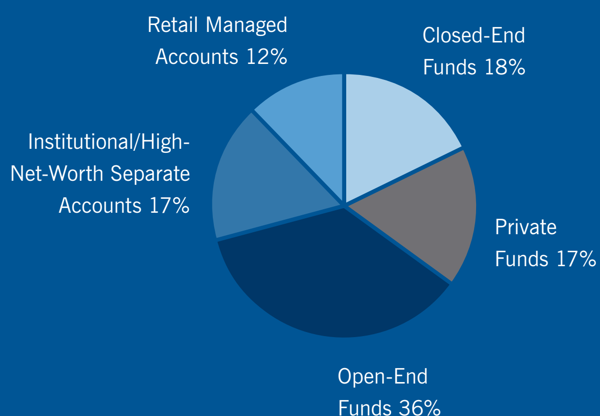
Thomas E. Faust Jr.
Chairman and Chief Executive Officer

Key Statistics

Fiscal Year Ending October 31, (in millions, except per share and employee amounts)	2008	2007	Change (%)
Ending assets under management	**123,087**	161,671	-24%
Average assets under management	**153,159**	145,973	5%
Gross inflows	**45,674**	46,416	-2%
Net inflows	**14,703**	22,912	- 36%
Revenue	**1,096**	1,084	1%
Operating income	**364**	233	56%
Operating income margin	**33%**	21%	
Net income	**196**	143	37%
Net income margin	**18%**	13%	
Earnings per diluted share	**1.57**	1.06	48%
Dividends declared per share	**0.605**	0.510	19%
Cash, cash equivalents and short-term investments	**367**	485	-24%
Long-term debt	**500**	500	-
Employees	**1,061**	953	11%
Market capitalization	**2,539**	5,893	-57%

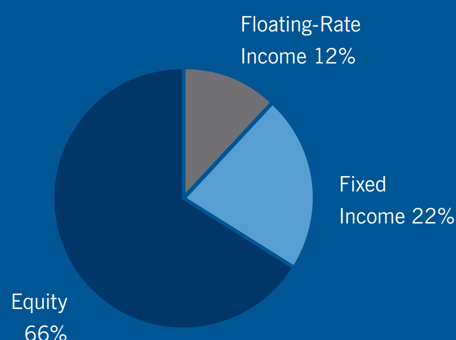
Ending Assets Under Management

By Product Category



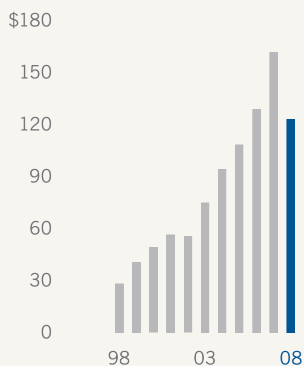
Ending Assets Under Management

By Asset Class

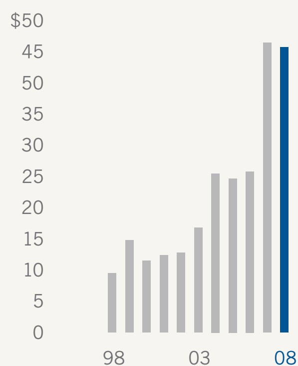


Performance

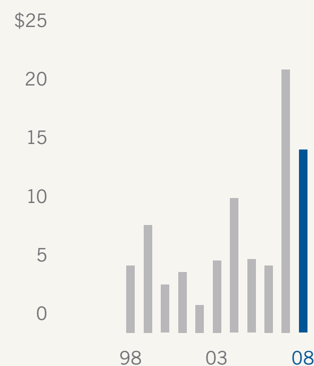
Assets Under Management
(in billions)



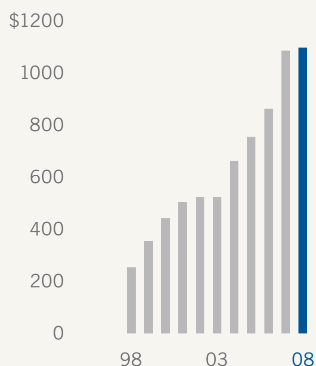
Gross Inflows
(in billions)



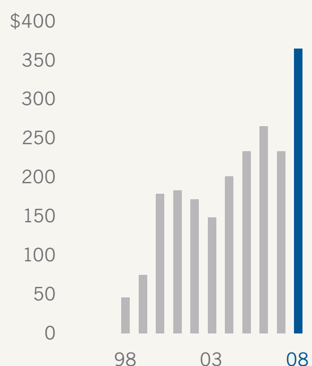
Net Inflows
(in billions)



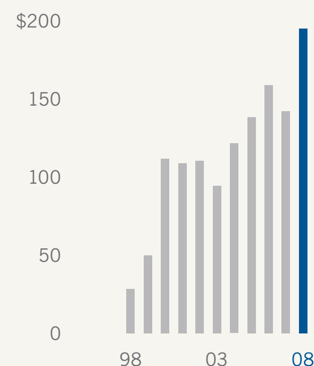
Revenue
(in millions)



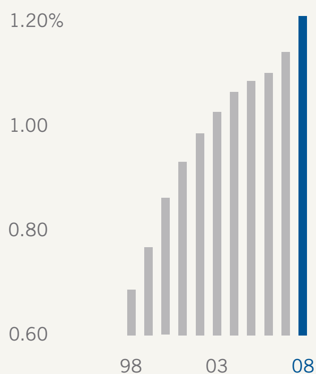
Operating Income
(in millions)



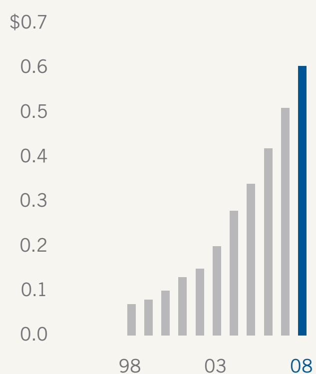
Net Income
(in millions)



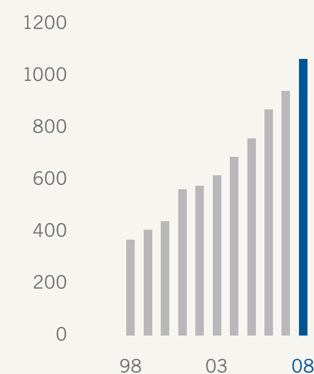
Market Share
Long-Term Fund Assets



Dividends Per Share



Employees



Source: *Strategic Insight*
Calendar Year End, Except October 2008

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Five-Year Financial Summary

(in thousands, except per share data)	2008	2007	2006	2005	2004
	Years Ended October 31,				
Income Statement Data					
Revenue:					
Investment advisory and administration fees	$ 815,706	$ 773,612	$ 594,632	$ 503,085	$ 413,102
Distribution and underwriter fees	128,940	148,369	139,111	138,485	150,018
Service fees	155,091	154,736	124,025	105,202	92,087
Other revenue	(3,937)	7,383	4,426	6,403	6,606
Total revenue	1,095,800	1,084,100	862,194	753,175	661,813
Expenses:					
Compensation of officers and employees	302,679	316,963	244,620	205,663	172,411
Distribution expense	120,570	253,344	114,052	101,661	80,356
Service fee expense	129,287	121,748	98,262	87,983	77,823
Amortization of deferred sales commissions	47,811	55,060	52,048	63,535	81,202
Fund expenses	24,684	19,974	16,589	12,019	4,034
Other expenses	107,017	84,074	71,657	49,707	45,347
Total expenses	732,048	851,163	597,228	520,568	461,173
Operating income	363,752	232,937	264,966	232,607	200,640
Other Income (Expense):					
Interest income	11,098	10,511	8,033	4,354	2,799
Interest expense	(33,616)	(2,894)	(12,850)	(1,464)	(5,898)
Realized (losses) gains on investments	(682)	(1,943)	3,667	38	275
Unrealized losses on investments	(4,323)	-	-	-	-
Foreign currency losses	(176)	(262)	(222)	(32)	(85)
Impairment losses on investments	(13,206)	-	(592)	(2,120)	-
Income before income taxes, minority interest, equity in net income of affiliates and cumulative effect of change in accounting principle	322,847	238,349	263,002	233,383	197,731
Income taxes	(125,154)	(93,200)	(102,245)	(90,871)	(72,493)
Minority interest	(7,153)	(6,258)	(5,103)	(5,037)	(4,559)
Equity in net income of affiliates, net of tax	5,123	3,920	4,349	1,231	1,283
Income before cumulative effect of change in accounting principle	195,663	142,811	160,003	138,706	121,962
Cumulative effect of change in accounting principle, net of tax	-	-	(626)	-	-
Net income	$ 195,663	$ 142,811	$ 159,377	$ 138,706	$ 121,962
Earnings per share before cumulative effect of change in accounting principle:					
Basic	$ 1.69	$ 1.15	$ 1.25	$ 1.05	$ 0.90
Diluted	$ 1.57	$ 1.06	$ 1.18	$ 0.99	$ 0.87
Earnings per share:					
Basic	$ 1.69	$ 1.15	$ 1.25	$ 1.05	$ 0.90
Diluted	$ 1.57	$ 1.06	$ 1.17	$ 0.99	$ 0.87
Dividends declared, per share	$ 0.605	$ 0.510	$ 0.420	$ 0.340	$ 0.280
Weighted average shares outstanding:					
Basic	115,810	124,527	127,807	131,591	134,938
Diluted	124,483	135,252	137,004	140,520	144,313
Balance Sheet Data					
Total assets	$ 968,355	$ 966,831	$ 668,195	$ 702,544	$ 743,566
Long-term debt	$ 500,000	$ 500,000	$ -	$ 75,467	$ 74,347
Shareholders' equity	$ 240,127	$ 229,168	$ 496,485	$ 476,296	$ 464,328

Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item includes statements that are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding our expectations, intentions or strategies regarding the future. All statements, other than statements of historical facts, included in this Form 10-K 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 Item 1A, "Risk Factors." All subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by such factors.

General

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

We are a market leader in a number of investment areas, including tax-managed equity, value equity, equity income, emerging market equity, floating-rate bank loan, municipal bond, investment grade and high-yield bond investing. Our diversified product line offers fund shareholders, retail managed account investors, institutional investors and high-net-worth clients a wide range of products and services designed and managed to generate attractive risk-adjusted returns over the long term. Our equity products encompass a diversity of investment objectives, risk profiles, income levels and geographic representation. Our income investment products cover a broad duration and credit quality range and encompass both taxable and tax-free investments. As of October 31, 2008, we had $123.1 billion in assets under management.

Our principal retail marketing strategy is to distribute funds and separately managed accounts through financial intermediaries in the advice channel. We have a broad reach in this marketplace, with distribution partners including national and regional broker/dealers, independent broker/dealers, independent financial advisory firms, banks and insurance companies. We support these distribution partners with a team of more than 120 sales professionals covering U.S. and international markets. Specialized sales and marketing professionals in our Wealth Management Solutions Group serve as a resource to financial advisors seeking to help high-net-worth clients address wealth management issues and support the marketing of our products and services tailored to this marketplace.

We also commit significant resources to serving institutional and high-net-worth clients who access investment management services on a direct basis. Through our wholly owned affiliates and consolidated subsidiaries we manage investments for a broad range of clients in the institutional and high-net-worth marketplace, including corporations, endowments, foundations, family offices and public and private employee retirement plans. Specialized sales teams at our affiliates develop relationships in this market and deal directly with these clients.

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

these assets. Our major expenses are employee compensation, distribution-related expenses, amortization of deferred sales commissions, facilities expense and information technology expense.

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

Market Developments

The twelve months coinciding with our fiscal 2008 was a period of dramatic upheaval for global markets, as virtually every class of financial assets experienced significant price declines and high volatility, particularly following the failure of Lehman Brothers Holdings in mid September. Over the twelve month period, the Dow Jones Industrial Average declined 33 percent and the S&P 500 Index declined 37 percent. In fixed income markets, a flight to quality lowered yields on U.S. Treasuries and pushed up credit spreads in virtually all sectors, with major dislocation in mortgage-backed securities, corporate credit and municipal finance. Numerous federal interventions were required to ensure the stability of the banking system and the continued availability of commercial and consumer credit.

Global markets continue to experience unprecedented volatility as we move into fiscal 2009, amid signs that the current recession may be deep and prolonged. We anticipate a challenging business climate ahead. Because our assets under management at fiscal year end were substantially below our average managed asset levels for fiscal 2008, we will likely experience a significant decline in revenue in fiscal 2009 relative to fiscal 2008 unless market conditions improve. Although we have taken steps to manage our costs in response to current market conditions, we expect our profit margins and net income also to be adversely affected. In this period of turmoil, we maintain our financial flexibility and remain committed to the further development of our business franchise.

Assets Under Management

Assets under management of $123.1 billion on October 31, 2008 were 24 percent lower than the $161.7 billion reported a year earlier, despite record open-end fund and retail managed account gross and net inflows. Long-term fund net inflows of $6.7 billion over the last twelve months included $8.4 billion of open-end net inflows, $1.1 billion of private fund net outflows and $0.6 billion of closed-end fund net outflows. Retail managed account net inflows were $5.6 billion and institutional and high-net-worth separate account net inflows were $2.4 billion. Net price declines in managed assets reduced assets under management by $52.5 billion. A decrease in cash management assets reduced assets under management by an additional $0.5 billion.

Ending Assets Under Management by Investment Category[1]

(in millions)	October 31, 2008	% of Total	2007	% of Total	2006	% of Total	2008 vs. 2007	2007 vs. 2006
Equity	$ 81,029	66%	$ 108,416	67%	$ 76,797	60%	-25%	41%
Fixed income	27,414	22%	31,838	20%	30,787	24%	-14%	3%
Floating-rate bank loan	14,644	12%	21,417	13%	21,323	16%	-32%	0%
Total	$ 123,087	100%	$ 161,671	100%	$ 128,907	100%	-24%	25%

[1] Includes funds and separate accounts.

Equity assets under management included $34.9 billion, $55.1 billion and $39.1 billion of equity funds managed for after-tax returns on October 31, 2008, 2007 and 2006, respectively. Fixed income assets included $14.2 billion, $17.7 billion and $14.8 billion of tax-exempt municipal bond assets and $1.1 billion, $1.6 billion and $3.7 billion of cash management fund assets on October 31, 2008, 2007 and 2006, respectively.

Long-Term Fund and Separate Account Net Flows

(in millions)	For the Years Ended October 31, 2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Long-term funds:					
Open-end funds [1]	$ 8,426	$ 7,773	$ 5,779	8%	35%
Closed-end funds	(613)	10,030	323	NM [3]	NM
Private funds	(1,141)	1,531	2,249	NM	-32%
Total long-term fund net inflows	6,672	19,334	8,351	-65%	132%
HNW and institutional accounts [1][2]	2,450	(168)	(2,294)	NM	-93%
Retail managed accounts	5,581	3,746	1,370	49%	173%
Total separate account net inflows (outflows)	8,031	3,578	(924)	124%	NM
Total net inflows	$14,703	$22,912	$ 7,427	-36%	208%

[1] Non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates, which were previously reported in the "Open-end funds" category, have been reclassified to the "HNW and institutional accounts" category for all periods presented.

[2] High-net-worth ("HNW")

[3] Not meaningful ("NM")

Net inflows totaled $14.7 billion in fiscal 2008 compared to $22.9 billion in fiscal 2007 and $7.4 billion in fiscal 2006, reflecting record open-end fund and retail managed account net inflows offset by a decrease in closed-end fund net flows. Open-end fund net inflows of $8.4 billion, $7.8 billion and $5.8 billion for fiscal 2008, 2007 and 2006, respectively, reflect gross inflows of $25.9 billion, $20.7 billion and $14.9 billion, respectively, net of redemptions of $17.5 billion, $12.9 billion and $9.1 billion, respectively. Private funds, which include privately offered equity and bank loan funds as well as collateralized debt obligation ("CDO") entities, had net outflows of $1.1 billion in fiscal 2008 compared to net inflows of $1.5 billion and $2.2 billion in fiscal 2007 and 2006, respectively. Approximately $0.5 billion of the total $1.1 billion in private fund net outflows in fiscal 2008 can be attributed to a reduction in portfolio leverage. Closed-end funds had net outflows of $0.6 billion in fiscal 2008 compared to net inflows of $10.0 billion and $0.3 billion in fiscal 2007 and fiscal 2006, respectively. Closed-end fund net outflows in fiscal 2008 reflect $0.8 billion in reduced portfolio leverage offset by $0.2 billion of reinvested dividends. Reductions in portfolio leverage in private and closed-end funds reflect paydowns necessary to maintain minimum debt coverage ratios in sharply declining markets.

Separate accounts contributed net inflows of $8.0 billion in fiscal 2008, compared to net inflows of $3.6 billion in fiscal 2007 and net outflows of $0.9 billion in fiscal 2006. Retail managed account net inflows increased to a record $5.6 billion in fiscal 2008 from $3.7 billion and $1.4 billion in fiscal 2007 and 2006, respectively, reflecting strong net sales of Parametric Portfolio Associates' overlay and tax-efficient core equity products and Eaton Vance Management's ("EVM's") large cap value and municipal bond products. Institutional and high-net-worth separate accounts had net inflows of $2.4 billion in fiscal 2008 compared to net outflows of $0.2 billion and $2.3 billion in fiscal 2007 and 2006, respectively. The increase in institutional and high-net-worth net inflows in fiscal 2008 reflects strong institutional inflows at both Parametric Portfolio Associates and EVM.

Cash management fund assets, which are not included in long-term fund net flows because of their short-term characteristics, decreased to $1.1 billion on October 31, 2008 from $1.6 billion on October 31, 2007 and $3.7 billion on October 31, 2006.

