

GREENHILL & CO INC
Form 10-Q
November 02, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-32147

Greenhill & Co., Inc.

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(Exact name of registrant as specified in its charter)

Delaware 51-0500737 (State of Incorporation) (I.R.S. Employer Identification No.) 300 Park Avenue, 23rd Floor
New York, New York 10022 (Address of principal executive offices) (Zip Code)
Registrant's telephone number (212) 389-1500

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of November 1, 2007, there were 26,729,293 shares of the registrant's common stock outstanding.

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AVAILABLE INFORMATION

Greenhill & Co., Inc. files current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the “Exchange Act”), with the SEC. You may read and copy any document we file at the SEC’s public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC’s internet site at <http://www.sec.gov>. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A.

Our public internet site is <http://www.greenhill.com>. We will make available free of charge through our internet site, via a link to the SEC’s internet site at <http://www.sec.gov>, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the “Corporate Governance” section, and available in print upon request of any stockholder to the Investor Relations Department, are charters for the company’s Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, our Corporate Governance Guidelines and Code of Business Conduct and Ethics governing our directors, officers and employees. You will need to have Adobe Acrobat Reader software installed on your computer to view these documents, which are in PDF format.

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Part I. Financial Information

Item 1. Financial Statements

Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition (Unaudited)

As

of September 30,					
2007 December 31,					
2006 Assets	Cash and cash equivalents	\$ 116,173,715	\$ 62,386,286	Securities	— 38,753,193
Financial advisory fees receivable, net of allowance for doubtful accounts of \$0.2 million and \$0 million as of September 30, 2007 and December 31, 2006, respectively		33,547,510	21,443,944	Other receivables	
3,390,120	2,031,277	Property and equipment, net of accumulated depreciation and amortization of \$31.2 million and \$28.9 million as of September 30, 2007 and December 31, 2006, respectively		14,597,903	14,260,376
Investments	105,334,997	129,431,273	Due from affiliates	2,822,718	708,643
17,691,889	Other assets	11,021,395	11,024,522	Total assets	\$ 306,734,571 \$ 297,731,403
Liabilities and Stockholders' Equity	Compensation payable	\$ 85,496,330	\$ 64,355,140	Accounts payable and accrued expenses	8,740,516 6,283,004
26,673,251	48,356,002	Due to affiliates	1,445,044	1,445,044	Total liabilities
139,939,190	Minority interest in net assets of affiliates	2,343,514	2,230,903	Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 31,221,435 and 31,034,727 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively	312,212 310,345
36,638,094	21,205,268	Additional paid-in capital	125,663,409	116,251,930	Exchangeable shares of subsidiary; 257,156 shares issued and outstanding as of September 30, 2007 and December 31, 2006
15,352,213	Retained earnings	172,805,878	112,052,519	Accumulated other comprehensive income	9,567,101 2,896,461
155,561,310	Treasury stock, at cost; 4,500,633 and 2,512,437 shares as of September 30, 2007 and December 31, 2006, respectively	(237,402,991)	(112,507,426)	Stockholders' equity	122,935,916
	Total liabilities, minority interest and stockholders' equity	\$ 306,734,571	\$ 297,731,403		

See accompanying notes to condensed consolidated financial statements (unaudited).

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Greenhill & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)

For the Three Months Ended											
September 30,		For the Nine Months Ended									
September 30,	2007	2006	2007	2006	Revenues					Financial advisory fees	\$ 116,457,989
\$ 47,604,625	\$ 279,704,869	\$ 150,725,168	Merchant banking revenue	1,753,447	9,193,646						
19,809,972	65,034,995	Interest income	1,141,797	841,433	3,910,168	2,144,616	Total Revenues				
119,353,233	57,639,704	303,425,009	217,904,779	Expenses				Employee compensation			
and benefits	54,947,307	26,471,823	139,563,036	100,048,222	Occupancy and equipment rental						
2,595,479	2,418,701	7,082,509	6,668,940	Depreciation and amortization	1,059,673	856,806					
3,097,971	2,049,631	Information services	1,384,237	1,103,871	3,947,424	3,270,223	Professional fees				
1,097,623	990,890	2,982,554	2,644,360	Travel related expenses	1,247,777	1,112,856					
4,990,595	3,773,733	Other operating expenses	1,952,826	2,381,949	5,751,867	8,122,577	Interest expense				
834,664	147,225	2,081,156	263,280	Total Expenses	65,119,586	35,484,121					
169,497,112	126,840,966	Income before Tax and Minority Interest	54,233,647	22,155,583	133,927,897						
91,063,813	Minority interest in net income of affiliates	(97,433)	92,258	27,104	1,754,788	Income before Tax					
54,331,080	22,063,325	133,900,793	89,309,025	Provision for taxes	19,028,934						
7,895,499	47,150,536	33,653,275	Net Income	\$ 35,302,146	\$ 14,167,826	\$ 86,750,257					
55,655,750	Weighted average shares outstanding:				Basic		28,069,522	29,468,127			
28,847,401	29,575,097	Diluted	28,153,820	29,571,666	28,951,101	29,711,057	Earnings per share				
	Basic	\$ 1.26	\$ 0.48	\$ 3.01	\$ 1.88	Diluted	\$ 1.25	\$ 0.48	\$ 3.00	\$ 1.87	
Dividends declared and paid per share			\$ 0.38	\$ 0.19	\$ 0.88	\$ 0.51					

See accompanying notes to condensed consolidated financial statements (unaudited).

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Greenhill & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in
Stockholders' Equity (Unaudited)

Nine Months Ended

September 30,

2007 Year Ended

December 31,

2006 Common stock, par value \$0.01 per share			Common stock, beginning of the year	\$ 310,345	\$
308,800 Common stock issued	1,867	1,545	Common stock, end of the period	312,212	310,345
Restricted stock units			Restricted stock units, beginning of the year	21,205,268	8,931,618
Restricted stock units recognized	22,572,099	15,834,888	Restricted stock units delivered	(7,139,273)	(3,561,238)
Restricted stock units, end of the period	36,638,094	21,205,268	Additional paid-in capital		Additional
paid-in capital, beginning of the year	116,251,930	109,961,120	Common stock issued	7,352,505	
3,704,731 Tax benefit from the delivery of restricted stock units	2,058,974	2,586,079	Additional paid-in capital, end of the period	125,663,409	116,251,930
Exchangeable shares of subsidiary			Exchangeable shares of subsidiary, beginning of the year	15,352,213	—
Exchangeable shares of subsidiary, end of the period	15,352,213	—	Exchangeable shares of subsidiary issued	—	—
Retained earnings			Retained earnings, beginning of the year	112,052,519	57,595,530
Dividends	(25,996,898)		Net income	86,750,257	75,665,945
Retained earnings, end of the period	172,805,878		Other comprehensive income		Other comprehensive income (loss), beginning of the year
Other comprehensive income (loss), beginning of the year	2,896,461	(3,025,186)	Currency translation adjustment	6,670,640	5,921,647
Other comprehensive income, end of the period	9,567,101	2,896,461	Treasury stock, at cost		Treasury stock, beginning of the year
Treasury stock, at cost			Repurchased	(124,895,565)	(53,450,878)
Treasury stock, beginning of the year	(112,507,426)	(59,056,548)	Treasury stock, end of the period	(237,402,991)	(112,507,426)
Total stockholders' equity	\$ 122,935,916	\$ 155,561,310			

See accompanying notes to condensed consolidated financial statements (unaudited).

