BALDWIN TECHNOLOGY CO INC
Form DEF 14A
October 28, 2002

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
[ ] Confidential, for Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to Section 240.14a-12

BALDWIN TECHNOLOGY COMPANY, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule

0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

BALDWIN TECHNOLOGY COMPANY, INC.

12 Commerce Drive
Shelton, CT 06484

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD NOVEMBER 21, 2002

To the Stockholders:

The Annual Meeting of Stockholders of Baldwin Technology Company, Inc. (the "Company") will be held at the Trumbull Marriott, 180 Hawley Lane, Trumbull, Connecticut on the 21st day of November, 2002 at 10:00 a.m., Eastern Standard Time, for the following purposes:

1. To elect two Class III Directors to serve for three-year terms or until their respective successors are elected and qualify.

2. To amend the Company's 1996 Stock Option Plan to (a) increase the total number of shares of Class A Common Stock that may be subject to outstanding Options determined immediately after the grant of any Option to purchase Class A Stock, from 875,000 shares to 1,875,000 shares; (b) prohibit the granting of any Options to purchase any shares of Class B Common Stock under the Plan; (c) provide that Non-Employee Directors be eligible to receive Options under the Plan; and (d) make certain technical and clarifying amendments to the Plan.

3. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only stockholders of record as of the close of business on September 30, 2002, are entitled to receive notice of and to vote at the meeting. A list of such stockholders shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of ten days prior to the meeting, at the Trumbull Marriott, 180 Hawley Lane, Trumbull, Connecticut.

By Order of the Board of Directors.

Helen P. Oster
Secretary

Shelton, Connecticut
October 28, 2002

PLEASE FILL IN, DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED RETURN ENVELOPE. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY VOTE YOUR SHARES OF STOCK PERSONALLY, WHETHER OR NOT YOU HAVE PREVIOUSLY SUBMITTED A PROXY.

BALDWIN TECHNOLOGY COMPANY, INC.

PROXY STATEMENT

Shelton, Connecticut
October 28, 2002

The accompanying Proxy is solicited by and on behalf of the Board of Directors of Baldwin Technology Company, Inc., a Delaware corporation (the "Company" or "Baldwin"), for use only at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at the Trumbull Marriott, 180 Hawley Lane, Trumbull, Connecticut on the 21st day of November, 2002 at 10:00 a.m., Eastern Standard Time, and at any adjournment thereof. The approximate date on which this Proxy Statement and accompanying Proxy will first be given or sent to stockholders is October 29, 2002.

Each Proxy executed and returned by a stockholder may be revoked at any time thereafter, by written notice to that effect to the Company, attention of the Secretary, prior to the Annual Meeting, or to the Chairman, or the Inspectors of Election, at the Annual Meeting, or by execution and return of a later-dated Proxy, except as to any matter voted upon prior to such revocation.

Proxies in the accompanying form will be voted in accordance with the specifications made and, where no specifications are given, will be voted FOR the election as Directors of the nominees named herein and if any one or more of such nominees should become unavailable for election for any reason then FOR the election of any substitute nominee that the Board of Directors of the Company may propose and FOR the amendment and restatement of the Company's 1996 Stock Option Plan. In the discretion of the proxy holders, the Proxies will also be voted FOR or AGAINST such other matters as may properly come before the meeting. The management of the Company is not aware of any other matters to be presented for action at the meeting.

With regard to the election of Directors, votes may be cast in favor of or withheld from each nominee; votes that are withheld will be counted as present for purposes of determining the existence of a quorum and will not have any effect on the vote. Abstentions may be specified on all proposals except the election of Directors and will be counted as present for the purposes of determining the existence of a quorum regarding the item on which the abstention is noted. Since the amendment and restatement of the Company's 1996 Stock Option Plan requires the affirmative vote of a majority of the outstanding shares, abstentions will have the effect of a negative vote. Broker non-votes will be counted for purposes of determining the presence or absence of a quorum and will have no effect on the outcome of the election of Directors.

The affirmative vote of a majority of the votes entitled to be cast by the holders of the outstanding shares of Class A Common Stock, par value $.01 per share (the "Class A Common Stock"), and Class B Common Stock, par value $.01 per share (the "Class B Common Stock"), present, in person or by proxy, and entitled to vote at the meeting, voting as a single class, with each share of Class A Common Stock having one vote per share and each share of Class B Common Stock having ten votes per share, is required for the approval of any matters voted upon at the meeting or any adjournment thereof other than the election of

Directors. The required votes for the election of Directors is described below under the caption "Voting Securities."

VOTING SECURITIES

The Board of Directors has fixed the close of business on September 30, 2002 as the record date for the determination of stockholders entitled to receive notice of and to vote at the Annual Meeting. The issued and outstanding stock of the Company on September 30, 2002 consisted of 12,828,647 shares of Class A Common Stock and 2,185,883 shares of Class B Common Stock.

With respect to the election of Directors, the holders of Class A Common Stock, voting as a separate class, are entitled to elect 25% of the total number of Directors (or the nearest higher whole number) constituting the entire Board of Directors. Accordingly, the holders of Class A Common Stock are entitled to elect two of the eight Directors that will constitute the entire Board of Directors. Holders of Class B Common Stock, voting as a separate class, are entitled to elect the remaining Directors, so long as the number of outstanding shares of Class B Common Stock is equal to at least 12.5% of the number of outstanding shares of both classes of Common Stock as of the record date. If the number of outstanding shares of Class B Common Stock is less than 12.5% of the total number of outstanding shares of both classes of Common Stock as of the record date, the remaining directors are elected by the holders of both classes of Common Stock voting together as a single class, with the holders of Class A Common Stock having one vote per share and the holders of Class B Common Stock having ten votes per share. As of September 30, 2002 the number of outstanding shares of Class B Common Stock constituted approximately 14.6% of the total number of outstanding shares of both classes of Common Stock. Accordingly, the holders of Class B Common Stock, voting as a separate class, are entitled to elect six of the eight Directors constituting the entire Board of Directors.

Except with respect to the election or removal of Directors, and certain other matters with respect to which Delaware law requires each class to vote as a separate class, the holders of Class A Common Stock and Class B Common Stock vote as a single class on all matters, with each share of Class A Common Stock having one vote per share and each share of Class B Common Stock having ten votes per share. A quorum of stockholders is constituted by the presence, in person or by proxy, of holders of record of both Class A Common Stock and Class B Common Stock representing a majority of the aggregate number of votes entitled to be cast by both classes together. Abstentions will be considered present and have the effect of a negative vote; broker non-votes will be neither present nor have any effect on the vote on such matters.

With respect to the election or removal of Directors, and certain other matters with respect to which Delaware law requires each class to vote as a separate class, a quorum of the stockholders of such class is constituted by the presence, in person or by proxy, of holders of record of such class representing a majority of the number of votes entitled to be cast by such class. As stated above, proxies withheld and broker non-votes will be excluded entirely with respect to the election of Directors and have no effect on the vote thereon.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding beneficial ownership of the Class A Common Stock and Class B Common Stock as of August 31, 2002 (except where otherwise noted) based on a review of information filed with the United States Securities and Exchange Commission ("SEC") and the Company's stock records with respect to (a) each person known to be the beneficial owner of more than 5% of the outstanding shares of Class A Common Stock or Class B Common Stock, (b) each Director or nominee for a directorship of the Company, (c) each current executive officer of the Company named in the Summary Compensation Table, and (d) all executive officers and directors of the Company as a group. Unless otherwise stated, each of such persons has sole voting and investment power with respect to such shares.

NAME AND ADDRESS OF BENEFICIAL OWNER	BENEFICIAL OWNERSHIP: AMOUNT AND NATURE OF OWNERSHIP CLASS A(1)	CLASS B	PERCENT CLASS A(1)
Gabelli Asset Management, Inc.(2)............ One Corporate Center Rye, New York 10580	1,654,200	0	12.89%+
Royce & Associates, Inc.(3).................. 1414 Avenue of the Americas New York, New York 10019	1,288,500	0	10.04%+
Dimensional Fund Advisors Inc.(4)............ 1299 Ocean Ave., 11th Floor Santa Monica, California 90401	983,100	0	7.34%+
Shufro Rose & Co., LLC(5).................... 745 Fifth Ave., Suite 2600 New York, NY 10151	768,100	0	5.99%+
Wendell M. Smith(6).......................... 10 Manor House Smith's FL07, Bermuda	259,611(7)	524,923(7)	2.02%(7)
Jane G. St. John(8).......................... P.O. Box 3236 Blue Jay, California 92317	4,800	404,864	*
Gerald A. Nathe(9)........................... Baldwin Technology Company, Inc. 12 Commerce Drive Shelton, Connecticut 06484	285,765(10)(11)(12)	405,144(13)	2.19%
John T. Heald, Jr.(14)....................... 3 Daniel Court Westport, Connecticut 06880	24,901(10)(12)	375,000	*
Akira Hara(9)................................ Baldwin Japan Limited 2-4-34 Toyo, Kohtoh-ku Tokyo 135, Japan	812,418(10)	330,600(13)	6.25%
Ralph R. Whitney, Jr.(9)..................... Hammond Kennedy Whitney & Co., Inc. 230 Park Avenue, Suite 1616 New York, New York 10169	11,354(10)	100,646(13)	*

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NAME AND ADDRESS	BENEFICIAL OWNERSHIP: AMOUNT AND NATURE OF OWNERSHIP		PERCENT

OF BENEFICIAL OWNER	CLASS A(1)	CLASS B	CLASS A(1)
Vijay C. Tharani............................. Baldwin Technology Company, Inc. 12 Commerce Drive Shelton, Connecticut 06484	77,841(12)	10,000	*
Judith A. Mulholland(9)...................... 4324 Snowberry Lane Naples, Florida 34119	51,582(10)(15)	418(13)	*
Samuel B. Fortenbaugh III(9)................. 1211 Ave. of the Americas, 27th Floor New York, New York 10036	31,354(10)	646(13)	*
Henry F. McInerney(9)........................ Verification Technologies 85 Westbrook Road Centerbrook, Connecticut 06409	15,000	0	*
Mark T. Becker(9)............................ SAPPI Fine Paper Company 225 Franklin Street, 28th Floor Boston, Massachusetts 02110	10,000	0	*
All executive officers and directors of the Company as a group (including 9 individuals, named above)(16)..................................	1,301,314(10)(11)(12)(14)(16)	847,454(13)	9.79%

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* = Less than 1%.

+ = Ratios calculated by fund Owners at different times (not as of Aug. 31).

(1) Each share of Class B Common Stock is convertible at any time, at the option of the holder thereof, into one share of Class A Common Stock. Except as otherwise noted, the amount of shares shown as Class A Common Stock held by a beneficial owner in the table above does not include those shares of Class A Common Stock issuable upon conversion of the shares of Class B Common Stock held by the beneficial owner. If the shares of Class B Common Stock owned by the individuals named above were converted, their respective Amount of Ownership of Class A Common Stock and their Percent of Class A Common Stock owned would be as follows: Mr. Hara, 1,143,018 -- 8.57%; Mr. Nathe, 690,909 -- 5.12%; Mr. Smith, 784,534 -- 5.88%; Mr. Heald, 399,901 -- 3.03%; Mrs. St. John, 409,664 -- 3.10%; and, with less than 1%, Mr. Whitney, 112,000; Mr. Tharani, 87,841; Ms. Mulholland, 52,000; Mr. Fortenbaugh, 32,000; Mr. McInerney, 15,000; and as to all executive officers and directors of the Company as a group, 2,548,669 -- 17.55%.

(2) Amount and Nature of Ownership and Percent of Class is based on Amendment No. 12 to Schedule 13D dated March 22, 2002 filed with the SEC reporting beneficial ownership of securities of the Company held by affiliates of the beneficial owner.

(3) Amount and Nature of Ownership and Percent of Class is based on Amendment No. 3 to Schedule 13G dated April 4, 2002, filed with the SEC reporting beneficial ownership of securities of the Company held by the beneficial owner.

(4) Amount and Nature of Ownership and Percent of Class is based on Amendment No. 1 to Schedule 13G dated January 30, 2002 filed with the SEC reporting (but disclaiming beneficial ownership of) securities of the Company held by the beneficial owner, a registered investment advisor on behalf of investment companies, as of December 31, 2001.

(5) Amount and Nature of Ownership and Percent of Class is based on Schedule 13G dated February 13, 2002 filed with the SEC reporting beneficial ownership of securities of the Company held by the beneficial owner, a broker/dealer and registered investment advisor.

(6) Amendment No. 13 to Schedule 13G dated February 14, 2002 filed with the SEC reporting beneficial ownership of securities of the Company held by the beneficial owner as of December 31, 2001.

(7) Amount and Nature of Ownership and Percent of Class is calculated based on information set forth in the SEC filing referenced in Note 6 above and Class A and Class B Common Stock outstanding on the record date.

(8) The record owner of 24,000 of the shares of Class B Common Stock held by the beneficial owner is the beneficial owner's husband, Mr. St. John; also includes 4,800 shares of Class A Common Stock held by Mr. and Mrs. St. John as custodians for their children.

(9) Member of the Board of Directors of the Company.

(10) Includes shares of Class A Common Stock subject to options which are exercisable within 60 days as follows -- Mr. Nathe, 251,500 shares; Mr. Hara, 178,000 shares; Mr. Fortenbaugh, 11,354 shares; Mr. Whitney, 11,354 shares; Ms. Mulholland, 9,582 shares; Mr. Heald, 6,000 shares; and as to all executive officers and directors of the Company as a group, 467,790 shares.

(11) Includes 21,000 shares of Class A Common Stock held jointly with the beneficial owner's wife, Mrs. Nathe; does not include 160,000 shares which may be issued pursuant to Mr. Nathe's employment agreement with the Company as more fully described in the Employment Agreements section below.

(12) Includes shares held in the account of the beneficial owner in the Company's profit sharing and savings plan, as of September 30, 2002, as follows: Mr. Tharani, 5,398 shares, Mr. Heald, 10,423 shares, and Mr. Nathe, 13,580 shares.

(13) Includes shares of Class B Common Stock subject to options which are exercisable within 60 days as follows -- Mr. Nathe, 85,000; Mr. Hara, 70,000 shares; Mr. Fortenbaugh, 646 shares; Mr. Whitney, 646 shares; Ms. Mulholland, 418 shares; and as to all executive officers and directors of the Company as a group, 156,710 shares.

(14) Resigned as President, Chief Executive Officer and Director of the Company, effective October 25, 2002.

(15) Includes 2,000 shares held jointly with the beneficial owner's husband, Mr. Mulholland.

(16) Does not include shares of Class A Common Stock owned by Harold W. Gegenheimer, Chairman Emeritus, Peter E. Anselmo, former Vice President, or John T. Heald, Jr., former President, Chief Executive Officer and a Director, of the Company.

To the knowledge of the Company, no arrangement exists, the operation of which might result in a change in control of the Company.

ELECTION OF DIRECTORS

Under the Company's Certificate of Incorporation, the Board of Directors (the "Board") is divided into three classes, with each class being as equal in size as possible. One class is elected each year. Directors in each class hold office for a term of three years and until their respective successors are elected and qualified. There are currently seven members of the Company's Board of Directors, the number having been set by the Board of Directors in accordance with the Company's By-laws. Judith A. Mulholland, a Class I Director, and Mark T. Becker, a Class II Director, were elected by a plurality vote of the outstanding shares of Class A Common Stock. The other Directors were elected by a plurality vote of the outstanding shares of Class A Common Stock and Class B Common Stock voting together as a single class.

At this year's Annual Meeting, two Directors will be elected to Class III. If elected, their terms will expire at the Annual Meeting in 2005. Akira Hara and Ralph R. Whitney, Jr., who are currently Class III Directors, have been nominated to serve as Class III Directors. Because the number of shares of Class B Common Stock is equal to at least 12.5% of the number of outstanding shares of both classes of Common Stock as of the record date, the nominees may be elected by a plurality vote of the outstanding shares of Class B Common Stock present, in person or by proxy, and entitled to vote at the meeting, voting as a separate class. Mr. John T. Heald, Jr. who was a Class III Director, resigned as an officer and director of the Company, effective October 25, 2002.

The Board of Directors knows of no reason why any nominee for Director would be unable to serve as a Director. If any nominee should for any reason be unable to serve, the shares represented by all valid proxies not containing contrary instructions may be voted for the election of such other person as the Board may recommend in place of the nominee that is unable to serve.

Set forth below are the names of all continuing Directors and nominees and certain biographical information with respect to each such continuing Director and nominee.

NOMINEES FOR ELECTION AT THE 2002 ANNUAL MEETING:

CLASS III

Akira Hara, age 67, is currently the Strategic Advisor of the Company and Chairman of Baldwin Japan Limited. He has served as a Director of the Company since 1989. He was President of Baldwin Asia Pacific Corporation from 1989 through 2001, Vice President of the Company from 1989 through 1999, President of Baldwin Japan Limited from 1979 through 1999 and President of the Company's Graphic Products and Controls Group from 1997 through 1999.

Ralph R. Whitney, Jr., age 67, has served as a Director of the Company since 1988. Mr. Whitney has been a principal of Hammond, Kennedy, Whitney & Company, Inc., a private capital firm, since 1971 and currently serves as its Chairman. He also serves as a director of First Technology PLC., a manufacturer of bimetal fuses and sensing devices for the automobile industry, Dura Automotive Systems, Inc., an automobile parts manufacturer, Relm Communications, a wireless communications company, and Reinhold Industries, Inc., a composites material manufacturer. Mr. Whitney was an executive officer of Holbrook Patterson, Inc. a private company involved in furniture manufacturing within two years prior to Holbrook filing a petition under the federal bankruptcy laws.

CONTINUING DIRECTORS:

CLASS I (Term will expire at the 2003 Annual Meeting)

Samuel B. Fortenbaugh III, age 68, practices law. From October 1, 2001 until August 31, 2002 he was Senior Counsel and from January 1980 until September 30, 2001, he was a Senior Partner of the law firm of Morgan, Lewis & Bockius LLP, counsel to the Company. Mr. Fortenbaugh is a former Chairman of Morgan, Lewis & Bockius LLP. He has served as a Director of the Company since 1987. Mr. Fortenbaugh also serves as a director of Security Capital Corporation, an employer cost containment-related services, educational services and seasonal products company located in Greenwich, Connecticut.

Judith A. Mulholland, age 60, has been a Director of the Company since 1994. She is a retired graphic arts industry executive. Until December, 1996, Ms. Mulholland was Vice President of Courier Corporation, a book printer. Ms. Mulholland joined Courier in 1990 as founder and President of The Courier Connection, an electronic integrated publishing service bureau, which is a division of Courier Corporation.

Gerald A. Nathe, age 61, has served as Chairman of the Board of the Company since February, 1997. He was elected Chief Executive Officer of the Company on October 25, 2002, a position he previously held from October 1995 through November 2001. He was elected President of the Company on October 25, 2002, a position he formerly held from August 1993 through March 2001. He has served as a Director since 1987.

CLASS II (Term will expire at the 2004 Annual Meeting)

Mark T. Becker, age 43, has served as a Director of the Company since November, 2001. Since 2000, Mr. Becker has been Vice President and Chief Financial Officer of Sappi Fine Paper NA, a subsidiary of Sappi Ltd., an international producer of coated woodfree paper, dissolving pulp and forest products. From 1998 through 2000, Mr. Becker served as Chief Financial Officer of Sealed Air Corporation-Europe, a leading global manufacturer of protective and specialty packaging materials and systems. He was Chief Financial Officer -- Europe of W.R. Grace & Co. from 1996 through 1998.

Henry F. McInerney, age 62, has been a Director of the Company since February 2001. He is Chairman and Chief Executive Officer of Verification Technologies, Inc., a private company which markets technology to protect brand equity through detection of counterfeit products and packaging as well as product diversion. From 1995 through 1998, Mr. McInerney was Chief Executive Officer of Earthgro, Inc. From 1984 to 1996, he served as President and Chief Executive Officer of Tetley, Inc., was Chairman of Tetley Canada and served on the Board of J. Lyons in the U.K.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS

The Directors and executive officers of the Company are as follows:

NAME	POSITION

Gerald A. Nathe......................	Chairman of the Board, President, Chief Executive Officer and Director(1)
Vijay C. Tharani.....................	Vice President, Chief Financial Officer and Treasurer
Karl S. Puehringer...................	Vice President
Akira Hara...........................	Director(1)
Samuel B. Fortenbaugh III............	Director(2)(3)
Henry F. McInerney...................	Director(2)
Judith A. Mulholland.................	Director(2)
Mark T. Becker.......................	Director(3)
Ralph R. Whitney, Jr.	Director(1)(3)

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(1) Member of the Executive Committee.

(2) Member of the Compensation and Stock Option Committee.

(3) Member of the Audit Committee.

Vijay C. Tharani, age 39, has been Vice President, Chief Financial Officer and Treasurer of the Company since June 2001. Previously, Mr. Tharani was Vice President and Chief Financial Officer at Weigh-Tronix, LLC, a manufacturer of industrial weighing systems. From 1995 to 1998, Mr. Tharani was Vice President of Finance for the International Division of Fisher Scientific, Inc., a global distributor of laboratory chemicals, supplies and equipment.

Karl S. Puehringer, age 37, was elected a Vice President of the Company in November 2001; he serves as Vice President of Operations. In August 2002, he also assumed responsibility for Product Management. Prior to joining Baldwin, Mr. Puehringer served as a Manager at A.T. Kearney in Munich where he was responsible for project management from 1999 to 2001. From 1996 to 1999, he was President and a Director of Voest-Alpine MCE, Indonesia, and from 1993 to 1996, he was Managing Director of Voest-Alpine Ice, Mexico.

All of the Company's officers are elected annually by the Board of Directors and hold office at the pleasure of the Board of Directors.

See "Election of Directors" for biographies relating to Directors.

BOARD OF DIRECTORS

The Board of Directors has responsibility for establishing broad corporate policies and for overseeing the management of the Company, but is not involved in day-to-day operations. Members of the Board are kept informed of the Company's business by various reports and documents sent to them as well as by operating and financial reports presented at Board and Committee meetings. During the fiscal year ended June 30, 2002,

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the Board held four regularly scheduled meetings and acted by Written Consent twice. Each of the Directors attended at least 75% of the meetings of the Board and the Committees on which they serve.

The Board of Directors has determined that all of the members of the Audit Committee are "independent," as defined by the rules of the American Stock Exchange.

COMPENSATION OF DIRECTORS

Directors who were not employees of the Company received a $16,000 annual retainer and a fee of $1,000 for each meeting they attended of the Board of Directors or the Committee on which they served during the fiscal year ended June 30, 2002. However, no fee is paid for a Committee meeting held in conjunction with a Board meeting.

Non-employee Directors also received annual awards of stock options under the Company's 1990 Directors' Stock Option Plan (the "1990 Plan"), until the 1990 Plan was terminated in November 1998. From 1990 through 1998, each year, on the third day following the Company's Annual Meeting of Stockholders, every eligible Director was automatically granted an option to purchase 1,000 shares of Common Stock, allocated between Class A Common Stock and Class B Common Stock in the same ratio as there were shares outstanding of Class A Common Stock to shares of Class B Common Stock on such day. Under the 1990 Plan, options to purchase 32,923 shares of Class A Common Stock and 4,077 shares of Class B Common Stock were granted, of which options to purchase 18,761 shares of Class A Common Stock and 2,356 shares of Class B Common Stock remain outstanding, at exercise prices ranging from $2.56 to $5.50 per share for the options to purchase Class A Common Stock and at $3.20 to $6.88 per share for the options to purchase Class B Common Stock. Of the current Directors of the Company who received option grants under the 1990 Plan, two Directors were granted options to purchase 7,115 shares of Class A Common Stock and 885 shares of Class B Common Stock; and one Director was granted options to purchase 3,582 shares of Class A Common Stock and 418 shares of Class B Common Stock

The 1998 Non-Employee Stock Option Plan (the "1998 Plan") was adopted at the 1998 Annual Meeting of Stockholders. Under the 1998 Plan, non-employee Directors receive annual awards of stock options. Each year, following the Company's Annual Meeting of Stockholders, every eligible Director is automatically granted an option to purchase 3,000 shares of Class A Common Stock. Under the 1998 Plan, options to purchase 66,000 shares of Class A Common Stock have been granted, of which options to purchase 60,000 shares of Class A Common Stock remain outstanding, at exercise prices ranging from $1.13 to $5.50 per share. Of the current Directors of the Company who received option grants under the 1998 Plan, three Directors were granted options to purchase 12,000 shares each and two Directors were granted options to purchase 3,000 shares each.