The following table summarizes the asset flows by investment category for fiscal years ended October 31, 2008, 2007 and 2006:

Asset Flows[(1)]

(in millions)	For the Years Ended October 31, 2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Equity fund assets – beginning	$ 72,928	$ 50,683	$ 45,146	44%	12%
Sales/inflows	18,528	21,278	7,758	-13%	174%
Redemptions/outflows	(10,818)	(6,343)	(5,075)	71%	25%
Exchanges	(196)	3	2	NM	50%
Market value change	(28,486)	7,307	2,852	NM	156%
Equity fund assets – ending	51,956	72,928	50,683	-29%	44%
Fixed income fund assets – beginning	24,617	21,466	18,213	15%	18%
Sales/inflows	5,888	7,512	5,072	-22%	48%
Redemptions/outflows	(5,316)	(3,512)	(2,194)	51%	60%
Exchanges	184	(41)	22	NM	NM
Market value change	(4,991)	(808)	353	518%	NM
Fixed income fund assets – ending	20,382	24,617	21,466	-17%	15%
Floating-rate bank loan fund assets – beginning	20,381	19,982	16,816	2%	19%
Sales/inflows	3,691	6,630	6,968	-44%	-5%
Redemptions/outflows	(5,301)	(6,231)	(4,178)	-15%	49%
Exchanges	(347)	(136)	(77)	155%	77%
Market value change	(4,618)	136	453	NM	-70%
Floating-rate bank loan fund assets – ending	13,806	20,381	19,982	-32%	2%
Total long-term fund assets – beginning	117,926	92,131	80,175	28%	15%
Sales/inflows	28,107	35,420	19,798	-21%	79%
Redemptions/outflows	(21,435)	(16,086)	(11,447)	33%	41%
Exchanges	(359)	(174)	(53)	106%	228%
Market value change	(38,095)	6,635	3,658	NM	81%
Total long-term fund assets – ending	86,144	117,926	92,131	-27%	28%
Separate accounts – beginning	42,160	33,048	27,650	28%	20%
Inflows – HNW and institutional	7,813	4,836	2,499	62%	94%
Outflows – HNW and institutional	(5,363)	(5,004)	(4,793)	7%	4%
Inflows – retail managed accounts	9,754	6,160	3,555	58%	73%
Outflows – retail managed accounts	(4,173)	(2,414)	(2,185)	73%	10%
Market value change	(14,359)	5,264	5,873	NM	-10%
Assets acquired	-	270	449	-100%	-40%
Separate accounts – ending	35,832	42,160	33,048	-15%	28%
Cash management fund assets – ending	1,111	1,585	3,728	-30%	-57%
Assets under management – ending	$123,087	$161,671	$128,907	-24%	25%

[(1)] *Non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates, which were previously reported in the "Long-term fund" category, have been reclassified to the "HNW and institutional" category for all periods presented.*

Ending Assets Under Management by Asset Class

	October 31,						2008	2007
(in millions)	**2008**	**% of Total**	**2007**	**% of Total**	**2006**	**% of Total**	**vs. 2007**	**vs. 2006**
Open-end funds:								
Class A	$ 28,659	23%	$ 35,360	22%	$ 27,026	21%	-19%	31%
Class B	2,831	2%	6,035	4%	6,831	5%	-53%	-12%
Class C	6,939	6%	10,098	6%	8,387	7%	-31%	20%
Class I	4,148	4%	3,654	2%	4,549	4%	14%	-20%
Other [(1)(2)]	1,294	1%	715	0%	234	0%	81%	206%
Total open-end funds	43,871	36%	55,862	34%	47,027	37%	-21%	19%
Private funds [(3)]	21,193	17%	30,058	19%	26,364	20%	-29%	14%
Closed-end funds	22,191	18%	33,591	21%	22,468	17%	-34%	50%
Total fund assets	87,255	71%	119,511	74%	95,859	74%	-27%	25%
HNW and institutional account assets[(2)]	21,293	17%	27,372	17%	23,508	18%	-22%	16%
Retail managed account assets	14,539	12%	14,788	9%	9,540	8%	-2%	55%
Total separate account assets	35,832	29%	42,160	26%	33,048	26%	-15%	28%
Total	$123,087	100%	$161,671	100%	$128,907	100%	-24%	25%

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

(2) *Non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates, which were previously reported in the "Open-end funds" category, have been reclassified to the "HNW and institutional account assets" category for all periods presented.*

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

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

Fund assets represented 71 percent of total assets under management at October 31, 2008, down from 74 percent at both October 31, 2007 and 2006, while separate account assets, which include high-net-worth, institutional and retail managed account assets, increased to 29 percent of total assets under management at October 31, 2008, from 26 percent at both October 31, 2007 and 2006. The decrease in fund assets under management in fiscal 2008 reflects organic growth of 6 percent offset by net price declines of $38.1 billion. The decrease in separate account assets under management in fiscal 2008 reflects organic growth of 19 percent offset by net price declines of $14.4 billion.

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

Average Assets Under Management by Asset Class [1]

(in millions)	For the Years Ended October 31, 2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Open-end funds:					
Class A	$ 34,969	$ 31,770	$ 22,661	10%	40%
Class B	4,554	6,384	7,267	-29%	-12%
Class C	9,097	9,381	7,791	-3%	20%
Class I	3,882	3,030	2,381	28%	27%
Other [2][3]	1,168	418	152	179%	175%
Total open-end funds	53,670	50,983	40,252	5%	27%
Private funds [4]	27,024	28,465	23,652	-5%	20%
Closed-end funds	29,898	29,920	21,788	0%	37%
Total fund assets	110,592	109,368	85,692	1%	28%
HNW and institutional account assets [3]	26,603	24,597	23,483	8%	5%
Retail managed account assets	15,964	12,008	8,190	33%	47%
Total separate account assets	42,567	36,605	31,673	16%	16%
Total	$153,159	$145,973	$117,365	5%	24%

(1) *Assets under management attributable to acquisitions that closed during the relevant periods are included on a weighted average basis for the period from their respective closing dates.*
(2) *Includes other classes of Eaton Vance open-end funds.*
(3) *Non-Eaton Vance funds subadvised by Atlanta Capital, Fox Asset Management and Parametric Portfolio Associates, which were previously reported in the "Other" category, have been reclassified to the "HNW and institutional account assets" category for all periods presented.*
(4) *Includes privately offered equity and bank loan funds and CDO entities.*

Results of Operations

(in thousands, except per share data)	For the Years Ended October 31, 2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Net income	$195,663	$142,811	$159,377	37%	-10%
Earnings per share before cumulative effect of change in accounting principle:					
Basic	$1.69	$1.15	$1.25	47%	-8%
Diluted	$1.57	$1.06	$1.18	48%	-10%
Earnings per share:					
Basic	$1.69	$1.15	$1.25	47%	-8%
Diluted	$1.57	$1.06	$1.17	48%	-9%
Operating margin	33%	21%	31%	NM	NM

We reported net income of $195.7 million, or $1.57 per diluted share, in fiscal 2008 compared to $142.8 million, or $1.06 per diluted share, in fiscal 2007. The increase in net income of $52.9 million, or $0.51 per diluted share, can be primarily attributed to the following:

- An increase in revenue of $11.7 million, or 1 percent, primarily due to increases in investment advisory, administration and service fees attributed to the 5 percent increase in average assets under management. These increases were partially offset by decreases in distribution and underwriter fees due to a decrease in average assets under management subject to these fees and a decrease in other revenue due to net realized and unrealized losses recognized on investments in consolidated funds. Net realized and unrealized losses on investments held in the portfolios of consolidated funds totaled $9.6 million in fiscal 2008, compared to net realized and unrealized gains of $2.5 million in fiscal 2007.
- A decrease in expenses of $119.1 million, or 14 percent, due to decreases in distribution expense and the amortization of deferred sales commissions. These decreases were partially offset by increases in service fee expense, fund expenses and other expenses. The $132.8 million decrease in distribution expense can be primarily attributed to the payment of one-time structuring fees related to closed-end funds offered in fiscal 2007 and payments made to terminate dealer compensation agreements related to certain previously offered closed-end funds, which together totaled $128.2 million.
- An increase in interest expense of $30.7 million due to our $500.0 million senior note offering on October 2, 2007.
- An increase in realized and unrealized losses of $3.1 million associated with seed investments in separately managed accounts.
- Impairment losses on investments of $13.2 million associated with investments in CDO entities.
- An increase in income taxes of $32.0 million, reflecting the current year increase in taxable income.
- A decrease in diluted weighted average shares outstanding of 10.8 million shares, or 8 percent, reflecting share repurchases over the last twelve months funded primarily by our $500.0 million senior note offering on October 2, 2007.

We reported net income of $142.8 million, or $1.06 per diluted share, in fiscal 2007 compared to $159.4 million, or $1.17 per diluted share in fiscal 2006. The decrease in net income of $16.6 million, or $0.11 per diluted share, can be primarily attributed to the following:

- An increase in revenue of $221.9 million, or 26 percent, due to increases in investment advisory and administration fees, distribution and underwriter fees, service fees and other revenue reflecting the 24 percent increase in average assets under management.
- An increase in expenses of $253.9 million, or 43 percent, reflecting increases across all expense categories. The increase in compensation expense of $72.3 million can be attributed to the increase in gross sales and an 11 percent increase in average headcount. The increase in distribution expense of approximately $139.3 million can be primarily attributed to the payment of $76.0 million in one-time structuring fees related to closed-end funds offered in fiscal 2007 and the payment of $52.2 million to Merrill, Lynch, Pierce, Fenner and Smith and A.G. Edwards & Sons, Inc. to terminate compensation agreements in respect of certain previously offered closed-end funds.
- A decrease in interest expense of $10.0 million due to the redemption of our zero-coupon exchangeable senior notes in August 2006 offset by interest accrued on our $500.0 million senior note offering in the fourth quarter of 2007.
- An increase in realized and unrealized losses of $5.6 million due to a $6.7 million loss on the termination of an interest rate lock in October 2007, offset by gains recognized on the disposition of certain investments in sponsored funds and on the liquidation of an investment in a CDO entity.
- A decrease in income taxes of $9.0 million, reflecting the decrease in taxable income.
- A decrease in diluted weighted average shares outstanding of 1.8 million shares, or 1 percent, reflecting share repurchases in fiscal 2007.

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

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

	For the Years Ended October 31,			2008 vs.	2007 vs.
(in thousands)	**2008**	**2007**	**2006**	**2007**	**2006**
Operating income	$363,752	$232,937	$264,966	56%	-12%
Operating (income) losses of consolidated funds	8,268	(271)	(549)	NM	-51%
Closed-end fund structuring fees	-	75,998	1,610	NM	NM
Payments to terminate closed-end fund compensation agreements	-	52,178	-	NM	NM
Write-off of intangible assets	-	-	8,876	NM	NM
Stock-based compensation	39,422	43,304	36,314	-9%	19%
Adjusted operating income	$411,442	$404,146	$311,217	2%	30%
Adjusted operating margin	38%	37%	36%		

Revenue

Our average effective fee rate (total revenue as a percentage of average assets under management) was 72 basis points in fiscal 2008 compared to 74 basis points in fiscal 2007 and 73 basis points in fiscal 2006. The decrease in our effective fee rate in fiscal 2008 can be primarily attributed to a decline in average assets under management in fund share classes subject to distribution fees as a percentage of total average assets under management.

	For the Years Ended October 31,			2008 vs.	2007 vs.
(in thousands)	**2008**	**2007**	**2006**	**2007**	**2006**
Investment advisory and administration fees	$ 815,706	$ 773,612	$594,632	5%	30%
Distribution and underwriter fees	128,940	148,369	139,111	-13%	7%
Service fees	155,091	154,736	124,025	0%	25%
Other revenue	(3,937)	7,383	4,426	NM	67%
Total revenue	$1,095,800	$1,084,100	$862,194	1%	26%

Investment advisory and administration fees

Investment advisory and administration fees are determined by contractual agreements with our sponsored funds and separate accounts and are generally based upon a percentage of the market value of assets under management. Net asset flows and changes in the market value of managed assets affect the amount of managed assets on which investment advisory and administration fees are earned, while changes in asset mix among different investment disciplines and products affect our average effective fee rate. Investment advisory and administration fees represented 74 percent of total revenue in fiscal 2008, compared to 71 percent and 69 percent in fiscal 2007 and 2006, respectively.

The increase in investment advisory and administration fees of 5 percent and 30 percent in fiscal 2008 and 2007, respectively, can be attributed primarily to a 5 percent and 24 percent increase in average assets under management in fiscal 2008 and 2007, respectively. Fund average effective fee rates increased to 62 basis points in fiscal 2008 from 60 basis points and 58 basis points in fiscal 2007 and 2006, respectively, reflecting the impact of closed-end funds offered in fiscal 2007 as well as a reduction in certain contractual closed-end fund advisory fee waivers. Separately managed account average effective fee rates were 31 basis points in fiscal 2008, 2007 and 2006.

Distribution and underwriter fees

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

Distribution plan payments decreased 13 percent, or $17.6 million, to $115.8 million in fiscal 2008, reflecting decreases in average Class A, Class B, Class C and certain private fund assets subject to distribution fees. Class A share distribution fees decreased by 9 percent, or $0.2 million, to $2.1 million, reflecting a 9 percent decrease in average Class A share assets that are subject to distribution fees (primarily in funds advised by Lloyd George Management). Class B share distribution fees decreased by 27 percent, or $13.2 million, to $36.4 million, reflecting a decrease in average Class B share assets under management of 29 percent year-over-year. Class C and certain private fund distribution fees decreased by 4 percent and 15 percent, or $2.5 million and $2.0 million, to $65.0 million and $11.7 million, respectively, reflecting decreases in average assets subject to distribution fees of 3 percent and 13 percent, respectively. Underwriter fees and other distribution income decreased 12 percent, or $1.9 million, to $13.2 million in fiscal 2008, primarily reflecting a decrease of $2.6 million in underwriter fees received on sales of Class A shares partially offset by an increase of $1.1 million in contingent deferred sales charges received on certain Class A share redemptions.

Distribution plan payments increased 6 percent, or $7.1 million, to $133.3 million in fiscal 2007, reflecting an increase in average Class A, Class C and certain private fund assets subject to distribution fees, partially offset by a decrease in average Class B share assets. Class A share distribution fees increased by 130 percent, or $1.3 million, to $2.3 million, reflecting a 130 percent increase in average Class A share assets that are subject to distribution fees (primarily in funds advised by Lloyd George Management). Class C and certain private fund distribution fees increased by 21 percent and 15 percent, or $11.9 million and $1.8 million, to $67.5 million and $13.7 million, respectively, reflecting increases in average assets subject to distribution fees of 20 percent and 12 percent, respectively. Class B share distribution fees decreased by 14 percent, or $8.1 million, to $49.6 million, reflecting a decrease in average Class B share assets under management of 12 percent year over year. Underwriter fees and other distribution income increased 17 percent, or $2.2 million, to $15.0 million in fiscal 2007, primarily reflecting an increase of $0.4 million in underwriter fees received on sales of Class A shares and an increase of $1.3 million in contingent deferred sales charges received on certain Class A share redemptions.

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

Service fee revenue was flat in fiscal 2008, reflecting little change in average assets under management in funds and classes of funds subject to service fees. Service fee revenue increased by 25 percent in fiscal 2007, reflecting a 23 percent increase in average Class A, B, C and certain private fund assets under management.

Other revenue
Other revenue, which consists primarily of shareholder service fees, miscellaneous dealer income, custody fees and investment income earned by consolidated funds and certain limited partnerships, decreased by $11.3 million in fiscal 2008, primarily reflecting an increase in net realized and unrealized losses recognized on securities held in the portfolios of consolidated funds and certain limited partnerships. Other revenue increased by $3.0 million in fiscal 2007, primarily reflecting increases in net realized and unrealized gains on securities held in the portfolios of consolidated funds and an increase in shareholder service fees earned. Other revenue for fiscal 2008 includes $8.2 million of net investment losses (net realized and unrealized losses offset in part by dividend income earned) related to consolidated funds and certain limited partnerships for the period during which they were consolidated, compared to $2.7 million and $1.2 million of net investment income (net realized and unrealized gains and dividend income earned) for fiscal 2007 and 2006, respectively.

Expenses

Operating expenses decreased by 14 percent, or $119.1 million, in fiscal 2008, primarily reflecting a decrease in closed-end fund-related distribution expense offset by increases in service fee, fund and other operating expenses. Operating expenses increased by 43 percent, or $253.9 million, in fiscal 2007, primarily reflecting increases in compensation and distribution expense driven by the offering of new closed-end funds, payments to terminate certain closed-end fund compensation agreements, and increases in other operating expenses as more fully described below.

	For the Years Ended October 31,			2008 vs.	2007 vs.
(in thousands)	**2008**	**2007**	**2006**	**2007**	**2006**
Compensation of officers and employees:					
Cash compensation	$263,257	$273,659	$208,306	-4%	31%
Stock-based compensation	39,422	43,304	36,314	-9%	19%
Total compensation of officers and employees	302,679	316,963	244,620	-5%	30%
Distribution expense	120,570	253,344	114,052	-52%	122%
Service fee expense	129,287	121,748	98,262	6%	24%
Amortization of deferred sales commissions	47,811	55,060	52,048	-13%	6%
Fund expenses	24,684	19,974	16,589	24%	20%
Other expenses	107,017	84,074	71,657	27%	17%
Total expenses	$732,048	$851,163	$597,228	-14%	43%

Compensation of officers and employees
Compensation expense decreased by 5 percent, or $14.3 million, in fiscal 2008, reflecting increases in employee headcount, base salaries and other compensation expense offset by lower sales-based incentives, adjusted operating income-based incentives and stock-based compensation. Base compensation, payroll taxes and employee benefits increased by $18.2 million, or 16 percent, primarily reflecting an 11 percent increase in average headcount. Operating income-based incentives decreased by $8.2 million, or 9 percent, reflecting a decrease in the rate at which adjusted operating income-based incentives were accrued. Other compensation expense decreased by $2.0 million, reflecting a reduction in severance expense recognized in fiscal 2008 compared to fiscal 2007. Sales incentives decreased by $18.4 million, or 28 percent, primarily reflecting the $14.8 million in closed-end fund sales incentives paid out in fiscal 2007 and a decrease in other fund sales incentives resulting from a realignment of our sales incentive compensation structure. Stock-based compensation expense decreased by $3.9 million, or 9 percent, reflecting primarily a decrease in stock option expense for retirement-eligible employees in fiscal 2008.