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Greenhill & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)

For

the Nine Months Ended

September 30,	2007	2006	Operating activities:	Net income	\$ 86,750,257	\$ 55,655,750
			Adjustments to reconcile net income to net cash provided by operating activities:			Adjustments to net
income:			Depreciation and amortization	3,097,971	2,049,631	Net realized and unrealized (gains) on
investments	(7,085,883)	(53,792,083)	Restricted stock units recognized and common stock issued			
22,787,196	13,248,508		Changes in operating assets and liabilities:			Financial advisory fees receivable
(12,103,566)	(5,856,717)		Due from affiliates	(2,114,075)	(420,556)	Other receivables and assets
(820,540)	(1,398,691)		Compensation payable	21,141,190	(7,020,839)	Accounts payable and accrued
expenses	2,457,512	(4,334,412)	Minority interest in net assets of affiliates	112,611	(312,076)	Taxes
payable	(21,682,751)	7,508,450	Net cash provided by (used in) operating activities	92,539,922		
5,326,965			Investing activities:			
			Purchase of investments	(31,917,738)	(13,042,133)	Sale of
investment	30,053,602	—	Distributions received from investments	32,996,560	59,504,117	Purchase of
securities	(5,000,000)	(19,808,532)	Sale of securities	43,753,193	10,234,895	Purchase of property and
equipment	(3,517,266)	(8,499,006)	Purchase of Beaufort Partners Limited, net of cash acquired	(2,154,324)		
)	(2,260,919)		Net cash provided by investing activities	66,368,351	26,128,422	Financing activities:
			Proceeds of revolving bank loan	165,450,000	40,800,000	Repayment of revolving bank loan
(125,850,000)	(28,500,000)		Dividends paid	(25,996,898)	(15,527,979)	Purchase of treasury stock
(124,895,565)	(46,435,324)		Net tax benefit from the delivery of restricted stock units	2,058,974	2,526,713	
			Net cash used in financing activities	(109,233,489)	(47,136,590)	Effect of exchange rate changes on cash and
			cash equivalents	4,112,645	2,561,822	Net increase (decrease) in cash and cash equivalents
(13,119,381)			Cash and cash equivalents, beginning of period	62,386,286	83,240,865	Cash and cash
			equivalents, end of period	\$ 116,173,715	\$ 70,121,484	Supplemental disclosure of cash flow information:
			Cash paid for interest	\$ 2,218,529	\$ 150,753	Cash paid for taxes, net of refunds
						\$ 66,917,186
						\$
						22,037,100

See accompanying notes to condensed consolidated financial statements (unaudited).

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Note 1 — Organization

Greenhill & Co., Inc., a Delaware corporation, together with its subsidiaries (collectively, the “Company”), is an independent investment banking firm. The Company has clients located throughout the world, with offices located in New York, London, Frankfurt, Toronto and Dallas.

The Company’s activities as an investment banking firm constitute a single business segment, with two principal sources of revenue:

- Financial advisory, which includes advice on mergers, acquisitions, restructurings and similar corporate finance matters; and
- Merchant banking, which includes the management of outside capital invested in the Company’s merchant banking funds, primarily Greenhill Capital Partners (“GCP I”), Greenhill Capital Partners II (“GCP II”), Greenhill Capital Partners Europe (“GCP Europe”) (collectively “GCP”), and Greenhill SAV Partners (“GSAVP”), and the Company’s principal investments in GCP, GSAVP and other merchant banking funds.

The Company’s U.S. and international wholly-owned subsidiaries include Greenhill & Co., LLC (“G&Co”), Greenhill Capital Partners, LLC (“GCPLL”), Greenhill Venture Partners, LLC (“GVP”), Greenhill Aviation Co., LLC (“GAC”), Greenhill & Co. Europe Limited (“GCE”), and Greenhill & Co. Holding Canada Ltd. (“GCH”).

G&Co is a broker-dealer, registered under the Exchange Act, as amended, and is registered with the Financial Industry Regulation Authority. G&Co is engaged in the investment banking business principally in North America.

GCE is a U.K. based holding company. GCE controls Greenhill & Co. International LLP (“GCI”) and Greenhill Capital Partners Europe LLP (“GCPE”), through its controlling membership interests. GCI is engaged in investment banking activities, principally in Europe, and is subject to regulation by the U.K. Financial Services Authority (“FSA”). GCPE is also regulated by the FSA and provides investment advisory services to GCP Europe, our UK-based private equity fund that invests in a diversified portfolio of private equity and equity related investments in mid-market companies located primarily in the United Kingdom and Continental Europe. The investors in GCP Europe are third parties; however, the Company and its employees have also made investments in GCP Europe.

On July 6, 2006, the Company, through a newly formed, wholly-owned Canadian subsidiary, GCH, acquired Beaufort Partners Limited, a Toronto based investment banking firm. The acquired company operates as Greenhill & Co. Canada Ltd.

GCPLL is an investment adviser, registered under the Investment Advisers Act of 1940 (“IAA”). GCPLL provides investment advisory services to GCP I and GCP II, our U.S.-based private equity funds that invest in a diversified portfolio of private equity and equity related investments. The majority of the investors in GCP are third parties; however, the Company and its employees have also made investments in GCP.

GVP is an investment advisor, registered under the IAA. GVP provides investment advisory services to GSAVP, our venture funds that invest in early growth stage companies in the tech-enabled and business information services industries. The majority of the investors in GSAVP are third parties; however, the Company and its employees have also made investments in GSAVP.

GAC owns and operates an aircraft, which is used for the exclusive benefit of the Company's employees and their immediate family members.

Note 2 — Summary of Significant Accounting Policies

Basis of Financial Information

These condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions regarding future events that affect the amounts reported in our financial statements and

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these footnotes, including investment valuations, compensation accruals and other matters. Management believes that the estimates used in preparing its condensed consolidated financial statements are reasonable and prudent. Actual results could differ materially from those estimates.

The condensed consolidated financial statements of the Company include all consolidated accounts of Greenhill & Co., Inc. and all other entities in which the Company has a controlling interest, including GCI, after eliminations of all significant inter-company accounts and transactions. In accordance with revised FASB Interpretation No. 46 (“FIN 46-R”), “Consolidation of Variable Interest Entities,” the Company consolidates the general partners of its merchant banking funds in which it has a majority of the economic interest. The Company does not consolidate the merchant banking funds since the Company, through its general partner and limited partner interests, does not have a majority of the economic interest in such funds and under EITF No. 04-5, “Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights,” is subject to removal by a simple majority of unaffiliated third-party investors.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006 filed with the Securities and Exchange Commission. The condensed consolidated financial information as of December 31, 2006 has been derived from audited consolidated financial statements not included herein. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Minority Interest

The portion of the consolidated interests in the general partners of our merchant banking funds which are held directly by employees of the Company are represented as minority interest in the accompanying condensed consolidated financial statements.

Revenue Recognition

Financial Advisory Fees

The Company recognizes advisory fee revenue when the services related to the underlying transactions are completed in accordance with the terms of its engagement letters. Retainer fees are recognized as advisory fee income over the period in which the related service is rendered.

The Company’s clients reimburse certain expenses incurred by the Company in the conduct of financial advisory engagements. Expenses are reported net of such client reimbursements. Reimbursed expenses totaled \$1.3 million and \$0.9 million for the three months ended September 30, 2007 and 2006, respectively and \$2.9 million and \$2.9 million for the nine months ended September 30, 2007 and 2006, respectively.

Merchant Banking Revenues

Merchant banking revenue consists of (i) management fees on the Company’s merchant banking activities, (ii) gains (or losses) on investments in the Company’s investment in merchant banking funds and other principal investment activities, and (iii) merchant banking profit overrides.

Management fees earned from the Company’s merchant banking activities are recognized over the period of related service.

The Company recognizes revenue on investments in its merchant banking funds based on its allocable share of realized and unrealized gains (or losses) reported by such investments.

The Company recognizes merchant banking profit overrides when certain financial returns are achieved over the life of the fund. Profit overrides are calculated as a percentage of the profits over a specified threshold earned by each fund on investments managed on behalf of unaffiliated investors

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for GCP I and principally all investors, except the Company, in GCP II, GCP Europe and GSAVP, and are subject to clawback. Future losses (if any) in the value of the funds' investments may require amounts previously recognized as profit overrides to be adjusted downward. Accordingly, merchant banking profit overrides are recognized as revenue only after material contingencies have been resolved. See "Note 3 — Investments" for further discussion of the merchant banking revenues recognized.