Gerald A. Nathe, Chairman, President and Chief Executive Officer of the Company, has an employment agreement with the Company. John T. Heald, Jr., who resigned as President, Chief Executive Officer and a Director of the Company, effective October 25, 2002, had an employment agreement with the Company. These agreements are described in detail in the Employment Agreements section below.

EXECUTIVE COMMITTEE

The Executive Committee meets on call and has authority to act on most matters during the intervals between Board meetings. During the fiscal year ended June 30, 2002, the Executive Committee did not hold any meetings, but acted by written consent six times. During the fiscal year ended June 30, 2001, the Executive Committee adopted a charter. The Executive Committee presently consists of Gerald A. Nathe (Chairman), Akira Hara and Ralph R. Whitney, Jr.

AUDIT COMMITTEE

The Audit Committee assists the Board in ensuring that a proper system of accounting, internal controls and reporting practices are maintained by the Company and the quality and integrity of the Company's financial statements.

During the fiscal year ended June 30, 2002, the Audit Committee met six times. During the fiscal year ended June 30, 2000, the Audit Committee adopted a charter which was attached to the Company's Proxy Statement dated October 15, 2000 as Exhibit A. The Audit Committee presently consists of Ralph R. Whitney, Jr. (Chairman), Mark T. Becker and Samuel B. Fortenbaugh, III.

COMPENSATION AND STOCK OPTION COMMITTEE

The Compensation and Stock Option Committee has the responsibility for establishing the compensation arrangements for the executive officers of the Company. During the fiscal year ended June 30, 2002, the Compensation and Stock Option Committee met five times. The Compensation and Stock Option Committee also administers the Amended and Restated 1986 Stock Option Plan and the 1996 Stock Option Plan. During the fiscal year ended June 30, 2001, the Compensation and Stock Option Committee adopted a charter. The Compensation and Stock Option Committee presently consists of Henry F. McInerney (Chairman), Samuel B. Fortenbaugh III and Judith A. Mulholland.

NOMINATING COMMITTEE

The Board does not have a nominating committee, but acts, as a whole, in performing the functions of such a committee. The Executive Committee has the responsibility for recommending to the Board candidates to be considered for nomination to the Board of Directors.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors of the Company has reviewed and discussed the consolidated financial statements of the Company and its subsidiaries set forth in the Company's 2002 Annual Report to Shareholders and at Item 8 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002, with management of the Company and PricewaterhouseCoopers LLP, independent accountants for the Company.

The Audit Committee has discussed with PricewaterhouseCoopers LLP the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as amended, which include, among other items, matters relating to the conduct of an audit of the Company's financial statements.

The Audit Committee has received the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 and has discussed with PricewaterhouseCoopers LLP its independence from the Company.

Based on the review and discussions with management of the Company and PricewaterhouseCoopers LLP referred to above, the Audit Committee has recommended to the Board of Directors that the Company publish the consolidated financial statements of the Company and subsidiaries for the fiscal year ended June 30, 2002 in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2002 and in the Company's 2002 Annual Report to Shareholders.

THE AUDIT COMMITTEE
Ralph R. Whitney, Jr., Chairman
Samuel B. Fortenbaugh III
Mark T. Becker

COMPENSATION OF EXECUTIVE OFFICERS

COMPENSATION AND STOCK OPTION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation and Stock Option Committee of the Board of Directors (the "Committee") is comprised of three non-employee Directors of the Company. The Committee has the responsibility for establishing the salary, incentive compensation, non-wage benefits and perquisites of the Chief Executive Officer and each of the other executive officers of the Company.

Set forth below is a report submitted by the members of the Committee addressing the Company's compensation policies for the fiscal year ended June 30, 2002 ("Fiscal 2002") as they affected the executive officers of the Company.

Philosophy

The Company is committed to increasing shareholder value through employee excellence. The Board, the Committee, and management all recognize the critical relationship between an employee's knowledge, skill, experience and incentives, and the success of the Company's business. The Company is, and must always be, customer driven. Historically, the Company's compensation philosophy recognized entrepreneurial spirit, encouraged small business unit initiation and rewarded individual business unit performance. Performance was most often measured against budgeted or targeted income levels. From 1998 through 2000, the Company operated under a financial performance measurement system based on Economic Profit (EP) which focused on return on capital; executive incentive compensation was based on EP at the corporate, product group and business unit level and an overall corporate-wide EP performance hurdle was established to ensure that incentive compensation was paid only if the overall corporate-wide hurdle was achieved. Effective July 1, 2000, the Company modified the cash incentive program and introduced the Global Incentive Compensation Plan (GICP) which was designed to motivate eligible participants to perform to their highest ability to achieve and exceed targeted global results. Under the GICP, all Executive Officers and key managers had their cash incentive compensation based on the achievement of specific global targets for earnings per share (EPS) and operating cash flow (OCF); certain eligible employees also had a portion of their cash incentive compensation based upon local performance criteria (e.g., sales targets, gross margin rate, etc.). Effective July 1, 2001, the Company instituted the Management Incentive Compensation Plan (MICP). While the structure and details of the MICP remain largely unchanged from the GICP, the MICP also incorporates personal objectives. Effective July 1, 2002, the Company made certain additional changes to the MICP, which is now designed to reward, recognize and motivate executives and key management employees for their contributions on a corporate-wide, functional and personal basis. The MICP provides each eligible participant a target bonus percentage of his/her base salary upon the achievement of targeted financial and personal performance objectives.

Executive Officers' Disclosure

GENERAL. For each of the executive officers of the Company named in the Summary Compensation Table below, compensation consists of base salary (which is set by the officer's employment agreement), a bonus (which was calculated in accordance with the MICP described in the Philosophy section above), stock options (which are tied to the long-term performance of the Company, as reflected by its stock price), and

other perquisites. Certain of these executive officers also have supplemental retirement benefits reported under the Supplemental Retirement Benefits section below.

FISCAL 2002 COMPENSATION. In March of 2001, John T. Heald, Jr. joined the Company as an employee and was elected President and Chief Operating Officer. His base salary was set by an employment agreement with the Company, effective as of March 21, 2001, as amended on October 17, 2001 and February 26, 2002 (see the Employment Agreements section below). On November 13, 2001, Mr. Heald relinquished the title of Chief Operating Officer and was elected Chief Executive Officer of the Company. During Fiscal 2002, Mr. Heald did not receive any increase in salary, and, due to the Company's overall performance level, Mr. Heald did not earn a bonus. However, Mr. Heald was granted options to purchase 50,000 shares of Class A Common Stock of the Company in recognition of his dedication and performance in carrying out his additional duties and responsibilities as Chief Executive Officer. Effective October 25, 2002, Mr. Heald resigned as President, Chief Executive Officer and a Director of the Company.

Mr. Vijay C. Tharani joined the Company in June 2001 and was elected Vice President, Chief Financial Officer and Treasurer. His base salary is set by an employment agreement with the Company, effective as of June 18, 2001. During Fiscal 2002, Mr. Tharani did not receive any increase in salary, and, due to the Company's overall performance level, Mr. Tharani did not earn a bonus. However, Mr. Tharani was granted options to purchase 50,000 shares of Class A Common Stock of the Company in recognition of his performance in carrying out his duties and responsibilities as Chief Financial Officer.

Mr. Karl S. Puehringer joined the Company in November 2001 and was elected Vice President of Operations. His base salary is set by an employment agreement with the Company, effective as of November 1, 2001. During Fiscal 2002, Mr. Puehringer did not receive any increase in salary, and, due to the Company's overall performance level, Mr. Puehringer did not earn a bonus. However, Mr. Puehringer was granted options to purchase 25,000 shares of Class A Common Stock of the Company in recognition of his dedication and performance in carrying out his duties as Vice President of Operations.

Mr. Peter E. Anselmo's base salary was set by an employment agreement with the Company, effective as of April 27, 2000, as amended on March 28, 2001 and April 12, 2002. During Fiscal 2002, Mr. Anselmo did not receive any increase in salary, and, due to the Company's overall performance level, Mr. Anselmo did not earn a bonus. However, Mr. Anselmo was granted options to purchase 30,000 shares of Class A Common Stock of the Company in recognition of his dedication and performance in carrying out his additional duties as Senior Vice President of Business Development. Mr. Anselmo's employment agreement provided for supplemental retirement benefits to be paid to him or his estate for 10 years, upon termination of his employment and subject to a vesting schedule as set forth in said employment agreement. The amount accrued by the Company on behalf of Mr. Anselmo in connection with this benefit during Fiscal 2002 was $106,400 which has been included in "Other Annual Compensation" for Mr. Anselmo in the Summary Compensation Table below. Mr. Anselmo's employment with the Company terminated on August 2, 2002, and in accordance with a Severance Agreement executed between Mr. Anselmo and the Company, Mr. Anselmo received severance pay in the amount of $250,000, and beginning in September 2002, Mr. Anselmo began receiving the monthly benefit of $2,708 in supplemental retirement benefits. Mr. Anselmo is currently serving as a consultant to the Company.

CEO Disclosure

Mr. Nathe's base salary is set by his employment agreement with the Company (see the Employment Agreements section below). During Fiscal 2002, Mr. Nathe did not earn a bonus. However, Mr. Nathe was granted options to purchase 40,000 shares of Class A Common Stock of the Company in recognition of his dedication and performance in carrying out his duties as Chairman of the Company. Mr. Nathe's base pay was decreased, effective November 2001, from $333,900 to $250,000 due to his relinquishment of the title of Chief Executive Officer and a change in his responsibilities. In Fiscal 2002, the Committee forgave an interest payment due from Mr. Nathe in the amount of $111,806 on a loan from the Company which Mr. Nathe had used to purchase shares of Class B Common Stock of the Company, which amount is included as "Other Compensation" in the Compensation Table. In August, 2002, Mr. Nathe's employment agreement was amended to include, among other things, a reduction in the total amount of deferred compensation benefits payable by the Company to Mr. Nathe by $750,000 in exchange for an equal reduction in the principal amount of the loan payable from Mr. Nathe to the Company (see "Certain Transactions" below); consequently, the principal amount of the loan is now $750,000. On October 25, 2002, following the resignation of Mr. Heald as President and Chief Executive Officer of the Company, Mr. Nathe was elected as President and Chief Executive Officer of the Company.

On November 13, 2001, Mr. Heald was elected Chief Executive Officer of the Company. Mr. Heald's base salary is set by his employment agreement with the Company (see the Employment Agreements section below). During Fiscal 2002, the Company made a loan to Mr. Heald in the principal amount of $675,000 which Mr. Heald used to purchase shares of Class B Common Stock of the Company. On October 25, 2002, Mr. Heald resigned as President, Chief Executive Officer and a Director of the Company.

Deductibility of Compensation under Federal Income Taxes

Based on currently prevailing authority, including Treasury Regulations issued in December, 1995, and in consultation with outside tax and legal experts, the Committee has determined that it is unlikely that the Company will pay any amounts with respect to the fiscal year ending June 30, 2002 ("Fiscal 2002") that would result in the loss of a federal income tax deduction under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and accordingly has not recommended that any special actions be taken, or plans or programs be revised at this time in light of such tax law provision (except that the Company intends that stock options granted under the 1996 Stock Option Plan have an exercise price which is the fair market value of the stock on the date of grant and that such options qualify as "performance-based compensation" under Section 162(m) of the Code).

THE COMPENSATION AND STOCK OPTION COMMITTEE
Henry F. McInerney, Chairman
Judith A. Mulholland
Samuel B. Fortenbaugh III

EXECUTIVE COMPENSATION

The following table sets forth the total remuneration paid to the Company's Chief Executive Officer and to each of the most highly compensated executive officers of the Company for the fiscal years ended June 30, 2002, 2001 and 2000, respectively, and includes remuneration in respect of all elements indicated from all sources, including affiliates of the Company.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS(1)	OTHER ANNUAL COMPENSATION(2)	ALL OTHER COMPENSATION
		ANNUAL COMPENSATION			
Gerald A. Nathe(3)................	2002	$272,116	-0-	-0-	$147,382(4)
Chairman of the Board, President	2001	$328,027	-0-	$ 36,044	$130,155
and Chief Executive Officer	2000	$345,504	-0-		$101,886
John T. Heald, Jr.(5)............	2002	$350,000	-0-	-0-	$ 30,286(6)
former President and Chief Executive Officer	2001	$107,692	-0-		-0-
Vijay C. Tharani(7)..............	2002	$249,231	$30,000(8)	-0-	$ 12,345(9)
Vice President, Chief Financial Officer and Treasurer					
Peter E. Anselmo(10).............	2002	$257,812	-0-	-0-	$ 9,467(11
former Vice President	2001	$223,887	-0-	$ 54,411	$ 53,033
	2000	$221,973	$ 5,322	$161,021	$ 2,400
Karl S. Puehringer(12)...........	2002	$123,589	$24,786(8)	-0-	$ 1,944(13
Vice President of Operations					

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(1) No bonuses were earned for Fiscal 2002.

(2) Does not include supplemental retirement benefits or deferred compensation benefits as set forth in the Supplemental Retirement Benefits section below.

(3) Was Chairman of the Board during Fiscal 2002; elected President and Chief Executive Officer on October 25, 2002.

(4) Includes $111,806 interest forgiveness, $6,044 long-term disability, $10,000 legal fees, $11,440 life insurance, $3,784 auto allowance, and a Company contribution of $4,308 to the named individual's 401(k) profit sharing and savings plan account.

(5) Resigned as President, Chief Executive Officer and a Director on October 25, 2002.

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(6) Includes $7,724 long-term disability, $10,900 legal fees, $4,931 auto allowance, and a Company contribution of $6,731 to the named individual's 401(k) profit sharing and savings plan account. Does not include $120,507 paid by the Company to reimburse Mr. Heald for his moving expenses and $100,810 accrued but not yet paid by the Company to reimburse Mr. Heald for the additional income taxes he will incur in connection with the Company's reimbursement of his moving expenses.

(7) Employment commenced June 18, 2002.

(8) Represents sign-on bonuses.

(9) Includes $1,898 long-term disability, $1,165 life insurance, $4,667 auto

allowance, and a Company contribution of $4,615 to the named individual's 401(k) profit sharing and savings plan account. Does not include $114,391 paid by the Company to reimburse Mr. Tharani for his moving expenses and $105,380 accrued but not yet paid by the Company to reimburse Mr. Tharani for the additional income taxes he will incur in connection with the Company's reimbursement of his moving expenses.

(10) Employment terminated August 2, 2002.

(11) Includes $197 long-term disability, $1,490 life insurance, $2,895 auto allowance, and a Company contribution of $4,885 to the named individual's 401(k) profit sharing and savings plan account.

(12) Employment commenced November 1, 2001; all Mr. Puehringer's salary and benefit amounts are translated from EUROs.

(13) Represents auto allowance.

The following table sets forth certain information relating to options granted during Fiscal 2002 to purchase shares of Class A Common Stock of the Company, pursuant to the Company's 1996 Stock Option Plan (the "Plan"). These options become exercisable in three equal annual installments beginning on the second anniversary of the date of grant, subject to acceleration as set forth in the Plan.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

		INDIVIDUAL GRANTS			POTENTIAL REALIZABLE VALUE(3) AT ASSUMED ANNUAL RATES OF STOCK PRI APPRECIATION FOR OPTION TER	
NAME	OPTIONS/SARS GRANTED (#/SH)	% OF TOTAL OPTIONS/SARS GRANTED TO EMPLOYEES IN FISCAL YEAR(1)	EXERCISE PRICE ($/SH)(2)	EXPIRATION DATE	0%(5)	5%
G.A. Nathe.............	40,000	8.47%	$1.05	08/07/2011	$0	$26,414
J.T. Heald, Jr.........	50,000	10.58%	$1.05	08/07/2011	$0	$33,017
V.C. Tharani...........	50,000	10.58%	$1.05	08/07/2011	$0	$33,017
P.E. Anselmo...........	30,000	6.35%	$1.05	08/07/2011	$0	$19,810
K.S. Puehringer........	25,000	5.29%	$1.15	11/13/2011	$0	$18,081

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(1) Options to purchase a total of 457,500 shares of Class A Common Stock were granted under the Plan to all employees as a group during the fiscal year ended June 30, 2002.

(2) The exercise price represents the closing price of the Company's Class A Common Stock as traded on the American Stock Exchange on the date of grant.

(3) The dollar amounts under the potential realizable values columns use the 0%, 5% and 10% rates of appreciation as permitted by the Securities and Exchange Commission, and are not intended to forecast actual future appreciation in the Company's stock price. Actual gains, if any, on stock options are

dependent on the future performance of the Company's stock. There can be no assurance that the amounts reflected in this table will be achieved.

(4) All stock options granted during Fiscal 2002 were for a ten (10) year term.

(5) No gain to the optionee is possible without an increase in the stock price, which would benefit all stockholders commensurately. A zero percent gain in stock appreciation will result in zero dollars for the optionee.

The following table provides information concerning each option exercised during Fiscal 2002 by each of the executive officers named in the Summary Compensation Table and the fiscal year-end values of unexercised options held by such executive officers granted pursuant to the Plan or pursuant to the Company's 1986 Stock Option Plan:

AGGREGATED OPTION EXERCISES IN FISCAL 2002
AND YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED($)(1)	NUMBER OF UNEXERCISED OPTIONS/SARS AT FY-END(#) EXERCISABLE/ UNEXERCISABLE	UN IN OP AT F EX UNE
G.A. Nathe................	-0-	-0-	246,000 / 376,500 Class A	$0 / $
			85,000 / 0 Class B	$
J.T. Heald................	-0-	-0-	6,000 / 59,000 Class A	$0 / $
P.E. Anselmo..............	-0-	-0-	80,833 / 115,000 Class A	$0 / $
V.C. Tharani..............	-0-	-0-	0 / 50,000 Class A	$0 / $
K.S. Puehringer...........	-0-	-0-	0 / 25,000 Class A	$0 /

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(1) Market value of underlying securities at exercise minus the exercise price.

(2) Where the value shown is zero, the exercise prices of all outstanding stock options at fiscal year end were greater than the fair market value of the Company's Class A Common Stock on the last day of Fiscal 2002 ($1.41), or in the case of the Company's Class B Common Stock, 125% of the fair market value of the Company's Class A Common Stock ($1.76).

SUPPLEMENTAL RETIREMENT BENEFITS

Messrs. Nathe and Heald are entitled to deferred compensation benefits in accordance with their respective employment agreements; Messrs. Tharani, Anselmo and Puehringer are entitled to supplemental retirement benefits in accordance with their respective employment agreements.

Mr. Nathe's employment agreement as amended provides for deferred compensation to be paid to him or his estate for 15 years or life, whichever is longer, upon termination of his employment and subject to a vesting schedule as set forth in said employment agreement. The amount accrued by the Company on behalf of Mr. Nathe in connection with this benefit during Fiscal 2002 was $243,694. The amount of the annual deferred compensation benefit which was to be paid to Mr. Nathe was estimated at $174,649. In August, 2002, Mr. Nathe's employment agreement was amended to include, among other things, a reduction in the total amount of deferred compensation payable by the Company to Mr. Nathe by $750,000 in exchange for an equal reduction in the principal amount of a note payable from Mr. Nathe to the Company (see "Certain Transactions" below); consequently, the amount of the annual deferred compensation benefit which will be paid to Mr. Nathe is now estimated at $102,000.

Mr. Heald's employment agreement provided for deferred compensation to be paid to him or his estate for 15 years or life, whichever is longer, upon termination of his employment and subject to a vesting schedule as set forth in said employment agreement. The amount of the annual deferred compensation benefit to be paid to Mr. Heald will be 40% of Mr. Heald's final average compensation for his last three (3) years under his employment agreement. The amount accrued by the Company on behalf of Mr. Heald in connection with this benefit during Fiscal 2002 was $195,000. Effective October 25, 2002, Mr. Heald resigned as President, Chief Executive Officer and a Director of the Company. The fully vested amount of the annual deferred compensation benefit on the date of resignation was $28,000.

Mr. Tharani's employment agreement provides for a supplemental retirement benefit to be accrued at $5,066 per month. The aggregate amount accrued will be paid to him or his estate for ten (10) years, upon termination of his employment and subject to a vesting schedule as set forth in said employment agreement. The amount accrued by the Company on behalf of Mr. Tharani in connection with this benefit during Fiscal 2002 was $60,792 When fully vested (after June 18, 2006), the estimated annual supplemental retirement benefit will be $30,396.

Mr. Puehringer's employment agreement provides for a supplemental retirement benefit to be paid to him or his estate for ten (10) years, upon termination of his employment and subject to a vesting schedule as set forth in said employment agreement. The amount of the annual benefit to be paid to Mr. Puehringer will be 30% of Mr. Puehringer's base salary for his last three (3) years under his employment agreement. The amount accrued by the Company on behalf of Mr. Puehringer in connection with this benefit during Fiscal 2002 was $12,800 When fully vested (after November 1, 2006), the estimated annual supplemental retirement benefit will be $66,037.

Mr. Anselmo's employment agreement provided for a supplemental retirement benefit to be paid to him or his estate for ten (10) years, upon termination of his employment and subject to a vesting schedule as set forth in said employment agreement. The amount accrued by the Company on behalf of Mr. Anselmo in connection with this benefit during Fiscal 2002 was $106,400 which has been included in "Other Annual Compensation" for Mr. Anselmo in the Summary Compensation Table above. Mr. Anselmo's employment with the Company terminated on August 2, 2002, and beginning in September, 2002, Mr. Anselmo began receiving the monthly supplemental retirement benefit of $2,708.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Samuel B. Fortenbaugh III, a Director of the Company who serves on the Compensation and Stock Option Committee, was from October 1, 2001 until August 31, 2002 a Senior Counsel, and until September 30, 2001, a partner in the law firm of Morgan, Lewis & Bockius LLP, which serves as the Company's counsel.