Compensation expense increased by 30 percent, or $72.3 million, in fiscal 2007, reflecting increases in cash and stock-based compensation. Base compensation, payroll taxes and employee benefits increased by $14.0 million, or 14 percent, primarily reflecting an 11 percent increase in average headcount. Operating income-based incentives increased by $23.5 million, or 36 percent, primarily reflecting the increase in adjusted operating income. Other compensation expense increased by $2.8 million, reflecting an increase in severance costs associated with the reorganization of EVD in October 2007. Sales incentives increased by $24.8 million, or 60 percent, primarily reflecting the $14.8 million in closed-end fund sales incentives paid out in fiscal 2007 and year over year increases in open-end fund and retail managed account sales. Stock-based compensation expense increased by $7.0 million, or 19 percent, reflecting an 11 percent increase in average headcount and an increase in stock option expense for retirement-eligible employees.

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

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

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

Distribution expense decreased by 52 percent, or $132.8 million, to $120.6 million in fiscal 2008, primarily reflecting decreases in distribution expenses associated with closed-end funds. Closed-end fund structuring fees decreased by $76.0 million, reflecting the payment of one-time structuring fees in fiscal 2007 associated with closed-end funds offered in that year. Payments made under certain closed-end fund compensation agreements decreased by $53.4 million, or 71 percent, to $22.1 million, reflecting fiscal

2007 payments of $52.2 million made to Merrill Lynch, Pierce, Fenner & Smith and A.G. Edwards & Sons, Inc. to terminate certain closed-end fund compensation agreements. Class C distribution fees increased by $1.8 million, or 4 percent, to $47.9 million in fiscal 2008, reflecting an increase in Class C share assets older than one year. Class A commissions decreased by $6.9 million, or 40 percent, to $10.5 million, reflecting a decrease in Class A sales subject to commissions. Marketing expenses associated with revenue sharing arrangements with our distribution partners increased by $3.3 million, or 12 percent, to $29.4 million in fiscal 2008, reflecting the increase in sales and average assets under management that are subject to these arrangements and modifications in the terms of certain arrangements. Other marketing expenses decreased $1.6 million, or 8 percent, to $10.7 million in fiscal 2008, primarily reflecting decreases in literature fulfillment, due diligence meetings, conferences and other promotional activities.

Distribution expense increased by 122 percent, or $139.3 million, in fiscal 2007, primarily reflecting the payment of $76.0 million in one-time structuring fees associated with the offering of $10.0 billion of closed-end funds and $52.2 million in payments made to Merrill Lynch, Pierce, Fenner & Smith and A.G. Edwards & Sons, Inc. to terminate certain closed-end fund compensation agreements under which we were obligated to make recurring payments over time. Class C distribution fees increased by 15 percent, or $6.2 million, to $46.1 million in fiscal 2007, reflecting the increase in Class C share sales and average assets year-over-year. Marketing expenses associated with revenue sharing arrangements with our distribution partners increased by 35 percent, or $6.7 million, to $26.1 million in fiscal 2007, reflecting the increase in sales and assets under management that are subject to these arrangements.

Service fee expense

Service fees we receive from sponsored funds are generally retained in the first year and paid to broker/dealers after the first year pursuant to third-party service arrangements. These fees are calculated as a percent of average assets under management in specific share classes of our mutual funds (principally Classes A, B, and C), as well as certain private funds. Service fee expense increased by 6 percent in fiscal 2008 and 24 percent in fiscal 2007, reflecting increases in average fund assets retained more than one year in funds and share classes that are subject to service fees.

Amortization of deferred sales commissions

Amortization expense is affected by ongoing sales and redemptions of mutual fund Class B shares, Class C shares and certain private funds. Amortization expense decreased 13 percent in fiscal 2008, primarily reflecting the ongoing decline of Class B share sales and assets. As amortization expense is a function of our fund asset mix, a continuing shift away from Class B shares to other classes over time will likely result in a reduction in amortization expense over time. In fiscal 2008, 31 percent of total amortization related to Class B shares, 45 percent to Class C shares and 24 percent to private equity funds.

Amortization of deferred sales commissions increased by 6 percent in fiscal 2007 due to the increase in Class C share deferred sales commissions, which are amortized over a 12 month period, offset by a decrease in Class B share deferred sales commissions, which are amortized over a period not to exceed six years. Class C share sales increased 38 percent in fiscal 2007, while Class B share sales declined by 24 percent. In fiscal 2007, 34 percent of total amortization related to Class B shares, 43 percent to Class C shares and 23 percent to private equity funds.

Fund expenses

Fund expenses consist primarily of fees paid to subadvisors, compliance costs and other fund-related expenses we incur. Fund expenses increased 24 percent and 20 percent in fiscal 2008 and 2007, respectively, primarily reflecting increases in subadvisory fees and other fund-related expenses. The increase in subadvisory fees in both years can be attributed to the increase in average assets under management in funds for which we employ and pay a subadvisor. The increase in other fund-related expenses in both years can be attributed to an increase in fund expenses for certain institutional funds for which we are paid an all-in management fee and bear the funds' non-advisory expenses.

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

Other expenses increased by 27 percent, or $22.9 million, in fiscal 2008, primarily reflecting increases in facilities-related expenses of $10.8 million, information technology expense of $7.3 million, consulting expense of $2.0 million, communications expense of $0.7 million and other expenses of $2.2 million. The increase in facilities-related expenses can be attributed to an increase in rent and insurance associated with the lease of our new corporate headquarters in Boston, where tenant improvements have begun, and accelerated amortization of existing leasehold improvements in anticipation of our move, which is scheduled for the second quarter of fiscal 2009. The increase in information technology expense can be attributed to an increase in outside data services and consulting costs incurred in conjunction with several significant system implementations. The increase in consulting costs can be attributed primarily to increases in legal costs associated with new product development and other general consulting costs in fiscal 2008. The increase in communications expense can be attributed to higher telephone and printing costs. The increase in other expenses can be attributed to increases in charitable giving, professional development, the amortization of intangible assets and other corporate taxes.

Other expenses increased by 17 percent, or $12.4 million, in fiscal 2007, primarily reflecting increases in travel expense of $2.8 million, facilities-related expenses of $5.9 million, information technology expense of $8.9 million and consulting expense of $3.2 million offset by a decrease in the amortization of intangible assets of $9.0 million. The increase in travel expense can be attributed primarily to additional travel costs incurred in connection with the three closed-end funds offered during the fiscal year. The increase in facilities-related expenses can be attributed to an increase in rent and insurance associated with additional office space leased to support the growth in headcount and accelerated amortization of leasehold improvements in anticipation of our move to new corporate headquarters in Boston in fiscal 2009. The increase in information technology expense can be attributed to an increase in outside data services and consulting costs incurred in conjunction with several significant system implementations. The increase in consulting costs can be attributed primarily to increases in recruiting, other general consulting and audit costs in fiscal 2007. The decrease in the amortization of intangible assets reflects the $8.9 million write-off of intangible assets relating to the termination of certain institutional and high-net-worth asset management contracts at Fox Asset Management in fiscal 2006.

Other Income and Expense

	For the Years Ended October 31,			2008 vs.	2007 vs.
(in thousands)	**2008**	**2007**	**2006**	**2007**	**2006**
Interest income	$ 11,098	$10,511	$ 8,033	6%	31%
Interest expense	(33,616)	(2,894)	(12,850)	NM	-77%
Realized (losses) gains on investments	(682)	(1,943)	3,667	-65%	NM
Unrealized losses on investments	(4,323)	-	-	NM	-
Foreign currency losses	(176)	(262)	(222)	-33%	18%
Impairment losses on investments	(13,206)	-	(592)	NM	NM
Total other income (expense)	$ (40,905)	$ 5,412	$ (1,964)	NM	NM

Interest income increased by $0.6 million, or 6 percent, in fiscal 2008, primarily due to an increase in average cash balances in fiscal 2008. Interest income increased by $2.5 million, or 31 percent, in fiscal 2007, primarily reflecting additional interest income earned on proceeds from our $500.0 million senior note offering on October 2, 2007.

Interest expense increased by $30.7 million in fiscal 2008 due to interest accrued on our senior notes offered in October 2007. Interest expense decreased by $10.0 million, or 77 percent, in fiscal 2007, primarily due to EVM's redemption of its zero-coupon exchangeable senior notes in August 2006 offset by interest accrued on our senior notes offered in October 2007.

In fiscal 2008, we recognized realized losses on investments totaling $0.7 million, representing losses incurred on investments in separately managed accounts seeded for new product development purposes. In fiscal 2007, we incurred net realized losses on investments totaling $1.9 million, consisting of a $6.7 million loss on the termination of an interest rate lock offset by net investment gains of $3.0 million realized on the disposition of certain investments in sponsored funds and $1.8 million realized on the liquidation of an investment in a CDO entity. The interest rate lock was entered into as a hedge against adverse movements in Treasury rates in anticipation of the issuance of senior notes with a maturity in excess of ten years. When we determined that we would not issue senior notes with a maturity in excess of ten years, the interest rate lock was terminated and the net settlement amount was recorded as a loss on investments. In fiscal 2006, we recognized net realized gains of $2.2 million upon the disposition of certain investments in sponsored funds and $1.4 million in gains on liquidation of investments in two CDO entities.

Unrealized losses on investments of $4.3 million in fiscal 2008 relate to investments in separately managed accounts seeded for new product development purposes.

We recognized impairment losses totaling $13.2 million in fiscal 2008, representing losses relating to investments in four cash instrument CDO entities and one synthetic CDO entity. The impairment losses associated with the four cash instrument CDO entities resulted from a decrease in the estimated future cash flows from the CDO entities combined with an increase in the market yield we use to discount the value of those cash flows to reflect current market conditions. The decrease in estimated future cash flows associated with these entities resulted from increases in projected default rates and decreases in projected recovery rates. The impairment loss associated with the synthetic CDO entity also resulted from a decrease in the estimated future cash flows from the entity combined with an increase in the market yield we use to discount the value of those cash flows to reflect current market conditions. The decrease in estimated future cash flows associated with the synthetic CDO entity resulted from higher anticipated default rates and lower anticipated recovery rates on the reference securities underlying the synthetic CDO entity's portfolio of credit default swaps. We recognized impairment losses totaling $0.6 million in fiscal 2006 relating to our investment in two cash instrument CDO entities resulting from the effect of tightening credit spreads and higher than forecasted prepayment rates on the entities' investments.

Income Taxes

Our effective tax rate (income taxes as a percentage of income before income taxes, minority interest, equity in net income of affiliates and the cumulative effect of a change in accounting principle) was 39 percent in fiscal 2008, 2007 and 2006.

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

Minority Interest

Minority interest increased by $0.9 million in fiscal 2008 over the same period a year earlier, primarily due to a $2.8 million adjustment in fiscal 2008 to reverse stock-based compensation previously allocated to minority shareholders of our majority-owned subsidiaries offset by a decrease in the interests held by minority shareholders of Atlanta Capital and Parametric Portfolio Associates. In the second quarter of fiscal 2008 we determined that the allocation of stock-based compensation expense to minority shareholders reduces our liability to minority shareholders in a manner that is not consistent with the agreements governing partnership distributions to those individuals. The $2.8 million adjustment represents the reversal of accumulated stock-based compensation expense allocated to minority shareholders from the date of acquisition. Stock-based compensation expense allocated to minority shareholders in prior periods was neither quantitatively nor qualitatively material to our consolidated financial statements in any of our previously reported fiscal years or periods.

Minority interest increased by 23 percent in fiscal 2007, primarily due to the increased profitability of majority-owned subsidiaries Atlanta Capital and Parametric Portfolio Associates.

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

Equity in Net Income of Affiliates, Net of Tax

Equity in net income of affiliates, net of tax, at October 31, 2008 reflects our 35 percent minority equity interest in Eaton Vance Cash Management Fund, an open-end money market mutual fund that invests in short-term obligations and other money market instruments, our 20 percent minority equity interest in Lloyd George Management and a 7 percent minority equity interest in a private equity partnership. Equity in net income of affiliates, net of tax, increased by $1.2 million, or 31 percent, in fiscal 2008 primarily due an increase in net income of both Lloyd George Management and the private equity partnership. Equity in net income of affiliates, net of tax, decreased by $0.4 million, or 10 percent, in fiscal 2007 primarily due to our sale of certain investments in sponsored mutual funds that were accounted for under the equity method in prior periods, offset by increases in equity in net income of both Lloyd George Management and the private equity partnership.

Changes in Financial Condition and Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity and capital resources on October 31, 2008, 2007 and 2006 and for the years then ended:

Balance Sheet and Cash Flow Data

	October 31,		
(in thousands)	**2008**	**2007**	**2006**
Balance sheet data:			
Assets:			
Cash and cash equivalents	$ 196,923	$434,957	$ 206,705
Short-term investments	169,943	50,183	20,669
Investment advisory fees and other receivables	108,644	116,979	94,669
Long-term investments	116,191	86,111	73,075
Deferred income taxes – long term	66,357	-	-
Liabilities:			
Taxes payable – current	848	21,107	3,713
Deferred income taxes – current	20,862	-	-
Deferred income taxes – long-term	-	11,740	22,520
Long-term debt	500,000	500,000	-

	For the Years Ended October 31,		
(in thousands)	**2008**	**2007**	**2006**
Cash flow data:			
Operating cash flows	$ 152,380	$266,357	$ 262,851
Investing cash flows	(165,717)	(75,354)	(26,197)
Financing cash flows	(224,480)	37,196	(176,407)

Liquidity and Capital Resources

Liquid assets consist of cash and cash equivalents, short-term investments and investment advisory fees and other receivables. Cash and cash equivalents consist of cash and short-term, highly liquid investments that are readily convertible to cash. Short-term investments consist of investments in sponsored cash management and short-term income funds. Investment advisory fees and other receivables primarily represent receivables due from sponsored funds and separately managed accounts for investment advisory and distribution services provided. Liquid assets represented 49 percent, 62 percent and 48 percent of total assets on October 31, 2008, 2007 and 2006, respectively.

On October 31, 2008, our current debt included $500.0 million in aggregate principal amount of 6.5 percent ten-year notes due 2017. We also maintain a $200.0 million revolving credit facility with several banks, which expires on August 13, 2012. The facility provides that we may borrow at LIBOR-based rates of interest that vary depending on the level of usage of the facility and our credit ratings. The agreement contains financial covenants with respect to leverage and interest coverage and requires us to pay an annual commitment fee on any unused portion. On October 31, 2008, we had no borrowings under our revolving credit facility.

We continue to monitor our liquidity daily. Notwithstanding current conditions in the global equity and credit markets, we believe that our existing liquid assets, cash flows from operations and borrowing capacity under our existing credit facility are sufficient to meet our current and forecasted operating cash needs and to satisfy our future commitments. The risk exists, however, that if we determine we need to raise additional capital or refinance existing debt in the future, resources may not be available to us in

sufficient amounts or on acceptable terms. Our ability to enter the capital markets in a timely manner depends on a number of factors, including the state of global credit and equity markets, interest rates, credit spreads and our credit ratings. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our Non-Voting Common Stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely impacted.

Income Taxes

Long-term deferred income taxes, which in previous periods related principally to the deferred income tax liability associated with deferred sales commissions offset by the deferred income tax benefit associated with stock-based compensation, changed from a net long-term deferred tax liability to a net long-term deferred tax benefit in fiscal 2008 as a result of a change in tax accounting method for certain closed-end fund expenses. We filed the change in tax accounting method with the Internal Revenue Service in the first quarter of fiscal 2008 for expenses associated with the launch of closed-end funds, which were historically deducted for tax purposes as incurred and are now capitalized and amortized over a 15 year period. Upon filing the change in tax accounting method, we recorded a deferred tax benefit of $84.9 million, the majority of which will amortize over a 15 year period, and a corresponding deferred tax liability in the amount of $84.9 million, which will reverse over a four year period ending October 31, 2011. The net current deferred tax liability of $20.9 million as of October 31, 2008 principally represents the current portion of the remaining $65.4 million deferred tax liability associated with the change in accounting method.

Current taxes payable decreased by $20.3 million in fiscal 2008, reflecting a current tax provision totaling $176.0 million offset by $194.3 million of income taxes paid. Current taxes payable were further impacted by the recognition of a $5.0 million liability related to uncertain tax positions in connection with the adoption of Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48") in fiscal 2008, offset by the recognition of $9.8 million of excess tax benefits associated with stock option exercises in the current fiscal year.

Contractual Obligations

The following table details our future contractual obligations as of October 31, 2008:

		Payments due			
(in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating leases – facilities and equipment	$ 444.6	$14.5	$ 36.7	$ 35.6	$357.8
Senior notes	500.0	-	-	-	500.0
Interest payment on senior notes	292.5	32.5	97.5	65.0	97.5
Investment in private equity partnership	4.3	-	4.3	-	-
Unrealized tax benefits	20.1	20.1	-	-	-
Total	$1,261.5	$67.1	$138.5	$100.6	$955.3

In July 2006, we committed to invest $15.0 million in a private equity partnership that invests in companies in the financial services industry. As of October 31, 2008, we had invested $10.7 million of the total $15.0 million of committed capital.