Investments

The Company's investments in merchant banking funds are recorded at estimated fair value based upon the Company's proportionate share of the changes in the fair value of the underlying merchant banking fund's net assets. The Company's other investments are recorded at estimated fair value.

Financial Advisory Fees Receivables

Receivables are stated net of an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is derived by the Company by utilizing past client transaction history and an assessment of the client's creditworthiness. The Company recorded bad debt expense of approximately \$0.2 million for the nine months ended September 30, 2007 and had no bad debt expense for the nine months ended September 30, 2006.

Restricted Stock Units

In accordance with the fair value method prescribed by Statement of Financial Accounting Standards, or SFAS, No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", restricted stock units with future service requirements are recorded as compensation expense and generally is amortized over a five-year service period following the date of grant. Compensation expense is determined at the date of grant. As the Company expenses the awards, the restricted stock units recognized are recorded within stockholders' equity. The Company records dividend equivalents in stockholders' equity on outstanding restricted stock units that are expected to vest.

Earnings per Share

The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings per Share." Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS includes the determinants of basic EPS plus the dilutive effect of the common stock deliverable pursuant to restricted stock units for which future service is required as a condition to the delivery of the underlying common stock.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating business is less than estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. For assets acquired on or after January 1, 2005, depreciation is computed by the straight-line method over the life of the assets. For assets acquired prior to January 1, 2005, depreciation is computed principally by an accelerated method over the life of the assets. Amortization of leasehold improvements is computed by the straight-line method over the lesser of the life of the asset or the term of the lease.

Provision for Taxes

The Company accounts for taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of tax benefits or expenses on the temporary differences

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between the financial reporting and tax bases of its assets and liabilities. The Company's deferred tax assets and liabilities are presented as a component of other assets and taxes payable, respectively, on the condensed consolidated statements of financial condition. Management applies the more-likely-than-not criteria included in FIN 48 when determining tax benefits and the establishment of the valuation allowance.

Effective on January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109" ("FIN 48"), which prescribes a single, comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on its tax returns. Income tax expense is based on pre-tax accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions. The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance as prescribed by FIN 48. Deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. During 2007, the Company performed a tax analysis in accordance with FIN 48. The implementation of FIN 48 did not result in any current adjustment or any cumulative effect and therefore, no adjustment was recorded to retained earnings upon adoption.

Foreign Currency Translation

Foreign currency assets and liabilities have been translated at rates of exchange prevailing at the end of the periods presented. Income and expenses transacted in foreign currency have been translated at average monthly exchange rates during the period. Translation gains and losses are included in the foreign currency translation adjustment included as a component of other comprehensive income in the consolidated statement of changes in stockholders' equity. Foreign currency transaction gains and losses are included in consolidated net income.

Cash Equivalents

The Company considers all highly liquid investments with a maturity date of three months or less, when purchased, to be cash equivalents. At September 30, 2007 and December 31, 2006, the carrying value of the Company's financial instruments approximated fair value.

Securities

Securities represents municipal auction rate securities held by the Company which are treated as available for sale securities under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Auction rate securities have legal maturities in excess of 20 years when issued, but have periodic interest rate resets, generally every seven, twenty-eight or thirty-five days. At September 30, 2007, the Company did not hold any municipal auction rate securities. At December 31, 2006, the carrying value approximated fair value and the coupon rates from 3.6% and 3.9%.

Recent Accounting Pronouncements

In September 2006 the FASB issued SFAS No. 157 ("SFAS 157") on fair value measurement. The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information

used to measure fair value, and the effect of fair value measurements on earnings. The provisions of SFAS 157 are effective for fiscal years beginning after November 17, 2007. At this time, the Company is evaluating the implications, including the additional disclosure requirements, of SFAS 157, and its potential impact to the Company's financial condition, results of operations and cash flows.

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In February 2007 the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact of adoption SFAS 159 on the Company’s financial condition, results of operations and cash flows.

In June 2007, the EITF reached consensus on Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards.” EITF Issue No. 06-11 requires that the tax benefit related to the dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The Company is currently evaluating the potential impact of adopting EITF Issue No. 06-11 on its financial condition, results of operations and cash flows.

Note 3 — Investments

Affiliated Merchant Banking Investments

The Company invests in merchant banking funds for which it also acts as the general partner. In addition to recording its direct investments in the funds, the Company consolidates each general partner in which it has a majority of the economic interest.

The Company recognizes revenue on investments in merchant banking funds based on its allocable share of realized and unrealized gains (or losses) reported by such funds on a quarterly basis. Investments held by merchant banking funds are recorded at estimated fair value. Investments in privately held companies are initially carried at cost as an approximation of fair value and generally adjusted after being held by the fund for one year to the estimated fair value as determined by the general partner of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other financial data. Discounts are generally applied to the funds’ privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investments in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which the investments are carried are adjusted to fair value at the end of each quarter and volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the fair value of the investments and consequently also that portion of the revenues attributable to the Company’s merchant banking investments.

The Company’s management fee income consists of fees paid by its merchant banking funds and other transaction fees paid by the portfolio companies.

Investment gains from the merchant banking activities are comprised of investment income, realized and unrealized gains from the Company’s investment in GCP and GSAVP, and the consolidated earnings of the general partner in which it has a majority economic interest, offset by allocated expenses of the funds. That portion of the earnings of the general partner which are held by employees and former employees of the Company is recorded as minority interest.

The Company makes investment decisions for GCP and GSAVP and is entitled to receive from the general partners an override of the profits realized from the funds. The Company includes in consolidated merchant banking revenue all realized and unrealized profit overrides it earns from GCP and GSAVP. This includes profit overrides of the managing general partner of GCP I with respect to all investments it made after January 1, 2004 and the profit overrides of the general partners of GCP

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II, GCP Europe and GSAVP for all investments. From an economic perspective, profit overrides in respect of all merchant banking investments made after January 1, 2004 are generally allocated 50% to the Company and 50% to employees of the Company. In addition, the Company also includes in merchant banking revenue its portion and certain employees' portion of the profit overrides of GCP I with respect to investments made prior to January 1, 2004. The economic share of the profit overrides allocated to the employees of the Company is recorded as compensation expense.

The Company's Merchant Banking revenue, by source, is as follows:

Three Months Ended		September 30, 2007		September 30, 2006		Nine Months Ended		September 30, 2007		September 30, 2006	
						(in thousands)	Management fees	\$ 4,641	\$ 4,095	\$ 12,724	
\$ 11,243	Net realized and unrealized gains on merchant banking investments	(2,381)						2,769		3,291	
22,065	Merchant banking overrides	(900)						2,200	1,600	31,500	Other realized and unrealized investment income
\$ 65,035		394	130	2,195	227	Merchant banking revenue	\$ 1,754	\$ 9,194	\$ 19,810		

The carrying values of the Company's investments are as follows:

September 30, 2007		As of December 31, 2006		(in thousands)		Investment in GCP I		\$ 38,175		\$ 55,718		Investment in GCP II		54,123		34,436	
Investment in GSAVP	2,537	1,532	Investment in GCP Europe	8,343	—	Investment in Ironshore, Inc.	—	30,053	Other investments	2,157	7,692	Investments	\$ 105,335	\$ 129,431			

At September 30, 2007 and December 31, 2006, the carrying value of investments included \$2.3 million and \$2.2 million, respectively, related to the interests in the managing general partners of GCP held directly by various employees of the Company. At September 30, 2007 and December 31, 2006, approximately \$7.7 million and \$10.5 million, respectively, of the Company's compensation payable related to profit overrides for unrealized gains of GCP. This amount may increase or decrease depending on the change in the fair value of the GCP funds portfolio and is payable, subject to claw back, at the time the funds realize cash proceeds.

At September 30, 2007, the Company had unfunded commitments of \$72.9 million and \$8.9 million to GCP and GSAVP, respectively. These commitments are expected to be drawn on from time to time over a period of up to five years from the relevant commitment dates.