PERFORMANCE GRAPH

The following Performance Graph compares the Company's cumulative total stockholder return on its Class A Common Stock for the five fiscal years ended June 30, 2002 with the cumulative total return of the American Stock Exchange Market Value Index and a peer group based on selected companies from the Standard Industrial Classification ("SIC") Code 3555--Special Industry Machinery, Printing Trades Machinery and Equipment. The companies included in the peer group are: Baldwin Technology Company, Inc., Delphax (formerly Check Technology Corp.), Gunther International Ltd., Presstek Inc. and Scitex Ltd. The comparison assumes $100 was invested on June 30, 1997 in the Company's Class A Common Stock and in each of the foregoing indices and assumes reinvestment of all dividends. Total stockholder return is calculated using the closing price of the stock on the last trade date of each fiscal year. The stock price performance shown is not intended to forecast or be indicative of the possible future performance of the Company's stock.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN(*) AMONG BALDWIN TECHNOLOGY COMPANY, INC., THE AMEX MARKET VALUE INDEX, AND A PEER GROUP

	BALDWIN TECHNOLOGY COMPANY, INC.	PEER GROUP
6/97	100.00	100.00
6/98	204.34	56.12
6/99	102.17	39.43
6/00	73.91	58.02
6/01	41.74	39.33
6/02	49.04	14.42

EMPLOYMENT AGREEMENTS

Effective March 19, 2001, the Company entered into a new employment agreement with Gerald A. Nathe, its Chairman (then President and Chief Executive Officer), replacing an earlier agreement dated November 25, 1997. This agreement was amended on February 26, 2002 and again on August 13, 2002. The new agreement, as amended, provides that Mr. Nathe will be paid (x) an annual salary of no less than $250,000, (y) annual incentive compensation in an amount determined under the Management Incentive Compensation Plan, and (z) certain amounts upon termination of employment, such amounts to depend upon whether the termination was by the Company or by Mr. Nathe, whether the termination was with or without cause or with or without Company consent, and whether the termination was due to death or disability. For purposes of clause (z) above, in the event of (i) any merger or consolidation or sale of substantially all of the assets of the Company or change in control or liquidation of the Company, or (ii) the failure by the Company to observe or comply in any material respect with any of the provisions of the employment agreement, in each case, other than with Mr. Nathe's approval, Mr. Nathe may, within six months of any such event, treat such event as a termination, without cause, of his employment by the Company. The employment agreement, as amended, also provides for (a) the payment of annual deferred compensation to Mr. Nathe in the amount of $102,000 following the termination of his employment with the Company, (b) the Company making an interest bearing loan to Mr. Nathe, in the amount of approximately $1.8 million to facilitate the purchase by Mr. Nathe of Class B Common Stock of the Company from an unrelated party with the loan secured by a pledge of the purchased shares of the Company's Class B Common Stock, and (c) the transfer by the Company to Mr. Nathe, at no cost to Mr. Nathe, of up to one hundred sixty thousand shares of the Company's Class A Common Stock, in four equal installments of 40,000 shares each, when, in the case of the first such installment, the market value of the Company's Class A Common Stock has attained $7.875 per share and, in the case of each subsequent installment, such market value increases by $2.00 per share over the market value at which the previous installment was earned. Mr. Nathe has agreed that, for a period of three years after the termination of his employment under the employment agreement, he will not compete, directly or indirectly, with the Company. The employment agreement provides that upon Mr. Nathe's death the Company use a portion of the proceeds of life insurance on Mr. Nathe's life to buy back from his estate his shares of Class B Common Stock at fair market value, with the understanding that Mr. Nathe's estate repay his loan from the Company, together with interest due.

Effective March 21, 2001, the Company entered into an employment agreement with John T. Heald, its then President and Chief Operating Officer, which provides that Mr. Heald will be paid (x) an annual salary of no less than $350,000, (y) annual incentive compensation in an amount determined under the Company's Management Incentive Compensation Plan, and (z) certain amounts upon termination of employment, such amounts to depend upon whether the termination was by the Company or by Mr. Heald, whether the termination was with or without cause or with or without Company consent, and whether the termination was due to death or disability. For purposes of clause (z) above, in the event of (i) the removal of Mr. Heald or the election of any other person as President or Chief Operating Officer of the Company (Mr. Heald subsequently was elected Chief Executive Officer and approved the election of Karl S. Puehringer as Vice President of Operations), (ii) any merger or consolidation or sale of substantially all of the assets of the Company or change in control or liquidation of the Company, or (iii) the failure by the Company to observe or comply in any material respect with any of the provisions of the employment agreement, in each case, other than with Mr. Heald's approval, Mr. Heald may, within six months of any such event, treat such event as a

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termination, without cause, of his employment by the Company. The employment agreement also provides for (a) the payment of certain deferred compensation to Mr. Heald following the termination of his employment with the Company, subject to a vesting schedule set forth in the agreement, (b) the Company making an interest bearing loan to Mr. Heald, in the amount of approximately $675,000 to facilitate the purchase by Mr. Heald from the Company of Class B Common Stock of the Company with the loan secured by a pledge of the purchased shares of the Company's Class B Common Stock. Mr. Heald has agreed that, for a period of three years after the termination of his employment under the employment agreement, he will not compete, directly or indirectly, with the Company. Mr. Heald's employment agreement provides that, in the event of his death, the Company use a portion of the proceeds of life insurance on Mr. Heald's life to buy back from his estate his shares of Class B Common Stock at their then fair market value, with the understanding that Mr. Heald's estate repay his loan from the Company, together with interest due. The employment agreement was amended on October 17, 2001 to reflect the loan by the Company to Mr. Heald of $675,000 to facilitate the purchase by Mr. Heald from the Company of 375,000 shares of Class B Common Stock of the Company. The Company and Mr. Heald further amended the employment agreement effective November 14, 2001 to provide, among other things, for the change in Mr. Heald's title to Chief Executive Officer. Effective October 25, 2002, Mr. Heald resigned as President and Chief Executive Officer of the Company.

Effective April 27, 2000, the Company entered into an employment agreement with Peter E. Anselmo, its Vice President, Marketing and Business Development. The employment agreement provided for (a) a minimum annual base salary of $210,444 to be paid to Mr. Anselmo, (b) incentive compensation under the Company's Management Incentive Compensation Plan, (c) a supplemental retirement benefit for ten years following termination of employment, subject to vesting as set forth in the agreement, (d) Company loans to purchase stock, and (e) certain other benefits. The agreement was for a term of three years unless extended or terminated. The agreement was amended on March 28, 2001 to provide that Mr. Anselmo could use the Company loans to purchase shares of either Class A Common Stock or Class B Common Stock of the Company. The agreement was amended again on April 12, 2002 to increase the amount of supplemental retirement benefit to be paid to Mr. Anselmo following his retirement. Mr. Anselmo terminated his employment with the Company effective August 2, 2002; however, he is currently serving as a consultant to the Company at a monthly fee of $10,000 which arrangement may be terminated by either party on thirty (30) days notice.

Effective November 1, 2001, the Company entered into an employment agreement with Karl Puehringer, its Vice President of Operations. The employment agreement provides for (a) a minimum base salary of 190,000Euros to be paid to Mr. Puehringer, (b) incentive compensation under the Company's Management Incentive Compensation Plan, (c) a supplemental retirement benefit for ten (10) years following termination of employment, subject to vesting as set forth in the agreement, and (d) certain other benefits. The agreement is for a term of five (5) years unless extended or terminated.

Effective June 2001, the Company entered into an employment agreement with Vijay C. Tharani, its Vice President, Chief Financial Officer and Treasurer. The employment agreement provides for (a) a minimum base salary of $240,000 to be paid to Mr. Tharani, (b) incentive compensation under the Company's Management Incentive Compensation Plan, (c) a supplemental retirement benefit for ten (10) years following termination of employment, subject to vesting as set forth in the agreement, (d) Company

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loans to purchase stock, and (e) certain other benefits. The agreement is for a term of three (3) years unless extended or terminated.

CERTAIN TRANSACTIONS

The Company retains the law firm of Morgan, Lewis & Bockius LLP as its legal counsel. Samuel B. Fortenbaugh III, a Director of the Company, was, until September 30, 2001 a partner, and, from October 1, 2001 until August 31, 2002, a senior counsel, of Morgan, Lewis & Bockius LLP.

On November 30, 1993, the Company entered into a loan and pledge agreement with Gerald A. Nathe, President, Chief Executive Officer and a Director of the Company, pursuant to which the Company loaned Mr. Nathe $1,817,321 to enable him to purchase 315,144 shares of the Company's Class B Common Stock from a non-employee stockholder. The loan was evidenced by a recourse demand promissory note bearing interest equal to the 3-Month LIBOR rate plus 1.25%, such rate to be reset on the first day of each succeeding January, April, July and October, and secured by such purchased shares. The maximum amount of the loan outstanding, including interest, during the year ended June 30, 2002 was $1,612,000. During the year ended June 30, 2002, the Company forgave interest payments owing by Mr. Nathe in the amount of $112,000 which amount is included for Mr. Nathe in "All Other Compensation" in the Summary Compensation Table above. In August 2002 the Company and Mr. Nathe agreed to amend the loan and pledge agreement and Mr. Nathe's employment agreement to evidence a reduction in the principal amount of the loan due from Mr. Nathe by $750,000 in exchange for a reduction, by an equal amount, in the amount of deferred compensation benefits which will be paid by the Company to Mr. Nathe upon his retirement.

On October 17, 2001, the Company entered into a loan and pledge agreement with John T. Heald, Jr., President and Chief Operating Officer and a Director of the Company, pursuant to which the Company loaned Mr. Heald $675,000 to enable him to purchase 375,000 shares of Class B Common Stock from the Company. The loan was evidenced by a recourse demand promissory note bearing interest at five (5%) percent per annum. The maximum amount of the loan outstanding, including interest, during the year ended June 30, 2002 was $699,000.

On February 10, 1997, Wendell M. Smith resigned as Chairman of the Company. The Company has made deferred compensation payments to Mr. Smith in the amount of $103,000 for each of the fiscal years ended June 30, 2002, 2001 and 2000, respectively. In addition, the Company entered into a consulting agreement with Polestar Limited ("Polestar"), a corporation controlled by Mr. Smith, which provides for payments to Polestar of $60,000 per year for consulting services through 2014. The agreement was amended during the fiscal year ended June 30, 2001 to increase the payments to $90,000 per year.

APPROVAL OF AMENDMENTS TO THE 1996 STOCK OPTION PLAN

The Board views a stock option program as an integral part of the Company's compensation program. The 1996 Stock Option Plan (the "1996 Plan") provides a vehicle pursuant to which stock options are awarded. Currently, there are 872,000 shares of Class A Common Stock outstanding under the 1996 Plan. The 1996 Plan limit is 875,000 shares. In order to continue to grant options under the 1996 Plan, the Board determined it was necessary to increase the plan limit. Therefore, the Board has adopted, subject to stockholder approval, an amendment to the 1996 Plan increasing the number of shares of Class A Common Stock that may be subject to awards outstanding under the 1996 Plan from 875,000 to 1,875,000.

In addition, the Board has amended the 1996 Plan to add non-employee directors to the categories of eligible option recipients. In conjunction with this action, assuming the stockholders approve this amendment, the Board resolved (i) to not grant any further options under the 1998 Non-Employee Director Plan (the "1998 Plan"), and (ii) to grant annually under the 1996 Plan an option for 5,000 shares of Class A Common Stock to each non-employee director on the day following each annual meeting of the stockholders (compared to annual grants for 3,000 shares provided for under the 1998 Plan).

The Board also determined that there was no longer a need to provide for the grant of options to purchase Class B Common Stock under the 1996 Plan and amended the 1996 Plan to eliminate the ability to grant options to purchase Class B Common Stock.

Finally, the Board has made certain technical and clarifying amendments to the 1996 Plan, including amendments that would give the Stock Option Committee the flexibility to (i) determine the manner and time at which the exercise price must be paid, (ii) grant options to employees of subsidiaries that may not be organized as corporations (such as LLCs), and (iii) grant options with a term in excess of 10 years. All of the amendments described above are collectively referred to as the "Amendment".

DESCRIPTION OF THE 1996 PLAN

The 1996 Plan, incorporating the Amendment, is set forth as Exhibit A to this Proxy Statement, and the following description of the 1996 Plan is qualified in its entirety by reference to Exhibit A.

The 1996 Plan originally provided for the issuance of options to purchase either Class A Common Stock or Class B Common Stock. Pursuant to the Amendment, the 1996 Plan will only provide for the issuance of options to purchase Class A Common Stock. The 1996 Plan originally provided that the total number of shares of Class A Common Stock that may be subject to outstanding options, determined immediately after the grant of any option to purchase Class A Common Stock, was equal to 875,000. If the Amendment is approved by the stockholders, the number of shares that may be subject to outstanding options will be increased by one million shares, from 875,000 to 1,875,000. No person may receive in any one calendar year options to purchase more than 500,000 shares of Class A Common Stock.

Under the 1996 Plan, employees of the Company or its subsidiaries, including officers and directors of the Company or its subsidiaries who are also employees, and consultants who perform services for the Company or its subsidiaries, are eligible to receive option grants. If approved by the stockholders, non-employee directors will also be eligible for option grants. Options may be either incentive stock options, which may entitle the

optionee to favorable tax treatment, or non-qualified stock options (see tax discussion below). The 1996 Plan will be administered by the Compensation and Stock Option Committee (the "Committee"). Among other things, the Committee determines, subject to the provisions of the 1996 Plan, the employees and consultants to whom options should be granted, the nature of the options to be granted, the number of options to be granted and the exercise price, the vesting schedule and the term of the options and all other conditions and terms of the options to be granted. All determinations relating to option grants to members of the Committee are made by the full Board.

Unless otherwise determined by the Committee, the 1996 Plan provides that each option granted to an employee or consultant of the Company or its subsidiaries (i) will have a per share exercise price equal to the fair market value of a share of Class A Common Stock on the date the option is granted, (ii) will vest in three equal installments on each of the second, third and fourth anniversary of the date the option is granted, subject to acceleration in the event of a "change in control" (as defined in the 1996 Plan), (iii) in the case of termination of employment, will terminate 3 months (12 months if for disability, 6 months if for death, and immediately if for cause) thereafter, and (iv) will have a term of ten (10) years . The number of grantees may vary from year to year.

The Board may amend or terminate the 1996 Plan at any time; provided, however, that approval by the stockholders of the Company will be obtained if necessary or desirable to comply with applicable law, regulation or rule. The 1996 Plan has no expiration date.

NEW PLAN BENEFITS

If the Amendment is approved, each non-employee director will receive an option to purchase 5,000 shares of the Company's Class A Common Stock on the day following the annual meeting of the stockholders. The exercise price will be equal to 100% of the fair market value of the Company's Class A Common Stock on the date of grant.

Because awards to employees and consultants under the 1996 Plan are discretionary, it is not possible to state in advance the exact number or identity of the grantees or the amounts of the grants.

TAX CONSEQUENCES TO OPTIONEES

The following is a brief description of the federal income tax consequences generally arising with respect to options that may be granted under the 1996 Plan. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to individuals who participate in the 1996 Plan.

Non-Qualified Stock Options. With respect to options which do not qualify as incentive stock options, the optionee will recognize no income upon grant of the option. Upon exercise, an optionee, in general, will recognize ordinary income to the extent of the difference between the amount paid by the optionee for the shares and the fair market value of the shares on the date of option exercise. Upon a subsequent disposition of the shares received under the option, the optionee generally will recognize capital gain or loss, as the case may be, to the extent of the difference between the amount realized on the disposition and the tax basis of such shares (generally the fair market value of the shares on the date the optionee is first subject to tax liability following exercise).

Incentive Stock Options. With respect to options which qualify as incentive stock options, an optionee will not recognize income for Federal income tax purposes at the time options are granted or exercised. If the optionee disposes of shares acquired by exercise of the options before the expiration of two years from the date the options are granted or within one year after the issuance of shares upon exercise of the options (a "disqualifying disposition"), the optionee generally will recognize in the year of disposition (i) ordinary income, to the extent that the lesser of either (a) the fair market value of the shares on the date of option exercise or (b) the amount realized on disposition, exceeds the option exercise price, and (ii) capital gain (or loss), to the extent that the amount realized on disposition differs from the fair market value of the shares on the date of option exercise. If the shares are sold after expiration of these holding periods, the optionee will realize capital gain or loss equal to the difference between the amount realized on disposition and the option exercise price.

Where previously acquired stock is used to exercise an outstanding incentive stock option or non-qualified stock option, appreciation on such stock will not be recognized as income. However, if such stock was acquired pursuant to the exercise of an incentive stock option, a disqualifying disposition will be deemed to have occurred if such stock is used to exercise another incentive stock option prior to the expiration of the applicable holding periods.

TAX CONSEQUENCES TO THE COMPANY

The Company will generally be entitled to a deduction for Federal income tax purposes at the same time and in the same amount as an optionee is required to recognize ordinary income as described above. To the extent an optionee realizes capital gains as described above, the Company will not be entitled to any deduction for Federal income tax purposes. Therefore, the Company will not be entitled to any tax deduction in connection with incentive stock options with respect to which there is no disqualifying disposition.

A publicly held Company may not, subject to limited exceptions, deduct for Federal income tax purposes certain compensation (including compensation attributable to the exercise of stock options) paid to certain executives in excess of $1 million in any taxable year (the "$1 million cap"). Performance-based compensation is excepted from the $1 million cap. The compensation attributable to options granted under the 1996 Plan at a price at least equal to the fair market value of the underlying option shares at the date of grant may reasonably be treated as performance-based compensation.

VOTE REQUIRED FOR APPROVAL

The approval of the Amendment requires the affirmative vote of a majority of the outstanding shares of Class A Common Stock and Class B Common Stock present, in person or by proxy, and entitled to vote at the meeting, voting as a single class, with each share of Class A Common Stock having one vote per share and each share of Class B Common Stock having ten votes per share.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE APPROVAL OF AMENDMENT.

INDEPENDENT PUBLIC ACCOUNTANTS

PricewaterhouseCoopers LLP audited the accounts of the Company for the fiscal year ended June 30, 2002. PricewaterhouseCoopers LLP or its predecessor, Price Waterhouse LLP has audited the accounts of the Company since 1968. The aggregate fees billed for professional services rendered for the audit of the

Company's annual financial statements for the fiscal year ended June 30, 2002, and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for that fiscal year, were $620,000. The aggregate fees billed by PricewaterhouseCoopers LLP for services rendered to the Company, other than audit fees, for the fiscal year ended June 30, 2002 were $307,000. The vast majority of these fees relate to tax activities a portion of which were associated with divested operations. The Audit Committee considered the fees for non audit services in relation to their assessment of the independence of PricewaterhouseCoopers LLP. The Company paid no fees to PricewaterhouseCoopers LLP for financial information systems design and implementation.

A representative of PricewaterhouseCoopers LLP is expected to be present at the Annual Meeting, will be provided with the opportunity to make a statement if the representative desires to do so, and is expected to be available to respond to appropriate questions.

STOCKHOLDER PROPOSALS

Stockholders may present proposals for inclusion in the Company's 2003 proxy statement provided they are received by the Company no later than June 30, 2003 and are otherwise in compliance with applicable Securities and Exchange Commission regulations.

GENERAL

So far as is now known, there is no business other than that described above to be presented for action by the stockholders at the meeting, but it is intended that the Proxies will be voted upon any other matters and proposals that may legally come before the meeting and any adjournments thereof in accordance with the discretion of the persons named therein.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORT COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors, executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities to file with the Company, the Securities and Exchange Commission, and the American Stock Exchange initial reports of ownership and reports of changes in ownership of any equity securities of the Company. During Fiscal 2000, to the best of the Company's knowledge, all required reports were filed on a timely basis. In making this statement, the Company has relied on the written representations of its directors and executive officers and copies of the reports provided to the Company.

OTHER INFORMATION

The cost of solicitation of Proxies will be borne by the Company. Solicitation of Proxies may be made by mail, personal interview, telephone and facsimile by officers, directors and regular employees of the Company.

Helen P. Oster
Secretary

EXHIBIT A

BALDWIN TECHNOLOGY COMPANY, INC.
1996 STOCK OPTION PLAN

(Including Amendments through October 25, 2002)

Section 1. Purpose

The Plan authorizes the Committee to provide Directors, Employees and Consultants of the Corporation and its Subsidiaries, who are in a position to contribute materially to the long-term success of the Corporation, with options to acquire Stock of the Corporation. The Corporation believes that this incentive program will cause those persons to increase their interest in the Corporation's welfare, and aid in attracting and retaining Directors, Employees and Consultants of outstanding ability.

Section 2. Definitions

Unless the context clearly indicates otherwise, the following terms, when used in the Plan, shall have the meanings set forth in this Section:

(a) "Board" shall mean the Board of Directors of the Corporation.

(b) A "Change in Control" shall be deemed to have occurred:

(i) if any person (as defined in Sections 3(a)(9) and 13(d)(3) of the Exchange Act), other than the Corporation or an employee benefit plan of the Corporation, acquires directly or indirectly the beneficial ownership of any voting security of the Corporation and immediately after such acquisition such person is, directly or indirectly, the beneficial owner of voting securities representing 35% or more of the total voting power of any class of voting securities of the Corporation then outstanding;

(ii) upon consummation of any transaction described in Section 8, other than any such transaction which results in at least 65% of the total voting power represented by each class of the voting securities of the Corporation (or, if the Corporation does not survive, the surviving entity) outstanding immediately after such transaction being beneficially owned by at least 65% of the holders of such class of outstanding voting securities of the Corporation immediately prior to the transaction, with the voting power of each such continuing holder relative to other such continuing holders not substantially altered in the transaction;

(iii) upon a complete liquidation of the Corporation or the sale or disposition by the Corporation of all or a substantial portion of the Corporation's assets (i.e., 60% or more of the total assets of the Corporation); or

(iv) when a majority of the members of the Board is composed of individuals who are not described in any of the following categories: (A) individuals who constitute the Board as of the date the Plan was adopted by the Board (the "Original Directors"), (B) individuals who thereafter were elected to the Board and whose election, or nomination for election, to the Board was approved by a

vote of at least two-thirds (2/3) of the Original Directors then still in office (such directors becoming "Additional Original Directors" immediately following their election) or (C) individuals who were elected to the Board and whose election, or nomination for election, to the Board was approved by a vote of at least two-thirds (2/3) of the Original Directors and Additional Original Directors then still in office (such directors also becoming "Additional Original Directors" immediately following their election).

For purposes of the foregoing, the terms "beneficial ownership", "beneficial owner", and "beneficially owned" shall be determined in accordance with Rule 13d-3 promulgated pursuant to the Exchange Act.

(c) "Code" shall mean the Internal Revenue Code of 1986 as it may be amended from time to time.

(d) "Committee" means the Compensation and Stock Option Committee of the Board, or such other Board committee as may be designated by the Board to administer the Plan; provided, however, that the Committee shall consist solely of two or more Directors.

(e) "Consultant" shall mean (i) any person who is engaged to perform services for the Corporation or its Subsidiaries, other than as an Employee or Director, or (ii) any person who has agreed to become a Consultant within the meaning of clause (i).

(f) "Corporation" shall mean Baldwin Technology Company, Inc., a Delaware corporation.

(g) "Director" shall mean any member of the Board.

(h) "Employee" shall mean (i) any full-time employee of the Corporation or its Subsidiaries (including Directors who are otherwise employed on a full-time basis by the Corporation or its Subsidiaries), or (ii) any person who has agreed to become an Employee within the meaning of clause (i).

(i) "Exchange Act" shall mean the Securities Exchange Act of 1934, as it may be amended from time to time.

(j) "Fair Market Value" means the fair market value thereof determined by such methods or procedures as shall be established from time to time by the Committee, provided, however, that (i) if the Stock is listed on a national securities exchange or quoted in an interdealer quotation system, the Fair Market Value of such Stock on a given date shall be based upon the last sales price or, if unavailable, the average of the closing bid and asked prices per share of the Stock on such date (or, if there was no trading or quotation in the Stock on such date, on the next preceding date on which there was trading or quotation) as reported in the Wall Street Journal (or other reporting service approved by the Committee).

(k) "Grantee" shall mean a person granted an Option under the Plan.

(l) "ISO" shall mean an Option granted pursuant to the Plan to purchase shares of the Stock and intended to qualify as an incentive stock option under Section 422 of the Code, as now or hereafter constituted.

(m) "NQSO" shall mean an Option granted pursuant to the Plan to purchase shares of the Stock that is not an ISO.