In September 2006, we signed a long-term lease to move our corporate headquarters to a new location in Boston. The lease will commence in May 2009. Capital expenditures, including those for the build-out of our new corporate headquarters, are anticipated to be approximately $40.9 million in fiscal 2009 gross of tenant reallowances of $18.3 million, and are expected to be funded from available cash balances.

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

In the second quarter of 2008, the minority investors in Parametric Portfolio Associates exercised a put option, requiring us to purchase an additional interest in Parametric Portfolio Associates for $21.5 million. The transaction settled on May 1, 2008 and increased our capital ownership interest from 84.3 percent to 89.3 percent and our profits interest from 81.2 percent to 82.3 percent. The additional purchase price was allocated between intangible assets, goodwill and minority interest.

In the third quarter of 2008, the minority investors in Atlanta Capital exercised a put option, requiring us to purchase an additional interest in Atlanta Capital for $5.0 million. The transaction settled on June 30, 2008 and increased our ownership interest from 80.4 percent to 85.5 percent. The additional purchase price was allocated between intangible assets, goodwill and minority interest.

In October 2008, the Company, as lender, entered into a $10.0 million subordinated term note agreement (the "Note") with a sponsored private equity fund. The Note earns daily interest based on the senior creditor's cost of commercial paper funding plus a margin. We currently anticipate that the Note, which expires on January 16, 2009, will likely be renewed upon expiration for an additional 364 day period. Subject to certain conditions, the private equity fund may prepay the Note in whole or in part, at any time, without premium or penalty. The Note is included in our Consolidated Balance Sheet as a component of other assets.

In November 2008, the Company announced the signing of a definitive agreement to acquire the Tax Advantaged Bond Strategies ("TABS") business of M.D. Sass Investors Services ("MD Sass"), a privately held investment manager based in New York, New York. The TABS business being acquired managed approximately $6.5 billion in client assets as of October 31, 2008, consisting of approximately $5.0 billion in institutional and high-net-worth family office accounts and approximately $1.5 billion in retail managed accounts. Following the closing, the TABS business will be organized as the Tax-Advantaged Bond Strategies division of Eaton Vance Management, and will maintain its current leadership, portfolio team and investment strategies. Its tax-advantaged income products and services will continue to be offered directly to institutional and family office clients, and by EVD to retail investors through financial intermediaries.

At closing, the Company will pay $30.0 million in cash to acquire the TABS business. The Company will be obligated to make seven annual contingent payments based on prescribed multiples of TABS's revenue for the twelve months ending December 31, 2009, 2010, 2011, 2012, 2014, 2015 and 2016. All future payments will be paid in cash. The Company anticipates that the transaction will close on or before December 31, 2008.

An Eaton Vance sponsored closed-end fund has proposed to offer, on a private basis, $100.0 million of Liquidity Protected Preferred shares ("LPP shares"), which are a new type of variable-rate preferred equity security that are backed by the unconditional purchase obligation of a designated liquidity

provider. In conjunction with the initial offering of LPP shares, the Company expects to enter into an agreement with the liquidity provider that grants the liquidity provider the right to put the LPP shares that it holds to the Company under certain specified circumstances. In support of the put agreement, the Company expects to enter into an escrow agreement pursuant to which the Company would deposit $101.0 million, invested in short-term U.S. government securities, to provide an assured source of funds to meet the Company's potential purchase obligations. The escrow agreement would lapse upon termination of the put agreement or the earlier agreement of the Company and the liquidity provider. The liquidity provider's put right generally will terminate upon the earlier of (1) the termination of the LPP share liquidity agreement and (2) the expiration of the 364-day term of the liquidity agreement. Although the offering has been delayed by current market events, the Company believes the offering may be completed in fiscal 2009.

The Company believes that if it were required to purchase LPP shares from the liquidity provider it would likely only be required to hold such shares for a short period and would earn returns that exceed its cost of short-term funding. The Company does not believe that there should be an ongoing requirement to offer a put right to liquidity providers once an active market develops for LPP shares, and does not expect a put agreement to be an ongoing feature of future LPP share arrangements.

Operating Cash Flows

Our operating cash flows are calculated by adjusting net income to reflect changes in assets and liabilities, deferred sales commissions, stock-based compensation, deferred income taxes and investments classified as trading. Cash provided by operating activities totaled $152.4 million, $266.4 million and $262.9 million in the fiscal years ended October 31, 2008, 2007 and 2006, respectively. The decrease in operating cash flows in fiscal 2008 can be primarily attributed to an increase in the purchase of trading securities by consolidated funds and in separate accounts seeded for new development purposes. The purchase of trading securities totaled $123.2 million, $26.5 million and $160.2 million in fiscal 2008, 2007 and 2006, respectively.

Operating cash flows in 2007 include the payment of $4.5 million to settle an interest rate lock transaction associated with our ten-year senior note offering. We entered into the interest rate lock to hedge against movement in ten-year Treasury prices between the time at which the decision was made to issue the debt and the pricing of the securities. At the time the debt was issued, we terminated the interest rate lock and settled the transaction in cash. At termination, the interest rate lock was determined to be a fully effective cash flow hedge and the $4.5 million settlement cost was recorded as a component of other comprehensive income. The amount recorded in other comprehensive income will be amortized over the life of the senior notes and recorded as a component of interest expense.

Investing Cash Flows

Investing activities consist primarily of the purchase of equipment and leasehold improvements, the purchase of equity interests from minority investors in our majority-owned subsidiaries and the purchase and sale of investments in our sponsored mutual funds that we do not consolidate. Cash used for investing activities totaled $165.7 million, $75.4 million and $26.2 million in fiscal 2008, 2007 and 2006, respectively.

In fiscal 2008, additions to equipment and leasehold improvements totaled $25.0 million, compared to $12.7 million in both fiscal 2007 and fiscal 2006. Additions in fiscal 2008 reflect tenant improvements made to our new corporate headquarters in fiscal 2008 in anticipation of our move in fiscal 2009. The purchase of minority members' interests of $26.5 million, $9.1 million and $11.3 million in fiscal 2008, 2007 and 2006, respectively, represents the purchase of additional ownership interests in Atlanta Capital and Parametric Portfolio Associates as more fully described in "Contractual Obligations" above. In fiscal 2008, 2007 and 2006, net purchases and sales of available-for-sale investments reduced investing cash flows by $114.2 million, $52.9 million and $0.5 million, respectively.

Financing Cash Flows

Financing cash flows primarily reflect the issuance and repayment of long-term debt, the issuance and repurchase of our Non-Voting Common Stock, excess tax benefits associated with stock option exercises and the payment of dividends to our shareholders. Financing cash flows also include proceeds from the issuance of capital stock by consolidated investment companies and cash paid to meet redemptions by minority shareholders of these funds. Cash provided by (used for) financing activities totaled ($224.5) million, $37.2 million and ($176.4) million in fiscal 2008, 2007 and 2006, respectively.

In fiscal 2008, we repurchased and retired a total of 4.5 million shares of our Non-Voting Common Stock for $185.3 million under our authorized repurchase programs and issued 2.1 million shares of our Non-Voting Common Stock in connection with the exercise of stock options and other employee stock purchases for total proceeds of $33.5 million. We have authorization to purchase an additional 2.7 million shares under our current share repurchase authorization and anticipate that future repurchases will continue to be an ongoing use of cash. Our dividends per share were $0.605 in fiscal 2008, $0.51 in fiscal 2007 and $0.42 in fiscal 2006. We increased our quarterly dividend by 3 percent to $0.155 per share in the fourth quarter of fiscal 2008. We currently expect to declare and pay comparable dividends on our Voting and Non-Voting Common Stock on a quarterly basis.

In October 2007, we issued $500.0 million in aggregate principal amount of 6.5 percent ten year senior notes due 2017. In conjunction with the senior note offering, we paid approximately $5.2 million in debt offering costs that will be amortized over the life of the notes and recognized as a component of interest expense.

In August 2006, EVM retired in full its then outstanding zero-coupon exchangeable notes with an accreted value on redemption date of $76.4 million.

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

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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

Deferred Sales Commissions

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

deferred sales commission assets may not be recoverable and adjust the deferred sales commission assets accordingly.

Goodwill and Intangible Assets

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

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

Accounting for Income Taxes

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

Investments in CDO Entities

We act as collateral or investment manager for a number of cash instrument CDO entities and one synthetic CDO entity pursuant to management agreements between us and the entities. At October 31, 2008, combined assets under management in these entities upon which we earn a management fee were approximately $2.6 billion. We had combined investments in five of these entities valued at $4.1 million on October 31, 2008.

We account for our investments in these 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. We review cash flow estimates throughout the life of each investment pool to determine whether an impairment of its investments should be recognized. Cash flow estimates are based on the underlying pool of collateral securities (or, in the case of the synthetic CDO, the reference securities underlying its credit default swap positions) and take into account the overall credit quality of the issuers, the forecasted

default and recovery rates and our past experience in managing similar securities. If the updated estimate of future cash flows (taking into account both timing and amounts) is less than the last revised estimate, an impairment loss is recognized based on the excess of the carrying amount of the investment over its fair value. Fair value is determined using current information, notably market yields and projected cash flows based on forecasted default and recovery rates that a market participant would use in determining the current fair value of the interest. Market yields, default rates and recovery rates used in our estimate of fair value vary based on the nature of the investments in the underlying collateral pools and current market conditions. In periods when market conditions necessitate an increase in the market yield used by a market participant and/or in periods of rising default rates and lower recovery rates, the fair value, and therefore carrying value, of our investments in these entities may be adversely affected. Our risk of loss in these entities is limited to the $4.1 million carrying value of the investments on our Consolidated Balance Sheet at October 31, 2008.

Stock-Based Compensation

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

Accounting Developments

In November 2008, the FASB issued Financial Statement Position ("FSP") FAS 140-e and FIN 46(R)-e, "Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities." The provisions of this FSP are effective for reporting periods ending after December 15, 2008. FSP 140-e and FIN 46R-e requires enhanced disclosures about transfers of financial assets and interests in variable interest entities. The provisions of FSP 140-e and FIN 46R-e are effective for our reporting period which begins on November 1, 2008. We do not anticipate that the provisions of FSP 140-e and FIN 46R-e will have an impact on our consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active." FSP FAS 157-3 became effective upon issuance, including periods for which financial statements have not been issued. FSP FAS 157-3 clarifies the application of SFAS No. 157 in which a market is not active. We do not anticipate that the provisions of FSP FAS 157-3 will have an impact on our consolidated financial statements.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161." FSP 133-1 and Fin 45-4 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP 133-1 and FIN 45-4 also amend FASB Interpretation No. 45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others", to require additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS 133 and FIN 45 are effective for reporting periods ending after November 15, 2008. The provisions of FSP 133-1 and FIN 45-4 are effective for our reporting period which begins on November 1, 2008. FSP 133-1 and FIN 45-4 also clarifies the effective date in SFAS No. 161. We do not anticipate that the provisions of this FSP will have an impact on our consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities." FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in SFAS No. 128, "Earnings per Share." It affects entities that accrue or pay non-forfeitable cash dividends on share-based payment awards during the awards' service period. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years and will require a retrospective adjustment to all prior period earnings per share. FSP EITF 03-6-1 is effective for our fiscal year that begins on November 1, 2009. We are currently evaluating the potential impact, if any, on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3, "Determination of the Useful Life of Intangible Assets." FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP SFAS No. 142-3 is effective for fiscal years beginning after December 15, 2008. FSP SFAS No. 142-3 is effective for our fiscal year that begins on November 1, 2009 and interim periods within those fiscal years. We do not anticipate that the provisions of FSP SFAS No. 142-3 will have an impact on our consolidated results of operations or consolidated financial position.

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

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51." SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries and for the deconsolidation of subsidiaries. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. The provisions of SFAS No. 160 are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. SFAS No. 160 is effective for our fiscal year that begins on November 1, 2009. We are currently evaluating the impact on our consolidated financial statements.

In December 2007, the FASB amended SFAS No. 141, "Business Combinations." SFAS No. 141, as amended, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of SFAS No. 141, as amended, are effective for fiscal years beginning on or after December 15, 2008. SFAS No. 141, as amended, shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited.

In June 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards" ("EITF 06-11"). Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified unvested equity shares, unvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim

periods within those fiscal years. EITF 06-11 is effective for our fiscal year that begins on November 1, 2008. We do not anticipate that the provisions of EITF 06-11 will have an impact on our consolidated results of operations or consolidated financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. SFAS No. 159 is effective for our fiscal year that begins on November 1, 2008. The provisions of SFAS No. 159 will not have an impact on our consolidated results of operations or consolidated financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 157 is effective for our fiscal year that begins on November 1, 2008. We do not anticipate that the provisions of SFAS No. 157 will have an impact on our consolidated results of operations or consolidated financial position but will require additional disclosure in our consolidated financial statements.

Quantitative and Qualitative Disclosures about Market Risk

In the normal course of business, our financial position is subject to different types of risk, including market risk. Market risk is the risk that we will incur losses due to adverse changes in equity and bond prices, interest rates, credit risk or currency exchange rates. Management is responsible for identifying, assessing and managing market and other risks.

In evaluating market risk, it is important to note that most of our revenue is based on the market value of assets under management. As noted in "Risk Factors" in Item 1A, declines of financial market values negatively impact our revenue and net income.

Our primary direct exposure to equity price risk arises from our investments in sponsored equity funds, our equity interest in affiliates, investments in equity securities held by sponsored funds we consolidate and investments in equity securities held in separately managed accounts seeded for new product development purposes. 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 or underlying equity securities. The following is a summary of the effect that a 10 percent increase or decrease in equity prices would have on our investments subject to equity price fluctuation at October 31, 2008:

(in thousands)	**Carrying Value**	**Carrying Value assuming a 10% increase**	**Carrying Value assuming a 10% decrease**
Trading:			
Equity securities	$ 31,846	$ 35,030	$ 28,661
Available-for-sale securities:			
Sponsored funds	21,365	23,502	19,229
Investment in affiliates	142,351	156,586	128,116
Total	$195,562	$215,118	$176,006

Our primary direct exposure to interest rate risk arises from our investment in fixed and floating-rate income funds sponsored by us, debt securities held by sponsored funds we consolidate and debt securities held in separately managed accounts seeded for new product development purposes. We considered the negative effect on pre-tax interest income of a 50 basis point (0.50 percent) decline in interest rates as of October 31, 2008. A 50 basis point decline in interest rates is a hypothetical scenario used to demonstrate potential risk and does not represent our management's view of future market changes. The following is a summary of the effect that a 50 basis point percent (0.50 percent) decline in interest rates would have on our pre-tax net income as of October 31, 2008:

(in thousands)	**Carrying Value**	**Pre-tax interest income impact of a 50 basis point decline in interest rates**
Trading:		
Debt securities	$38,950	$ 195
Available-for-sale securities:		
Sponsored funds	3,533	18
Total	$42,483	$ 213

From time to time, we seek to offset our exposure to changing interest rates associated with our debt financing. In October 2007, we issued $500.0 million in aggregate principal amount of 6.5 percent ten year senior notes due 2017. In conjunction with the offering, we entered into an interest rate lock intended to hedge against adverse Treasury rate movements between the time at which the decision was made to issue the debt and the pricing of the securities. At the time the debt was issued, we terminated the lock and settled the transaction in cash. At termination, the lock was determined to be a fully effective cash flow hedge and the $4.5 million settlement cost was recorded as a component of other comprehensive income. There can be no assurance that our hedge instruments will meet their overall objective of reducing our interest expense or that we will be successful in obtaining hedging contracts on any future debt offerings.

Our primary direct exposure to credit risk arises from our interests in the cash instrument and synthetic CDO entities that are included in long-term investments in our Consolidated Balance Sheets. As an investor in a CDO entity, we are entitled to only a residual interest in the CDO entity, making these investments highly sensitive to the default and recovery rates of the underlying instruments held by the CDO entity. Our investments are subject to an impairment loss in the event that the cash flows generated by the collateral securities (or, in the case of the synthetic CDO, the reference securities underlying its credit default swap positions) are not sufficient to allow equity holders to recover their investments. If there is deterioration in the credit quality of collateral and reference securities and a corresponding increase in the number of defaults, CDO entity cash flows may be adversely impacted and we may be unable to recover our investment. Our total investment in interests in CDO entities was valued at $4.1 million as of October 31, 2008, which represents our total value at risk with respect to such entities as of October 31, 2008.

We operate primarily in the United States, and accordingly most of our consolidated revenue and associated expenses are denominated in U.S. dollars. We also provide services and earn revenue outside of the United States; therefore, the portion of our revenue and expenses denominated in foreign currencies may be impacted by movements in currency exchange rates. This situation may change in the future as our business continues to grow outside of the United States. We do not enter into foreign currency transactions for speculative purposes.

Risk Factors

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

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

Our assets under management, which impact revenue, are subject to significant fluctuations. Our major sources of revenue (i.e., investment advisory, administration, distribution, and service fees) are generally calculated as percentages of assets under management. Any decrease in the level of our assets under management could negatively impact our revenue and net income. For example, a decline in securities prices or in the sales of our investment products or an increase in fund redemptions or client withdrawals generally would reduce fee income. Financial market declines generally have a negative impact on the level of our assets under management and consequently our revenue and net income. To the extent that we receive fee revenue from assets under management that are derived from financial leverage, any reduction in leverage used would adversely impact the level of our assets under management, revenue and net income. For example, leverage could be reduced due to an adverse change in interest rates, a decrease in the availability of credit on favorable terms or a determination by us to reduce or eliminate leverage on certain products when we determine that the use of leverage is no longer in our clients' best interests. Leverage on certain investment funds was reduced in fiscal 2008 to maintain minimum debt coverage ratios amidst declining markets.