Due to the significant carrying values of the Company's investment in GCP I and GCP II, summarized financial information is provided below. This information is not provided for the Company's investments in GSAVP and GCP Europe.

On July 6, 2006, the Company acquired through its wholly owned subsidiary, GCH, 100 % of the outstanding share capital of Beaufort Partners Limited, an independent investment bank based in Toronto, Canada. The acquisition was accounted for as a purchase. At the time of the acquisition approximately \$17.7 million of the purchase price was allocated to goodwill. Goodwill is translated in accordance with SFAS 52, "Foreign Currency Translation" at the rate of exchange prevailing at the end of the periods presented. Any translation gain or loss resulting from the translation is included in

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the foreign currency translation adjustment included as a component of other comprehensive income in the consolidated statement of changes in members' equity and stockholders' equity. The Company has reviewed its goodwill in accordance with SFAS No. 142 and determined that the fair value of the reporting entity to which goodwill is related exceeded the carrying value of such reporting entity. Accordingly, no goodwill impairment loss has been recognized.

Note 5 — Related Parties

At September 30, 2007 and December 31, 2006, the Company had a receivable of \$2.8 million and \$0.7 million, respectively, due from GCP and GSAVP relating to expense reimbursements and management fees, which is included in due from affiliates.

A firm owned by an executive of the Company also subleases airplane and office space from the Company.

Due to affiliates at September 30, 2007 and December 31, 2006 represents undistributed earnings to the U.K. members of GCI from the period prior to the Company's reorganization. Included in accounts payable and accrued expenses at September 30, 2007 and December 31, 2006, respectively, is \$0.1 million in interest payable on the undistributed earnings to the U.K. members of GCI.

Note 6 — Revolving Bank Loan Facility

At September 30, 2007, the Company had a \$59.1 million revolving loan facility from a U.S. commercial bank to provide for working capital needs, facilitate the funding of short-term investments and other general corporate purposes. The revolving loan facility is secured by all management fees earned by GCPLLC and any cash distributed to GCPLLC in respect of its partnership interests in GCP I and GCP II. Interest on borrowings is currently based on one month LIBOR plus 1.45% and interest is payable monthly. The revolving loan facility matures on August 1, 2008, but may be extended by a written agreement of lender and borrower. In addition, the Company must comply with certain financial and liquidity covenants. The weighted average daily borrowings outstanding under the loan facility during the nine months ended September 30, 2007 and 2006, respectively, was approximately \$39.5 million and \$4.4 million, with average interest rates of 6.95% and 7.11%, respectively.

Note 7 — Stockholders' Equity

On September 12, 2007, a dividend of \$0.38 per share was paid to shareholders of record on August 29, 2007. Dividend equivalents of \$0.7 million were paid on the restricted stock units that are expected to vest. Additionally, in October 2007, the Board of Directors of the Company declared a quarterly dividend of \$0.38 per share. The dividend will be payable on December 12, 2007 to the common stockholders of record on November 28, 2007.

In connection with the acquisition of Beaufort Partners Limited in July 2006, GCH issued 257,156 shares of non-voting exchangeable shares valued at \$15.4 million, which are exchangeable into the same number of shares of Common Stock of the Company subject to certain conditions and are entitled to receive the same dividends (if any) as paid in respect of the Common Stock.

During the nine months ended September 30, 2007, the Company repurchased in open market transactions 1,917,451 shares of its common stock at an average price of \$62.61. In April 2007, the Board of Directors of the Company authorized the Company to repurchase up to \$150.0 million of common stock through April 2008. In addition, during the nine months ended September 30, 2007, the Company is deemed to have repurchased 70,745 shares of its common

stock at an average price of \$68.48 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units.

During the nine months ended September 30, 2006, the Company repurchased in open market transactions 652,500 shares of its common stock at an average price of \$61.71. Additionally, in the first quarter of 2006, the Company closed the repurchase of 195,222 shares at a price of \$46.80 per share

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from a former employee. The Company also purchased an additional 48,806 shares of common stock from the same former employee at a price of \$48.75 per share. During the nine months ended September 30, 2006, the Company is deemed to have repurchased 55,791 shares of its common stock at an average price of \$67.96 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units.

Note 8 — Earnings Per Share

The computations of basic and diluted EPS are set forth below:

Three Months Ended		September 30, 2007		September 30, 2006		(in thousands, except per share amounts)	
September 30, 2007	September 30, 2006	2007	2006	Numerator for basic and diluted EPS – Earnings available to common stockholders			
		\$ 35,302	\$ 14,168	\$ 86,750	\$ 55,656		
Denominator for basic EPS – weighted average number of common shares		28,070	29,468	28,847	29,575		
Effect of dilutive securities		Restricted stock units		84	104	104	136
Denominator for diluted EPS – weighted average number of common and dilutive potential common shares		28,154	29,572				
28,951	29,711	Earnings per share:		Basic	\$ 1.26	\$ 0.48	\$ 3.01
1.25	\$ 0.48	\$ 3.00	\$ 1.87	Diluted	\$		

The weighted average number of common shares includes 257,156 shares of non-voting exchangeable shares, which are exchangeable into the same number of shares of common stock of the Company subject to certain conditions.

Note 9 — Income Taxes

The Company’s effective rate will vary depending on the source of the income. Investment and certain foreign sourced income are taxed at a lower effective rate than U.S. trade or business income. In the normal course of business, the Company may take positions on its tax returns that may be challenged by domestic and foreign taxing authorities. All such transactions are subject to substantial tax due diligence and planning, in which the underlying form, substance and structure of the transaction is evaluated. The Company believes it is more likely than not that all deferred tax assets will be realized.

Effective January 1, 2007, the Company adopted the provisions of FIN 48. FIN 48 prescribes the recognition and measurement criteria related to tax positions taken or expected to be taken in a tax return. For those benefits to be recognized a tax position must be “more-likely-than-not” to be sustained upon examination by taxing authorities. During 2007, the Company performed a tax analysis in accordance with FIN 48. The implementation of FIN 48 did not result in any current adjustment or any cumulative effect and therefore, no adjustment was recorded to retained earnings upon adoption.

The Company and its subsidiaries file U.S. Federal income tax returns, as well as income tax returns in various states and foreign jurisdictions. Prior to the initial public offering in May 2004 the Company operated as a limited liability company, taxable as a partnership and was not subject to U.S. federal or state income taxes, and GCI, as a limited partnership, was generally not subject to U.K. income tax. At the time of the public offering the Company became a C Corporation and is subject to U.S. federal, state and foreign income tax and is subject to U.S. Federal, state and foreign income tax examinations for periods after May 2004.

In general, the Company plans to reinvest 50% of the earnings of foreign affiliates in those operations and accordingly, U.S. taxes are only provided on the amounts of earnings in excess of

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planned investments. Through September 30, 2007, the Company repatriated approximately 50% of our foreign affiliates' earnings. On an annual basis, the Company evaluates the amounts to be reinvested in our foreign entities.

Note 10 — Regulatory Requirements

Certain subsidiaries of the Company are subject to various regulatory requirements in the United States and United Kingdom, which specify, among other requirements, minimum net capital requirements for registered broker-dealers.

G&Co is subject to the Securities and Exchange Commission's Uniform Net Capital requirements under Rule 15c3-1 (the "Rule"), which specifies, among other requirements, minimum net capital requirements for registered broker-dealers. The Rule requires G&Co to maintain a minimum net capital of the greater of \$5,000 or 1/15 of aggregate indebtedness, as defined in the Rule. As of September 30, 2007, G&Co's net capital was \$19.1 million, which exceeded its requirement by \$16.6 million. G&Co's aggregate indebtedness to net capital ratio was 1.95 to 1 at September 30, 2007. Certain advances, distributions and other capital withdrawals of G&Co are subject to certain notifications and restrictive provisions of the Rule.

GCI and GCPE are subject to capital requirements of the FSA. As of September 30, 2007, GCI and GCPE were in compliance with their local capital adequacy requirements.