(n) "Options" shall refer collectively to NQSOs and ISOs issued under and subject to the Plan.

(o) "Plan" shall mean this 1996 Stock Option Plan as set forth herein and as amended from time to time.

(p) "Stock" shall mean shares of the Corporation's Class A Stock, par value $0.01 per share.

(q) "Stock Option Agreement" shall mean a written agreement between the Corporation and the Grantee, or a certificate accepted by the Grantee, evidencing the grant of an Option hereunder and containing such terms and conditions, not inconsistent with the Plan, as the Committee shall approve.

(r) "Subsidiary" shall mean (i) any entity that is controlled directly or indirectly, by the Corporation, or (ii) any entity which the Committee reasonably expects to become a Subsidiary within the meaning of clause (i).

Section 3. Shares of Stock Subject to the Plan

The total number of shares of Stock that may be subject to outstanding Options, determined immediately after the grant of any Option to purchase Stock, shall not exceed 1,875,000. Notwithstanding the foregoing, the number of shares that may be delivered upon exercise of ISOs shall not exceed 1,875,000 shares of Stock, provided, however, that shares subject to ISOs shall not be deemed delivered if such Options are forfeited, expire or otherwise terminate without delivery of shares to the Grantee. Any shares of Stock delivered pursuant to an Option may consist, in whole or in part, of authorized and unissued shares or treasury shares.

Section 4. Administration of the Plan

(a) The Plan shall be administered by the Committee. Subject to the express provisions of the Plan, the Committee shall have the authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to determine the terms and provisions of Stock Option Agreements thereunder and to make all other determinations necessary or advisable for the administration of the Plan. Any controversy or claim arising out of or related to the Plan or the Options granted thereunder shall be determined unilaterally by, and at the sole discretion of, the Committee. Any action of the Committee with respect to the Plan shall be final, conclusive, and binding on all persons, including the Corporation, any Subsidiary of the Corporation, Grantees, any person claiming any rights under the Plan from or through any Grantee, and stockholders of the Corporation or any Subsidiary. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to officers or managers of the Corporation or any Subsidiary the authority, subject to such terms as the Committee shall determine, to perform such functions as the Committee may determine, to the extent permitted under applicable law. Other provisions of the Plan notwithstanding, the Board may perform any function of the Committee under the Plan, including without limitation for the purpose of ensuring that transactions under the Plan by Grantees who are then subject to Section 16 of the Exchange Act in respect of the Corporation are exempt under Rule 16b-3. In any case in which the Board is performing a function of the Committee under the Plan, each reference to the Committee herein shall be deemed to refer to

the Board. Notwithstanding anything contained herein to the contrary, all determinations relating to Options granted to a member of the Committee shall be made by the full Board.

Section 5. Grant of Options to Directors, Employees and Consultants

(a) Directors, Employees and Consultants of the Corporation and its Subsidiaries shall be eligible to receive Options under the Plan. The Committee shall determine and designate from time to time the Directors, Employees or Consultants who are to be granted Options, and shall specify in each Stock Option Agreement the nature of the Option granted and the number of shares of Stock subject to each such Option, provided, however, that in any calendar year, no Director, Employee or Consultant may be granted an Option to purchase more than 500,000 shares of Stock (determined without regard to when such Option is exercisable).

(b) The Committee shall determine whether any Option granted shall be an ISO or NQSO. Notwithstanding the foregoing, Grantees who are not Employees (determined with reference to Section 2(h)(i) only) of the Corporation or a Subsidiary that meets the definition of "subsidiary corporation" set forth in Section 424(f) of the Code.

(c) The exercise price per share of Stock subject to an Option granted to a Director, Employee or Consultant shall be determined by the Committee and specified in the Stock Option Agreement, provided, however, that the exercise price of each share subject to an ISO shall be not less than 100%, or, in the case of an ISO granted to an individual described in Section 422(b)(6) of the Code, 110%, of the fair market value (determined in accordance with Section 422 of the Code) of a share of the Stock on the date such Option is granted. Unless otherwise determined by the Committee, the exercise price per share of Stock subject to an Option shall be equal to the Fair Market Value of the Stock on the date such Option is granted.

(d) The term of each Option granted to a Director, Employee or Consultant shall be determined by the Committee and specified in a Stock Option Agreement, provided that no ISO shall be exercisable more than ten years from the date such ISO is granted (or such shorter period as may be applicable under Section 422 of the Code). Unless otherwise determined by the Committee, the term of each Option shall be ten years.

(e) The aggregate fair market value (determined in accordance with Section 422 of the Code at the time the ISO is granted) of the Stock with respect to which ISOs are exercisable for the first time by any Employee during any calendar year under all plans of the Corporation and its Subsidiaries shall not exceed $100,000. To the extent the limitation set forth in the preceding sentence is exceeded, the Options with respect to such excess shall be treated as NQSOs.

(f) The Committee shall determine whether any Option granted to a Director, Employee or Consultant shall become exercisable in one or more installments and specify the installment dates in the Stock Option Agreement. The Committee may also specify in the Stock Option Agreement such other provisions, not inconsistent with the terms of the Plan, as it may deem desirable, including such provisions as it may deem necessary to qualify any ISO under the provisions of Section 422 of the Code. Unless otherwise determined by the Committee, (i) each Option shall become exercisable in three equal installments on each of the second, third and fourth anniversary of the date such Option is granted, and (ii) notwithstanding (i), each Option shall become immediately exercisable immediately prior to a Change in Control.

(g) The Committee may, at any time, grant new or additional options to any eligible Director, Employee or Consultant who has previously received Options under the Plan, or options under other plans, whether such prior Options or other options are still outstanding, have been exercised previously in whole or in part, or have been canceled. The exercise price of such new or additional Options may be established by the Committee, subject to Section 5(c) hereof, without regard to such previously granted Options or other options.

Section 6. Exercise of Options

(a) A Grantee shall exercise an Option by delivery of written notice to the Corporation setting forth the number of shares with respect to which the Option is to be exercised. The Committee shall determine the time and manner in which the exercise price shall be paid. The Committee may, in its sole discretion, permit a Grantee to pay all or a portion of the exercise price of an Option by delivery of Stock (whether then owned or then issuable upon exercise of such Option) or other property (including notes or other contractual obligations of the Grantee to make payment on a deferred basis, such as through "cashless exercise" arrangements, to the extent permitted by applicable law), and the methods by which Stock will be delivered or deemed to be delivered to the Grantee.

(b) Except as provided pursuant to Section 7(a), no Option granted to a Director, Employee or Consultant shall be exercised unless at the time of such exercise the Grantee is then a Director, an Employee (determined with reference to Section 2(h)(i) only) or a Consultant (determined with reference to Section 2(e)(i) only) of the Corporation or a Subsidiary (determined with reference to Section 2(r)(i) only).

Section 7. Termination of Employment or Directorship

(a) Unless otherwise determined by the Committee, upon termination of a Grantee's employment, consultancy or directorship with the Corporation and its Subsidiaries, a Grantee's Options shall terminate as follows: (i) if such termination is on account of permanent and total disability (as determined by the Committee), such Options shall terminate one year thereafter; (ii) if such termination is on account of death, such Options shall terminate six months thereafter; (iii) if such termination is for cause (as determined by the Committee), such Options shall terminate immediately; and (iv) if such termination is for any other reason, such Options shall terminate three months thereafter. In addition, all Options granted on the basis of clause (ii) of Section 2(e), (h) or (r) shall immediately terminate if the Committee determines, in its sole discretion, that the Consultant, Employee or Subsidiary, as the case may be, will not become a Consultant, Employee or Subsidiary within the meaning of clause (i) of such Sections.

(b) The sale of any Subsidiary shall be treated as a termination of employment or consultancy, as the case may be, under Section 7(a)(iv) with respect to any Grantee employed or retained by such Subsidiary.

(c) Subject to the foregoing, in the event of death, Options may be exercised by a Grantee's legal representative.

(d) During any period described in Section 7(a) following the Grantee's termination of employment, consultancy or directorship but prior to termination of the Option, unless otherwise determined by the Committee, the Option shall be exercisable only to the extent that it was exercisable upon such termination of employment or consultancy.

Section 8. Adjustment Upon Changes in Capitalization

In the event any recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, or exchange of Stock or other securities, Stock dividend or other special, large and nonrecurring dividend or distribution (whether in the form of cash, securities or other property), liquidation, dissolution, or other similar corporate transaction or event, affects the Stock such that an adjustment is appropriate in order to prevent dilution or enlargement of the rights of Grantees under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and kind of shares of Stock deemed to be available thereafter for grants of Options under Section 3, (ii) the number and kind of shares of Stock that may be delivered or deliverable in respect of outstanding Options, (iii) the number of shares with respect to which Options may be granted to a given Grantee in the specified period as set forth in Section 5(a), and (iv) the exercise price (or, if deemed appropriate, the Committee may make provision for a cash payment with respect to any outstanding Option). In addition, the Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Options (including, without limitation, cancellation of Options in exchange for the in-the-money value, if any, of the vested portion thereof, or substitution of Options using stock of a successor or other entity) in recognition of unusual or nonrecurring events (including, without limitation, events described in the preceding sentence and events constituting a Change in Control) affecting the Corporation or any Subsidiary or the financial statements of the Corporation or any Subsidiary, or in response to changes in applicable laws, regulations, or accounting principles.

Section 9. Restrictions on Issuing Shares

The Corporation shall not be obligated to deliver Stock upon the exercise or settlement of any Option or take any other action under the Plan until the Corporation shall have determined that applicable federal and state laws, rules, and regulations have been complied with and such approvals of any regulatory or governmental agency have been obtained and contractual obligations to which the Option may be subject have been satisfied. The Corporation, in its discretion, may postpone the issuance or delivery of Stock under any Option until completion of such stock exchange listing or registration or qualification of such Stock or other required action under any federal or state law, rule, or regulation as the Corporation may consider appropriate, and may require any Grantee to make such representations and furnish such information as it may consider appropriate in connection with the issuance or delivery of Stock under the Plan.

Section 10. Tax Withholding

The Corporation shall have the right to require that the Grantee make such provision, or furnish the Corporation such authorization, necessary or desirable so that the Corporation may satisfy its obligation, under applicable laws, to withhold or otherwise pay for income or other taxes of the Grantee attributable to the grant or exercise of Options granted under the Plan or the sale of Stock issued with respect to Options. This authority shall include authority to withhold or receive Stock or other property and to make cash payments in respect thereof in satisfaction of a Grantee's tax obligations.

Section 11. Transferability

Options will not be transferable by a Grantee except by will or the laws of descent and distribution or to a beneficiary in the event of the Grantee's death, shall not be pledged, mortgaged, hypothecated or otherwise encumbered, or otherwise subject to the claims of creditors, and, in the case of ISOs, shall be exercisable during the lifetime of a Grantee only by such Grantee or his guardian or legal representative; provided, however, that NQSOs may be transferred to one or more transferees during the lifetime of the Grantee to the extent and on such terms as then may be permitted by the Committee.

Section 12. General Provisions

(a) Each Option shall be evidenced by a Stock Option Agreement or a Grant Certificate. The terms and provisions of such Stock Option Agreements or Grant Certificates may vary among Grantees and among different Options granted to the same Grantee.

(b) The grant of an Option in any year shall not give the Grantee any right to similar grants in future years, any right to continue such Grantee's employment relationship with the Corporation or its Subsidiaries, or, until such Option is exercised and share certificates are issued, any rights as a Stockholder of the Corporation. All Grantees shall remain subject to discharge to the same extent as if the Plan were not in effect.

(c) No Grantee, and no beneficiary or other persons claiming under or through the Grantee shall have any right, title or interest by reason of any Option to any particular assets of the Corporation or its Subsidiaries, or any shares of Stock allocated or reserved for the purposes of the Plan or subject to any Option except as set forth herein. The Corporation shall not be required to establish any fund or make any other segregation of assets to assure the payment of any Option.

(d) The issuance of shares of Stock to Grantees or to their legal representatives shall be subject to any applicable taxes and other laws or regulations of the United States or of any state having jurisdiction thereof.

Section 13. Changes to the Plan and Stock Option Agreements

The Board may amend, alter, suspend, discontinue or terminate the Plan or the Committee's authority to grant Options under the Plan without the consent of stockholders or Grantees, except that any such action shall be subject to the approval of the Corporation's stockholders at or before the next annual meeting of stockholders for which the record date is after such Board action if such stockholder approval is required by any federal or state law or regulation or the rules of any stock exchange or automated quotation system on which the Stock may then be listed or quoted, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval; provided, however, that, without the consent of an affected Grantee, no such action may materially impair the rights of such Grantee under any Option theretofore granted to him. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue, or terminate, any Option theretofore granted and any Stock Option Agreement relating thereto; provided, however, that, without the consent of an affected Grantee, no such action may materially impair the rights of such Grantee under such Stock Option Agreement.

Section 14. Effective Date of Plan

The Plan is effective upon its approval by the stockholders of the Corporation and shall continue in effect until terminated by the Board. No ISO may be granted more than ten years after the date of the most recent approval of the Plan by the stockholders of the Corporation.

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Expenses:

Compensation of officers and employees	77,316	79,495	214,179	236,666
Distribution expense	25,386	31,591	68,893	93,929
Service fee expense	24,151	33,923	68,027	98,821
Amortization of deferred sales commissions	8,319	11,391	27,399	37,009
Fund expenses	5,230	6,521	14,646	18,947
Other expenses	28,738	27,806	86,734	73,265
Total expenses	169,140	190,727	479,878	558,637
Operating income	59,233	92,085	156,355	287,397

Other Income (Expense):

Interest income	857	2,376	2,956	9,501
Interest expense	(8,446)	(8,411)	(25,269)	(25,230)
Realized losses on investments	(375)	(332)	(2,761)	(97)
Unrealized gains (losses) on investments	3,499	(259)	6,652	(696)
Foreign currency gains (losses)	93	(58)	129	(90)

Impairment losses on investments	(369)	(1,637)		
Income before income taxes, non-controlling interest and equity in net income (loss) of affiliates	54,492	85,401	136,425	270,785
Income taxes	(21,507)	(34,620)	(49,833)	(105,552)
Non-controlling interest	(1,599)	(1,445)	(3,415)	(6,849)
Equity in net income (loss) of affiliates, net of tax	(163)	285	(1,504)	2,327
Net income	$31,223	$49,621	$81,673	$160,711
Earnings Per Share:				
Basic	$0.27	$0.43	$0.70	$1.39
Diluted	$0.26	$0.40	$0.68	$1.28
Weighted Average Shares Outstanding:				
Basic	116,410	115,926	116,092	115,848
Diluted	122,016	125,325	120,020	125,088
Dividends Declared Per Share	$0.155	$0.150	$0.465	$ 0.450

See notes to consolidated financial statements.

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

	Nine Months Ended July 31,	
(in thousands)	**2009**	**2008**
Cash and cash equivalents, beginning of period	$196,923	$434,957
Cash Flows from Operating Activities:		
Net income	81,673	160,711
Adjustments to reconcile net income to net cash provided by operating activities:		

	Nine Months Ended July 31,	
(Gains) losses on investments	(3,006)	2,686
Amortization of long-term investments	1,847	1,348
Equity in net loss (income) of affiliates	2,388	(3,628)
Dividends received from affiliates	2,944	3,995
Non-controlling interest	3,415	6,849
Amortization of debt issuance costs	529	924
Deferred income taxes	(33,403)	(31,262)
Stock-based compensation	31,473	30,374
Depreciation and other amortization	15,285	9,808
Amortization of deferred sales commissions	27,399	37,009
Payment of capitalized sales commissions	(15,072)	(26,851)
Contingent deferred sales charges received	6,203	9,250
Proceeds from the sale of trading investments	35,720	17,696
Purchase of trading investments	(38,151)	(53,275)
Changes in other assets and liabilities:		
Investment advisory fees and other receivables	17,068	5,107
Other current assets	1,982	(930)
Other assets	(427)	(95)
Accrued compensation	(31,723)	(22,267)
Accounts payable and accrued expenses	(447)	(13,352)
Taxes payable current	(4,161)	(27,285)
Other current liabilities	1,708	5,891
Taxes payable long-term		1,039
Other long-term liabilities	6,797	
Net cash provided by operating activities	110,041	113,742
Cash Flows From Investing Activities:		
Additions to equipment and leasehold improvements	(42,075)	(6,958)
Net cash paid in acquisition	(29,017)	
Purchase of non-controlling interests	(17,075)	(26,465)
Proceeds from the sale of available-for-sale investments and investments in affiliates	122,975	16,482
Purchase of available-for-sale investments	(9,902)	(11,820)
Net cash provided by (used for) investing activities	24,906	(28,761)

See notes to consolidated financial statements.

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

	Nine Months Ended July 31,	
(in thousands)	**2009**	**2008**

	Nine Months Ended July 31,	
Cash Flows From Financing Activities:		
Distributions to minority shareholders	(4,248)	(6,143)
Issuance of short-term note receivable to affiliate	(5,000)	
Excess tax benefit of stock option exercises	9,671	9,532
Proceeds from issuance of Voting Common Stock	86	36
Proceeds from issuance of Non-Voting Common Stock	17,402	30,374
Repurchase of Non-Voting Common Stock	(12,403)	(173,087)
Principal repayments on notes receivable from stock option exercises	2,520	929
Dividends paid	(54,219)	(52,500)
Proceeds from the issuance of mutual fund subsidiaries capital stock	2,034	945
Redemption of mutual fund subsidiaries capital stock	(3,654)	(95)
Net cash used for financing activities	(47,811)	(190,009)
Effect of currency rate changes on cash and cash equivalents	(263)	(48)
Net increase (decrease) in cash and cash equivalents	86,873	(105,076)
Cash and cash equivalents, end of period	$283,796	$ 329,881
Supplemental Cash Flow Information:		
Interest paid	$ 24,481	$ 24,481
Income taxes paid	$ 76,837	$ 154,835
Supplemental Non-Cash Flow Information:		
Decrease in investments due to net deconsolidations of sponsored investment funds	$ (4,442)	$ (38)
Decrease in non-controlling interests due to net deconsolidations of sponsored investment funds	$ (4,461)	$ (468)
Exercise of stock options through issuance of notes receivable	$ 989	$ 3,096

See notes to consolidated financial statements.

Eaton Vance Corp.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Presentation

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

2. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its controlled 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 non-controlling interests in consolidated subsidiaries for which the Company s ownership is less than 100 percent. All intercompany accounts and transactions have been eliminated.

3. Reclassifications and Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. Certain finders fees have been reclassified from other expenses to distribution expenses.

4. Adoption of New Accounting Standards

The Company adopted the following accounting standards in the nine months ended July 31, 2009.

Subsequent Events
In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 165, Subsequent Events. SFAS No. 165 introduces new terminology, defines a date through which management must evaluate subsequent events and lists the circumstances under which an entity must recognize and disclose events or transactions occurring after the balance sheet date. The Company has included the required disclosure in Note 21.

Fair Value Measurements
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. In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157. FSP FAS 157-2 delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all non-financial assets and liabilities recognized or disclosed at fair value in the financial statements on a non-recurring basis. Non-recurring non-financial assets include goodwill, indefinite-lived intangible assets, long-lived assets and finite-lived intangible

assets measured at fair value for purposes of impairment testing; asset retirement and guarantee obligations initially measured at fair value; and assets and liabilities initially measured at fair value in a business combination or purchase.

The Company adopted the provisions of SFAS No. 157 on November 1, 2008, with the exception of the application of FSP FAS 157-2 related to non-recurring non-financial assets and liabilities, and has provided the required disclosures in Note 9. The partial adoption of SFAS No. 157 had no material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased along with providing guidance on identifying circumstances that indicate a transaction is not orderly. The Company s adoption of FSP FAS 157-4 on May 1, 2009 did not have a material impact on the Company s consolidated financial condition or results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements to improve the transparency and quality of financial reporting. FSP FAS 107-1 and APB 28-1 also amends Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. The Company has included the required disclosure of FSP FAS 107-1 and APB 28-1 in Note 10.

Impairment Guidance

In January 2009, the FASB issued FSP EITF 99-20-1, Amendments to the Impairment Guidance of Emerging Issues Task Force ("EITF") Issue No. 99-20. FSP EITF 99-20-1 amends the impairment guidance of EITF Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to Be Held by a Transferor in Securitized Financial Assets, to align it with the impairment guidance of SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. Both standards now require management to consider the probability that the holder of an asset will be unable to collect all amounts due when assessing assumptions about future cash flows for evaluations of assets for other-than-temporary impairment. The Company s adoption of FSP EITF 99-20-1 on November 1, 2008 did not have a material impact on the Company s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. FSP FAS 115-2 and 124-2 amends the other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The Company s adoption of FSP FAS 115-2 and 124-2 on May 1, 2009 did not have a material impact on the Company s consolidated financial statements.

Derivative Instruments

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities to improve the transparency of financial reporting. Entities are

required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Related Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The Company s adoption of SFAS No. 161 did not have a material impact on the Company s consolidated financial statements.

In September 2008, the FASB issued FSP FAS 133-1 and FASB Interpretation No. (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 FAS 133-1 and FIN 45-4 amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to require additional disclosures by sellers of credit derivatives, including credit derivatives embedded in a hybrid instrument. This FSP also amends 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 Company s adoption of FSP FAS 133-1 and FIN 45-4 did not have a material impact on the Company s consolidated financial statements.

Disclosures of Transfers of Financial Assets

In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities. This FSP amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities as amended, and FIN No. 46(R), Consolidation of Variable Interest Entities (as amended), to require enhanced disclosures by public entities about transfers of financial assets and interests in variable interest entities, and provide users of the financial statements with greater transparency about a transferor s continuing involvement with transferred financial assets and an enterprise s involvement with variable interest entities. The Company has included the enhanced disclosures required by the FSP in Note 11.

Accounting for Income Tax Benefits

In June 2007, the FASB ratified the consensus reached by the EITF in EITF 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 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. The Company s adoption of the provisions of EITF 06-11 on November 1, 2008 had no impact on the Company s consolidated financial statements.

Fair Value Option
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 Company adopted SFAS No. 159 on November 1, 2008, without electing to apply the fair value option to any of its eligible financial assets or financial liabilities existing on its consolidated balance

sheet as of November 1, 2008, or for any new eligible financial assets or financial liabilities recognized subsequent to November 1, 2008. Therefore, the adoption of SFAS No. 159 did not have an impact on the Company s consolidated financial statements. The Company may elect the fair value option for any future eligible financial assets or financial liabilities upon their initial recognition.

5. Recent Accounting Developments

Codification
In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162. The FASB Accounting Standards Codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. The goal of SFAS No. 168 is to simplify the application of GAAP by including authoritative GAAP in one location in a consistently organized manner. The Company will adopt this standard during the fourth quarter of fiscal 2009. The adoption of the standard will only result in changes to the Company s financial statement disclosure references.

Variable Interest Entities
In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 improves how enterprises account for and disclose their involvement with variable interest entities (VIEs) and other entities whose equity at risk is insufficient or lacks certain characteristics. SFAS No. 167 changes how an entity determines whether it is the primary beneficiary of a VIE and whether that VIE should be consolidated and requires additional disclosures. As a result, the Company must comprehensively review its involvements with VIEs and potential VIEs to determine the effect on its consolidated financial statements and related disclosures. SFAS No. 167 is effective for the Company s fiscal year that begins on November 1, 2010 and for interim periods within the first annual reporting period. Earlier application is prohibited. The Company is currently evaluating the potential impact on its consolidated financial statements.