The recession we are experiencing could further adversely impact our revenue if it leads to a decreased demand for investment products and services, a higher redemption rate or a further decline in securities prices. Any further decreases in the level of our assets under management due to securities price declines, reduction in leverage or other factors would negatively impact our revenue and net income.

We may need to raise additional capital or refinance existing debt in the future, and resources may not be available to us in sufficient amounts or on acceptable terms. Our ability to enter the capital markets in a timely manner depends on a number of factors, including the state of global credit and equity markets, interest rates, credit spreads and our credit ratings. If we are unable to access capital markets to issue new debt, refinance existing debt or sell shares of our Non-Voting Common Stock as needed, or if we are unable to obtain such financing on acceptable terms, our business could be adversely impacted.

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

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

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

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

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

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

Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of October 31, 2008. Disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC's rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of the date of their evaluation, our disclosure controls and procedures were effective.

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

Consolidated Statements of Income

(in thousands, except per share data)	Years Ended October 31, 2008	2007	2006
Revenue:			
Investment advisory and administration fees	$ 815,706	$ 773,612	$ 594,632
Distribution and underwriter fees	128,940	148,369	139,111
Service fees	155,091	154,736	124,025
Other revenue	(3,937)	7,383	4,426
Total revenue	1,095,800	1,084,100	862,194
Expenses:			
Compensation of officers and employees	302,679	316,963	244,620
Distribution expense	120,570	253,344	114,052
Service fee expense	129,287	121,748	98,262
Amortization of deferred sales commissions	47,811	55,060	52,048
Fund expenses	24,684	19,974	16,589
Other expenses	107,017	84,074	71,657
Total expenses	732,048	851,163	597,228
Operating income	363,752	232,937	264,966
Other Income (Expense):			
Interest income	11,098	10,511	8,033
Interest expense	(33,616)	(2,894)	(12,850)
Realized (losses) gains on investments	(682)	(1,943)	3,667
Unrealized losses on investments	(4,323)	-	-
Foreign currency losses	(176)	(262)	(222)
Impairment losses on investments	(13,206)	-	(592)
Income before income taxes, minority interest, equity in net income of affiliates and cumulative effect of change in accounting principle	322,847	238,349	263,002
Income taxes	(125,154)	(93,200)	(102,245)
Minority interest	(7,153)	(6,258)	(5,103)
Equity in net income of affiliates, net of tax	5,123	3,920	4,349
Income before cumulative effect of change in accounting principle	195,663	142,811	160,003
Cumulative effect of change in accounting principle, net of tax	-	-	(626)
Net income	$ 195,663	$ 142,811	$ 159,377
Earnings per share before cumulative effect of change in accounting principle:			
Basic	$ 1.69	$ 1.15	$ 1.25
Diluted	$ 1.57	$ 1.06	$ 1.18
Earnings per share:			
Basic	$ 1.69	$ 1.15	$ 1.25
Diluted	$ 1.57	$ 1.06	$ 1.17
Weighted average shares outstanding:			
Basic	115,810	124,527	127,807
Diluted	124,483	135,252	137,004

See notes to consolidated financial statements.

Consolidated Balance Sheets

(in thousands, except share data)	October 31, 2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 196,923	$ 434,957
Short-term investments	169,943	50,183
Investment advisory fees and other receivables	108,644	116,979
Other current assets	9,291	8,033
Total current assets	484,801	610,152
Other Assets:		
Deferred sales commissions	73,116	99,670
Goodwill	122,234	103,003
Other intangible assets, net	39,810	35,988
Long-term investments	116,191	86,111
Deferred income taxes	66,357	-
Equipment and leasehold improvements, net	51,115	26,247
Note receivable from affiliate	10,000	-
Other assets	4,731	5,660
Total other assets	483,554	356,679
Total assets	$ 968,355	$ 966,831
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accrued compensation	$ 93,134	$ 106,167
Accounts payable and accrued expenses	55,322	66,955
Dividends payable	17,948	17,780
Taxes payable	848	21,107
Deferred income taxes	20,862	-
Other current liabilities	3,317	2,167
Total current liabilities	191,431	214,176
Long-Term Liabilities:		
Long-term debt	500,000	500,000
Deferred income taxes	-	11,740
Other long-term liabilities	26,269	3,523
Total long-term liabilities	526,269	515,263
Total liabilities	717,700	729,439
Minority interest	10,528	8,224
Commitments and contingencies (See Note 8)	-	-
Shareholders' Equity:		
Voting Common Stock, par value $0.00390625 per share:		
Authorized, 1,280,000 shares		
Issued and outstanding, 390,009 and 371,386 shares, respectively	2	1
Non-Voting Common Stock, par value $0.00390625 per share:		
Authorized, 190,720,000 shares		
Issued and outstanding, 115,421,762 and 117,798,378 shares, respectively	451	460
Notes receivable from stock option exercises	(4,704)	(2,342)
Accumulated other comprehensive income (loss)	(5,135)	3,193
Retained earnings	249,513	227,856
Total shareholders' equity	240,127	229,168
Total liabilities and shareholders' equity	$ 968,355	$ 966,831

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

(in thousands, except per share data)	Voting and Non-Voting Common Shares	Voting Common Stock	Non-Voting Common Stock	Additional Paid-In Capital	Notes Receivable From Stock Option Exercises
Balance, November 1, 2005	129,553	$ 1	$ 505	$ -	$ (2,741)
Net income	-	-	-	-	-
Other comprehensive income:					
Unrealized holding gains on investments, net of tax	-	-	-	-	-
Foreign currency translation adjustments, net of tax	-	-	-	-	-
Total comprehensive income					
Dividends declared ($0.42 per share)	-	-	-	-	-
Issuance of Non-Voting Common Stock:					
On exercise of stock options	2,388	-	9	22,238	(552)
Under employee stock purchase plan	134	-	1	2,910	-
Under employee incentive plan	153	-	1	3,589	-
Under restricted stock plan	40	-	-	-	-
Stock-based compensation	-	-	-	36,867	-
Tax benefit of stock option exercises	-	-	-	6,073	-
Repurchase of Non-Voting Common Stock	(5,833)	-	(23)	(71,677)	-
Principal repayments	-	-	-	-	1,402
Balance, October 31, 2006	126,435	1	493	-	(1,891)
Net income	-	-	-	-	-
Other comprehensive income (loss):					
Unamortized loss on derivative instrument, net of tax	-	-	-	-	-
Unrealized holding gains on investments, net of tax	-	-	-	-	-
Foreign currency translation adjustments, net of tax	-	-	-	-	-
Total comprehensive income					
Dividends declared ($0.51 per share)	-	-	-	-	-
Issuance of Voting Common Stock	99	-	-	388	-
Issuance of Non-Voting Common Stock:					
On exercise of stock options	2,176	-	8	34,290	(1,291)
Under employee stock purchase plan	128	-	-	3,311	-
Under employee incentive plan	182	-	1	5,585	-
Under restricted stock plan	13	-	-	-	-
Stock-based compensation	-	-	-	43,305	-
Tax benefit of stock option exercises	-	-	-	9,915	-
Repurchase of Voting Common Stock	(37)	-	-	(146)	-
Repurchase of Non-Voting Common Stock	(10,826)	-	(42)	(96,648)	-
Principal repayments	-	-	-	-	840
Balance, October 31, 2007	118,170	1	460	-	(2,342)
Net income	-	-	-	-	-
Other comprehensive income (loss):					
Amortization of loss on derivative instrument, net of tax	-	-	-	-	-
Unrealized holding losses on investments, net of tax	-	-	-	-	-
Foreign currency translation adjustments, net of tax	-	-	-	-	-
Total comprehensive income					
Dividends declared ($0.605 per share)	-	-	-	-	-
Issuance of Voting Common Stock	19	1	-	36	-
Issuance of Non-Voting Common Stock:					
On exercise of stock options	1,813	-	7	26,992	(3,681)
Under employee stock purchase plan	112	-	1	3,760	-
Under employee incentive plan	160	-	1	6,414	-
Under restricted stock plan	30	-	-	-	-
Stock-based compensation	-	-	-	39,422	-
Tax benefit of stock option exercises	-	-	-	9,769	-
Cumulative effect of change in accounting principle (See Note 12)	-	-	-	-	-
Repurchase of Non-Voting Common Stock	(4,492)	-	(18)	(86,393)	-
Principal repayments	-	-	-	-	1,319
Balance, October 31, 2008	115,812	$ 2	$ 451	$ -	$ (4,704)

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Continued)

(in thousands, except per share data)	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity	Comprehensive Income
Balance, November 1, 2005	$ 2,566	$ 475,965	$ 476,296	
Net income	-	159,377	159,377	$ 159,377
Other comprehensive income:				
Unrealized holding gains on investments, net of tax	1,754	-	1,754	1,754
Foreign currency translation adjustments, net of tax	63	-	63	63
Total comprehensive income				$ 161,194
Dividends declared ($0.42 per share)	-	(53,629)	(53,629)	
Issuance of Non-Voting Common Stock:				
On exercise of stock options	-	-	21,695	
Under employee stock purchase plan	-	-	2,911	
Under employee incentive plan	-	-	3,590	
Under restricted stock plan	-	-	-	
Stock-based compensation	-	-	36,867	
Tax benefit of stock option exercises	-	-	6,073	
Repurchase of Non-Voting Common Stock	-	(88,214)	(159,914)	
Principal repayments	-	-	1,402	
Balance, October 31, 2006	4,383	493,499	496,485	
Net income	-	142,811	142,811	$ 142,811
Other comprehensive income (loss):				
Unamortized loss on derivative instrument, net of tax	(2,872)	-	(2,872)	(2,872)
Unrealized holding gains on investments, net of tax	1,628	-	1,628	1,628
Foreign currency translation adjustments, net of tax	54	-	54	54
Total comprehensive income				$ 141,621
Dividends declared ($0.51 per share)	-	(62,893)	(62,893)	
Issuance of Voting Common Stock	-	-	388	
Issuance of Non-Voting Common Stock:				
On exercise of stock options	-	-	33,007	
Under employee stock purchase plan	-	-	3,311	
Under employee incentive plan	-	-	5,586	
Under restricted stock plan	-	-	-	
Stock-based compensation	-	-	43,305	
Tax benefit of stock option exercises	-	-	9,915	
Repurchase of Voting Common Stock	-	-	(146)	
Repurchase of Non-Voting Common Stock	-	(345,561)	(442,251)	
Principal repayments	-	-	840	
Balance, October 31, 2007	3,193	227,856	229,168	
Net income	-	195,663	195,663	$ 195,663
Other comprehensive income (loss):				
Amortization of loss on derivative instrument, net of tax	290	-	290	290
Unrealized holding losses on investments, net of tax	(7,942)	-	(7,942)	(7,942)
Foreign currency translation adjustments, net of tax	(676)	-	(676)	(676)
Total comprehensive income				$ 187,335
Dividends declared ($0.605 per share)	-	(70,074)	(70,074)	
Issuance of Voting Common Stock	-	-	37	
Issuance of Non-Voting Common Stock:				
On exercise of stock options	-	-	23,318	
Under employee stock purchase plan	-	-	3,761	
Under employee incentive plan	-	-	6,415	
Under restricted stock plan	-	-	-	
Stock-based compensation	-	-	39,422	
Tax benefit of stock option exercises	-	-	9,769	
Cumulative effect of change in accounting principle (See Note 12)	-	(5,000)	(5,000)	
Repurchase of Non-Voting Common Stock	-	(98,932)	(185,343)	
Principal repayments	-	-	1,319	
Balance, October 31, 2008	$ (5,135)	$ 249,513	$ 240,127	

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Years Ended October 31, 2008	2007	2006
Cash and cash equivalents, beginning of year	$ 434,957	$ 206,705	$ 146,389
Cash Flows From Operating Activities:			
Net income	195,663	142,811	159,377
Adjustments to reconcile net income to net cash provided by operating activities:			
Impairment loss on investments	13,206	-	592
Losses (gains) on investments	14,646	(7,200)	(4,256)
Amortization of long-term investments	1,638	5,234	3,116
Unamortized loss on derivative instrument	-	(4,467)	-
Equity in net income of affiliates	(8,000)	(6,054)	(6,845)
Dividends received from affiliates	3,995	5,048	2,734
Minority interest	7,153	6,258	5,103
Interest on long-term debt and amortization of debt issuance costs	1,374	161	2,551
Deferred income taxes	(50,797)	(10,063)	(11,206)
Stock-based compensation	39,422	43,305	36,314
Cumulative effect of change in accounting principle, net of tax	-	-	626
Depreciation and other amortization	13,298	10,500	15,524
Amortization of deferred sales commissions	47,811	55,015	52,048
Payment of capitalized sales commissions	(33,833)	(55,795)	(53,848)
Contingent deferred sales charges received	12,568	13,462	15,628
Proceeds from sale of trading investments	48,970	42,453	190,725
Purchase of trading investments	(123,197)	(26,504)	(160,172)
Changes in assets and liabilities:			
Investment advisory fees and other receivables	24,974	(22,291)	(10,801)
Other current assets	(2,776)	(875)	3,773
Other assets	(27)	-	826
Accrued compensation	(12,919)	25,171	18,093
Accounts payable and accrued expenses	(62,308)	33,216	5,666
Taxes payable - current	(2,144)	17,395	166
Other current liabilities	(26)	(3,946)	(2,883)
Other long-term liabilities	23,689	3,523	-
Net cash provided by operating activities	152,380	266,357	262,851
Cash Flows From Investing Activities:			
Additions to equipment and leasehold improvements	(25,010)	(12,694)	(12,721)
Purchase of minority members' interests	(26,469)	(9,055)	(11,256)
Purchase of management contracts	-	(716)	(1,703)
Proceeds from sale of available-for-sale investments	364,600	31,085	27,048
Purchase of available-for-sale investments	(478,838)	(83,974)	(27,565)
Net cash used for investing activities	(165,717)	(75,354)	(26,197)
Cash Flows From Financing Activities:			
Distributions to minority shareholders	(7,542)	(8,360)	(5,828)
Long-term debt issuance costs	-	(5,165)	-
Proceeds from issuance of long-term debt	-	500,000	-
Repayment of long-term debt	-	-	(76,358)
Issuance of long-term note receivable to affiliate	(10,000)	-	-
Excess tax benefit of stock option exercises	9,769	9,915	8,234
Proceeds from issuance of Non-Voting Common Stock	33,494	41,904	28,196
Proceeds from issuance of Voting Common Stock	37	388	-
Repurchase of Non-Voting Common Stock	(185,343)	(442,251)	(159,914)
Repurchase of Voting Common Stock	-	(146)	-
Principal repayments on notes receivable from stock option exercises	1,319	840	1,402
Dividends paid	(69,906)	(60,300)	(51,394)
Proceeds from the issuance of mutual fund subsidiaries' capital stock	3,982	371	80,000
Redemption of mutual fund subsidiaries' capital stock	(290)	-	(745)
Net cash provided by (used for) financing activities	(224,480)	37,196	(176,407)
Effect of currency rate changes on cash and cash equivalents	(217)	53	69
Net increase (decrease) in cash and cash equivalents	(238,034)	228,252	60,316
Cash and cash equivalents, end of year	$ 196,923	$ 434,957	$ 206,705
Supplemental Cash Flow Information:			
Interest paid	$ 32,641	$ 115	$ 10,022
Income taxes paid	$ 194,304	$ 78,238	$ 107,404
Supplemental Non-Cash Flow Information:			
Exercise of stock options through issuance of notes receivable	$ 3,681	$ 1,291	$ 552

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Business and Organization

Eaton Vance Corp. and its subsidiaries (“the Company”) manage investment funds and provide investment management and counseling services to high-net-worth individuals and institutions. The Company’s principal retail marketing strategy is to distribute funds and separately managed accounts primarily through financial intermediaries in the advice channel. The Company also commits significant resources to serving institutional and high-net-worth clients who access investment management services on a direct basis.

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

Reclassification and Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. Taxes payable have been reclassified from other current liabilities. Deferred rent for fiscal 2007 has been reclassified from other current liabilities to other long-term liabilities.

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.

Although the Company does provide supplemental disclosure regarding assets under management and other asset flows by product (primarily distinguishing between funds and separately managed accounts), the Company’s determination that it operates in one business segment is based on the fact that the Company’s chief operating decision maker (namely the Company’s Chief Executive Officer) reviews the Company’s financial performance at an aggregate level. All of the products and services provided by the Company relate to investment management and are subject to a similar regulatory framework. Investment management teams at the Company are generally not aligned with specific product lines or distribution channels; in many instances, the investment professionals who manage the Company’s funds are the same investment professionals who manage the Company’s separately managed accounts.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of cash and short-term, highly liquid investments in sponsored cash management mutual funds, which are readily convertible to cash. Cash equivalents have original maturities of less than three months on the date of acquisition and are stated at cost, which approximates market value due to the short-term maturity of these investments.

Investments

Marketable securities classified as trading consist primarily of investments in debt and equity securities held in the portfolios of sponsored funds consolidated by the Company and other debt and equity securities held by the Company in separately managed accounts seeded for new product development purposes. Securities classified as trading are carried at fair value based on quoted market prices. Net realized and unrealized gains or losses recognized on investments held in consolidated funds that are subject to investment company reporting conventions in consolidation are reflected as a component of other revenue. Net realized and unrealized gains and losses recognized on investments held in separately managed accounts are reflected as components of other income and expense (below operating income). The specific identified cost method is used to determine the realized gain or loss on all trading securities sold.