Note 11 — Business Information

The Company's activities as an investment banking firm constitute a single business segment, with two principal sources of revenue:

- Financial advisory, which includes advice on mergers, acquisitions, restructuring and similar corporate finance matters; and
- Merchant banking, which includes the management of outside capital invested in GCP and GSAVP and the Company's principal investments in such funds.

The following provides a breakdown of our aggregate revenues by source for the three month and nine month periods ended September 30, 2007 and 2006, respectively:

Three Months Ended	September 30, 2007	September 30, 2006	Amount	% of Total	Amount	% of Total
(in millions, unaudited) Financial Advisory	\$ 116.5	98 %	\$ 47.6	83 %	Merchant Banking Fund	
Management & Other	2.9	2 %	10.0	17 %	Total Revenues	\$ 119.4
						100 %
					\$ 57.6	100 %

Nine Months Ended	September 30, 2007	September 30, 2006	Amount	% of Total	Amount	% of Total
(in millions, unaudited) Financial Advisory	\$ 279.7	92 %	\$ 150.7	69 %	Merchant Banking Fund	
Management & Other	23.7	8 %	67.2	31 %	Total Revenues	\$ 303.4
						100 %
					\$ 217.9	100 %

The Company's financial advisory and merchant banking activities are closely aligned and have similar economic characteristics. A similar network of business and other relationships upon which the Company relies for financial advisory opportunities also generate merchant banking opportunities. Generally, the Company's professionals and

employees are treated as a common pool of available resources and the related compensation and other Company costs are not directly attributable to either particular revenue source. In reporting to management, the Company distinguishes the sources

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of its investment banking revenues between financial advisory and merchant banking. However, management does not evaluate other financial data or operating results such as operating expenses, profit and loss or assets by its financial advisory and merchant banking activities.

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

In this Management's Discussion and Analysis of Financial Condition and Results of Operations, "we", "our", "firm" and "Greenhill" refer to Greenhill & Co., Inc.

Cautionary Statement Concerning Forward-Looking Statements

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes that appear elsewhere in this report. We have made statements in this discussion that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential" or "continue", the negative of these words, or comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. These factors include, but are not limited to, those discussed in our Report on Form 10-K under the caption "Risk Factors".

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date hereof.

Overview

Greenhill is an independent investment banking firm that (i) provides financial advice on significant mergers, acquisitions, restructurings and similar corporate finance matters and (ii) manages merchant banking funds and commits capital to those funds. We act for clients located throughout the world from offices in New York, London, Frankfurt, Toronto and Dallas. Our activities constitute a single business segment with two principal sources of revenue:

- Financial advisory, which includes advice on mergers, acquisitions, restructurings and similar corporate finance matters; and
- Merchant banking fund management, which currently consists primarily of management of Greenhill's private equity funds, Greenhill Capital Partners or GCP, and Greenhill's venture capital fund, Greenhill SAV Partners or GSAVP, and principal investments by Greenhill in those funds.

Historically, our financial advisory business has accounted for the majority of our revenues, and we expect that to remain so for the near to medium term, although there may be periods, such as the first quarter of 2006, in which merchant banking results outweigh our financial advisory earnings. The main driver of the financial advisory business is overall mergers and acquisitions, or M&A, and restructuring volume, particularly in the industry sectors and

geographic markets in which we focus. In addition, new managing director hires add incrementally to our revenue and income growth potential. The principal drivers of our merchant banking fund management revenues are realized and unrealized gains on investments and profit overrides, the size and timing of which are tied to a number of different factors including the performance of the particular companies in which we invest, general economic conditions in the debt and equity markets and other factors which affect the industries in which we invest, such as commodity prices.

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Management Developments

Effective in October 2007, the firm announced the appointment of Scott L. Bok and Simon A. Borrows, previously Co-Presidents of the firm, as Co-Chief Executive Officers. Mr. Robert F. Greenhill, formerly Chief Executive of the firm, will remain Chairman of the Board of Directors.

Business Environment

Economic and global financial market conditions can materially affect our financial performance. See the ‘Risk Factors’ in our Report on Form 10-K filed with the Securities and Exchange Commission. Net income and revenues in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Financial advisory revenues were \$116.5 million for the three months ended September 30, 2007 compared to \$47.6 million for the three months ended September 30, 2006, which represents an increase of 145%. Financial advisory revenues were \$279.7 million for the nine months ended September 30, 2007 compared to \$150.7 million for the nine months ended September 30, 2006, which represents an increase of 86%. Global volume of completed M&A transactions was \$2,564 billion in the first nine months of 2007 compared to \$2,060 billion in the first nine months of 2006, a 24% increase¹.

Merchant banking fund management and other revenues were \$2.9 million for the three months ended September 30, 2007 compared to \$10.0 million for the three months ended September 30, 2006, which represents a decrease of 71%. Merchant banking fund management and other revenues were \$23.7 million for the nine months ended September 30, 2007 compared to \$67.2 million for the nine months ended September 30, 2006, which represents a decrease of 65%. Merchant banking revenues principally consisted of realized and unrealized gains on investments in GCP, merchant banking profit overrides and management fees. While the amount of management fees earned from our existing merchant banking funds is principally a function of the amount of capital invested (in the case of GCP I) or committed (in the case of GCP II, GCP Europe and GSAVP), those portions of merchant banking revenues consisting of gains and profit overrides may vary considerably depending on economic and market conditions. During the nine months ended September 30, 2006, several GCP portfolio companies benefited from favorable conditions in the financing markets. Adverse changes in general economic conditions, commodity prices, credit and public equity markets could impact negatively the amount of merchant banking revenue realized by the firm and did so during the nine months ended September 30, 2007. In addition, the occurrence of liquidity events which create gains (or losses) is neither predictable nor regular.

Results of Operations

Summary

Our third quarter 2007 revenues of \$119.4 million compare with revenues of \$57.6 million for the third quarter of 2006, which represents an increase of \$61.8 million or 107%. The increase in revenue in the third quarter 2007 revenue as compared to the same period in the prior year was attributable to an increase in advisory revenue, offset in part by a decline in merchant banking revenues. On a year-to-date basis, revenue through September 30, 2007 was \$303.4 million, compared to \$217.9 million for the comparable period in 2006, representing an increase of \$85.5 million or 39%. The increase in year-to-date revenue as compared to the same period in the prior year was due to higher advisory fee revenue offset by lower merchant banking revenue.

Our third quarter net income of \$35.3 million compares with net income of \$14.2 million for the third quarter of 2006, which represents an increase of \$21.1 million or 149%. The increase was due to the aforementioned increase in advisory revenue, partially offset by greater compensation expense. On

1 Source: Thomson Financial as of October 19, 2007.

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a year-to-date basis, net income was \$86.8 million through September 30, 2007, compared to net income of \$55.7 million for the comparable period in 2006, which represents an increase of 56%. This increase was primarily due to increased advisory revenue, partially offset by greater compensation expense.

Our quarterly revenues can fluctuate materially depending on the number and size of completed transactions on which we advised and the levels of gain realized on our merchant banking investments, as well as other factors. Accordingly, the revenues in any particular quarter may not be indicative of future results.

Revenues By Source

The following provides a breakdown of our aggregate revenues by source for the three and nine month periods ended September 30, 2007 and 2006, respectively:

Revenue by Principal Source of Revenue

Three Months Ended	September 30, 2007	September 30, 2006	Amount	% of Total	Amount	% of Total
(in millions, unaudited) Financial Advisory	\$ 116.5	98 %	\$ 47.6	83 %	Merchant Banking Fund	
Management & Other	2.9	2 %	10.0	17 %	Total Revenues	\$ 119.4
						100 %
					\$ 57.6	100 %

Nine Months Ended	September 30, 2007	September 30, 2006	Amount	% of Total	Amount	% of Total
(in millions, unaudited) Financial Advisory	\$ 279.7	92 %	\$ 150.7	69 %	Merchant Banking Fund	
Management & Other	23.7	8 %	67.2	31 %	Total Revenues	\$ 303.4
						100 %
					\$ 217.9	100 %

Financial advisory revenues primarily consist of retainers and transaction related fees earned in connection with advising companies in mergers, acquisitions, restructurings or similar transactions. We earned \$116.5 million in financial advisory revenues in the third quarter of 2007 compared to \$47.6 million in the third quarter of 2006, which represents an increase of 145%. For the nine months ended September 30, 2007, financial advisory revenues were \$279.7 million compared to \$150.7 million for the comparable period in 2006, representing an increase of 86%. The increase in our financial advisory revenues in the three and nine months ended September 30, 2007 as compared to the same periods in the prior year appears to reflect growth of the Greenhill brand as a leading independent advisor and the success of our industry and industry sector expansion as well as increased merger and acquisition activity over the relevant period.