Accounting for Transfers of Financial Assets
In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of SFAS No. 140. SFAS No. 166 changes the derecognition guidance for transferors of financial assets, including entities that sponsor securitizations, to align that guidance with the original intent of SFAS No. 140, Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 166 also eliminates the exemption from consolidation for qualifying special purpose entities. SFAS No. 166 is effective for the Company s fiscal year that begins on November 1, 2010 and for interim periods within that first annual reporting period. Earlier application is prohibited. The recognition and measurement provisions of SFAS No. 166 must be applied to transfers that occur on or after the effective date. The Company is currently evaluating the potential impact, if any, on its consolidated financial statements.

Earnings per Share
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 specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method described in SFAS No. 128, Earnings Per Share. FSP EITF 03-6-1 is effective for the Company s fiscal year that begins on November 1, 2009 and will require a retrospective adjustment to all prior period earnings per share. The Company is currently evaluating the potential impact, if any, on its consolidated financial statements.

Intangible Assets
In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 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 (as amended). FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations, and other GAAP. FSP FAS 142-3 is effective for the Company s fiscal year that begins on November 1, 2009 and interim periods within that fiscal year. The Company does not anticipate that the provisions of FSP FAS 142-3 will have an impact on its consolidated results of operations or consolidated financial position.

Noncontrolling Interests
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, Consolidated Financial Statements, to establish accounting and reporting standards for non-controlling interests in subsidiaries and for the deconsolidation of subsidiaries. It clarifies that a non-controlling interest in a subsidiary is an ownership interest in that entity that should be reported as equity, separate from the parent s equity, in the consolidated financial statements. SFAS No. 160 is effective for the Company s fiscal year that begins on November 1, 2009 and interim periods within that fiscal year and requires retrospective adoption of the presentation and disclosure requirements for existing non-controlling interests. All other requirements of SFAS No. 160 shall be applied prospectively. The Company is currently evaluating the impact on its consolidated financial statements.

Business Combinations
In December 2007, the FASB amended SFAS No. 141, Business Combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The statement requires an acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at the acquisition date at fair value, with limited exceptions. It also addresses the measurement of fair value in a step acquisition, changes the requirements for recognizing assets acquired and liabilities assumed subject to contingencies, provides guidance on recognition and measurement of contingent consideration and requires that acquisition-related costs be expensed as incurred. SFAS No. 141(R) 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 November 2008, the FASB issued EITF 08-6, Equity Method Investment Accounting Considerations. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for the Company s fiscal year that begins on November 1, 2009 and interim periods within that fiscal year. The Company is currently evaluating the impact on its consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP FAS 141(R)-1 addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 shall be applied to assets or liabilities arising from contingencies in 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.

6. Acquisitions

On December 31, 2008, the Company acquired 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 operating results of the TABS business have been included in the consolidated financial statements since that date. Proforma results of operations have not been presented because the results of operations would not have been materially different from those reported in the accompanying consolidated statements of income. Subsequent to closing, the TABS business was reorganized as the Tax-Advantaged Bond Strategies division of Eaton Vance Management (EVM). TABS maintains its former leadership, portfolio team and investment strategies. Its tax-advantaged income products and services continue to be offered directly to institutional and family office clients, and are now offered by Eaton Vance Distributors, Inc. (EVD) to retail investors through financial intermediaries.

At closing, the Company paid $30.0 million in cash to acquire the TABS business. The Company will be obligated to make seven annual contingent payments to the selling group based on prescribed multiples of TABS s revenue for the twelve months ending December 31, 2009, 2010, 2011, 2012, 2014, 2015 and 2016. The selling group includes a member of the TABS leadership team who became an employee of EVM on December 31, 2008. All future payments will be paid in cash.

In conjunction with the purchase, the Company recorded $44.8 million of intangible assets representing client relationship intangible assets acquired, which will be amortized over a 10 year period, and a contingent purchase price liability of $14.0 million. The contingent purchase price liability of $14.0 million represents the difference between net cash paid at acquisition and total tangible and intangible assets acquired.

On May 1, 2009, the non-controlling interest holders of Parametric Portfolio Associates LLC (Parametric Portfolio Associates), exercised a put option whereby units representing 3.1 percent capital ownership interest in Parametric Portfolio Associates were sold to the Company for $14.2 million. Pursuant to the acquisition agreement, the purchase price was based on a multiple of earnings before taxes for the calendar year ended December 31, 2008. As a result of the transaction, the Company s capital ownership interest increased from 89.3 percent to 92.4 percent and the Company s profits interest increased from 82.3 percent to 87.5 percent. The Company recorded goodwill of $11.6 million and intangible assets of $2.4 million (representing $1.3 million of amortizable intangible assets and $1.1 million of non-amortizable assets). The portion of the intangible assets representing client relationships acquired will be amortized over a weighted-average useful life of 14.8 years. The remainder of the purchase price was allocated to non-controlling interest.

On June 1, 2009, the Company executed a call option which required the non-controlling interest holders of Fox Asset Management LLC (Fox Asset Management), to sell to the Company an additional 4.0 percent interest in Fox Asset Management. The transaction increased the Company s ownership interest from 80 percent to 84 percent. Pursuant to the terms of the unit purchase agreement, no proceeds were transferred at closing.

On June 30, 2009, the non-controlling interest holders of Atlanta Capital Management Company, LLC (Atlanta Capital), agreed to sell and the Company agreed to purchase an additional 4.2 percent interest in Atlanta Capital for $2.8 million. Pursuant to the terms of a unit purchase and redemption agreement dated November 1, 2008, the purchase price was based on a multiple of earnings before taxes for the calendar year ended December 31, 2008. As a result of the transaction, the Company s ownership interest

increased from 85.5 percent to 89.7 percent. The Company recorded goodwill of $1.9 million and amortizable intangible assets of $0.8 million. The portion of the intangible assets representing client relationships acquired will be amortized over a weighted-average useful life of 6.5 years. The remainder of the purchase price was allocated to non-controlling interest. Contemporaneously, the Company purchased a non-controlling capital interest in Atlanta Capital Management Holdings, LLC (ACM Holdings), a partnership that owns the non-controlling interests of Atlanta Capital, for $6.6 million. The Company s interest in ACM Holdings is non-voting and entitles the Company to receive $6.6 million when the put or call options for the non-controlling interests of Atlanta Capital are exercised. The Company s investment in ACM Holdings is included as a component of long-term investments in the Company s consolidated balance sheet at July 31, 2009.

7. Other Intangible Assets

The following is a summary of other intangible assets at July 31, 2009:

(dollars in thousands)	**Weighted-average amortization period (in years)**	**Gross carrying amount**	**Accumulated amortization**	**Net carrying amount**
Amortizing intangible assets:				
Client relationships acquired	10.0	$ 109,177	$ (33,097)	$ 76,080
Non-amortizing intangible assets:				
Mutual fund management contract acquired		6,708		6,708
Total		$ 115,885	$ (33,097)	$ 82,788

The increase in the gross carrying amount of amortizing intangible assets from October 31, 2008 can be attributed to the $44.8 million of intangible assets acquired in conjunction with the purchase of the TABS business on December 31, 2008 and $3.2 million of amortizing and non-amortizing intangible assets acquired in conjunction with the purchase of additional interests in Parametric Portfolio Associates and Atlanta

Capital Management as more fully described in Note 6.

8. Investments

The following is a summary of investments at July 31, 2009 and October 31, 2008:

(in thousands)	**July 31, 2009**	**October 31, 2008**
Short-term investments:		
Consolidated funds:		
Commercial paper	$ 12,899	$ 43,006
Debt securities	36,541	7,372
Investment in affiliate		119,565
Total	$ 49,440	$ 169,943
Long-term investments:		
Consolidated funds:		
Debt securities	$ 14,837	$ 13,839
Equity securities	1,877	17,880
Separately managed accounts:		
Debt securities	29,402	17,739
Equity securities	11,029	13,966
Sponsored funds	34,816	24,898
Collateralized debt obligation entities	2,270	4,118
Investments in affiliates	20,511	22,786
Other investments	7,509	965
Total	$ 122,251	$ 116,191

Investments classified as trading

The following is a summary of the cost and fair value of investments classified as trading at July 31, 2009 and October 31, 2008:

July 31, 2009 *(in thousands)*	**Cost**	**Fair Value**
Short-term investments:		
Commercial paper	$ 12,899	$ 12,899
Debt securities	37,283	36,541
Total	$ 50,182	$ 49,440
Long-term investments:		
Debt securities	$ 42,554	$ 44,239
Equity securities	11,885	12,906
Total	$ 54,439	$ 57,145

October 31, 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

Gross unrealized gains and losses on debt and equity securities held in the portfolios of consolidated sponsored funds have been reported in income 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 as unrealized gains and losses (below operating income). The specific identified cost method is used to determine the realized gain or loss on all trading securities sold.

The Company recognized $1.8 million of realized gains and $1.4 million of realized losses related to investments classified as trading for the three months ended July 31, 2009. The Company recognized $6.1 million of realized gains and $7.3 million of realized losses related to investments classified as trading during the nine months ended July 31, 2009. The Company had $4.1 million of unrealized gains and $1.4 million of unrealized losses at July 31, 2009 related to trading securities held at July 31, 2009.

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 July 31, 2009 and October 31, 2008:

		Gross Unrealized		
July 31, 2009 *(in thousands)*	**Cost**	**Gains**	**Losses**	**Fair Value**
Long-term investments:				
Sponsored funds	$33,685	$2,610	$(1,479)	$34,816
Total	$33,685	$2,610	$(1,479)	$34,816

		Gross Unrealized		
October 31, 2008 *(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

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 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 $1.5 million as of July 31, 2009 and determined that these losses were not other-than-temporary, primarily because the Company has the

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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 $22.5 million at July 31, 2009.

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 three and nine months ended July 31, 2009 and 2008. The specific identified cost method is used to determine the realized gain or loss on the sale of shares of sponsored funds.

	Three Months Ended July 31,		**Nine Months Ended July 31,**	
(in thousands)	**2009**	**2008**	**2009**	**2008**
Gains	$ 703	$	$ 703	$ 353
Losses	(131)	(1)	(365)	(1)
Net realized gains (losses)	$ 572	$ (1)	$ 338	$ 352

Investments in collateralized debt obligation entities

The Company recognized impairment losses totaling $0.4 million in the third quarter of fiscal 2009, representing losses related to two of the Company s cash instrument collateralized debt obligation (CDO) entities and $1.6 million in the first nine months of fiscal 2009, representing losses relating to a synthetic CDO entity and two of the Company s four cash instrument CDO entities. The impairment loss associated with the synthetic CDO entity, which reduced the Company s investment in that entity to zero, resulted from a decrease in the estimated cash flows from the entity due to higher realized default rates and lower recovery rates on the reference securities underlying the synthetic CDO entity s portfolio of credit default swaps. The impairment losses associated with the cash instrument CDO entities resulted from a decrease in the estimated future cash flows from the CDO entities due to an increase in the default rate of the underlying loan portfolios.

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 $8.0 million and $8.9 million at July 31, 2009 and October 31 2008, respectively.

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 $11.1 million and $13.9 million at July 31, 2009 and October 31, 2008 respectively. At July 31, 2009, the Company s investment in the partnership was equal to its share of the underlying net assets.

The Company had a 20 percent interest in Eaton Vance Enhanced Equity Option Income Fund as of July 31, 2009. The Company s $1.4 million investment in the fund was equal to its share of the underlying assets at July 31, 2009. The Company had 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 as of October 31, 2008. The Company classified this investment as a short-

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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 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 $7.5 million and $1.0 million for the periods ended July 31, 2009 and October 31, 2008 respectively. In the third quarter of fiscal 2009, the Company purchased a non-controlling capital interest in ACM Holdings, a partnership that owns the non-controlling interests of Atlanta Capital, for $6.6 million. The Company s interest in ACM Holdings is non-voting and entitles the Company to receive $6.6 million when the put or call options for the non-controlling interests of Atlanta Capital are exercised. The Company s investment in ACM Holdings is included as a component of long-term investments in the Company s consolidated balance sheet at July 31, 2009. Management believes that the fair value of these investments approximates their carrying value.

9. Fair Value Measurements

The Company adopted the provisions of SFAS No. 157, Fair Value Measurements, on November 1, 2008. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a hierarchy that prioritizes inputs to valuation techniques to measure fair value. This fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value and gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s classification within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Level 1	Investments valued using unadjusted quoted market prices in active markets for identical assets at the reporting date. Assets classified as Level 1 include debt and equity securities held in the portfolios of consolidated funds and separate accounts, which are classified as trading, and investments in sponsored mutual funds which are classified as available-for-sale.
Level 2	Investments valued using observable inputs other than Level 1 unadjusted quoted market prices, such as quoted market prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active, and inputs other than quoted prices that are observable or corroborated by observable market data. Investments in this category include commercial paper, certain debt securities and investments in sponsored privately offered equity funds, which are not listed but have a net asset value that is comparable to listed mutual funds.

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Level 3

Investments valued using unobservable inputs that are supported by little or no market activity. Level 3 valuations are derived primarily from model-based valuation techniques that require significant management judgment or estimation based on assumptions that the Company believes market participants would use in pricing the asset or liability. Investments in this category include investments in CDO entities that are measured at fair value on a non-recurring basis when facts and circumstances indicate the investment has been impaired. The fair values of CDOs are derived from models created to estimate cash flows using key inputs such as default and recovery rates for the underlying portfolio of loans or other securities. CDOs measured at fair value on a non-recurring basis are classified as Level 3 because at least one of the significant inputs used in the determination of fair value is not observable.

In determining the appropriate levels, the Company performs a detailed analysis of the assets and liabilities that are subject to SFAS No. 157. These levels are not necessarily an indication of the risk or liquidity associated with the investments. Substantially all of the Company s investments are carried at fair value, with the exception of its investments in CDO entities that have not been impaired in the current fiscal period and certain investments carried at cost.

The following table summarizes the assets measured at fair value on a recurring basis at July 31, 2009:

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Other Assets not held at Fair Value** [(1)]	**Total**
Cash equivalents	$34,936	$150,250	$	$	$185,186

(in thousands)	**Level 1**	**Level 2**	**Level 3**	**Other Assets not held at Fair Value** [1]	**Total**
Total	$34,936	$150,250	$	$	$185,186
Short-term investments:					
Consolidated funds:					
Commercial paper	$	$ 12,899	$	$	$ 12,899
Debt securities		36,541			36,541
Total	$	$ 49,440	$	$	$ 49,440
Long-term investments:					
Consolidated funds:					
Debt securities	$14,837	$	$	$	$ 14,837
Equity securities	1,877				1,877
Separately managed accounts:					
Debt securities	10,118	19,284			29,402
Equity securities	11,029				11,029
Sponsored funds	32,324	2,492			34,816
Collateralized debt obligation entities				1,358	1,358
Investments in affiliates				20,511	20,511
Other investments		38		7,471	7,509
Total	$70,185	$ 21,814	$	$29,340	$121,339

(1) *Includes investments in equity method investees and other investments carried at cost which, in accordance with GAAP, are not measured at fair value.*

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

The following table summarizes the assets measured at fair value on a non-recurring basis at July 31, 2009:

(in thousands)	**Total Level 3**	**Total Losses**
Collateralized debt obligation entities	$ 912	$ 1,637
Total	$ 912	$ 1,637

The Company had investments in four CDO entities totaling $2.3 million at July 31, 2009. The Company s investments in CDO entities are carried at amortized cost unless facts and circumstances indicate that the investment has been impaired, at which point the investment is written down to fair value. The Company recognized impairment losses totaling $1.6 million in the nine months ended July 31, 2009, representing losses relating to a synthetic CDO entity and two of the Company s cash instrument CDO entities. The impairment loss associated with the synthetic CDO entity, which reduced the Company s investment in that entity to zero, resulted from a decrease in the estimated cash flows from the entity due to higher realized default rates and lower recovery rates on the reference securities underlying the synthetic CDO entity s portfolio of credit default swaps. The impairment losses associated with the cash instrument CDO entities resulted from decreases in the estimated future cash flows from the CDO entities due to an increase in the default rates of the underlying loan portfolios.

The provisions of SFAS No. 157 related to disclosures surrounding nonfinancial assets, such as goodwill, and nonfinancial liabilities have not been applied. The required implementation of these disclosures has been deferred until November 1, 2009.

10. Fair Value Measurements of Other Financial Instruments

The following is a summary of the carrying amounts and estimated fair values of the Company s other financial instruments at July 31, 2009 and October 31, 2008:

	July 31, 2009		October 31, 2008	
(in thousands)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Other investments	$ 7,509	$ 7,509	$ 965	$ 965
Note receivable from affiliate	$ 15,000	$ 15,000	$ 10,000	$ 10,000
Notes receivable from stock option exercises	$ 3,172	$ 3,172	$ 4,704	$ 4,704
Long-term debt	$500,000	$493,618	$500,000	$485,728

For fair value purposes the carrying value of the other investments, note receivable from affiliate and notes receivable from stock option exercises approximates fair value. The carrying value of the long-term debt has been valued utilizing publicly available market prices.

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11. Variable Interest Entities

Investments in Variable Interest Entities That Are Not Consolidated

In the normal course of business, the Company maintains investments in sponsored CDO entities and privately offered equity funds that are considered VIEs in accordance with FIN No. 46(R), Consolidation of Variable Interest Entities. In most instances, these variable interests represent seed investments made by the Company, as collateral manager or investment advisor, to launch or market these vehicles. The Company receives management fees for the services it provides as collateral manager or investment advisor.

As a matter of course, the Company evaluates its investment in each CDO entity and privately offered equity fund that qualifies as a VIE at inception to determine whether or not it qualifies as the primary beneficiary of the entity based on its obligation to absorb a majority of the expected losses or its right to receive the majority of the residual returns. The Company reevaluates its investment in each entity as facts and circumstances indicate that either the obligation to absorb these expected losses or the right to receive these expected residual returns has been reallocated between the existing primary beneficiary and other unrelated parties. At July 31, 2009, the Company did not qualify as the primary beneficiary of any CDO entity or privately offered equity fund in which it invests.

As of July 31, 2009, the Company managed four CDO entities with total assets on which the Company earns a management fee of $2.5 billion. The Company held investments in these entities totaling $2.3 million on July 31, 2009. In the nine months ended July 31, 2009, the Company did not provide any financial or other support that it was not previously contractually required to provide and the Company s risk of loss remains limited to the $2.3 million carrying value of the investments on its Consolidated Balance Sheet at July 31, 2009. There are no arrangements that could require the Company to provide additional financial support to any of the CDO entities in which it invests.

The Company s investments in CDO entities are carried at amortized cost and collectively disclosed as a component of long-term investments in Note 8. Income from these entities is recorded as a component of interest income based upon projected investment yields in accordance with the provisions of EITF No. 99-20, Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets.

The Company had investments in 16 privately offered equity funds totaling $2.5 million on July 31, 2009. Assets under management in these entities totaled $11.7 billion on July 31, 2009. In the fourth quarter of fiscal 2008, the Company, as lender, entered into a $10.0 million subordinated term note agreement (the Note) with one of the privately offered equity funds in which it invests. The Note was renewed upon expiration on January 16, 2009 for an additional 334 day period and borrowings under the Note were increased to $15.0 million. Subject to certain conditions, the privately offered equity fund may prepay the Note in whole or in part, at any time, without premium or penalty. As a result of the renewal of the Note, the Company s risk of loss increased to $17.5 million on July 31, 2009, representing the $2.5 million carrying value of the investments in privately offered equity funds on its Consolidated Balance Sheet and the stated amount of the Note on July 31, 2009. There are no additional arrangements that could require the Company to provide additional financial support to any of the privately offered equity funds in which it invests.

The Company s investments in privately offered equity funds are carried at fair value and included in investments in sponsored funds, which are disclosed as a component of long-term investments in Note 8. These investments are classified as available-for-sale under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, and the Company records any change in fair value, net of

tax, in other comprehensive income (loss). The Note is classified in the Company s Consolidated Balance Sheet as a component of total current assets.

Investments in Variable Interest Entities That Are Consolidated
Parametric Portfolio Associates maintains a 40 percent economic interest in Parametric Risk Advisors LLC (Parametric Risk Advisors), which meets the definition of a VIE under FIN 46(R). The equity investment at risk in Parametric Risk Advisors is not sufficient to permit Parametric Risk Advisors to finance its own activities without additional subordinated financial support from Parametric Portfolio Associates and the voting rights of the investors are not proportional to their obligations to absorb the expected losses of the entity or their rights to receive the expected residual returns of the entity. The Company made the determination at the date of acquisition that Parametric Portfolio Associates is, by definition, the primary beneficiary of the VIE based on the fact that Parametric Portfolio Associates is committed to providing ongoing working capital and infrastructure support and ultimately obligated to absorb 100 percent of the losses despite its 40 percent economic interest.

At July 31, 2009, Parametric Risk Advisors had assets of $2.5 million, consisting primarily of cash and cash equivalents and investment advisory fees receivable, and current liabilities of $0.9 million, consisting primarily of accrued compensation, accounts payable, accrued expenses and intercompany payables. Neither the Company s variable interest nor maximum risk of loss related to this VIE was material to its consolidated financial statements.

12. 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 fund s cost of borrowing under its commercial paper financing facility. Upon expiration of the Note on January 16, 2009, it was extended to December 17, 2009 and increased to $15.0 million. Subject to certain conditions, the fund may prepay the Note in whole or in part, at any time, without premium or penalty. The Note is classified in the Company s Consolidated Balance Sheet as a component of total current assets.

13. Stock-Based Compensation Plans

The Company s stock-based compensation plans include the 2008 Omnibus Incentive Plan (the 2008 Plan), the Employee Stock Purchase Plan, the Incentive Plan Stock Alternative and the Atlanta Capital Management Company, LLC Long-term Equity Incentive Plan (the ACM Plan). The Company recognized total compensation cost related to its plans as follows:

	Three Months Ended July 31,		**Nine Months Ended July 31,**	
(in thousands)	**2009**	**2008**	**2009**	**2008**
2008 Plan:				
Stock options	$ 8,372	$ 8,751	$ 25,703	$ 27,527
Restricted shares	1,526	352	4,415	1,057
Phantom stock units	44		155	
Employee Stock Purchase Plan	651	387	897	1,144

	Three Months Ended July 31,		Nine Months Ended July 31,	
Incentive Plan Stock Alternative	153	217	153	646
ACM Plan	50		150	
Total stock-based compensation expense	$ 10,796	$ 9,707	$ 31,473	$ 30,374

The total income tax benefit recognized for stock-based compensation arrangements was $3.0 million and $2.6 million for the three months ended July 31, 2009 and 2008, respectively, and $9.0 million and $8.0 million for the nine months ended July 31, 2009 and 2008, respectively.

2008 Omnibus Incentive Plan

On October 30, 2008, the Board of Directors (the Board) approved the 2008 Plan. The 2008 Plan, which is administered by the Compensation Committee of the Board, allows for awards of stock options, restricted shares and phantom stock units to eligible employees and non-employee Directors. 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. Phantom stock units granted under the 2008 Plan vest over two years. 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 July 31, 2009, 1.0 million restricted shares and options to purchase 3.1 million shares have been issued pursuant to the 2008 Plan.