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

The Company evaluates the carrying value of marketable securities classified as available-for-sale 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 and the Company's intent with respect to a given security. 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 collateralized debt obligation entities ("CDO entities") 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.

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.

Derivative Instruments

The Company may utilize derivative financial instruments to manage investment risk in its equity and income investments, to manage foreign currency risk on investments denominated in foreign currencies and to manage interest rate risk inherent in long-term debt offerings. The Company does not enter into derivative financial instruments for trading or speculative purposes.

The Company records all derivatives on the balance sheet at fair value. If a derivative qualifies as a cash flow hedge, the effective portion of the unrealized gain or loss is recorded in other comprehensive income as a separate component of shareholders' equity and is reclassified into earnings over the life of the hedge. To the extent that the critical terms of the hedged item and the derivative are not identical, hedge ineffectiveness is reported in earnings.

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 and private funds are generally capitalized and amortized over the period during which redemptions by the purchasing shareholder are subject to a contingent deferred sales charge, which does not exceed six years. 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 funds are generally applied to reduce the Company's unamortized deferred sales commission assets.

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 in the form of distribution fees over the remaining useful life of the deferred sales commission asset 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. Identifiable intangible assets with discrete useful lives are amortized on a straight-line basis over their weighted average lives. The Company periodically reviews identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets 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. Accelerated methods are used for income tax purposes. 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 advisory, administration, distribution and service fees for the funds and investment advisory fees for separate accounts managed by the Company are recognized as revenue 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 advisory fees, which are generally calculated as a percentage of either beginning, average or ending quarterly assets, the Company's investment advisory, 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. Pursuant to the guidance provided in EITF 99-19, "Reporting Revenue Gross as Principal versus Net as an Agent," investment advisory and administration fees are recorded gross of any subadvisory arrangements, with the corresponding fees paid to any subadvisor based on the terms of those arrangements included in other expenses. In instances where the Company acts as subadvisor or co-manager, investment advisory 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. Dividend income is recorded on the ex-dividend date. Dividend income earned on investments held in the portfolios of consolidated funds is reflected as a component of other revenue.

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 stock-based compensation expense, capitalized closed-end fund expenses and capitalized sales commissions paid to brokers and dealers. Under IRS regulations, stock-based compensation is deductible for tax purposes at the time the employee recognizes the income (upon vesting of restricted stock, exercise of non-qualified stock options and disqualifying dispositions of incentive stock options). Expenses associated with the launch of new closed-end funds, which are expensed as incurred for book purposes, are deductible for tax purposes over a 15 year period. Capitalized sales commission payments, which are capitalized and amortized over a period not to exceed six years for book purposes, are deductible for tax purposes at the time of payment. To the extent that deferred tax assets are considered more likely than not to be unrealizable, valuation allowances are provided.

The Company's effective tax rate reflects the statutory tax rates of the many jurisdictions in which it operates. Significant judgment is required in determining its effective tax rate and in evaluating its tax positions. In the ordinary course of business, many transactions occur for which the ultimate tax outcome is uncertain. The Company adjusts its income tax provision in accordance with Financial Accounting Standards Board's Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements for a tax position taken or expected to be taken in a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is more likely than not to be sustained based

solely on its technical merits as of the reporting date. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of the benefit. The difference between the tax benefit recognized in the financial statements for a tax position in accordance with FIN 48 and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit. These unrecognized tax benefits, as well as the related interest and penalties, are adjusted regularly to reflect changing facts and circumstances. 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. The Company classifies any interest or penalties incurred as a component of income tax expense.

Earnings Per Share

Earnings per basic share are based on the weighted-average number of common shares outstanding during each period less unvested restricted stock. Earnings per diluted share are based on basic shares plus the incremental shares that would be issued upon the assumed exercise of in-the-money stock options and unvested restricted stock using the treasury stock method and contingently convertible debt using the if-converted method.

Stock-Based Compensation

The Company accounts for stock-based compensation expense using the fair value method. Under the fair value method, stock-based compensation expense reflects the fair value of stock-based awards measured at grant date, is recognized over the relevant service period, and is adjusted each period for anticipated forfeitures. The fair value of each option award is estimated using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Stock-based compensation expense for employees who are not retirement eligible is recognized on a straight-line basis over the service or vesting period of the option (generally five years). Prior to the implementation of SFAS No. 123R, "Share-Based Payment," and consistent with SFAS 123, "Accounting for Stock-Based Compensation," it had been the Company's policy to recognize all stock-based compensation expense over the vesting period without regard to retirement eligibility. The Company continues to recognize all stock-based compensation expense for awards granted to retirement-eligible employees prior to November 1, 2005 over the vesting period. The Company immediately recognizes compensation expense at grant date for all awards granted to retirement-eligible employees on or after the adoption of SFAS No. 123R on November 1, 2005. For awards granted to employees approaching retirement eligibility, compensation expense is recognized on a straight-line basis over the period from the grant date through the retirement eligibility date.

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 as they occur.

Cumulative Effect of a Change in Accounting Principle

Effective November 1, 2005, the Company adopted SFAS No. 123R, using the modified version of the retrospective transition method. Under SFAS No. 123, the Company had previously made the election to recognize actual forfeitures when they occurred rather than estimate them at the grant date. Under SFAS No. 123R, this election no longer exists. The Company recognized a cumulative effect of a change in accounting principle of $0.6 million on November 1, 2005, the adoption date, in order to adjust for expected forfeitures in excess of actual forfeitures on all grants made prior to October 31, 2005.

Effective November 1, 2007, the Company adopted FIN 48. The Company recognized a reduction to beginning retained earnings upon adoption in the amount of $5.0 million, which was reflected as a cumulative effect of a change in accounting principle, and a corresponding $5.0 million increase to the Company's liability for uncertain tax positions.

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 investment securities classified as available-for-sale (net of tax), activity from terminated cash flow hedges (net of tax), and foreign currency translation adjustments (net of tax).

Loss Contingencies

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

2. Accounting Developments

In November 2008, the FASB issued Financial Statement Position ("FSP") FAS 140-e and FIN 46(R)-e, "Disclosures about Transfers of Financial Assets and Interests in Variable Interest Entities." The provisions of this FSP are effective for reporting periods ending after December 15, 2008. FSP 140-e and FIN 46R-e requires enhanced disclosures about transfers of financial assets and interests in variable interest entities. The provisions of FSP 140-e and FIN 46R-e are effective for the Company's reporting period which begins on November 1, 2008. Management does not anticipate that the provisions of FSP 140-e and FIN 46R-e will have an impact on the Company's consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active." FSP FAS 157-3 became effective upon issuance, including periods for which financial statements have not been issued. FSP FAS 157-3 clarifies the application of SFAS No. 157 in which a market is not active. Management does not anticipate that the provisions of FSP FAS 157-3 will have an impact on the Company's consolidated financial statements.

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161.” FSP 133-1 and FIN 45-4 amends SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP 133-1 and FIN 45-4 also amend FASB Interpretation No. 45 (“FIN 45”), “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others,” to require additional disclosure about the current status of the payment/performance risk of a guarantee. The provisions of the FSP that amend SFAS 133 and FIN 45 are effective for reporting periods ending after November 15, 2008. The provisions of FSP 133-1 and FIN 45-4 are effective for the Company’s reporting period which begins on November 1, 2008. FSP 133-1 and FIN 45-4 also clarifies the effective date in SFAS No. 161. Management does not anticipate that the provisions of the FSP will have an impact on the Company’s consolidated financial statements.

In June 2008, the FASB issued FSP Emerging Issues Task Force (“EITF”) 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities.” FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in SFAS No. 128, “Earnings per Share.” It affects entities that accrue or pay nonforfeitable cash dividends on share-based payment awards during the awards’ service period. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years, and will require a retrospective adjustment to all prior period earnings per share. FSP EITF 03-6-1 is effective for the Company’s fiscal year that begins on November 1, 2009. Management is currently evaluating the potential impact, if any, on the Company’s consolidated financial statements.

In April 2008, the FASB issued FSP SFAS No. 142-3, “Determination of the Useful Life of Intangible Assets.” FSP SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, “Goodwill and Other Intangible Assets.” FSP SFAS No. 142-3 is effective for fiscal years beginning after December 15, 2008. FSP SFAS No. 142-3 is effective for the Company’s fiscal year that begins on November 1, 2009 and interim periods within those fiscal years. Management does not anticipate that the provisions of FSP SFAS No. 142-3 will have an impact on the Company’s consolidated results of operations or consolidated financial position.

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

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51.” SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for noncontrolling interests in subsidiaries and for the deconsolidation of subsidiaries. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest that should be reported as equity in the consolidated financial statements. The provisions of SFAS No. 160 are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. SFAS No. 160 is effective for the Company’s fiscal year that begins on November 1, 2009. Management is currently evaluating the impact on the Company’s consolidated financial statements.

In December 2007, the FASB amended SFAS No. 141, "Business Combinations." SFAS No. 141, as amended, establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of SFAS No. 141, as amended, shall be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier application is prohibited.

In June 2007, the FASB ratified the consensus reached by the EITF in EITF Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." Under the provisions of EITF 06-11, a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity classified unvested equity shares, unvested equity share units, and outstanding equity share options should be recognized as an increase to additional paid-in capital. The amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. EITF 06-11 should be applied prospectively to the income tax benefits that result from dividends on equity-classified employee share-based payment awards that are declared in fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. EITF 06-11 is effective for the Company's fiscal year that begins on November 1, 2008. Management does not anticipate that the provisions of EITF 06-11 will have an impact on the Company's consolidated results of operations or consolidated financial position.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of the statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The provisions of SFAS No. 159 are effective for fiscal years beginning after November 15, 2007. SFAS No. 159 is effective for the Company's fiscal year that begins on November 1, 2008. The provisions of SFAS No. 159 will not have an impact on the Company's consolidated results of operations or consolidated financial position.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements but does not in itself require any new fair value measurements. The provisions of SFAS No. 157 are effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. SFAS No. 157 is effective for the Company's fiscal year that begins on November 1, 2008. Management does not anticipate that the provisions of SFAS No. 157 will have an impact on the Company's consolidated results of operations or consolidated financial position but will require additional disclosures in the Company's consolidated financial statements.

3. Acquisitions, Goodwill and Other Intangible Assets

In fiscal 2001, the Company acquired majority interests in Atlanta Capital Management Company, LLC ("Atlanta Capital") and Fox Asset Management LLC ("Fox Asset Management"). The Company has an 85.5 percent interest in Atlanta Capital and an 80 percent interest in Fox Asset Management at October 31, 2008. Atlanta Capital's minority shareholders have the right to sell and the Company has the right to purchase the remaining 14.5 percent of Atlanta Capital based on financial results of Atlanta Capital for the calendar year ending December 31, 2008 at a price based on a multiple of earnings before taxes. Fox Assets Management's minority shareholders have the right to sell the remaining 20 percent of Fox Asset Management over a three-year period based on financial results of Fox Asset Management for the calendar years ending December 31, 2008 and the next two calendar years at a price based on a multiple of earnings before taxes. The Company has the right to purchase the balance of Fox Asset Management

based on its financial results for the calendar year ending December 31, 2010 at a price based on a multiple of that year's earnings before taxes.

In fiscal 2008, minority shareholders of Atlanta Capital exercised a put option whereby units representing a 5.1 percent ownership interest in Atlanta Capital were sold to the Company for $5.0 million based on a multiple of earnings before taxes for the calendar year ended December 31, 2007. In conjunction with the transaction, the Company recorded goodwill of $3.6 million and amortizable intangible assets of $1.3 million representing client relationships acquired. The remainder of the purchase price was allocated to minority interest. In fiscal 2007, minority shareholders of Atlanta Capital exercised a put option whereby units representing a 3.0 percent ownership interest in Atlanta Capital were sold to the Company for $2.9 million based on a multiple of earnings before taxes of Atlanta Capital for the calendar year ended December 31, 2006. In conjunction with the transaction, the Company recorded amortizable intangible assets of $0.8 million representing client relationships acquired and goodwill of $2.0 million. The remainder of the purchase price was allocated to minority interest.

In fiscal 2003, the Company acquired a majority interest in Parametric Portfolio Associates LLC ("Parametric Portfolio Associates"). The Company has an 89.3 percent capital and an 82.3 percent profits interest in Parametric Portfolio Associates at October 31, 2008. Minority shareholders of Parametric Portfolio Associates have the right to sell to the Company 2.9 percent of the capital of Parametric Portfolio Associates (which entitles the holders to a 4.9 percent profits interest) based on the financial results of Parametric Portfolio Associates for the calendar year ending December 31, 2008. Minority shareholders of Parametric Portfolio Associates will also have the right to sell to the Company the remaining 7.8 percent of the capital of Parametric Portfolio Associates (which entitles the holder to the remaining 12.8 percent profits interest) over a 4-year period based on financial results of Parametric Portfolio Associates for the calendar year ending December 31, 2009 and the next three calendar years. The Company has the right to purchase up to 50 percent of the capital and profit interests currently held by the minority shareholders of Parametric Portfolio Associates based on its financial results for the calendar year ending December 31, 2009 and the balance based on its financial results for the calendar year ending December 31, 2012. Prices for acquiring 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 fiscal 2008, minority shareholders of Parametric Portfolio Associates exercised put options whereby units representing a 5.0 percent capital ownership interest in Parametric Portfolio Associates were sold to the Company for $21.5 million based on a multiple of earnings before taxes for the calendar year ended December 31, 2007. In conjunction with the purchase, the Company recorded intangible assets of $5.4 million (representing $2.6 million of amortizable intangible assets and $2.8 million of non-amortizable assets) and goodwill of $15.6 million. The remainder of the purchase price was allocated to minority interest. In fiscal 2007, minority shareholders of Parametric Portfolio Associates exercised a put option whereby units representing a 2.2 percent capital ownership interest in Parametric Portfolio Associates were sold to the Company for $6.1 million based on a multiple of earnings before taxes of Parametric Portfolio Associates for the calendar year ended December 31, 2006. In conjunction with the purchase, the Company recorded intangible assets of $1.8 million (representing $1.0 million of amortizable intangible assets and $0.8 million of non-amortizable assets) and goodwill of $4.1 million. The remainder of the purchase price was allocated to minority interest.

In fiscal 2007, Parametric Portfolio Associates merged Parametric Risk Advisors LLC ("Parametric Risk Advisors"), a newly formed Parametric Portfolio Associates' affiliate, with Managed Risk Advisors LLC, an investment management and derivatives investment advisory firm based in Westport, Connecticut. Parametric Risk Advisors is owned 60 percent by its principals and 40 percent by Parametric Portfolio Associates. Pursuant to the acquisition agreements, Parametric Portfolio Associates will have the right to require the other shareholders in Parametric Risk Advisors to sell their equity interests to Parametric Portfolio Associates at specific intervals over time at a price based

upon a multiple of earnings before interest and taxes, a measure that is intended to represent fair market value. As a result of the transaction, the Company recorded intangible assets of $0.7 million representing client relationships acquired.

Any additional payments made to the minority shareholders of Parametric Portfolio Associates, Atlanta Capital, Fox Asset Management or Parametric Risk Advisors will be treated as additional purchase price for accounting purposes.

The changes in the carrying amount of goodwill for the years ended October 31, 2008 and 2007 are as follows:

(in thousands)	**2008**	**2007**
Balance, beginning of period	$103,003	$ 96,837
Goodwill acquired	19,231	6,166
Balance, end of period	$122,234	$103,003

All acquired goodwill is deductible for tax purposes.

The following is a summary of other intangible assets at October 31, 2008 and 2007:

2008 *(dollars in thousands)*	**Weighted-Average Amortization Period (In Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizing intangible assets:				
Client relationships acquired	11.5	$62,285	$(28,108)	$34,177
Non-amortizing intangible assets:				
Mutual fund management contracts acquired	-	5,633	-	5,633
Total		$67,918	$(28,108)	$39,810

2007 *(dollars in thousands)*	**Weighted-Average Amortization Period (In Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizing intangible assets:				
Client relationships acquired	12.6	$58,403	$(25,223)	$33,180
Non-amortizing intangible assets:				
Mutual fund management contracts acquired	-	2,808	-	2,808
Total		$61,211	$(25,223)	$35,988

In fiscal 2006, the Company accelerated non-cash amortization by $8.9 million to write-off intangible assets relating to the termination of certain institutional and high-net-worth asset management contracts at Fox Asset Management. The write-offs were computed by comparing the net present value of projected future client cash flows to the carrying value of the intangible assets. The write-offs are included in other expenses in the Company's Consolidated Statements of Income for the year ended October 31, 2006.

Amortization expense, including the write-offs of intangible assets noted above, was $2.9 million, $2.6 million and $11.5 million for the years ended October 31, 2008, 2007 and 2006, respectively. Estimated amortization expense for the next five years is as follows:

Year Ending October 31, *(in thousands)*	**Estimated Amortization Expense ($)**
2009	3,125
2010	3,125
2011	3,125
2012	3,125
2013	3,125

4. Investments

The following is a summary of investments at October 31, 2008 and 2007:

(in thousands)	**2008**	**2007**
Short-term investments:		
Consolidated funds:		
Commercial paper	$ 43,006	$ -
Debt securities	7,372	-
Sponsored funds	-	50,183
Investment in affiliate	119,565	-
Total	$169,943	$ 50,183
Long-term investments:		
Consolidated funds:		
Debt securities	$ 13,839	$ 770
Equity securities	17,880	6,515
Separately managed accounts:		
Debt securities	17,739	-
Equity securities	13,966	7,853
Sponsored funds	24,898	34,764
Collateralized debt obligation entities	4,118	18,962
Investments in affiliates	22,786	16,297
Other investments	965	950
Total	$116,191	$ 86,111

Investments classified as trading

The following is a summary of the cost and fair value of investments classified as trading at October 31, 2008 and 2007:

2008 (in thousands)	Cost	Fair Value
Short-term investments:		
Commercial paper	$41,833	$43,006
Debt securities	8,223	7,372
Total	$50,056	$50,378
Long-term investments:		
Debt securities	$34,731	$31,578
Equity securities	40,351	31,846
Total	$75,082	$63,424

2007 (in thousands)	Cost	Fair Value
Long-term investments:		
Debt securities	$ 773	$ 770
Equity securities	13,908	14,368
Total	$14,681	$15,138

Gross unrealized gains and losses on debt and equity securities held in the portfolios of consolidated sponsored funds have been reported in income currently as a component of other revenue. Gross unrealized gains and losses on debt and equity securities held in the portfolios of the Company's separately managed accounts have been reported in income currently as unrealized gains and losses (below operating income).