Completed assignments in the third quarter of 2007 included:

- The divestiture by Aton Capital Group of its institutional business to Bank Austria Creditanstalt, part of the UniCredit Group;
- The acquisition by CABB GmbH of SF-Chem AG;
- The sale of Central Lewmar LLC to International Paper Company;
- The sale of Crescent

Real Estate Equities Company to Morgan Stanley Real Estate;

Deutz AG of its Power Systems division to 3i Group plc;

Group plc to Maltby Limited;

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- The divestiture by
- The sale of EMI

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Incisive Media Ltd. of ALM Media Group Holdings, Inc.;

Informa plc of Datamonitor plc;

Terminals Inc. to RREEF Infrastructure;

SFR SA of Tele2 AB's French fixed telephony and broadband business;

- The acquisition by
- The acquisition by
- The sale of Maher
- The acquisition by

We also benefited in the third quarter of 2007 from retainers and other advisory fees unrelated to transaction completions.

Merchant Banking Fund Management & Other Revenues

Our merchant banking fund management activities currently consist primarily of the management of and our investment in Greenhill's merchant banking funds, GCP I, GCP II, GCP Europe and GSAVP. We generate merchant banking revenue from (i) management fees paid by the funds, (ii) gains (or losses) on our investments in the merchant banking funds, and (iii) profit overrides. The following table sets forth additional information relating to our merchant banking and interest income:

Three Months Ended		September 30, 2007		September 30, 2006		Nine Months Ended		September 30, 2007		September 30, 2006	
(in millions, unaudited)											
Management fees	\$ 4.6	\$ 4.1	\$ 12.7	\$ 11.2							
Net realized and unrealized gains on investments in merchant banking	(2.3)	2.8	3.3	22.1							
Merchant banking profit overrides	(0.9)	2.2	1.6	31.5							
Other realized and unrealized investment income	0.4	0.1	2.2	0.2							
Interest income	1.1	0.8	3.9	2.2							
Merchant banking fund management & other revenues	\$ 2.9	\$ 10.0	\$ 23.7	\$ 67.2							

The firm earned \$2.9 million in merchant banking fund management & other revenues in the third quarter of 2007 compared to \$10.0 million in the third quarter of 2006, representing a decrease of 71%. These decreases are primarily due to a slight decrease in the fair market value of the GCP portfolio, partially offset by higher management fees resulting from greater assets under management.

For the first nine months of 2007, the firm earned \$23.7 million in merchant banking fund management & other revenues compared to \$67.2 million in the first nine months of 2006, a decrease of 65%. The decrease was primarily due to the absence of gains and overrides of the magnitude realized in the first nine months of 2006 from the sale of GCP portfolio company interests and a smaller net increase in this period in the fair market value of other publicly traded companies owned by GCP.

The values at which our investments are carried on our books are adjusted to fair value at the end of each quarter based upon a number of factors including the length of time the investments have been held, the trading price of the shares (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. Significant changes in general economic conditions, stock markets and commodity prices, as well as capital events at the portfolio companies such as initial public offerings or sales, may result in significant movements in the fair value of such investments. Accordingly, any such changes or capital events may have a material effect, positive or negative, on our revenues and results of operations. The frequency and timing of such changes or capital events and their impact

on our results are by nature unpredictable and will vary from period to period.

Moreover, the aggregate value of our merchant banking investments may fluctuate depending on the timing of the investment and liquidation events and the life cycles of each of the funds. For example, the commitment period for GCP I was terminated on March 31, 2005, and the investments in the GCP I have been largely sold or otherwise monetized, while the commitments made to GCP II, GCPE and GSAVP are still in the process of being invested (with 60% of the commitments in GCP II,

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25% of the commitments in GCPE, and 14% of the commitments in GSAVP having been invested or committed as of September 30, 2007). The time elapsed between making and monetization of investments in our merchant banking funds can vary considerably.

During the third quarter of 2007, our merchant banking funds (and the firm) earned revenue in respect of six portfolio companies and recognized losses in respect of seven portfolio companies. In addition, our merchant banking funds, in aggregate, made investments of \$26.4 million (of which \$5.7 was firm capital), as compared to \$76 million (of which \$7.6 was firm capital) during the third quarter of 2006.

During the first nine months of 2007, our merchant banking funds (and the firm) earned revenue in respect of ten portfolio companies and incurred losses in respect of four portfolio companies. In addition, our merchant banking funds, in aggregate, made investments of \$235.1 million (of which \$30.6 was firm capital), as compared to \$100.0 million (of which \$10.2 was firm capital) during the same period in 2006.

The investment gains or losses in our investment portfolio may fluctuate significantly over time due to factors beyond our control, such as individual portfolio company performance, equity market valuations and merger and acquisition opportunities. Revenue recognized from gains recorded in any particular period is not necessarily indicative of revenue that may be realized in future periods.

Operating Expenses

We classify operating expenses as compensation and benefits expense and non-compensation expenses.

Our operating expenses for the third quarter of 2007 were \$65.1 million, which compares to \$35.5 million of operating expenses for the third quarter of 2006. This represents an increase in operating expenses of \$29.6 million or 83%, which relates principally to an increase in compensation expense and is described in more detail below. The pre-tax income margin was 46% in the third quarter of 2007 compared to 38% for the third quarter of 2006.

For the nine months ended September 30, 2007, total operating expenses were \$169.5 million, which compares to total operating expenses of \$126.8 million for the comparable period in 2006. The increase of \$42.7 million or 34% relates principally to an increase in compensation expense and is described in more detail below. The pre-tax income margin for the nine months ended September 30, 2007 was 44% compared to 41% for the comparable period in 2006.

The following table sets forth information relating to our operating expenses, which are reported net of reimbursements of certain expenses by our clients and merchant banking portfolio companies:

Three Months Ended		September 30, 2007		September 30, 2006		September 30, 2007		September 30, 2006		(in millions, unaudited)	
											Employee compensation & benefits expense
\$	54.9	\$	26.5	\$	139.6	\$	100.0	% of Revenues	46 %	46 %	46 %
											Non-compensation expense
	10.2		9.0		29.9		26.8	% of Revenues	9 %	16 %	10 %
	65.1		35.5		169.5		126.8	% of Revenues	55 %	62 %	56 %
											Minority interest in net income of affiliates
			(0.1)		0.1		0.0		1.8		Total income before tax
									54.3	22.1	133.9
									41 %		89.3
									44 %		
									46 %		
									38 %		
									46 %		

Compensation and Benefits

Our employee compensation and benefits expenses in the third quarter of 2007 were \$54.9 million, as compared to \$26.5 million for the third quarter of 2006. For the three months ended

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September 30, 2007 and 2006, the ratio of compensation to revenue remained constant at 46%. The increase of \$28.4 million or 107% is due to the higher level of revenues in the third quarter of 2007 as compared to the same period in the prior year.

For the nine months ended September 30, 2007, our employee compensation and benefits expense was \$139.6 million, which compares to \$100.0 million of compensation and benefits expense for the nine months ended September 30, 2006. The increase of \$39.6 million or 40% is due to the higher level of revenues in the first nine months of 2007 compared to the comparable period in 2006. For the nine months ended September 30, 2007 and 2006, the ratio of compensation to revenues remained constant at 46%.