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

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

The weighted-average fair value per share of stock options granted during the nine months ended July 31, 2009 and 2008 using the Black-Scholes option pricing model were as follows:

	2009	2008
Weighted-average grant date fair value of options granted	$6.72	$14.79
Assumptions:		
Dividend yield	2.3% to 3.1%	1.2% to 1.9%
Volatility	32% to 34%	25% to 29%
Risk-free interest rate	2.9% to 4.6%	3.6% to 4.4%
Expected life of options	7.4 years	6.8 to 7.8 years

Stock option transactions under the 2008 Plan and predecessor plans for the nine months ended July 31, 2009 are summarized as follows:

(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	28,878	$ 23.49		
Granted	3,127	22.03		
Exercised	(781)	13.68		
Forfeited/expired	(391)	32.17		
Options outstanding, end of period	30,833	$ 23.48	5.5	$ 228,580
Options exercisable, end of period	19,466	$ 19.02	4.1	$ 196,306
Vested or expected to vest	30,379	$ 23.36	5.4	$ 227,289

The Company received $9.7 million and $20.2 million related to the exercise of options for the nine months ended July 31, 2009 and 2008, respectively. Options exercised represent newly issued shares. The total intrinsic value of options exercised during the nine months ended July 31, 2009 and 2008 was $9.2 million and $40.3 million, respectively. The total fair value of options that vested during the nine months ended July 31, 2009 was $28.0 million.

As of July 31, 2009, there was $66.8 million of compensation cost related to unvested stock options granted under the 2008 Plan and predecessor plans not yet recognized. That cost is expected to be recognized over a weighted-average period of 2.8 years.

Restricted Shares

Compensation expense related to restricted share grants is recorded over the forfeiture period of the restricted shares, as they are contingently forfeitable. As of July 31, 2009, there was $23.6 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 4.2 years.

A summary of the Company s restricted share activity for the nine months ended July 31, 2009 under the 2008 Plan and predecessor plans is presented below:

(share figures in thousands)	**Shares**	**Weighted-Average Grant Date Fair Value**
Unvested, beginning of period	149	$ 28.21
Granted	973	22.04
Vested	(77)	20.92
Forfeited/expired	(29)	28.02
Unvested, end of period	1,016	$ 22.86

Phantom Stock Units

In the nine months ended July 31, 2009, 13,467 phantom stock units were issued to non-employee Directors pursuant to the 2008 Plan. Because these units are contingently forfeitable, compensation expense is recorded over the forfeiture period. As of July 31, 2009, there was $0.2 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 1.3 years.

Employee Stock Purchase Plan

A total of 9.0 million shares of the Company s Non-Voting Common Stock have been reserved for issuance under the Employee Stock Purchase Plan. The plan qualifies under Section 423 of the United States Internal Revenue Code and permits eligible employees to direct up to 15 percent of their salaries to a maximum of $12,500 per six-month offering period toward the purchase of the Company s 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 July 31, 2009, 7.6 million shares have been issued pursuant to this plan. The Company received $4.1 million and $3.8 million related to shares issued under the Employee Stock Purchase Plan in the nine months ended July 31, 2009 and 2008, 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 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 closing market price of the stock for five business days subsequent to the end of the offering period. Through July 31, 2009, 3.5 million shares have been issued pursuant to this plan. The Company received $3.6 million and $6.4 million related to shares issued under the Incentive Plan Stock Alternative in the nine months ended July 31, 2009 and 2008, respectively.

ACM Plan

In the nine months ended July 31, 2009, approximately 57,000 profit units tied to the performance of Atlanta Capital were issued to certain employees of that entity pursuant to the ACM Plan at a weighted-average per unit price of $17.55. Because these units are contingently forfeitable, compensation expense is recorded over the forfeiture period of five years. As of July 31, 2009, there was $0.8 million of compensation cost related to unvested awards not yet recognized. That cost is expected to be recognized over a weighted-average period of 4.3 years.

14. Common Stock Repurchases

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 program is not subject to an expiration date.

In the first nine months of fiscal 2009, the Company purchased approximately 0.5 million shares of its Non-Voting Common Stock. Approximately 2.2 million additional shares may be repurchased under the current authorization.

15. Income Taxes

The provision for income taxes for the three months ended July 31, 2009 and 2008 was $21.5 million and $34.6 million, or 39.5 percent and 40.5 percent of pre-tax income, respectively. The provision for income taxes for the nine months ended July 31, 2009 and 2008 was $49.8 million and $105.6 million, or 36.5 percent and 39.0 percent of pre-tax income, respectively.

The provision for income taxes in the three and nine months ended July 31, 2009 and 2008 is comprised of federal, state, and foreign taxes. The primary difference between the Company s effective tax rate and the statutory federal rate of 35.0 percent is state income taxes. In the first nine months of fiscal 2009, the Company executed a state tax voluntary disclosure agreement that resulted in a net reduction in income tax expense in the amount of $2.7 million.

The Company s net deferred tax asset is primarily comprised of deferred tax assets related to future income deductions attributable to stock-based compensation, certain closed-end fund expenses and unrealized losses on investments, partially offset by deferred tax liabilities related to deferred sales commissions, a change in accounting method filed with the IRS in December 2007 and differences between the book and tax bases of goodwill and intangibles that are amortizable for tax. The Company records a valuation allowance, when necessary, to reduce deferred tax assets to an amount that is more likely than not to be realized. There were no valuation allowances recorded as of July 31, 2009 or 2008.

The Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109, Accounting for Income Taxes, on November 1, 2007. At July 31, 2009, the Company s unrecognized tax benefits were $10.3 million, a decrease of $9.8 million from the October 31, 2008 balance of $20.1 million. This decrease is primarily due to the execution of a state tax voluntary disclosure agreement during the first nine months of fiscal 2009.

16. Comprehensive Income

Total comprehensive income includes net income and other comprehensive income (loss), net of tax. The components of total comprehensive income for the nine months ended July 31, 2009 and 2008 are as follows:

(in thousands)	**2009**	**2008**
Net income	$ 81,673	$ 160,711
Net unrealized gains (losses) on available-for-sale securities, net of income tax (expense) benefit of $(1,613) and $1,912, respectively	2,780	(3,583)
Foreign currency translation adjustments, net of income taxes of $(110) and $62, respectively	203	(110)
Change in unamortized loss on derivative instrument, net of income tax of $118	217	217
Comprehensive income	$ 84,873	$ 157,235

The Company reclassified gains of $0.6 million and $0.3 million for the three and nine months ended July 31, 2009, respectively, from other comprehensive income (loss) to net income as gains and losses were realized on the sale of available-for-sale securities.

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17. Earnings per Share

The following table provides a reconciliation of common shares used in the earnings per basic share and earnings per diluted share computations for the three and nine months ended July 31, 2009 and 2008:

	Three Months Ended July 31,		**Nine Months Ended July 31,**	
(in thousands, except per share data)	**2009**	**2008**	**2009**	**2008**
Weighted-average shares outstanding basic	116,410	115,926	116,092	115,848
Incremental common shares from stock options and restricted share awards	5,606	9,399	3,928	9,240
Weighted-average shares outstanding diluted	122,016	125,325	120,020	125,088
Earnings per share:				
Basic	$ 0.27	$ 0.43	$ 0.70	$ 1.39
Diluted	$ 0.26	$ 0.40	$ 0.68	$ 1.28

The Company uses the treasury stock method to account for the dilutive effect of unexercised stock options and unvested restricted shares in earnings per diluted share. Antidilutive common shares related to stock options and unvested restricted shares excluded from the computation of earnings per diluted share were approximately 13.3 million and 3.3 million for the three months ended July 31, 2009 and 2008, respectively, and were approximately 17.9 million and 3.3 million for the nine months ended July 31, 2009 and 2008, respectively.

18. Derivative Financial Instruments

SFAS No. 133 requires companies to recognize all of its derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. 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. In addition, the Company enters into derivative financial instruments for trading and/or speculative purposes as part of its investments in separately managed accounts seeded for new product development purposes. The amounts entered into as part of its investments in separately managed accounts are not material and as such no additional disclosures have been provided.

Cash flow hedges
For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the unrealized gain or loss is recorded in other comprehensive income (loss) 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.

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 as of the time of the pricing of the securities. At the time the debt was issued, the Company terminated the lock agreement and settled the transaction in cash. 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) is being reclassified to earnings as a component of interest expense over the term of the debt. During the nine months ended July 31, 2009 and 2008, the Company reclassified $0.3 million of the loss on the Treasury lock transaction into interest expense. At July 31, 2009, the remaining unamortized loss on this transaction was $3.7 million. Over the next twelve months, the Company expects to reclassify approximately $0.4 million of the loss on the interest rate lock transaction into interest expense.

19. Commitments and Contingencies

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

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

In July 2006, the Company committed to invest $15.0 million in a private equity partnership that invests in companies in the financial services industry. The Company had invested $11.5 million of the total $15.0 million of committed capital at July 31, 2009. The Company anticipates investing the remaining $3.5 million by September 2010.

20. Regulatory Requirements

EVD, a wholly owned subsidiary of the Company and principal underwriter of the Eaton Vance Funds, is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. For purposes of this rule, EVD had net capital of $49.6 million at July 31, 2009, which exceeded its minimum net capital requirement of $1.8 million. EVD s ratio of aggregate indebtedness to net capital at July 31, 2009 was 0.56-to-1.

21. Subsequent Events

The Company evaluated subsequent events and transactions occurring after July 31, 2009 through September 4, 2009, the date these financial statements were issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements.

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

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

General

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 July 31, 2009, we had $143.7 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 2008. Over the twelve month period corresponding with our fiscal 2008, 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 yield spreads versus comparable-duration U.S. Treasuries 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 continued to experience significant volatility in the first nine months of our fiscal 2009. The S&P 500 Index declined 31 percent from the end of October to the March market bottom, reaching 12 year lows. Markets then rallied nearly 50 percent off the bottom through the end of July, putting the S&P 500 at the end of our third fiscal quarter 2 percent above its level at the start of our fiscal year. Even with the recent market rally, business conditions remain challenging. Because our assets under management in the first nine months of the fiscal year and at the end of the period were substantially below fiscal 2008 averages, we will likely experience a significant decline in fiscal 2009 revenue relative to fiscal 2008. Although we have taken steps to reduce costs in response to current market conditions, we expect our fiscal 2009 profit margins and net income also to be adversely affected.

Adverse market conditions affect our 1) asset levels and effective fee rate (total revenue, excluding other revenue, as a percentage of average assets under management), 2) operating results, and 3) the recoverability of our investments.

Asset Levels and Effective Fee Rate

In the third quarter of fiscal 2009, we experienced a decline in revenue relative to the third quarter of fiscal 2008, primarily reflecting declines in average managed assets due to falling market values. Average assets under management were $136.0 billion in the third quarter of fiscal 2009 compared to $158.7 billion in the third quarter of fiscal 2008. The first quarter 2009 acquisition of the Tax Advantaged Bond Strategies (TABS) business of M.D. Sass Investors Services (MD Sass), which

has a lower effective management fee rate than our overall business, contributed to a decline in our average effective fee rate to 67 basis points in the third quarter of fiscal 2009 from 71 basis points in the third quarter of fiscal 2008.

Investors in our sponsored open-end funds and separate accounts have the ability to redeem their shares or investments at any time, without prior notice, and there are no material restrictions that would prevent investors from doing so.

Operating Results

In the third quarter of fiscal 2009 our revenues fell by $54.4 million, or 19 percent, from the third quarter of fiscal 2008. Our quarterly expenses declined by approximately $21.6 million, or 11 percent, in the same period. In falling markets, we benefit by having certain expenses tied to asset levels that decline as assets under management decline, such as certain distribution and service fees. We also have expenses that adjust to decreases in operating earnings, such as the performance-based management incentives we accrue. Our sales-related expenses, including sales incentives, vary with the level of sales and the rate we pay to acquire those assets. The variability of these expenses helps to offset some of the negative impact on revenue from declining markets. Beyond these substantially self-compensating expense adjustments, we continue to carefully monitor all discretionary expense categories.

Recoverability of our Investments
We test our investments, including our investments in collateralized debt obligation (CDO) entities and investments classified as available-for-sale, for impairment on a quarterly basis. Our investments in CDO entities, which have been the subject of past impairments, have been reduced to $2.3 million at July 31, 2009, reflecting impairment losses of $1.6 million recognized in the first nine months of fiscal 2009. Unrealized gains on investments classified as available-for-sale, net of tax, totaled $0.7 million on July 31, 2009 compared to unrealized losses of $2.0 million on October 31, 2008. We evaluate our investments in CDO entities and investments classified as available-for-sale for impairment using quantitative factors, including how long the investment has been in a net unrealized loss position, and qualitative factors, including the underlying credit quality of the issuer and our ability and intent to hold the investment. If markets deteriorate during the quarters ahead, our assessment of impairment on a quantitative basis may lead us to impair investments in CDO entities or investments classified as available-for-sale in future quarters that are in an unrealized loss position at July 31, 2009.

We test our investments in affiliates and goodwill in the fourth quarter of each fiscal year, or as facts and circumstances indicate that additional analysis is warranted. There have been no significant changes in financial condition in the third quarter of fiscal 2009 that would indicate that an impairment loss exists at July 31, 2009.

We periodically review our deferred sales commissions and identifiable intangible assets for impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. There have been no significant changes in financial condition in the third quarter of fiscal 2009 that would indicate that an impairment loss exists at July 31, 2009.

Assets Under Management

Assets under management of $143.7 billion on July 31, 2009 were 8 percent lower than the $155.8 billion reported a year earlier, despite strong open-end fund, institutional and retail managed account gross and net inflows and the $275.0 million initial public offering of Eaton Vance National Municipal Opportunities Trust in May, the largest public offering of a listed closed-end fund in the U.S. since 2007. Long-term fund net inflows of $2.5 billion over the last twelve months included $7.5 billion of open-end fund net inflows, offset by $4.1 billion of private fund net outflows and $0.9 billion of closed-end fund

net outflows. Net outflows from private and closed-end funds include net reductions in fund leverage of $2.0 billion and $1.4 billion, respectively, over the past twelve months. Retail managed account net inflows were $2.6 billion and institutional and high-net-worth separate account net inflows were $3.2 billion. Net price declines in managed assets reduced assets under management by $26.9 billion. A decrease in cash management assets reduced assets under management by an additional $0.3 billion.

On December 31, 2008, the Company acquired the TABS business of MD Sass, a privately held investment manager based in New York. The acquired TABS business managed $6.9 billion in client assets on December 31, 2008, consisting of $4.8 billion in institutional and high-net-worth family office accounts and $2.1 billion in retail managed accounts. Subsequent to closing, the TABS business was reorganized as the TABS division of Eaton Vance Management (EVM). TABS maintains its former leadership, portfolio team and investment strategies. Its tax-advantaged income products and services continue to be offered directly to institutional and family office clients, and are now offered by Eaton Vance Distributors, Inc. (EVD) to retail investors through financial intermediaries.

Ending Assets Under Management by Investment Category[(1)]

	July 31,				
(in millions)	**2009**	**% of Total**	**2008**	**% of Total**	**% Change**
Equity	$ 88,125	61%	$104,911	67%	16%
Fixed income	38,798	27%	31,859	21%	22%
Floating-rate bank loan	16,789	12%	19,028	12%	12%
Total	$143,712	100%	$155,798	100%	8%

(1) *Includes funds and separate accounts.*

Assets under management consist mainly of securities that are actively traded. The percentage of assets under management for which we estimate fair value is not material to the value of assets under management in total.

Equity assets under management included $31.0 billion and $46.3 billion of equity funds managed for after-tax returns on July 31, 2009 and 2008, respectively. Fixed income assets included $15.4 billion and $16.8 billion of tax-exempt municipal bond fund assets and $1.5 billion and $1.7 billion of cash management fund assets on July 31, 2009 and 2008, respectively.

Long-Term Fund and Separate Account Net Flows

	For the Three Months Ended July 31,		%	For the Nine Months Ended July 31,		%
(in millions)	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Long-term funds:						
Open-end funds	$1,825	$3,104	41%	$ 6,303	$ 7,261	13%
Closed-end funds	458	28	NM(2)	(116)	122	NM
Private funds	(550)	(168)	227%	(3,213)	(293)	NM
Total long-term fund net inflows	1,733	2,964	42%	2,974	7,090	58%
HNW and institutional accounts (1)	1,164	1,228	5%	3,500	2,789	25%
Retail managed accounts	966	1,646	41%	1,447	4,479	68%
Total separate account net inflows	2,130	2,874	26%	4,947	7,268	32%
Total net inflows	$3,863	$5,838	34%	$ 7,921	$14,358	45%

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

(2) Not meaningful (NM)

Net inflows totaled $3.9 billion in the third quarter of fiscal 2009 compared to $5.8 billion in the third quarter of fiscal 2008, primarily reflecting strong open-end fund net inflows and a third quarter closed-end fund offering offset by private fund net outflows. Open-end fund net inflows of $1.8 billion and $3.1 billion for the third quarters of fiscal 2009 and 2008, respectively, reflect gross inflows of $5.0 billion and $6.5 billion, respectively, net of redemptions of $3.2 billion and $3.4 billion, respectively. Closed-end fund net inflows of $0.5 billion in the third quarter of fiscal 2009 reflect the $0.3 billion offering of Eaton Vance National Municipal Opportunities Trust and $0.2 billion in increased portfolio leverage and reinvested dividends. Private funds, which include privately offered equity and bank loan funds as well as CDO entities, had net outflows of $0.6 billion in the third quarter of fiscal 2009 compared to net outflows of $0.2 billion in the third quarter of fiscal 2008.

Separate account net inflows totaled $2.1 billion in the third quarter of fiscal 2009 compared to net inflows of $2.9 billion in the third quarter of fiscal 2008. High-net-worth and institutional account net inflows totaled $1.2 billion in both the third quarters of fiscal 2009 and 2008, reflecting gross inflows of $2.3 billion and $2.0 billion, respectively, net of redemptions of $1.1 billion and $0.8 billion, respectively. Retail managed account net inflows totaled $1.0 billion in the third quarter of fiscal 2009 compared to net inflows of $1.6 billion in the third quarter of fiscal 2008, reflecting gross inflows of $2.2 billion and $2.7 billion, respectively, net of redemptions of $1.2 billion and $1.1 billion, respectively.

The following table summarizes the asset flows by investment category for the three and nine months ended July 31, 2009 and 2008:

Asset Flows

	For the Three Months Ended July 31,		%	For the Nine Months Ended July 31,		%
(in millions)	**2009**	**2008**	**Change**	**2009**	**2008**	**Change**
Equity fund assets beginning	$ 47,137	$ 70,547	33%	$ 51,956	$ 72,928	29%
Sales/inflows	2,887	4,692	38%	11,189	13,753	19%
Redemptions/outflows	(2,587)	(2,285)	13%	(9,614)	(6,691)	44%
Exchanges	27	(16)	NM	(60)	(84)	29%
Market value change	5,409	(5,774)	NM	(598)	(12,742)	95%
Equity fund assets ending	52,873	67,164	21%	52,873	67,164	21%
Fixed income fund assets beginning	21,251	24,187	12%	20,382	24,617	17%
Sales/inflows	1,903	1,441	32%	4,689	4,598	2%
Redemptions/outflows	(893)	(1,105)	19%	(3,335)	(3,787)	12%
Exchanges	14	2	600%	100	160	38%
Market value change	803	(670)	NM	1,242	(1,733)	NM
Fixed income fund assets ending	23,078	23,855	3%	23,078	23,855	3%
Floating-rate bank loan fund assets beginning	13,786	17,977	23%	13,806	20,381	32%
Sales/inflows	1,267	951	33%	3,012	3,095	3%
Redemptions/outflows	(844)	(730)	16%	(2,967)	(3,878)	23%
Exchanges	14	(9)	NM	6	(293)	NM
Market value change	1,624	(168)	NM	1,990	(1,284)	NM
Floating-rate bank loan fund assets ending	15,847	18,021	12%	15,847	18,021	12%
Total long-term fund assets beginning	82,174	112,711	27%	86,144	117,926	27%
Sales/inflows	6,057	7,084	14%	18,890	21,446	12%
Redemptions/outflows	(4,324)	(4,120)	5%	(15,916)	(14,356)	11%
Exchanges	55	(23)	NM	46	(217)	NM
Market value change	7,836	(6,612)	NM	2,634	(15,759)	NM
Total long-term fund assets ending	91,798	109,040	16%	91,798	109,040	16%
Separate accounts beginning	44,282	44,390	0%	35,831	42,159	15%
Inflows HNW and institutional	2,331	1,983	18%	7,342	6,300	17%
Outflows HNW and institutional	(1,167)	(755)	55%	(3,842)	(3,511)	9%
Inflows retail managed accounts	2,167	2,718	20%	6,225	7,280	14%
Outflows retail managed accounts	(1,201)	(1,072)	12%	(4,778)	(2,801)	71%
Market value change	4,040	(2,223)	NM	2,821	(4,386)	NM
Assets acquired			NM	6,853		NM
Separate accounts ending	50,452	45,041	12%	50,452	45,041	12%

	For the Three Months Ended July 31,		%	For the Nine Months Ended July 31,		%
Cash management fund assets ending	1,462	1,717	15%	1,462	1,717	15%
Assets under management ending	$143,712	$155,798	8%	$143,712	$155,798	8%

Ending Assets Under Management by Asset Class

(in millions)	July 31, 2009	% of Total	2008	% of Total	% Change
Open-end funds:					
Class A	$ 33,942	23%	$ 36,554	23%	7%
Class B	2,370	2%	3,861	2%	39%
Class C	7,539	5%	9,030	6%	17%
Class I	8,136	6%	4,360	3%	87%
Other(1)	1,150	1%	1,574	1%	27%
Total open-end funds	53,137	37%	55,379	35%	4%
Private funds(2)	17,720	12%	26,251	17%	32%
Closed-end funds	22,403	16%	29,127	19%	23%
Total fund assets	93,260	65%	110,757	71%	16%
HNW and institutional account assets	31,477	22%	27,787	18%	13%
Retail managed account assets	18,975	13%	17,254	11%	10%
Total separate account assets	50,452	35%	45,041	29%	12%
Total	$143,712	100%	$155,798	100%	8%

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

(2) *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 front-end sales load on Class A shares under certain circumstances. In such cases, the shares are sold at net asset value.

Fund assets represented 65 percent of total assets under management on July 31, 2009, down from 71 percent on July 31, 2008, while separate account assets, which include high-net-worth, institutional and retail managed account assets, increased to 35 percent of total assets under management on July 31, 2009, from 29 percent on July 31, 2008. The decrease in fund assets under management in the last twelve months reflects internal growth of 5 percent, excluding the effect of portfolio deleveraging, offset by net price declines of $19.7 billion and net reductions in fund leverage of $3.3 billion. The increase in separate account assets under management in the last twelve months reflects $6.9 billion of managed assets gained in connection with the TABS acquisition, annualized internal growth of 14 percent, excluding the effects of the TABS acquisition and net price declines of $7.2 billion.