The Company recognized $2.5 million of realized gains and $5.8 million of realized losses related to investments classified as trading for the year ended October 31, 2008. The Company recognized $1.5 million of unrealized gains and $13.2 million of unrealized losses in fiscal 2008 related to trading securities held at October 31, 2008.

Investments classified as available-for-sale

The following is a summary of the cost and fair value of investments classified as available-for-sale at October 31, 2008 and 2007:

2008		Gross Unrealized		
(in thousands)	Cost	Gains	Losses	Fair Value
Long-term investments:				
Sponsored funds	$28,158	$ 312	$(3,572)	$24,898
Total	$28,158	$ 312	$(3,572)	$24,898

2007		Gross Unrealized		
(in thousands)	Cost	Gains	Losses	Fair Value
Short-term investments:				
Sponsored funds	$50,000	$ 183	$ -	$50,183
Long-term investments:				
Sponsored funds	25,537	9,341	(114)	34,764
Total	$75,537	$9,524	$ (114)	$84,947

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

The Company has reviewed the gross unrealized losses of $3.6 million as of October 31, 2008 and determined that these losses were not other than temporary, primarily because the Company has the ability and intent to hold the investments for a period of time sufficient to recover such losses. The aggregate fair value of investments associated with the unrealized losses was $23.4 million at October 31, 2008.

The following is a summary of the Company's realized gains and (losses) upon disposition of sponsored funds and certain equity securities classified as available-for-sale for the years ended October 31, 2008, 2007 and 2006.

(in thousands)	**2008**	**2007**	**2006**
Gains	$ 353	$4,746	$4,252
Losses	(1)	(1)	(484)
Net realized gain	$ 352	$4,745	$3,768

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 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, 2008, combined assets under management in the pools of these CDO entities were $2.6 billion. The Company's maximum exposure to loss as a result of its investments in the equity of CDO entities is $4.1 million, which is the carrying value of these investments at October 31, 2008. Investors in CDO entities 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 interest.

The Company recognized impairment losses of $13.2 million and $0.6 million for the years ended October 31, 2008 and 2006, respectively, related to its investments in CDO entities. The impairment losses resulted from a decrease in the estimated future cash flows from the CDO entities combined with an increase in the market yield the Company uses to discount the value of those cash flows to reflect current market conditions. The decrease in estimated future cash flows resulted from increases in projected default rates and decreases in projected recovery rates.

The carrying value of $4.1 million and $19.0 million at October 31, 2008 and 2007, respectively, for the Company's ownership interests in the CDO entities is their estimated fair value.

Investments in affiliates

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 emerging market equity funds and separate accounts, including several funds sponsored by the Company. The Company's investment in LGM was $8.9 million and $9.2 million at October 31, 2008 and 2007, respectively. At October 31, 2008, the Company's investment exceeded its share of the underlying net assets of LGM by $0.4 million. The Company considers the excess to be goodwill and therefore does not amortize this excess.

The Company has a 7 percent equity interest in a private equity partnership that invests in companies in the financial services industry. The Company's investment in the partnership was $13.9 million and $7.1 million at October 31, 2008 and 2007, respectively. At October 31, 2008, the Company's investment in the partnership was equal to its share of the underlying net assets.

The Company has a 35 percent equity interest in Eaton Vance Cash Management Fund ("CMF"), an open-end money market mutual fund that invests in short-term obligations and other money market instruments. The Company classified this investment as a short-term investment for financial reporting purposes due to the short-term nature of the underlying securities in which CMF invests. The Company's $119.6 million investment in the fund was equal to its share of the underlying net assets at October 31, 2008.

The Company reviews its equity method investments annually for impairment pursuant to Accounting Principles Board ("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 $1.0 million for the years ended October 31, 2008 and October 31, 2007. Management believes that the fair value of these investments approximates their carrying value.

5. Equipment and Leasehold Improvements

The following is a summary of equipment and leasehold improvements at October 31, 2008 and 2007:

(in thousands)	**2008**	**2007**
Equipment	$ 49,711	$ 37,683
Leasehold improvements	34,244	15,771
Subtotal	83,955	53,454
Less: Accumulated depreciation and amortization	(32,840)	(27,207)
Equipment and leasehold improvements, net	$ 51,115	$ 26,247

Depreciation and amortization expense was $10.4 million, $7.9 million and $4.0 million for the years ended October 31, 2008, 2007 and 2006, respectively.

6. Related Party Transactions

In October 2008, the Company, as lender, entered into a $10.0 million subordinated term note agreement ("the Note") with a sponsored privately offered equity fund. The Note earns daily interest based on the senior creditor's cost of commercial paper funding plus a margin . The Company currently anticipates that the Note, which expires on January 16, 2009, will likely be renewed upon expiration for an additional 364 day period. Subject to certain conditions, the sponsored fund may prepay the Note in whole or in part without premium or penalty. The Note is included in the Company's Consolidated Balance Sheet as a component of other assets.

For fair value purposes the carrying amount of the note approximates fair value.

7. Long-term Debt

Ten-Year Senior Notes

On October 2, 2007, the Company issued $500.0 million in aggregate principal amount of 6.5 percent ten- year senior notes (“Senior Notes”) due October 2, 2017, resulting in net proceeds of approximately $496.1 million after payment of debt issuance costs. Interest is payable semi-annually in arrears on April 2 and October 2 of each year.

For fair value purposes, the Senior Notes have been valued utilizing publicly available market prices.

Corporate Credit Facility

The Company amended its revolving credit facility on August 13, 2007, increasing its borrowing capacity and extending the expiration of the facility to August 13, 2012. Under the amended facility, the Company may borrow up to $200.0 million at LIBOR-based rates of interest that vary depending on the level of usage of the facility and credit ratings of the Company. The facility 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. Neither financial covenants nor fee rates were affected by the amendment. As of October 31, 2008 and 2007, the Company had no borrowings outstanding under its revolving credit facility and was in compliance with all covenants.

8. Commitments and Contingencies

In the normal course of business, the Company enters into agreements that include indemnities in favor of third parties, such as engagement letters with advisors and consultants, information technology agreements, distribution agreements and service agreements. The Company has also agreed to indemnify its directors, officers and employees in accordance with the Company’s Articles of Incorporation, as amended. Certain agreements do not contain any limits on the Company’s liability and, therefore, it is not possible to estimate the Company’s potential liability under these indemnities. In certain cases, the Company may have 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 also subject to various legal proceedings. In the opinion of management, after discussions with legal counsel, the ultimate resolution of these matters would not have a material adverse effect on the consolidated financial statements of the Company.

The Company leases certain office space and equipment under noncancelable operating leases that expire over various terms. The lease payments are recognized on a straight-line basis over the noncancelable term of the lease plus any anticipated extensions. Rent expense under these leases in 2008, 2007 and 2006 amounted to $16.8 million, $9.6 million and $8.2 million, respectively. In September 2006, the Company signed a long-term lease to move the Company’s corporate headquarters to a new location in Boston, Massachusetts. The lease will commence in May 2009. Rent expense for the Company’s new corporate headquarters is included in rent expense for fiscal 2008 to the extent that the Company took control of floors to begin tenant improvements. Future minimum lease commitments are as follows:

Year Ending October 31, *(in thousands)*	**Amount**
2009	$ 12,542
2010	18,114
2011	18,268
2012	17,974
2013 – thereafter	377,671
Total	$ 444,569

In July 2006, the Company committed to invest $15.0 million in a private equity partnership that invests in companies in the financial services industry. The Company had invested $10.7 million and $7.6 million of the total $15.0 million of committed capital at October 31, 2008 and 2007, respectively.

9. Stock-Based Compensation Plans

The Company recognized total compensation expense related to its stock-based compensation plans of $39.4 million, $43.3 million and $36.3 million for the years ended October 31, 2008, 2007 and 2006, respectively. The total income tax benefit recognized for stock-based compensation arrangements was $10.1 million, $11.1 million and $10.0 million for the years ended October 31, 2008, 2007 and 2006, respectively.

On October 30, 2008, the Board of Directors approved the 2008 Omnibus Incentive Plan (the "2008 Plan"). The 2008 Plan, which will be administered by the Compensation Committee of the Board of Directors, allows for awards of stock options, restricted stock and phantom stock to eligible employees and non-employee directors. Options to purchase Non-Voting Common Stock granted under the 2008 Plan expire ten years from the date of grant, vest over five years and may not be granted with an exercise price that is less than the fair market value of the stock as of the close of business on the date of grant. Restricted Shares of Non-Voting Common Stock granted under the 2008 Plan vest over five years and may be subject to performance goals. The 2008 Plan contains change in control provisions that may accelerate the vesting of awards. A total of 6.5 million shares of Non-Voting Common Stock have been reserved for issuance under the 2008 Plan. Through October 31, 2008, no options, restricted stock or phantom stock have been issued pursuant to the 2008 Plan.

Stock Option Plan

Until superseded by the 2008 Plan, the Company's former stock option plan administered by the Compensation Committee of the Board of Directors (the "2007 Plan") governed the granting of options to purchase shares of the Company's Non-Voting Common Stock to eligible employees and to the independent directors of the Company. No stock options may be granted under the 2007 Plan with an exercise price that is less than the fair market value of the stock as of the close of business on the grant date. The options granted under the 2007 Plan expire ten years from the date of grant and options to employees vest over a five-year period as stipulated in each grant. The 2007 Plan contains provisions that, in the event of a change in control as defined in the 2007 Plan, may accelerate the vesting of awards. A total of 4.0 million shares have been reserved for issuance under the 2007 Plan. Through October 31, 2008, options to purchase 3.4 million shares have been issued pursuant to the 2007 Plan. Subsequent to October 30, 2008, no more options may be granted under the 2007 Plan.

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option valuation model. The Black-Scholes option valuation model incorporates assumptions as to dividend yield, volatility, an appropriate risk-free interest rate and the expected life of the option. Many of these assumptions require management's judgment. The Company's stock volatility assumption is based upon its historical stock price fluctuations. The Company uses historical data to

estimate option forfeiture rates and the expected term of options granted. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The weighted average fair values per share of stock options granted during the years ended October 31, 2008, 2007 and 2006 using the Black-Scholes option pricing model were as follows:

	2008	2007	2006
Weighted average grant date fair value per share of options granted	$14.79	$9.62	$8.35
Assumptions:			
Dividend yield	1.2% to 1.9%	1.1% to 1.5%	1.4% to 1.6%
Volatility	25% to 29%	25% to 27%	27% to 30%
Risk-free interest rate	3.6% to 4.4%	4.6% to 4.8%	4.5% to 5.1%
Expected life of options	6.8 to 7.8 years	6.8 years	6.8 years

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

For the Year Ended October 31, 2008

(share and intrinsic value figures in thousands)	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of period	27,579	$19.99		
Granted	3,422	47.94		
Exercised	(1,814)	14.89		
Forfeited/expired	(309)	32.13		
Options outstanding, end of period	28,878	$23.49	5.8	$92,178
Options exercisable, end of period	17,079	$17.50	4.5	$88,943
Vested or expected to vest at October 31, 2008	28,406	$23.34	5.7	$92,049

The Company received $23.3 million, $33.0 million and $21.7 million related to the exercise of options under the 2007 Plan and predecessor plans for the years ended October 31, 2008, 2007 and 2006, respectively. Options exercised represent newly issued shares. The total intrinsic value of options exercised during the years ended October 31, 2008, 2007 and 2006 was $44.2 million, $47.9 million and $44.5 million, respectively. The total fair value of options that vested during the year ended October 31, 2008 was $24.4 million.

The Company recorded compensation expense of $36.3 million, $40.5 million and $34.2 million for the years ended October 31, 2008, 2007 and 2006, respectively, relating to options granted under the 2007 Plan and predecessor plans. As of October 31, 2008, there was $73.2 million of compensation cost related to unvested options granted under the 2007 Plan and predecessor plans not yet recognized. That cost is expected to be recognized over a weighted-average period of 3.0 years.

On November 3, 2008, the Company granted options for the purchase of an additional 3.0 million shares of the Company's Non-Voting Common Stock under the 2008 Plan at a price of $21.99.

Restricted Stock Plan

Until superseded by the 2008 Plan, the Company's former restricted stock plan administered by the Compensation Committee of the Board of Directors (the "Former Restricted Stock Plan") governed the granting of restricted stock to key employees. Shares of the Company's Non-Voting Common Stock granted under the Former Restricted Stock 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 over the period ending five years from date of grant. A total of 2.0 million shares have been reserved under the plan. Through October 31, 2008, 0.9 million shares have been issued pursuant to this plan. Subsequent to October 30, 2008, no more restricted shares may be granted pursuant to the Former Restricted Stock Plan.

In the years ended October 31, 2008, 2007 and 2006, 29,965, 13,269 and 40,209 shares, respectively, were issued pursuant to the plan at a weighted average grant date fair value of $48.39, $45.22 and $24.87 per share. Because these shares are contingently forfeitable, compensation expense is recorded over the forfeiture period. The Company recorded compensation expense of $1.4 million, $1.0 million and $1.0 million for the years ended October 31, 2008, 2007 and 2006, respectively, relating to shares issued pursuant to this plan. As of October 31, 2008, there was $2.2 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted average period of 3.3 years.

A summary of the Company's restricted stock activity for the year ended October 31, 2008 is presented below:

For the Year Ended October 31, 2008

(share figures in thousands)	**Shares**	**Weighted-Average Grant Date Fair Value**
Unvested, beginning of period	178	$21.93
Granted	30	48.39
Vested	(59)	19.56
Unvested, end of period	149	$28.21

On November 3, 2008, the Company granted 0.9 million shares of restricted stock of the Company's Non-Voting Common Stock under the 2008 Plan.

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 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, 2008, 7.4 million shares have been issued pursuant to this plan. The Company recorded compensation expense of $1.1 million, $1.0 million and $0.6 million for the years ended October 31, 2008, 2007 and 2006, respectively, relating to the Employee Stock Purchase Plan. The Company received $3.8 million, $3.3 million and $2.9 million related to shares issued under the Employee Stock Purchase Plan for the years ended October 31, 2008, 2007 and 2006, respectively.

Incentive Plan – Stock Alternative

A total of 4.8 million shares of the Company's Non-Voting Common Stock have been reserved for issuance under the Incentive Plan – Stock Alternative. The plan permits employees and officers to direct up to half of their monthly and annual incentive bonuses toward the purchase of Non-Voting Common Stock at 90 percent of the average market price of the stock for five business days subsequent to the end of the offering period. Through October 31, 2008, 3.3 million shares have been issued pursuant to this plan. The Company received $6.4 million, $5.6 million and $3.6 million related to shares issued under the Incentive Plan – Stock Alternative for the years ended October 31, 2008, 2007 and 2006, respectively. The Company recorded compensation expense of $0.6 million, $0.8 million and $0.5 million for the years ended October 31, 2008, 2007 and 2006, respectively, relating to the Incentive Plan – Stock Alternative.

Stock Option Income Deferral Plan

The Company has established an unfunded, non-qualified Stock Option Income Deferral Plan 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, 2008, options to purchase 1.2 million shares 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 5.5 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 $4.7 million and $2.3 million at October 31, 2008 and 2007, respectively.

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 17).

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 $13.5 million, $10.8 million and $9.9 million for the years ended October 31, 2008, 2007 and 2006, respectively, representing 15 percent of eligible employee compensation (to a maximum of $33,750 annually per employee) 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 limits. The Company then matches each participant's contribution on a dollar-for-dollar basis to a maximum of $1,040 per annum. The Company's expense under the plan was $0.9 million, $0.8 million and $0.6 million for the years ended October 31, 2008, 2007 and 2006, respectively.

Supplemental Profit Sharing Retirement Plan

The Company has an unfunded, non-qualified Supplemental Profit Sharing Retirement 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. Participation in the Supplemental Profit Sharing Retirement Plan has been frozen and is restricted to employees who qualified as participants on November 1, 2002. The Company did not make any contributions to the plan in fiscal 2008. Participants in the Supplemental Profit Sharing Retirement Plan continue to earn investment returns on their balances commensurate with those earned in the Profit Sharing Retirement Plan. The Company's expense under the Supplemental Profit Sharing Retirement Plan for the years ended October 31, 2008, 2007 and 2006 was $162,800, $105,000 and $77,000, 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.

In fiscal 2008, the Company issued approximately 18,600 shares of its Voting Common Stock. The Company did not repurchase any of its Voting Common Stock during fiscal 2008.

The Company's current share repurchase program was announced on October 24, 2007. The Board authorized management to repurchase up to 8.0 million shares of its Non-Voting Common Stock on the open market and in private transactions in accordance with applicable securities laws. The Company's stock repurchase plan is not subject to an expiration date.

In fiscal 2008, the Company purchased approximately 4.5 million shares of its Non-Voting Common Stock under the current share repurchase authorization. Approximately 2.7 million additional shares may be repurchased under the current authorization.