Our compensation expense is generally based upon revenue and can fluctuate materially in any particular quarter depending upon the amount of revenue recognized as well as other factors. Accordingly, the amount of compensation expense recognized in any particular quarter may not be indicative of compensation expense in a future period.

Non-Compensation Expense

Our non-compensation expense includes the costs for occupancy and rental, communications, information services, professional fees, travel and entertainment, insurance, recruitment, depreciation, interest expense, and other operating expenses. Reimbursable client expenses are netted against non-compensation expenses.

Our non-compensation expenses were \$10.2 million in the third quarter of 2007, which compared to \$9.0 million in the third quarter of 2006, representing an increase of 13%. The increase is principally related to higher interest expense related to greater short-term borrowings, greater travel and information service costs primarily attributable to the growth in personnel and business development activities, and higher occupancy and other costs associated with new office space in Frankfurt.

For the first nine months of 2007, our non-compensation expenses were \$29.9 million, which compared to \$26.8 million in the first nine months of 2006, representing an increase of 12%. The increase is principally related to an increase in interest expense related to greater short-term borrowings, higher occupancy and other costs associated with new office space in London, Frankfurt, New York and Toronto, and greater travel and information service costs, offset in part by the absence of provisions for legal contingencies in 2007 as compared to the same period in 2006.

Non-compensation expenses as a percentage of revenues in the three months ended September 30, 2007 were 9% compared to 16% for the same period in the prior year. Non-compensation expenses as a percentage of revenues in the nine months ended September 30, 2007 were 10% compared to 12% for the same period in the prior year. The decrease in non-compensation expenses as a percentage of revenue in the three and nine months ended September 30, 2007 as compared to the same periods in the prior year reflects a slightly higher amount of expenses spread over significantly higher revenue.

Our non-compensation expense as a percentage of revenue can vary as a result of a variety of factors including fluctuation in quarterly revenue amounts, the amount of recruiting and business development activity, the amount of reimbursement of engagement-related expenses by clients, the amount of short term borrowings, currency and interest rate movements and other factors. Accordingly, the non-compensation expense as a percentage of revenue in any particular quarter may not be indicative of the non-compensation expense as a percentage of revenue in future periods.

Provision for Income Taxes

The provision for taxes in the third quarter of 2007 was \$19.0 million, which reflects an effective tax rate of approximately 35%. This compares to a provision for taxes in the third quarter of 2006 of \$7.9 million based on an effective tax rate of approximately 36% for the period. The increase in the provision for taxes results from higher pre-tax income in the period partially offset by a lower effective rate due to a greater proportion of our pre-tax income being earned in lower tax rate jurisdictions during the period.

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For the nine months ended September 30, 2007, the provision for taxes was \$47.2 million, which reflects an effective tax rate of approximately 35%. This compares to a provision for taxes for the nine months ended September 30, 2006 of \$33.7 million, which reflects an effective tax rate of approximately 38% for the period. The increase in the provision for taxes is primarily due to the higher pre-tax income in the period offset by a lower effective tax rate due to a greater proportion of our income being earned in lower tax rate jurisdictions during the period.

The effective tax rate can fluctuate as a result of variations in the relative amounts of advisory and merchant banking income earned in the tax jurisdictions in which the firm operates and invests. Accordingly, the effective tax rate in any particular quarter may not be indicative of the effective tax rate in future periods.

Liquidity and Capital Resources

Our liquidity position is monitored by our Management Committee, which generally meets monthly. The Management Committee monitors cash, other significant working capital assets and liabilities, debt, principal investment commitments and other matters relating to liquidity requirements. As cash accumulates it is invested in short term liquid investments.

We generate cash from both our operating activities in the form of advisory fees and our merchant banking investments in the form of distributions of investment proceeds and profit overrides. We use our cash primarily for operating purposes, compensation of our employees, payment of income taxes, investments in merchant banking funds, payment of dividends, repurchase of shares of our stock and leasehold improvements.

A large portion of our liabilities (including accrued bonuses related to profit overrides for unrealized gains of GCP and tax liabilities that are deferred until the gains from the GCP investments are realized) are associated with unrealized earnings (i.e., recorded on our books but for which cash proceeds have not yet been received) from our merchant banking investments. The amounts payable for these liabilities may increase or decrease depending on the change in the fair value of the GCP funds and are payable, subject to clawback, at the time the funds realize cash proceeds.

During 2007 the Company increased its revolving loan facility from a U.S. commercial bank from \$30.0 million to \$75.0 million. The revolving loan facility is available to provide for working capital needs, facilitate the funding of short-term investments and other general corporate purposes. The revolving loan facility is secured by all management fees earned by GCPLLC and any cash distributed to GCPLLC in respect of its partnership interests in GCP I and GCP II. Interest on borrowings is currently based on one month LIBOR plus 1.45% and interest is payable monthly. The revolving loan facility matures on August 1, 2008, but may be extended by a written agreement of lender and borrower.

As of September 30, 2007, we had total commitments (not reflected on our balance sheet) relating to future investments in GCP and GSAVP and other merchant banking activities of \$85.4 million. These commitments are expected to be drawn on from time to time and be substantially invested over a period of up to five years from the relevant commitment dates. Our unfunded remaining commitment to GCP I expired on March 31, 2007.

The firm repurchased 871,817 shares of its common stock in open market purchases at an average price of \$56.97 during the third quarter of 2007 and had remaining authorization to repurchase up to \$37.8 million of common stock in open market transactions. During the nine months ended September 30, 2007, the firm repurchased in open market transactions 1,917,451 shares of its common stock at an average price of \$62.61.

We believe that the cash generated from operations and funds available from the revolving bank loan facility will be sufficient to meet our expected operating needs, commitments to our merchant banking activities, build-out costs of new office space, tax obligations, share repurchases and common dividends. In the event that our needs for liquidity should increase as we expand our business, we may consider a range of financing alternatives to meet any such needs.

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Cash Flows

In the first nine months of 2007, our cash and cash equivalents increased by \$53.8 million from December 31, 2006. We generated \$92.5 million in operating activities, including \$105.5 million from net income after giving effect to the non-cash items, partially offset by a net decrease in working capital of \$13.0 million (principally from an increase in accounts receivable, the payment of annual bonuses and taxes). We generated \$66.4 million in investing activities, including \$38.8 million from the sale of auction rate securities, \$32.9 million from distributions received from our merchant banking investments, and \$30.1 million from sale of Ironshore investment to GCP Europe, partially offset by \$31.9 million in new investments in our merchant banking funds and \$3.5 million which was used for the build-out of new office space. We used \$109.2 million for financing activities, including \$124.9 million for the repurchase of our common stock and \$26.0 million for the payment of dividends, a portion of our financing activities were funded through net revolving borrowings of \$39.6 million.

In the first nine months of 2006, our cash and cash equivalents decreased by \$13.1 million from December 31, 2005. We generated \$5.3 million from operating activities, including \$17.1 million from net income after giving effect to the non-cash items, partially offset by a net decrease in working capital of \$11.8 million (principally from the payment of annual bonuses and an increase in accounts receivable). We generated \$26.1 million in investing activities, including \$59.5 million from distributions received from our merchant banking investments, partially offset by \$13.0 million in new investments in our merchant banking funds, \$9.6 million used for the purchase of auction rate securities, \$8.5 million primarily for the build-out of new office space and \$2.3 million used for the purchase of Beaufort Partners Limited. We used \$47.1 million for financing activities, including \$46.4 million for the repurchase of our common stock and \$15.5 million for the payment of dividends. A portion of our financing activities were funded through net revolving borrowings of \$12.3 million.

Market Risk

We limit our investments to (1) short-term cash investments and other securities, which we believe do not face any material interest rate risk, principal risk, equity price risk or other market risk, and (2) principal investments made in or on behalf of GCP and GSAVP and other merchant banking funds.