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

(in millions)	For the Three Months Ended July 31, 2009	2008	% Change	For the Nine Months Ended July 31, 2009	2008	% Change
Open-end funds:						
Class A	$ 32,092	$ 37,104	14%	$ 29,238	$ 35,565	18%
Class B	2,344	4,114	43%	2,419	4,924	51%
Class C	7,139	9,257	23%	6,694	9,404	29%
Class I	7,279	4,171	75%	5,725	3,718	54%
Other[(1)]	1,161	1,500	23%	1,182	1,069	11%
Total open-end funds	50,015	56,146	11%	45,258	54,680	17%
Private funds[(2)]	17,424	27,078	36%	17,955	27,881	36%
Closed-end funds	21,392	30,350	30%	20,732	31,147	33%
Total fund assets	88,831	113,574	22%	83,945	113,708	26%
HNW and institutional account asset	29,506	27,986	5%	26,477	27,244	3%
Retail managed account assets	17,658	17,175	3%	16,105	15,812	2%
Total separate account assets	47,164	45,161	4%	42,582	43,056	1%
Total	$135,995	$158,735	14%	$126,527	$156,764	19%

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

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

Results of Operations

(in thousands, except per share data)	For the Three Months Ended July 31, 2009	2008	% Change	For the Nine Months Ended July 31, 2009	2008	% Change
Net income	$31,223	$49,621	37%	$81,673	$160,711	49%
Earnings per share:						
Basic	$ 0.27	$ 0.43	37%	$ 0.70	$ 1.39	50%
Diluted	$ 0.26	$ 0.40	35%	$ 0.68	$ 1.28	47%
Operating margin	26%	33%		25%	34%	

We reported net income of $31.2 million, or $0.26 per diluted share, in the third quarter of fiscal 2009 compared to net income of $49.6 million, or $0.40 per diluted share, in the third quarter of fiscal 2008. The decrease in net income of $18.4 million, or $0.14 per diluted share, can be primarily attributed to the following:

A decrease in revenue of $54.4 million, or 19 percent, primarily due to the 14 percent decrease in average assets under management and a decrease in our annualized effective fee rate to 67 basis points in the third quarter of fiscal 2009 from 71 basis points in the third quarter of

fiscal 2008. The decrease in our annualized effective fee rate can be attributed to the increase in average separate account assets under management as a percentage of total average assets under management primarily as a result of the TABS acquisition in December 2008.
A decrease in expenses of $21.6 million, or 11 percent, due to decreases in compensation expense, distribution expense, service fee expense, fund expenses and the amortization of deferred sales commissions, primarily reflecting decreases in both average assets under management and revenue.
A decrease in interest income of $1.5 million, or 64 percent, reflecting a decrease in average cash balances and a decrease in effective interest rates over the last twelve months.
An increase in unrealized gains on investments in separate accounts of $3.8 million, reflecting improving equity markets in the third quarter of fiscal 2009.
Impairment losses on investments of $0.4 million associated with investments in CDO entities.
A decrease in income taxes of $13.1 million, or 38 percent, reflecting the 36 percent decrease in taxable income year-over-year and a modest decrease in our effective tax rate.
A decrease in weighted average diluted shares outstanding of 3.3 million shares, or 3 percent, primarily reflecting a decrease in the number of in-the-money share options included in the calculation of weighted average diluted shares outstanding and modest stock buybacks over the last twelve months.

We reported net income of $81.7 million, or $0.68 per diluted share, in the first nine months of fiscal 2009 compared to net income of $160.7 million, or $1.28 per diluted share, in the first nine months of fiscal 2008. The decrease in net income of $79.0 million, or $0.60 per diluted share, can be primarily attributed to the following:

A decrease in revenue of $209.8 million, or 25 percent, primarily due to the 19 percent decrease in average assets under management and a decrease in our annualized effective fee rate to 67 basis points in the first nine months of fiscal 2009 from 72 basis points in the first nine months of fiscal 2008. The decrease in our annualized effective fee rate can be attributed to the increase in average separate account assets under management as a percentage of total average assets under management, primarily as a result of the TABS acquisition in December 2008.
A decrease in expenses of $78.8 million, or 14 percent, due to decreases in compensation expense, distribution expense, service fee expense, fund expenses and the amortization of deferred sales commissions, primarily reflecting decreases in both average assets under management and revenue. These decreases were partially offset by an increase in other expenses, primarily reflecting increases in facilities and technology expense associated with our move to new corporate offices in the second quarter of fiscal 2009.
A decrease in interest income of $6.5 million, or 69 percent, reflecting a decrease in average cash balances and a decrease in effective interest rates.
An increase in net realized and unrealized gains on investments in separate accounts of $4.7 million, reflecting improving equity markets.
Impairment losses on investments of $1.6 million associated with investments in CDO entities.
A decrease in income taxes of $55.7 million, or 53 percent, reflecting the 50 percent decrease in taxable income year-over-year and the execution of a state tax voluntary disclosure agreement in the second quarter of fiscal 2009 that resulted in a net reduction in income tax expense of $2.7 million.
A decrease in non-controlling interest of $3.4 million, primarily reflecting a $2.8 million adjustment to non-controlling interest made in the second quarter of fiscal 2008.

A decrease in equity in net income (loss) of affiliates of $3.8 million due to losses recognized by a private equity partnership in which we invest.
A decrease in weighted average diluted shares outstanding of 5.1 million shares, or 4 percent, primarily reflecting a decrease in the number of in-the-money share options included in the calculation of weighted average diluted shares outstanding and modest stock buybacks over the last twelve months.

In evaluating operating performance we consider operating income and net income, which are calculated on a basis consistent with 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 stock-based compensation, any write-off of intangible assets or goodwill associated with our acquisitions and other items we consider non-operating in nature. 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 our 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 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, a non-cash operating expense.

The following table provides a reconciliation of operating income to adjusted operating income for the three and nine month periods ended July 31, 2009 and 2008:

	For the Three Months Ended July 31,			For the Nine Months Ended July 31,		
(in thousands)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Operating income	$59,233	$ 92,085	36%	$156,355	$287,397	46%
Adjusted for:						
Closed-end fund structuring fees	2,677		NM	2,677		NM
Operating (income) losses of consolidated funds	(620)	1,202	NM	(563)	1,117	NM
Stock-based compensation	10,796	9,707	11%	31,473	30,374	4%
Adjusted operating income	$72,086	$102,994	30%	$189,942	$318,888	40%
Adjusted operating margin	32%	36%		30%	38%	

Revenue

Our average overall effective fee rate (total revenue, excluding other revenue, as a percentage of average assets under management) was 67 basis points in both the third quarter and first nine months of fiscal 2009 compared to 71 basis points and 72 basis points in the third quarter and first nine months of fiscal 2008, respectively. The decrease in our average overall effective fee rate year-over-year can be primarily attributed to the increase in separate account assets under management as a percentage of total average assets under management and the decline in average assets under management subject to distribution and service fees.

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	For the Three Months Ended July 31,			For the Nine Months Ended July 31,		
(in thousands)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Investment advisory and administration fees	$175,167	$211,311	17%	$488,837	$623,735	22%
Distribution and underwriter fees	21,719	31,305	31%	61,521	100,841	39%
Service fees	29,862	40,348	26%	83,103	119,208	30%
Other revenue	1,625	(152)	NM	2,772	2,250	23%
Total revenue	$228,373	$282,812	19%	$636,233	$846,034	25%

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 77 percent of total revenue in both the third quarter and first nine months of fiscal 2009, compared to 75 percent and 74 percent in the third quarter and first nine months of fiscal 2008, respectively.

The decrease in investment advisory and administration fees of 17 percent, or $36.1 million, in the third quarter of fiscal 2009 versus the same period a year earlier can be attributed to a 14 percent decrease in average assets under management and a decrease in our average effective investment advisory and administration fee rate due to a change in product mix. Fund assets, which had an average effective fee rate of 62 basis points in both the third quarter of fiscal 2009 and 2008 decreased as a percentage of total assets under management, while separately managed account assets, which had an average effective fee rate of 33 basis points in the third quarter of fiscal 2009 compared to 31 basis points the third quarter of fiscal 2008, increased as a percentage of total assets under management. The increase in separately managed account assets as a percentage of total assets under management can be attributed to the TABS acquisition, which contributed $6.9 billion in new separately managed account assets on December 31, 2008, and strong institutional separate account net inflows at EVM and Parametric Portfolio Associates over the past twelve months.

The decrease in investment advisory and administration fees of 22 percent, or $134.9 million, in the first nine months of fiscal 2009 versus the same period a year earlier can be attributed to a 19 percent decrease in average assets under management and a decrease in our average effective investment advisory and administration fee rate due to a change in product mix. Fund assets, which had an average effective fee rate of 61 basis points in both the first nine months of fiscal 2009 and 2008 decreased as a percentage of total assets under management, while separately managed account assets, which had an average effective fee rate of 33 basis points in the first nine months of fiscal 2009 compared to 31 basis points first nine months of fiscal 2008, increased as a percentage of total assets under management. The increase in separately managed account assets as a percentage of total assets under management can be attributed to the TABS acquisition, which contributed $6.9 billion in new separately managed account assets on December 31, 2008, and strong institutional and retail separate account net inflows at both EVM and Parametric Portfolio Associates over the past twelve months.

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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 31 percent, or $8.7 million, to $19.7 million in the third quarter of fiscal 2009 versus the same period a year earlier, 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 33 percent, or $0.2 million, to $0.3 million, reflecting a 33 percent decrease in average Class A share assets that are subject to distribution fees. Class B share distribution fees decreased by 41 percent, or $3.3 million, to $4.9 million, reflecting a decrease in average Class B share assets under management of 43 percent year-over-year. Class C and certain private fund distribution fees decreased by 22 percent and 57 percent, or $3.6 million and $1.7 million, to $13.0 million and $1.2 million, respectively, reflecting decreases in average assets subject to distribution fees of 23 percent and 50 percent, respectively. Underwriter fees and other distribution income decreased 31 percent, or $0.9 million, to $2.1 million in the third quarter of fiscal 2009, reflecting a decrease of $0.3 million in underwriter fees received on sales of Class A shares, a decrease of $0.4 million in contingent deferred sales charges received on certain Class A share redemptions, and a decrease of $0.2 million in other distribution income.

Distribution plan payments decreased 38 percent, or $34.7 million, to $55.7 million in the first nine months of fiscal 2009 versus the same period a year earlier, 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 51 percent, or $0.9 million, to $0.9 million, reflecting a 52 percent decrease in average Class A share assets that are subject to distribution fees. Class B share distribution fees decreased by 48 percent, or $14.0 million, to $14.9 million, reflecting a decrease in average Class B share assets under management of 51 percent year-over-year. Class C and certain private fund distribution fees decreased by 29 percent and 57 percent, or $14.7 million and $5.2 million, to $35.4 million and $4.0 million, respectively, reflecting decreases in average assets subject to distribution fees of 29 percent and 50 percent, respectively. Underwriter fees and other distribution income decreased 44 percent, or $4.6 million, to $5.9 million in the first nine months of fiscal 2009, reflecting a decrease of $2.1 million in underwriter fees received on sales of Class A shares, a decrease of $1.6 million in contingent deferred sales charges received on certain Class A share redemptions, and a decrease of $0.9 million in other distribution income.

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 EVD as principal underwriter for service and/or the maintenance of shareholder accounts.

Service fee revenue decreased 26 percent, or $10.5 million, to $29.9 million in the third quarter of fiscal 2009 versus the same period a year earlier, primarily reflecting a 25 percent decrease in average assets under management in funds and classes of funds subject to service fees. Service fee revenue decreased 30 percent, or $36.1 million, to $83.1 million in the first nine months of fiscal 2009 versus the same period a

year earlier, primarily reflecting a 29 percent decrease in average assets under management in funds and classes of funds subject to service fees.

Other revenue

Other revenue, which consists primarily of shareholder service fees, miscellaneous dealer income, custody fees and investment income earned by consolidated funds and certain limited partnerships, increased by $1.8 million in the third quarter of fiscal 2009 over the same period a year earlier, primarily reflecting an increase in unrealized gains recognized on securities held in the portfolios of consolidated funds and certain limited partnerships offset by a decrease in miscellaneous dealer income. Other revenue for the third quarter of fiscal 2009 includes $0.7 million of net investment gains (net realized and unrealized gains plus dividend income earned) related to consolidated funds and certain limited partnerships for the period during which they were consolidated, compared to $1.2 million of net investment losses for the third quarter of fiscal 2008.

Other revenue increased by $0.5 million in the first nine months of fiscal 2009 over the same period a year earlier, primarily reflecting a decrease in net realized and unrealized losses recognized on securities held in the portfolios of consolidated funds and certain limited partnerships offset by a decrease in miscellaneous dealer income. Other revenue for the first nine months of fiscal 2009 includes $0.1 million of net investment losses related to consolidated funds and certain limited partnerships for the period during which they were consolidated, compared to $1.0 million of net investment losses for the first nine months of fiscal 2008.

Expenses

Operating expenses decreased by 11 percent, or $21.6 million, in the third quarter of fiscal 2009 versus the same period a year earlier and by 14 percent, or $78.8 million, in the first nine months of fiscal 2009 versus the same period a year earlier, reflecting decreases in substantially all expense categories with the exception of other expenses, as more fully described below.

	For the Three Months Ended July 31,			For the Nine Months Ended July 31,		
(in thousands)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Compensation of officers and employees:						
Cash compensation	$ 66,520	$ 69,788	5%	$182,706	$206,292	11%
Stock-based compensation	10,796	9,707	11%	31,473	30,374	4%
Total compensation of officers and employees	77,316	79,495	3%	214,179	236,666	10%
Distribution expense(1)	25,386	31,591	20%	68,893	93,929	27%
Service fee expense	24,151	33,923	29%	68,027	98,821	31%
Amortization of deferred sales commissions	8,319	11,391	27%	27,399	37,009	26%
Fund expenses	5,230	6,521	20%	14,646	18,947	23%
Other expenses(1)	28,738	27,806	3%	86,734	73,265	18%
Total expenses	$169,140	$190,727	11%	$479,878	$558,637	14%

(1) *Certain amounts from prior quarters have been reclassified to conform to current year presentation. See Note 3 in Item 1 for further discussion of this change.*

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Compensation of officers and employees
Compensation expense decreased by 3 percent, or $2.2 million, in the third quarter of fiscal 2009 versus the same period a year ago, reflecting decreases in sales and revenue-based incentives, operating income-based incentives and other compensation, including severance costs, offset by increases in base salaries, employee benefits and stock-based compensation. Sales and revenue-based incentives decreased by $1.5 million, or 11 percent, reflecting a decrease in gross sales and a realignment of our sales incentive compensation structure offset by $0.6 million of additional sales-based compensation recognized in the third quarter of fiscal 2009 associated with the closed-end fund offering. Operating income-based incentives decreased by $1.7 million, or 8 percent, reflecting a decrease in adjusted operating income and changes in accruals to bring bonus accrual rates for the fiscal year to date in line with expectations for fiscal 2009 as a whole. Other compensation expense decreased by $1.1 million, or 79 percent, reflecting a decrease in severance expense recognized in the third quarter of fiscal 2009 compared to the third quarter of fiscal 2008. Base compensation and employee benefits increased by $1.1 million, or 3 percent, primarily reflecting year-end salary adjustments on a stable employee base. Stock-based compensation expense increased by $1.1 million, or 11 percent, in the third quarter of fiscal 2009 over the same period a year earlier, reflecting increased participation in the Company s employee stock purchase plan and an increase in restricted share grants in the first quarter of fiscal 2009.

Compensation expense decreased by 10 percent, or $22.5 million, in the first nine months of fiscal 2009 versus the same period a year ago, reflecting decreases in sales and revenue-based incentives, operating income-based incentives and other compensation, including severance costs, offset by increases in base salaries, employee benefits and stock-based compensation. Sales and revenue-based incentives decreased by $6.2 million, or 17 percent, reflecting a decrease in gross sales and a realignment of our sales incentive compensation structure offset by $0.6 million of additional sales-based compensation recognized in the third quarter of fiscal 2009 associated with the closed-end fund offering. Operating income-based incentives decreased by $23.2 million, or 34 percent, reflecting a decrease in adjusted operating income in the current fiscal year. Other compensation expense decreased by $1.4 million, or 54 percent, reflecting a decrease in severance expense recognized in the first nine months of fiscal 2009 compared to the first nine months of fiscal 2008. Base compensation and employee benefits increased by $7.3 million, or 7 percent, primarily reflecting year-end salary adjustments and a 5 percent increase in average employee headcount. Stock-based compensation expense increased by $1.1 million, or 4 percent, in the first nine months of fiscal 2009 over the same period a year earlier, primarily reflecting the 5 percent increase in average employee headcount.

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.

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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 20 percent, or $6.2 million, to $25.4 million in the third quarter of fiscal 2009 versus the same period a year earlier, primarily reflecting decreases in Class C share distribution fees, Class A share commissions, payments made under certain closed-end fund compensation agreements and marketing expenses associated with revenue sharing arrangements, offset by $2.7 million in closed-end fund structuring fees recognized in the third quarter of fiscal 2009. Class C distribution fees decreased by $2.7 million, or 22 percent, to $9.7 million in the third quarter of fiscal 2009, reflecting a decrease in Class C share assets older than one year. Class A commissions decreased by $0.7 million, or 29 percent, to $1.8 million, reflecting a decrease in certain Class A sales on which we pay a commission. Payments made under certain closed-end fund compensation agreements decreased by $1.9 million, or 33 percent, to $3.7 million in the third quarter of fiscal 2009, reflecting the termination of certain compensation agreements in fiscal 2008. Marketing expenses associated with revenue sharing arrangements with our distribution partners decreased by $1.4 million, or 19 percent, to $6.0 million in the third quarter of fiscal 2009, reflecting the decrease in sales and average assets under management that are subject to these arrangements. Other marketing expenses decreased by $2.3 million, or 59 percent, to $1.6 million in the third quarter of fiscal 2009, primarily reflecting decreases in literature and literature fulfillment, advertising and other promotional activities.

Distribution expense decreased by 27 percent, or $25.0 million, to $68.9 million in the first nine months of fiscal 2009 versus the same period a year earlier, primarily reflecting decreases in Class C share distribution fees, Class A share commissions, payments made under certain closed-end fund compensation agreements and marketing expenses associated with revenue sharing arrangements, offset by $2.7 million in closed-end fund structuring fees recognized in the third quarter of fiscal 2009. Class C distribution fees decreased by $10.5 million, or 28 percent, to $26.4 million in the first nine months of fiscal 2009, reflecting a decrease in Class C share assets older than one year. Class A commissions decreased by $3.0 million, or 35 percent, to $5.5 million, reflecting a decrease in certain Class A sales on which we pay a commission. Payments made under certain closed-end fund compensation agreements decreased by $6.6 million, or 39 percent, to $10.6 million in the first nine months of fiscal 2009, reflecting the termination of certain compensation agreements in fiscal 2008. Marketing expenses associated with revenue sharing arrangements with our distribution partners decreased by $2.8 million, or 13 percent, to $18.9 million in the first nine months of fiscal 2009, reflecting the decrease in sales and average assets under management that are subject to these arrangements. Other marketing expenses decreased by $4.8 million, or 50 percent, to $4.9 million in the first nine months of fiscal 2009, primarily reflecting decreases in literature and literature fulfillment, advertising and other promotional activities.

Service fee expense

Service fees we receive from sponsored funds are generally retained in the first year and paid to broker/dealers thereafter pursuant to third-party service arrangements. These fees are calculated as a percent of average assets under management in specific share classes of our mutual funds (principally Classes A, B, and C), as well as certain private funds. Service fee expense decreased by 29 percent and 31 percent in the third quarter and first nine months of fiscal 2009, respectively, versus the same periods a year earlier, reflecting a decrease in average fund assets retained more than one year in funds and share classes that are subject to service fees.

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 27 percent and 26 percent in the third quarter and first nine months of fiscal 2009, respectively, versus the same periods a year earlier, primarily reflecting the ongoing decline of Class B share sales and assets. As amortization expense is a function of our fund share class mix, a continuing shift away from Class B and Class C shares to other classes over time will likely result in a continuing reduction in amortization expense. In the third quarter of fiscal 2009, 30 percent of total amortization related to Class B shares, 42 percent to Class C shares and 28 percent to privately offered equity funds. In the first nine months of fiscal 2009, 31 percent of total amortization related to Class B shares, 42 percent to Class C shares and 27 percent to privately offered equity funds.

Fund expenses

Fund expenses consist primarily of fees paid to subadvisors, compliance costs and other fund-related expenses we incur. Fund expenses decreased 20 percent and 23 percent in the third quarter and first nine months of fiscal 2009, respectively, compared to the same periods a year earlier, primarily reflecting decreases in subadvisory fees and other fund-related expenses. The decrease in subadvisory fees can be attributed to the decrease in average assets under management in funds for which we employ and pay a subadvisor. The decrease in other fund-related expenses can be attributed to a decrease 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 3 percent, or $0.9 million, in the third quarter of fiscal 2009 over the same period a year ago, primarily reflecting increases in facilities-related expenses of $1.8 million, information technology expense of $1.2 million, and other corporate expenses of $0.7 million, offset by decreases in travel expense of $0.4 million, consulting expense of $2.0 million and communications expense of $0.3 million. The increase in facilities-related expenses can be attributed to an increase in rent and insurance associated with our move to new corporate headquarters in Boston, which was completed in the second quarter of fiscal 2009. The increase in information technology expense can be attributed to an increase in outside data services and costs incurred in conjunction with several significant system implementations. The increase in other corporate expenses reflects a $1.2 million increase in the amortization of intangible assets associated with the TABS acquisition offset by decreases in other general corporate expenses. The decrease in travel expense can be attributed to corporate initiatives to manage cost. The decrease in consulting expense can be attributed to decreases in all external consulting categories, including audit and legal, while the decrease in communications expense can be attributed to decreases in postage, subscriptions and supplies.

Other expenses increased by 18 percent, or $13.5 million, in the first nine months of fiscal 2009 over the same period a year ago, primarily reflecting increases in facilities-related expenses of $12.6 million, information technology expense of $3.1 million, and other corporate expenses of $1.6 million, offset by decreases in travel expense of $1.0 million, consulting expense of $2.1 million and communications expense of $0.8 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 and accelerated amortization of existing leasehold improvements in conjunction with our move, which was completed in the second quarter of fiscal 2009. The increase in information technology expense can be attributed to an increase in outside data services and costs incurred in conjunction with several significant system implementations. The increase in other corporate expenses reflects a $2.9 million increase in the

amortization of intangible assets associated with the TABS acquisition offset by decreases in qualification fees, professional development and charitable giving. The decreases in both travel and consulting expense can be attributed primarily to corporate-wide expense management initiatives, while the decrease in communications expense can be attributed to decreases in telephone, subscriptions and other repairs and maintenance expenses.

Other Income and Expense

	For the Three Months Ended July 31,			For the Nine Months Ended July31,		
(in thousands)	**2009**	**2008**	**% Change**	**2009**	**2008**	**% Change**
Interest income	$ 857	$ 2,376	64%	$ 2,956	$ 9,501	69%
Interest expense	(8,446)	(8,411)	0%	(25,269)	(25,230)	0%
Realized losses on investments	(375)	(332)	13%	(2,761)	(97)	NM
Unrealized gains (losses) on investments	3,499	(259)	NM	6,652	(696)	NM
Foreign currency gains (losses)	93	(58)	NM	129	(90)	NM
Impairment losses on investments	(369)		NM	(1,637)		NM
Total other income (expense)	$(4,741)	$(6,684)	29%	$(19,930)	$(16,612)	20%

Interest income decreased by $1.5 million and $6.5 million, or 64 percent and 69 percent, in the third quarter and first nine months of fiscal 2009, respectively, compared to the same periods a year ago, primarily due to a decrease in average cash balances and a decrease in effective interest rates.

Interest expense was flat year-over-year for both the three and nine-month periods, reflecting interest accrued on our senior notes offered in October 2007.

In the third quarter of fiscal 2009 and 2008, we recognized realized losses on investments totaling $0.4 million and $0.3 million, respectively, representing losses incurred on investments in separately managed accounts seeded for new product development purposes. In the first nine months of fiscal 2009 those losses totaled $2.8 million, compared to realized losses of $0.1 million in the first nine months of fiscal 2008. Unrealized gains on investments of $3.5 million and $6.7 million in the third quarter and first nine months of fiscal 2009, respectively, also relate to investments in separately managed accounts seeded for new product development purposes and compare to unrealized losses of $0.3 million and $0.7 million recognized in the third quarter and first nine months of fiscal 2008, respectively.