12. Income Taxes

The provision for income taxes for the years ended October 31, 2008, 2007 and 2006 consists of the following:

(in thousands)	**2008**	**2007**	**2006**
Current:			
Federal	$154,791	$ 92,397	$102,297
State	21,160	10,866	11,153
Deferred:			
Federal	(44,405)	(9,063)	(10,228)
State	(6,392)	(1,000)	(977)
Total	$125,154	$ 93,200	$102,245

The Company's policy is to include interest and penalties in its income tax provision. In fiscal 2008 and 2007, the Company recognized $0.6 million and $1.0 million in interest and penalties, respectively. Accrued interest and penalties, which are included as a component of taxes payable, totaled $3.5 million and $3.0 million at October 31, 2008 and 2007, respectively.

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

(in thousands)	**2008**	**2007**
Deferred tax assets:		
Stock-based compensation	$ 41,858	$ 33,899
Closed-end fund expenses	91,415	-
Deferred rent	2,900	676
Differences between book and tax bases of investments	8,133	619
Differences between book and tax bases of property	2,522	1,111
Unrealized losses on derivative instruments	1,401	1,558
Capital loss carry-forward	1,637	-
Unrealized net holding losses on investments	1,221	-
Other	285	1,931
Total deferred tax asset	$ 151,372	$ 39,794

(in thousands)	**2008**	**2007**
Deferred tax liabilities:		
Deferred sales commissions	$ (28,122)	$(37,573)
Closed-end fund expenses	(65,474)	-
Differences between book and tax bases of goodwill and intangibles	(12,008)	(8,858)
Unrealized net holding gains on investments	-	(3,505)
Other	(273)	(95)
Total deferred tax liability	$(105,877)	$(50,031)
Net deferred tax asset (liability)	$ 45,495	$(10,237)

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

(in thousands)	**2008**	**2007**
Net current deferred tax asset (liability) [1]	$(20,862)	$ 1,503
Net non-current deferred tax asset (liability)	66,357	(11,740)
Net deferred tax asset (liability)	$ 45,495	$(10,237)

[1] *Included in other current assets in fiscal 2007*

The Company has recorded a deferred income tax asset of $1.6 million as of October 31, 2008 relating to $4.3 million in capital loss carry-forwards. The $4.3 million in capital loss carry-forwards will expire at the end of fiscal 2012. No valuation allowance has been recorded for this capital loss carry-forward, reflecting management's belief that all of the carry-forward will be recoverable prior to expiration.

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

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

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, 2008, 2007 and 2006 is as follows:

	2008	**2007**	**2006**
Federal statutory rate	35.0%	35.0%	35.0%
State and local income tax, net of federal income tax benefit	2.9	2.7	2.5
Minority interest	(0.8)	(0.9)	(0.7)
Stock-based compensation	1.4	1.9	1.2
Other	0.3	0.4	0.9
Effective income tax rate	38.8%	39.1%	38.9%

The exercise of non-qualified stock options resulted in a reduction of taxes payable of approximately $9.8 million, $9.9 million and $8.2 million for the years ended October 31, 2008, 2007 and 2006, respectively. Such benefit has been reflected as a component of shareholders' equity.

Effective November 1, 2007, the Company adopted FIN 48. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements for a tax position taken or expected to be taken in a tax return. FIN 48 requires that the tax effects of a position be recognized only if it is more likely than not to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of the benefit. The difference between the tax benefit recognized in the financial statements for a tax position in accordance with FIN 48 and the tax benefit claimed in the income tax return is referred to as an unrecognized tax benefit.

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

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits for 2008 are as follows:

(*in thousands*)	
Balance at November 1, 2007	$ 14,795
Additions for tax provisions of prior years	1,780
Reductions for tax provisions of prior years	(574)
Additions based on tax provisions related to current year	2,648
Reductions for settlements with taxing authorities	(1,538)
Lapse of statute of limitations	(473)
Balance at October 31, 2008	$ 16,638

All unrecognized tax benefits are classified as a component of current taxes payable at October 31, 2008.

The Company and its subsidiaries file income tax returns in U.S. federal, state, local and foreign jurisdictions. In the ordinary course of business, various taxing authorities may not agree with certain tax positions the Company has taken, or the applicable law may not be clear. To resolve some of these uncertainties, the Company has filed Voluntary Disclosure Agreements ("VDAs") with specific state taxing authorities.

The Company believes that over the next 12 months its outstanding VDA filings and current state tax audits will be completed and it is reasonably possible that the Company's uncertain state tax positions could decrease between $11.6 million and $16.6 million in that period, thereby lowering the Company's effective tax rate.

The Company is generally no longer subject to income tax examinations by U.S. federal, state, local, or non-U.S. tax authorities for fiscal years prior to fiscal 2005.

13. Derivative Financial Instruments

In October 2007, the Company issued $500.0 million in aggregate principal amount of 6.5 percent ten-year senior notes due October 2017. In anticipation of the offering, the Company entered into an interest rate lock transaction with an aggregate notional amount of $200.0 million intended to hedge against movements in ten-year Treasury rates between the time at which the decision was made to issue the debt and the pricing of the securities. The prevailing Treasury rate had declined at the time of the pricing of the securities, and the interest rate lock was settled for a payment by the Company of $4.5 million. At termination, the interest rate lock was determined to be an effective cash flow hedge and the $4.5 million settlement cost was recorded as a loss in other comprehensive income (loss), net of tax. The loss recorded in other comprehensive income (loss) will be reclassified to earnings as a component of interest expense over the term of the debt. During the fiscal years ended October 31, 2008 and 2007, the Company reclassified $0.4 million and $37,000, respectively, of the loss on the Treasury lock transaction into interest expense. At October 31, 2008, the remaining unamortized loss on this transaction was $4.0 million. During fiscal 2009, the Company expects to reclassify approximately $0.4 million of the loss on the Treasury lock transaction into interest expense.

The Company entered into a second Treasury rate lock transaction in October 2007 with an aggregate notional amount of $200.0 million in anticipation of the issuance of senior notes with a maturity in excess of ten years. When it was determined that the Company would not issue senior notes with a maturity in excess of ten years, this interest rate lock was terminated and the net settlement of $6.7 million was recorded as a loss on investments in the Company's Consolidated Statement of Income for the year ended October 31, 2007.

14. Minority Interest

Minority interest includes the income allocated to minority shareholders of the Company's controlled subsidiaries and consolidated funds. For the years ended October 31, 2008, 2007 and 2006, minority interest totaled $7.2 million, $6.3 million and $5.1 million, respectively.

Minority interest in fiscal 2008 reflects a $2.8 million adjustment to reverse stock-based compensation previously allocated to minority shareholders of the Company's controlled subsidiaries. In fiscal 2008, management determined that the allocation of stock-based compensation expense to minority shareholders reduces the Company's liability to minority shareholders in a manner that is not consistent with the agreements governing partnership distributions to those individuals. The $2.8 million adjustment recognized in fiscal 2008 represents the reversal of accumulated stock-based compensation expense allocated to minority shareholders from the date of acquisition. Stock-based compensation expense allocated to minority shareholders in prior periods was neither quantitatively

nor qualitatively material to the Company's consolidated financial statements in any previously reported fiscal years or periods.

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

15. 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, 2008, 2007 and 2006 are as follows:

(in thousands)	**Gross Amount**	**Tax (Expense) or Benefit**	**Net Amount**
2008			
Net unrealized holding losses on available-for-sale securities	$(12,669)	$ 4,727	$ (7,942)
Foreign currency translation adjustments	(1,055)	379	(676)
Amortization of loss on derivative instruments	447	(157)	290
Other comprehensive income (loss)	$(13,277)	$ 4,949	$ (8,328)
2007			
Net unrealized holding gains on available-for-sale securities	$ 2,615	$ (987)	$ 1,628
Foreign currency translation adjustments	84	(30)	54
Unamortized loss on derivative instruments	(4,430)	1,558	(2,872)
Other comprehensive income (loss)	$ (1,731)	$ 541	$ (1,190)
2006			
Net unrealized holding gains on available-for-sale securities	$ 2,793	$ (1,039)	$ 1,754
Foreign currency translation adjustments	99	(36)	63
Other comprehensive income (loss)	$ 2,892	$ (1,075)	$ 1,817

During the years ended October 31, 2008, 2007 and 2006, the Company reclassified gains of $0.2 million, $2.9 million and $4.1 million, respectively, from other comprehensive income (loss) to net income as gains and losses were realized on the sale of available-for-sale securities.

Accumulated other comprehensive income (loss) is reported in the Consolidated Statements of Shareholders' Equity and Comprehensive Income. The components of accumulated other comprehensive income (loss) at October 31, 2008 and 2007 are as follows:

(in thousands)	2008	2007
Net unrealized gains (losses) on available-for-sale securities, net of tax	$(2,039)	$5,903
Foreign currency translation adjustments, net of tax	(513)	162
Unamortized loss on derivative instruments, net of tax	(2,583)	(2,872)
Total	$(5,135)	$3,193

16. Earnings Per Share

The following table provides a reconciliation of net income and common shares used in the earnings per basic share and earnings per diluted share computations for the years ended October 31, 2008, 2007 and 2006:

(in thousands, except per share data)	2008	2007	2006
Net income – basic	$195,663	$142,811	$159,377
Interest adjustment related to contingently convertible debt, net of tax	-	-	1,512
Net income – diluted	$195,663	$142,811	$160,889
Weighted average shares outstanding – basic	115,810	124,527	127,807
Incremental common shares from stock options and restricted stock awards	8,673	10,725	6,726
Incremental common shares related to contingently convertible debt	-	-	2,471
Weighted average shares outstanding – diluted	124,483	135,252	137,004
Earnings per share:			
Basic	$1.69	$1.15	$1.25
Diluted	$1.57	$1.06	$1.17

The Company uses the treasury stock method to account for the dilutive effect of unexercised stock options and unvested restricted stock in earnings per diluted share. Antidilutive incremental common shares related to stock options and unvested restricted stock excluded from the computation of earnings per share were approximately 3,342,000, 73,700 and 140,000 for the years ended October 31, 2008, 2007 and 2006, respectively.

17. 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, 2008 and 2007:

(in thousands)	2008 Carrying Value	2008 Fair Value	2007 Carrying Value	2007 Fair Value
Short-term investments:				
Commercial paper	$ 43,006	$ 43,006	$ 50,183	$ 50,183
Debt	7,372	7,372	-	-
Investment in affiliate	119,565	119,565	-	-
Long-term investments:				
Debt securities	31,578	31,578	770	770
Equity securities	31,846	31,846	14,368	14,368
Sponsored funds	24,898	24,898	34,764	34,764
Collateralized debt obligation entities	4,118	4,118	18,962	18,962
Investments in affiliates	22,786	22,786	16,297	16,297
Other investments	965	965	950	950
Total	$286,134	$286,134	$136,294	$136,294
Note receivable from affiliate	$ 10,000	$ 10,000	$ -	$ -
Notes receivable from stock option exercises	$ 4,704	$ 4,704	$ 2,342	$ 2,342
Long-term debt	$500,000	$485,728	$500,000	$510,806

Assumptions used in the determination of fair value have been described in Notes 4, 6, 7 and 9.

18. Regulatory Requirements

Eaton Vance Distributors, Inc. ("EVD"), a wholly owned subsidiary of the Company and principal underwriter of the Eaton Vance Funds, is subject to the Securities and Exchange Commission uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital. For purposes of this rule, EVD had net capital of $41.5 million, which exceeds its minimum net capital requirement of $1.8 million at October 31, 2008. The ratio of aggregate indebtedness to net capital at October 31, 2008 was 0.64-to-1.

19. 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 held. 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:

	For the Years Ended October 31,		
(dollar figures in thousands)	2008	2007	2006
Tax-Managed Growth Portfolio and related funds:			
Investment advisory and administration fees, underwriting commissions, distribution plan payments, contingent deferred sales charges and service fees	$175,721	$204,433	$192,109
Percent of revenue	16.0%	18.9%	22.2%

20. Comparative Quarterly Financial Information (Unaudited)

	2008				
(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenue	$289,796	$273,426	$282,812	$249,766	$1,095,800
Operating income	$ 99,167	$ 96,145	$ 92,085	$ 76,355	$ 363,752
Net income	$ 57,928	$ 53,162	$ 49,621	$ 34,952	$ 195,663
Earnings per share:					
Basic	$ 0.50	$ 0.46	$ 0.43	$ 0.30	$ 1.69
Diluted	$ 0.46	$ 0.43	$ 0.40	$ 0.28	$ 1.57

	2007				
(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Total revenue	$243,176	$260,184	$286,932	$293,808	$1,084,100
Operating income	$ 1,997	$ 36,292	$ 88,858	$105,790	$ 232,937
Net income	$ 2,559	$ 23,093	$ 55,776	$ 61,383	$ 142,811
Earnings per share:					
Basic	$ 0.02	$ 0.18	$ 0.45	$ 0.51	$ 1.15
Diluted	$ 0.02	$ 0.17	$ 0.41	$ 0.47	$ 1.06

21. Subsequent Event

In November 2008, the Company announced the signing of a definitive agreement to acquire the Tax Advantaged Bond Strategies (“TABS”) business of M.D. Sass Investors Services (“MD Sass”), a privately held investment manager based in New York, New York. The TABS business being acquired managed approximately $6.5 billion in client assets as of October 31, 2008, consisting of approximately $5.0 billion in institutional and high-net-worth family office accounts and approximately $1.5 billion in retail managed accounts. Following the closing, the TABS business will be organized as the Tax-Advantaged Bond Strategies division of Eaton Vance Management, and will maintain its current leadership, portfolio team and investment strategies. Its tax-advantaged income products and services will continue to be offered directly to institutional and family office clients, and by EVD to retail investors through financial intermediaries.

At closing, the Company will pay $30 million in cash to acquire the TABS business. The Company will be obligated to make seven annual contingent payments based on prescribed multiples of TABS’s revenue for the twelve months ending December 31, 2009, 2010, 2011, 2012, 2014, 2015 and 2016. All future payments will be paid in cash. The Company anticipates that the transaction will close on or before December 31, 2008.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Eaton Vance Corp. and subsidiaries (the "Company") as of October 31, 2008 and 2007, 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, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended October 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective November 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes."

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, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 19, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

DELOITTE & TOUCHE LLP

Boston, Massachusetts
December 19, 2008

Directors and Officers

Directors

Ann E. Berman [1,3]

Thomas E. Faust Jr.

Leo I. Higdon Jr. [2,3]

Vincent M. O'Reilly* [1,2,3]

Dorothy E. Puhy [1,2,3]

Duncan W. Richardson

Winthrop H. Smith Jr. [1,2,3]

* Lead Director   Board Committees: 1. Audit, 2. Compensation, 3. Nominating and Governance

Officers

Thomas E. Faust Jr.
Chairman and Chief Executive Officer

Duncan W. Richardson
Executive Vice President and Chief Equity Investment Officer

Jeffrey P. Beale
Vice President and Chief Administrative Officer

Laurie G. Hylton
Vice President and Chief Accounting Officer

Frederick S. Marius
Vice President, Secretary and Chief Legal Officer

Robert J. Whelan
Vice President, Treasurer and Chief Financial Officer

Investor Information

Eaton Vance Corp. has filed an Annual Report on Form 10-K with the Securities and Exchange Commission for the 2008 fiscal year. For a copy of the Company's Form 10-K, which is available free of charge to shareholders upon request, or other information regarding the Company, please contact:

Robert J. Whelan	255 State Street, Boston MA 02109 (until 3/20/09)
Chief Financial Officer	Two International Place, Boston MA 02110 (from 3/20/09)
Eaton Vance Corp.	(617) 482-8260

The Company's Form 10-K and other information about Eaton Vance Corp. are also available on the Company's website: www.eatonvance.com. The Company has included as Exhibit 31 to its Form 10-K for fiscal year 2008 certificates of the Chief Executive Officer and Chief Financial Officer certifying the quality of the Company's public disclosure. The Company has submitted to the New York Stock Exchange a certificate of the Chief Executive Officer certifying that he is not aware of any violation by the Company of New York Stock Exchange corporate governance listing standards.

Transfer Agent and Registrar

Computershare Investor Services is the Transfer Agent and Registrar for the Company's common stock and maintains shareholder accounting records. The Transfer Agent should be contacted regarding changes in address, name or ownership, lost certificates and consolidation of accounts. When corresponding with the Transfer Agent, shareholders should state the exact name(s) in which the stock is registered and the certificate number, as well as other pertinent account information. Please contact:

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Mission and Core Values

Our Mission

Eaton Vance strives to be the premier investment management organization. We seek to provide clients with superior performance, top quality service and value-added products across a range of investment disciplines and distribution channels. We seek to provide an attractive work environment and fulfilling careers for our dedicated employees. Through the success of clients and associates, we thereby seek to build long-term shareholder value.

Our Core Values

Integrity

- Honest in word and deed
- Adheres to the Company's Code of Ethics, industry standards of business conduct and applicable law
- Deals fairly and forthrightly with clients, colleagues and business partners

Professionalism

- Demonstrates maturity, dedication and a strong work ethic
- Behaves appropriately; respectful of clients, colleagues and business partners
- Uses the Company's resources wisely

Teamwork

- Works collaboratively with others to achieve shared goals
- Communicates openly and follows through on commitments
- Enhances the work experience of colleagues

Client Focus

- Places the interests of clients first
- Meets or exceeds client performance expectations

Creativity/Adaptability

- Develops business opportunities and process improvements
- Open and adaptable to change
- Works to achieve personal development

Excellence

- Achieves outstanding results for clients and shareholders
- Advances the record and reputation of Eaton Vance as an industry leader

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