We have invested our cash in short duration, highly rated fixed income investments including highly rated short-term debt government securities and money market funds. Changes in interest rates, credit markets and other economic and market conditions could affect these investments adversely; however, we do not believe that any such changes would have a material effect on our results of operations. Our short-term cash investments are primarily denominated in US dollars, pound sterling and euros, and we face modest foreign currency risk in our cash balances held in accounts outside the United States due to potential currency movements and the associated accounting requirements. To the extent that the cash balances in local currency exceed our short term obligations, we may hedge our foreign currency exposure.

With regard to our principal investments (including our portion of any profit overrides earned on such investments), we face exposure to changes in the estimated fair value of the companies in which we and our merchant banking funds invest, which historically has been volatile. Significant changes in the public equity markets may have a material effect on our results of operations. Volatility in the general equity markets would impact our operations primarily because of changes in the fair value of our merchant banking or principal investments that are publicly traded securities. We have analyzed our potential exposure to general equity market risk by performing sensitivity analyses on those investments held by us and in our merchant banking funds which consist of publicly traded securities. This analysis showed that if we assume that at September 30, 2007, the market prices of all public securities were 10%

lower, the impact on our results of operations would be a decrease in revenues of \$3.2 million. We meet on a quarterly basis to determine the fair value of the investments held in our merchant banking portfolio and to discuss the risks associated with those investments. The Investment

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Committees of GCP and GSAVP manage the risks associated with the merchant banking portfolios by closely monitoring and managing the types of investments made as well as the monetization and realization of existing investments.

In addition, the reported amounts of our revenues may be affected by movements in the rate of exchange between the euro, pound sterling and Canadian dollar (in which 48% of our revenues for the nine months ended September 30, 2007 were denominated) and the dollar, in which our financial statements are denominated. We do not currently hedge against movements in these exchange rates. We analyzed our potential exposure to a decline in exchange rates by performing a sensitivity analysis on our net income. We do not believe we face any material risk in this respect.

Critical Accounting Policies and Estimates

The condensed consolidated financial statements included in this report are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions regarding investment valuations, compensation accruals and other matters that affect the condensed consolidated financial statements and related footnote disclosures. Management believes that the estimates used in preparing its consolidated financial statements are reasonable and prudent. Actual results could differ materially from those estimates. We believe that the following discussion addresses Greenhill's most critical accounting policies, which are those that are most important to the presentation of our financial condition and results of operations and require management's most difficult, subjective and complex judgments.

Basis of Financial Information

The condensed consolidated financial statements of the firm include all consolidated accounts and Greenhill & Co., Inc. and all other entities in which we have a controlling interest, including Greenhill & Co. International LLP, after eliminations of all significant inter-company accounts and transactions. In accordance with revised Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46-R"), "Consolidation of Variable Interest Entities", the firm consolidates the general partners of our merchant banking funds in which we have a majority of the economic interest. The firm does not consolidate the merchant banking funds since the firm, through its general partner and limited partner interests, does not have a majority of the economic interest in such funds and under EITF No. 04-5, "Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights," is subject to removal by a simple majority of unaffiliated third-party investors.

Revenue Recognition

Financial Advisory Fees

We recognize advisory fee revenue when the services related to the underlying transactions are completed in accordance with the terms of the respective engagement letters. Retainer fees are generally recognized as advisory fee income over the period the services are rendered.

Our clients reimburse certain out-of-pocket expenses incurred by us in the conduct of advisory engagements. Expenses are reported net of such client reimbursements.

Merchant Banking Fund Management Revenues

Merchant banking fund management revenue consists of (i) management fees on our merchant banking activities, (ii) gains (or losses) on investments in our merchant banking funds and other principal investment activities and (iii) merchant banking profit overrides.

Fund management fees are recognized over the period of related service.

We recognize revenue on investments in merchant banking funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds on a quarterly basis. Investments held

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by merchant banking funds are recorded at estimated fair value. Investments in privately held companies are initially carried at cost as an approximation of fair value and generally adjusted after being held by the fund for one year to the estimated fair value as determined by the general partner of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other financial data. Discounts are generally applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investments in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which our investments are carried on our books are adjusted to fair value at the end of each quarter and the volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the fair value of the investments.

We recognize merchant banking profit overrides when certain financial returns are achieved over the life of the fund. Profit overrides are calculated as a percentage of the profits over a specified threshold earned by such funds on investments managed on behalf of unaffiliated investors of GCP I and principally all investors, except the firm, in GCP II, GCP Europe, and GSAVP, and are subject to clawback. Future losses in the value of the funds' investments may require amounts previously recognized as profit overrides to be reversed to the fund in future periods. Accordingly, merchant banking profit overrides are recognized as revenue only after material contingencies have been resolved.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. In accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," goodwill is tested at least annually for impairment. An impairment loss is triggered if the estimated fair value of an operating business is less than estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Restricted Stock Units

In accordance with the fair value method prescribed by Statement of Financial Accounting Standards, or SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation", restricted stock units with future service requirements are recorded as compensation expense and generally is amortized over a five-year service period following the date of grant. Compensation expense is determined at the date of grant. As the Company expenses the awards, the restricted stock units recognized are recorded within stockholders' equity. The Company records dividend equivalents in stockholders' equity on outstanding restricted stock units that are expected to vest.

Provision for Taxes

We account for taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities. Tax benefits are recognized when it is probable that the deduction will be sustained. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

Accounting Developments

In September 2006 the FASB issued SFAS No. 157 (“SFAS 157”) on fair value measurement. The standard provides guidance for using fair value to measure assets and liabilities. The standard also

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responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The provisions of SFAS 157 are effective for fiscal years beginning after November 17, 2007. At this time, the Company is evaluating the implications, including the additional disclosure requirements, of SFAS 157, and its potential impact to the Company's financial condition, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115" ("SFAS 159"). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact of adoption SFAS 159 on the Company's financial condition, results of operations and cash flows.

In June 2007, the EITF reached consensus on Issue No. 06-11, "Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards." EITF Issue No. 06-11 requires that the tax benefit related to the dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF Issue No. 06-11 is to be applied prospectively for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The Company is currently evaluating the potential impact of adopting EITF Issue No. 06-11 on its financial condition, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not believe we face any material interest rate risk, foreign currency exchange risk, equity price risk or other market risk except as disclosed in Item 2 — "Market Risk" above.

Item 4. Controls and Procedures

Under the supervision and with the participation of the firm's management, including our Co-Chief Executive Officers and Chief Financial Officer, we conducted an evaluation of the effectiveness of the firm's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon this evaluation, our Co-Chief Executive Officers and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

No change in the firm's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the firm's internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

From time to time, in the ordinary course of our business, we are involved in lawsuits, claims, audits, investigations and employment disputes, the outcome of which, in the opinion of the firm's management, will not have a material adverse effect on our financial position, cash flows or results of operations.

Item 1A: Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2006 Annual Report on Form 10-K.

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

Share Repurchases in the Third Quarter of 2007:

Period	Total Number of Shares Repurchased ²	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs ³
July 1 – July 31	99,382	\$ 55.33	99,382	\$ 81,940,620
August 1 – August 31	772,435	—	772,435	—
September 1 – September 30	37,769,867	—	37,769,867	—

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits:

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Amended and Restated By-Laws (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 29, 2007)

31.1 Certification of Co-Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Co-Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.3 Certification of
Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of
Co-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
Co-Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

32.3 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 2 Excludes 7,473 shares the Company is deemed to have repurchased at
\$57.60 from employees in conjunction with the payment of tax liabilities in respect of stock delivered to employees in
settlement of restricted stock units. 3 These shares were purchased pursuant to the authorization granted by our Board
of Directors to purchase up to \$150,000,000 in shares of our common stock, as announced on April 25, 2007.

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Signatures

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

Date: November 1, 2007

GREENHILL & CO., INC.

By: /s/ SCOTT L. BOK

Name: Scott L. Bok

Title: Co-Chief Executive Officer

By: /s/ SIMON A. BORROWS

Name: Simon A. Borrows

Title: Co-Chief Executive Officer

By: /s/ JOHN D. LIU

Name: John D. Liu

Title: Chief Financial Officer

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