We recognized impairment losses totaling $0.4 million in the third quarter of fiscal 2009 representing losses related to two of our cash flow instrument CDO entities, and $1.6 million in the first nine months of fiscal 2009 representing losses relating to a synthetic CDO entity and two of our four cash instrument CDO entities. The impairment loss associated with the synthetic CDO entity, which reduced our investment in that entity to zero in the second quarter of fiscal 2009, resulted from a decrease in the estimated cash flows from the entity due to higher realized default rates and lower recovery rates on the reference securities underlying the synthetic CDO entity s portfolio of credit default swaps. The impairment losses associated with the cash instrument CDO entities resulted from decreases in the estimated future cash flows from the CDO entities due to increases in the default rates of the underlying loan portfolios.

Income Taxes

Our effective tax rate (income taxes as a percentage of income before income taxes, non-controlling interest and equity in net income (loss) of affiliates) was 39.5 percent and 36.5 percent in the third quarter and first nine months of fiscal 2009, respectively, compared to 40.5 percent and 39.0 percent in the third quarter and first nine months of fiscal 2008, respectively. The decrease in our overall effective tax rate in the third quarter of fiscal 2009 can be attributed to a decrease in our effective state tax rate. The decrease in our effective tax rate in the first nine months of fiscal 2009 reflects a lower effective state tax rate due primarily to the execution of a state tax voluntary disclosure agreement in the second quarter of fiscal 2009 that resulted in a net reduction in our income tax expense of $2.7 million.

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.

Non-controlling Interest

Non-controlling interest increased by $0.2 million in the third quarter of fiscal 2009 over the same period a year earlier, primarily due to an increase in the profitability of Parametric Risk Advisors LLC (Parametric Risk Advisors). Non-controlling interest decreased by $3.4 million in the first nine months of fiscal 2009 over the same period a year earlier, primarily due to a $2.8 million adjustment in the second quarter of fiscal 2008 to reverse stock-based compensation previously allocated to non-controlling interest holders of our majority-owned subsidiaries. In the second quarter of fiscal 2008, we determined that the allocation of stock-based compensation expense to non-controlling interest holders reduces our liability to non-controlling interest holders 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 non-controlling interest holders from the date of acquisition. Stock-based compensation expense allocated to non-controlling interest holders in prior periods was neither quantitatively nor qualitatively material to our consolidated financial statements in any of our previously reported fiscal years or periods.

Non-controlling 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 (Loss) of Affiliates, Net of Tax

Equity in net income (loss) of affiliates, net of tax, at July 31, 2009 reflects our 20 percent minority equity interest in Lloyd George Management, a 7 percent minority equity interest in a private equity partnership and a 20 percent interest in Eaton Vance Enhanced Equity Option Income Fund. Equity in net income (loss) of affiliates, net of tax, decreased by $0.4 million and $3.8 million in the third quarter and first nine months of fiscal 2009, respectively, compared to the same periods a year ago primarily due to losses recognized by the private equity partnership.

Changes in Financial Condition, Liquidity and Capital Resources

The following table summarizes certain key financial data relating to our liquidity, capital resources and uses of cash on July 31, 2009 and October 31, 2008 and for the nine months ended July 31, 2009 and 2008:

Balance Sheet and Cash Flow Data

(in thousands)	**July 31, 2009**	**October 31, 2008**
Balance sheet data:		
Assets:		
Cash and cash equivalents	$ 283,796	$ 196,923
Short-term investments	49,440	169,943
Investment advisory fees and other receivables	95,140	108,644
Total liquid assets	$ 428,376	$ 475,510
Long-term investments	$ 122,251	$ 116,191
Deferred income taxes long term	93,926	66,357
Liabilities:		
Taxes payable	$	$ 848
Deferred income taxes current	16,866	20,862
Long-term debt	500,000	500,000

	For the Nine Months Ended July 31,	
(in thousands)	**2009**	**2008**
Cash flow data:		
Operating cash flows	$ 110,041	$ 113,742
Investing cash flows	24,906	(28,761)
Financing cash flows	(47,811)	(190,009)

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 an investment in a sponsored short-term income fund. 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 42 percent and 49 percent of total assets on July 31, 2009 and October 31, 2008, respectively. The $47.1 million decrease in liquid assets can be attributed to a decrease in cash and short-term investment balances of $33.6 million and a decrease in investment advisory fees and other receivables of $13.5 million. The decrease in cash and short-term investment balances primarily reflects the $30.0 million initial cost of the acquisition of TABS incurred in the first quarter of 2009, the payment of $17.1 million to purchase additional interests in Parametric Portfolio Associates and Atlanta Capital Management, the payment of $54.2 million of dividends to shareholders and additions to equipment and leasehold improvements of $42.1 million, offset by net cash provided by operating activities of $110.0 million. The 12 percent decrease in investment advisory fees and other receivables can be attributed to the decrease in our revenue run rate at the end of the third quarter of fiscal 2009 compared to the fourth quarter of fiscal 2008.

On July 31, 2009, our 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 July 31, 2009, we had no borrowings under our revolving credit facility.

We continue to monitor our liquidity daily. We experienced a significant reduction in operating revenue and operating income in both the third quarter and first nine months of fiscal 2009 in comparison with the same periods a year ago, primarily reflecting lower average assets under management resulting from decreased market values of managed assets. We remain committed to growing our business in what has been and may continue to be a challenging market environment and expect that our main uses of cash will be to invest in new products, acquire shares of our Non-Voting Common Stock, pay dividends, make strategic acquisitions, enhance technology infrastructure and pay the operating expenses of the business, which are largely variable in nature and fluctuate with revenue and assets under management. We continue to look for opportunities to prudently reduce our variable costs and discretionary spending wherever possible. We believe that our existing liquid assets, cash flows from operations, which contributed $107.7 million in the first nine months of fiscal 2009, and borrowing capacity under our existing credit facility are sufficient to meet our current and forecasted operating cash needs and to satisfy our future commitments as more fully described in Contractual Obligations below.

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

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 asset of $84.9 million, the majority of which will amortize over a 15 year period, and a corresponding deferred tax liability of $84.9 million, which will reverse over a four year period ending October 31, 2011. The net current deferred tax liability of $16.9 million as of July 31, 2009 principally represents the current portion of the remaining $48.9 million deferred tax liability associated with the change in accounting method.

Current taxes moved to a prepaid balance of $3.3 million, which is included in other current assets on our Consolidated Balance Sheet at July 31, 2009, from a current payable of $0.8 million on October 31, 2008. This reflects a current tax provision totaling $85.0 million offset by $76.8 million of income taxes paid, the recognition of $9.7 million of excess tax benefits associated with stock option exercises in the first nine months of fiscal 2009 and the execution of a state tax voluntary disclosure agreement in the

second quarter of fiscal 2009 that resulted in a net reduction in our income tax expense in the amount of $2.7 million.

Contractual Obligations

The following table details our future contractual obligations as of July 31, 2009:

		Payments due			
(in millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**After 5 Years**
Operating leases facilities and equipment	$ 436.6	$ 18.7	$ 37.1	$ 36.2	$ 344.6
Senior notes	500.0				500.0
Interest payment on senior notes	276.3	32.5	97.5	65.0	81.3
Investment in private equity partnership	3.5		3.5		
Unrealized tax benefits	10.3	10.3			
Total	$ 1,226.7	$ 61.5	$ 138.1	$ 101.2	$ 925.9

In September 2006, we signed a long-term lease to move our corporate headquarters to a new location in Boston. The lease commenced in May 2009. Capital expenditures, including those for the build-out of our new corporate headquarters, are anticipated to be approximately $2.8 million for the fourth quarter of fiscal 2009, before tenant reallowances of $2.1 million, and are expected to be funded from available cash balances.

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 July 31, 2009, we had invested $11.5 million of the total $15.0 million of committed capital.

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

In April 2009, the non-controlling interest holders of Parametric Portfolio Associates exercised a put option, requiring us to purchase an additional interest in Parametric Portfolio Associates for $14.2 million. The transaction settled on May 1, 2009 and increased our capital ownership interest from 89.3 percent to 92.4 percent and our profits interest from 82.3 percent to 87.5 percent. The additional purchase price was allocated among intangible assets, goodwill and non-controlling interest.

Pursuant to the terms of a unit purchase and redemption agreement dated November 1, 2008, we purchased an additional interest in Atlanta Capital Management for $2.8 million on June 30, 2009. The transaction increased our ownership interest from 85.5 percent to 89.7 percent at closing. The additional purchase price was allocated among intangible assets, goodwill and non-controlling interest. Contemporaneously, the Company purchased a non-controlling capital interest in Atlanta Capital Management Holdings, LLC (ACM Holdings), a partnership that owns the non-controlling interests of Atlanta Capital, for $6.6 million. The Company s interest in ACM Holdings is non-voting and entitles the Company to receive $6.6 million when the put or call options for the non-controlling interests of Atlanta Capital are exercised. Our investment in ACM Holdings is included as a component of long-term investments in our consolidated balance sheet at July 31, 2009.

In May 2009, we executed a call option, requiring the non-controlling interest holders of Fox Asset Management to sell to us an additional interest in Fox Asset Management. The transaction settled on June 1, 2009 and increased our ownership interest from 80 percent to 84 percent. Pursuant to the terms of the unit purchase agreement, there was no transfer of proceeds at closing.

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 fund s cost of borrowing under its commercial paper financing facility. Upon expiration on January 16, 2009, the Note was extended until December 16, 2009 and borrowings under the Note were increased to $15.0 million. Subject to certain conditions, the privately offered equity fund may prepay the Note in whole or in part, at any time, without premium or penalty. The Note is classified in our Consolidated Balance Sheet as a component of total current assets.

On December 31, 2008, the Company acquired the TABS business of MD Sass, a privately held investment manager based in New York, New York. The TABS business managed $6.9 billion in client assets on December 31, 2008, consisting of $4.9 billion in institutional and high-net-worth family office accounts and $2.0 billion in retail managed accounts. Subsequent to closing, the TABS business was reorganized as the Tax-Advantaged Bond Strategies division of EVM. TABS maintains its former leadership, portfolio team and investment strategies. Its tax-advantaged income products and services continue to be offered directly to institutional and family office clients, and are being offered by EVD to retail investors through financial intermediaries.

At closing, the Company paid $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. In conjunction with the acquisition, the Company recorded $44.8 million of intangible assets and a contingent purchase price liability of $14.0 million.

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Operating Cash Flows

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

Cash provided by operating activities totaled $110.0 million in the first nine months of fiscal 2009, a decrease of $3.7 million from the $113.7 million reported in the first nine months of fiscal 2008. Net income declined by $79.0 million year-over-year, primarily reflecting a decrease in revenue of $209.8 million offset by decreases in operating expenses and income taxes of $78.8 million and $55.7 million, respectively. The decrease in net income year-over-year was offset by timing differences of approximately $42.8 million in the cash settlement of our short-term and long-term receivables and payables year-over-year. Other significant sources and uses of cash in the first nine months include net cash outflows associated with the purchase and sale of trading investments in the portfolios of consolidated funds and separate accounts, which reduced net cash provided by operating activities by $2.4 million in the first nine months of fiscal 2009 compared to a reduction of $35.6 million in the first nine months of fiscal 2008, and net cash outflows associated with deferred sales commissions, which reduced net cash provided by operating activities by $8.9 million in the first nine months of fiscal 2009 compared to a reduction of $17.6 million in the first nine months of fiscal 2008. Significant non-cash expenses, including the amortization of deferred sales commissions and other intangible assets, depreciation, stock-based compensation and the net change in deferred income taxes, decreased to $40.8 million in the first nine months of fiscal 2009 from $45.9 million in the first nine months of fiscal 2008, reflecting a decrease in the amortization of deferred sales commissions offset by the increase in our deferred income tax asset and the increase in other amortization associated with the TABS acquisition in the first quarter of fiscal 2009.

Investing Cash Flows

Investing activities consist primarily of the purchase of equipment and leasehold improvements, net cash paid in conjunction with the TABS acquisition and the purchase and sale of investments in our sponsored funds that we do not consolidate. Cash provided by investing activities totaled $24.9 million in the first nine months of fiscal 2009 compared to cash used by investing activities of $28.8 million in the first nine months of fiscal 2008, reflecting an increase year-over-year in proceeds received from the sale of available-for-sale investments offset by increases in additions to equipment and leasehold improvements and net cash paid in conjunction with the TABS acquisition in the first quarter of fiscal 2009.

In the first nine months of fiscal 2009, net purchases and sales of available-for-sale investments contributed $113.1 million, compared to a contribution of $4.7 million in the first nine months of fiscal 2008. Additions to equipment and leasehold improvements increased to $42.1 million in the first nine months of fiscal 2009 from $7.0 million a year earlier, reflecting tenant improvements made to our new corporate headquarters in conjunction with our move in the second quarter of fiscal 2009. The acquisition of TABS on December 31, 2008 resulted in a net cash payment of $29.0 million for the nine months ended July 31, 2009 as more fully described in Contractual Obligations above.

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Financing Cash Flows

Financing cash flows primarily reflect 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 used for financing activities totaled $47.8 million and $190.0 million in the first nine months of fiscal 2009 and 2008, respectively.

In the first nine months of fiscal 2009, we repurchased and retired a total of 0.5 million shares of our Non-Voting Common Stock for $12.4 million under our authorized repurchase programs and issued 2.1 million shares of our Non-Voting Common Stock in connection with the grant of restricted share awards, the exercise of stock options and other employee stock purchases for total proceeds of $17.4 million. We have authorization to purchase an additional 2.2 million shares under our current share repurchase authorization and anticipate that future repurchases will continue to be an ongoing use of cash. Our dividends per share were $0.465 in the first nine months of fiscal 2009, compared to $0.45 in the first nine months of fiscal 2008. We currently expect to declare and pay comparable dividends on our Voting and Non-Voting Common Stock on a quarterly basis.

Off-Balance Sheet Arrangements

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

Critical Accounting Policies

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.

Fair Value Measurements
We adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, on November 1, 2008, as described in Note 9 to our Consolidated Financial Statements included in Part I of this Form-10-Q. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a hierarchy that prioritizes inputs to valuation techniques to measure fair value. This fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value and gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Investments measured and reported at fair value are classified and disclosed in one of the following categories based on the lowest level input that is significant to the fair value measurement in its entirety. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s classification within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Level 1	Investments valued using unadjusted quoted market prices in active markets for identical assets at the reporting date. Assets classified as Level 1 include debt and equity securities held in the portfolios of consolidated funds and separate

accounts, which are classified as trading, and investments in sponsored mutual funds, which are classified as available-for-sale.

Level 2

Investments valued using observable inputs other than Level 1 unadjusted quoted market prices, such as quoted market prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities that are not active, and inputs other than quoted prices that are observable or corroborated by observable market data. Investments in this category include commercial paper, certain debt securities and investments in sponsored privately offered equity funds, which are not listed but have a net asset value that is comparable to listed mutual funds.

Level 3

Investments valued using unobservable inputs that are supported by little or no market activity. Level 3 valuations are derived primarily from model-based valuation techniques that require significant management judgment or estimation based on assumptions that we believe market participants would use in pricing the asset or liability. Investments in this category include investments in CDO entities that are measured at fair value on a non-recurring basis when facts and circumstances indicate the investment has been impaired. The fair values of CDOs are derived from models created to estimate cash flows using key inputs such as default and recovery rates for the underlying portfolio of loans or other securities. CDOs measured at fair value on a non-recurring basis are classified as Level 3 because at least one of the significant inputs used in the determination of fair value is not observable.

Substantially all of our investments are carried at fair value, with the exception of our investments in CDO entities that have not been impaired in the current fiscal period and certain non-marketable investments which are accounted for using the equity or cost method.

Investments are evaluated for other-than-temporary impairment on a quarterly basis when the cost of an investment exceeds its fair value. We consider many factors, including the severity and duration of the decline in fair value below cost, our intent and ability to hold the security for a period of time sufficient for an anticipated recovery in fair value, and the financial condition and specific events related to the issuer. When a decline in fair value of an available-for-sale security is determined to be other-than-temporary, the loss is recognized in earnings in the period in which the other-than-temporary decline in value is determined.

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 our 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, which share similar economic characteristics, to a single reporting unit. Management believes that the inclusion of these entities in a single reporting unit for the purposes of goodwill impairment testing most accurately reflects the synergies achieved in acquiring these entities, namely centralized distribution of similar products and services. Goodwill is not amortized, but is tested annually for impairment in the fourth quarter of each fiscal year 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 by averaging fair value established using an income approach and fair value established using a market approach.

The income approach employs a discounted cash flow model that takes into account 1) assumptions that marketplace participants would use in their estimates of fair value, 2) current period actual results, and 3) budgeted results for future periods that have been vetted by senior management at the reporting unit level. The discounted cash flow model incorporates the same fundamental pricing concepts used to calculate fair value in the acquisition due diligence process and a discount rate that takes into consideration our estimated cost of capital adjusted for the uncertainty inherent in the acquisition.

The market approach employs market multiples for comparable transactions in the financial services industry obtained from industry sources, taking into consideration the nature, scope and size of the acquired reporting unit. Estimates of fair value are established using a multiple of assets under management and current and forward multiples of both revenue and earnings before interest and taxes (EBIT) adjusted for size and performance level relative to peer companies. A weighted-average calculation is then performed, giving greater weight to fair value calculated based on multiples of revenue and EBIT and lesser weight to fair value calculated as a multiple of assets under management. We believe that fair value calculated based on multiples of revenue and EBIT is a better indicator of fair value in that these fair values provide information as to both scale and profitability.

If the carrying amount of the reporting unit exceeds its calculated fair value, the second step of the goodwill impairment test is then performed to measure the amount of the impairment loss, if any.

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, Accounting for Uncertainties in Tax, 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. We classify 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 pursuant to management agreements between us and the entities. At July 31, 2009, combined assets under management in these entities upon which we earn a management fee were approximately $2.5 billion. We had combined investments in four of these entities valued at $2.3 million on July 31, 2009.

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 $2.3 million carrying value of the investments on our Consolidated Balance Sheet at July 31, 2009.

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

Codification
In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of SFAS No. 162. The FASB Accounting Standards Codification will become the source of authoritative GAAP recognized by the Financial Accounting Standards Board (FASB) to be applied by nongovernmental entities. The goal of SFAS No. 168 is to simplify the application of GAAP by including authoritative GAAP in one location in a consistently organized manner. We will adopt this standard during the fourth quarter of fiscal 2009. The adoption of the standard will only result in changes to our financial statement disclosure references.

Variable Interest Entities
In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS No. 167 improves how enterprises account for and disclose their involvement with variable interest entities (VIEs) and other entities whose equity at risk is insufficient or lacks certain characteristics. SFAS No. 167 changes how an entity determines whether it is the primary beneficiary of a VIE and whether that VIE should be consolidated and requires additional disclosures. As a result, we must comprehensively review our involvements with VIEs and potential VIEs to determine the effect on our consolidated financial statements and related disclosures. SFAS No. 167 is effective for our fiscal year that begins on November 1, 2010 and for interim periods within the first annual reporting period. Earlier application is prohibited. We are currently evaluating the potential impact on our consolidated financial statements.

Accounting for Transfers of Financial Assets
In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets an amendment of SFAS No. 140. SFAS No. 166 changes the derecognition guidance for transferors of financial assets, including entities that sponsor securitizations, to align that guidance with the original intent of SFAS No. 140, Accounting for the Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. SFAS No. 166 also eliminates the exemption from consolidation for qualifying special purpose entities. SFAS No. 166 is effective for our fiscal year that begins on November 1, 2010 and for interim periods within that first annual reporting period. Earlier application is prohibited. The recognition and measurement provisions of SFAS No. 166 must be applied to transfers that occur on or after the effective date. We are currently evaluating the potential impact, if any, on our consolidated financial statements.

Earnings per Share
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 specifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method described in SFAS No. 128, Earnings Per Share. FSP EITF 03-6-1 is effective for our fiscal year that begins on November 1, 2009 and will require a retrospective adjustment to all prior period earnings per share. We are currently evaluating the potential impact, if any, on our consolidated financial statements.

Intangible Assets
In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 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 (as amended). FSP FAS 142-3 is intended to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations, and other GAAP. FSP FAS 142-3 is effective for our fiscal year that begins on November 1, 2009 and interim periods within that fiscal year. We do not anticipate that the provisions of FSP FAS 142-3 will have an impact on our consolidated results of operations or consolidated financial position.

Noncontrolling Interests
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, Consolidated Financial Statements, 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 in that entity that should be reported as equity, separate from the parent s equity, in the consolidated financial statements. SFAS No. 160 is effective for the Company s fiscal year that begins on November 1, 2009 and interim periods within that fiscal year and requires retrospective adoption of the presentation and disclosure requirements for existing non-controlling interests. All other requirements of SFAS No. 160 shall be applied prospectively. We are currently evaluating the impact on our consolidated financial statements.

Business Combinations
In December 2007, the FASB amended SFAS No. 141, Business Combinations. SFAS No. 141(R) establishes principles and requirements for how the acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The statement requires an acquirer to recognize the assets acquired, liabilities assumed and any

noncontrolling interest in the acquiree at the acquisition date at fair value, with limited exceptions. It also addresses the measurement of fair value in a step acquisition, changes the requirements for recognizing assets acquired and liabilities assumed subject to contingencies, provides guidance on recognition and measurement of contingent consideration and requires that acquisition-related costs be expensed as incurred. SFAS No. 141(R) 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 November 2008, the FASB issued EITF 08-6, Equity Method Investment Accounting Considerations. EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for the our fiscal year that begins on November 1, 2009 and interim periods within that fiscal year. We are currently evaluating the impact on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP FAS 141(R)-1 addresses application issues on initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP FAS 141(R)-1 shall be applied to assets or liabilities arising from contingencies in 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our Quantitative and Qualitative Disclosures About Market Risk from those previously reported in our Form 10-K for the year ended October 31, 2008.

Item 4. Controls and Procedures

We evaluated the effectiveness of our disclosure controls and procedures as of July 31, 2009. Disclosure controls and procedures are designed to ensure that the information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the SEC s rule and forms. Disclosure controls and procedures include, without limitation, controls and procedures accumulated and communicated to our management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), to allow timely decisions regarding required disclosure. Our CEO and CFO participated in this evaluation and concluded that, as of the date of their evaluation, our disclosure controls and procedures were effective.

In the ordinary course of business, the Company may routinely modify, upgrade and enhance its internal controls and procedures for financial reporting. However, there have been no changes in our internal control over financial reporting as defined by Rule 13a-15(f) under the Exchange Act that occurred during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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 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. 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 and the first nine months of fiscal 2009 to maintain minimum debt coverage ratios amidst declining markets.

The recession we are experiencing could further adversely impact our revenue and net income 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 could 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 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 of 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 generally 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.

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

The table below sets forth information regarding purchases of our Non-Voting Common Stock on a monthly basis during the third quarter of fiscal 2009:

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total Number of Shares Purchased	(b) Average price paid per share	(c) Total Number of Shares Purchased of Publicly Announced Plans or Programs[1]	(d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs
May 1, 2009 through May 31, 2009				2,355,207
June 1, 2009 through June 30, 2009	58,587	$27.57	58,587	2,296,620
July 1, 2009 through July 31, 2009	121,800	$25.75	121,800	2,174,820
Total	180,387	$26.34	180,387	2,174,820

[1] *We announced a share repurchase program on October 24, 2007. The Board authorized management to repurchase up to 8,000,000 shares of our Non-Voting Common Stock in the open market and in private transactions in accordance with applicable securities laws. This repurchase plan is not subject to an expiration date.*

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

None

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	EATON VANCE CORP. (Registrant)
DATE: September 4, 2009	/s/Robert J. Whelan
	(Signature) Robert J. Whelan Chief Financial Officer
DATE: September 4, 2009	/s/Laurie G. Hylton
	(Signature) Laurie G. Hylton Chief Accounting Officer