

GREENHILL & CO INC  
Form 10-Q  
August 05, 2011  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 June 30, 2011

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.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or Other Jurisdiction)  
  
of Incorporation or Organization)

**300 Park Avenue**

**51-0500737**  
(I.R.S. Employer  
Identification No.)

**10022**

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**New York, New York**

(Address of Principal Executive Offices)

(ZIP Code)

**Registrant's telephone number, including area code: (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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes**  **No**

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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

As of August 1, 2011, there were 29,127,874 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 United States Securities and Exchange Commission (the SEC). You may read and copy any document the company files at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The firm's 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 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 our Investor Relations Department, are charters for our Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee, our Corporate Governance Guidelines, Related Party Transaction Policy and Code of Business Conduct & Ethics governing our directors, officers and employees. You may need to have Adobe Acrobat Reader software installed on your computer to view these documents, which are in PDF format.

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements****Greenhill & Co., Inc. and Subsidiaries****Condensed Consolidated Statements of Financial Condition**

	As of	
	June 30, 2011 (unaudited)	December 31, 2010
<b>Assets</b>		
Cash and cash equivalents (\$7.6 million and \$7.7 million restricted from use at June 30, 2011 and December 31, 2010, respectively)	\$ 59,379,363	\$ 78,227,209
Financial advisory fees receivable (net of allowance for doubtful accounts of \$0.1 million and \$0.0 million at June 30, 2011 and December 31, 2010, respectively)	33,606,015	30,187,204
Other receivables	6,087,457	2,899,309
Property and equipment (net of accumulated depreciation of \$48.3 million and \$45.8 million at June 30, 2011 and December 31, 2010, respectively)	18,005,721	17,563,099
Investments in merchant banking funds	40,779,158	73,532,503
Other investments	91,339,221	87,372,799
Goodwill	170,045,064	162,507,267
Deferred tax asset	46,085,232	47,842,045
Other assets	7,739,929	8,546,405
<b>Total assets</b>	<b>\$ 473,067,160</b>	<b>\$ 508,677,840</b>
<b>Liabilities and Equity</b>		
Compensation payable	\$ 21,707,775	\$ 30,515,366
Accounts payable and accrued expenses	20,582,665	13,123,718
Financing liability	14,301,759	
Bank loan payable	24,670,000	67,000,000
Deferred tax liability	27,519,524	25,031,882
Due to affiliates	2,816	144,365
<b>Total liabilities</b>	<b>108,784,539</b>	<b>135,815,331</b>
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 35,704,147 and 35,117,356 shares issued as of June 30, 2011 and December 31, 2010, respectively; 29,299,355 and 29,341,604 shares outstanding as of June 30, 2011 and December 31, 2010, respectively	357,041	351,174
Contingent convertible preferred stock, par value \$0.01 per share; 10,000,000 shares authorized, 1,099,877 shares issued and outstanding as of June 30, 2011 and December 31, 2010	46,950,226	46,950,226
Restricted stock units	78,682,436	89,365,292
Additional paid-in capital	406,841,674	368,090,229
Exchangeable shares of subsidiary; 257,156 shares issued as of June 30, 2011 and December 31, 2010; 110,191 shares outstanding as of June 30, 2011 and December 31, 2010	6,578,403	6,578,403
Retained earnings	175,881,795	184,621,197
Accumulated other comprehensive income	15,185,796	5,127,132
Treasury stock, at cost, par value \$0.01 per share; 6,404,792 and 5,775,752 shares as of June 30, 2011 and December 31, 2010, respectively	(367,623,799)	(330,602,168)
<b>Stockholders equity</b>	<b>362,853,572</b>	<b>370,481,485</b>
<b>Noncontrolling interests</b>	<b>1,429,049</b>	<b>2,381,024</b>

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Total equity	364,282,621	372,862,509
Total liabilities and equity	\$ 473,067,160	\$ 508,677,840

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

**Table of Contents****Greenhill & Co., Inc. and Subsidiaries****Condensed Consolidated Statements of Income (unaudited)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Financial advisory fees	\$ 85,578,988	\$ 61,921,454	\$ 134,087,751	\$ 98,518,763
Merchant banking and other investment revenues	4,934,198	21,498,748	4,661,780	33,737,401
Interest income	253,933	108,401	385,474	128,367
<b>Total revenues</b>	<b>90,767,119</b>	<b>83,528,603</b>	<b>139,135,005</b>	<b>132,384,531</b>
<b>Expenses</b>				
Employee compensation and benefits	41,752,874	38,368,345	77,979,937	70,523,357
Occupancy and equipment rental	4,447,440	3,680,902	8,632,948	6,830,191
Depreciation and amortization	2,009,697	1,663,639	3,866,651	2,415,796
Information services	2,003,419	1,434,404	3,568,513	3,173,481
Professional fees	1,525,214	1,988,670	2,810,341	4,232,536
Travel related expenses	2,636,716	2,908,794	5,453,402	5,126,524
Interest expense	517,419	584,340	1,243,301	1,112,382
Other operating expenses	2,734,050	2,653,160	4,948,942	5,551,658
<b>Total expenses</b>	<b>57,626,829</b>	<b>53,282,254</b>	<b>108,504,035</b>	<b>98,965,925</b>
Income before taxes	33,140,290	30,246,349	30,630,970	33,418,606
Provision for taxes	11,651,025	11,358,643	10,722,577	11,679,098
Consolidated net income	21,489,265	18,887,706	19,908,393	21,739,508
Less: Net income allocated to noncontrolling interests	6,302	1,337,676	6,302	3,677,582
Net income allocated to common stockholders	\$ 21,482,963	\$ 17,550,030	\$ 19,902,091	\$ 18,061,926
<b>Average shares outstanding:</b>				
Basic	31,009,869	30,708,263	31,178,508	30,301,144
Diluted	31,010,524	30,768,603	31,187,576	30,372,089
<b>Earnings per share:</b>				
Basic	\$ 0.69	\$ 0.57	\$ 0.64	\$ 0.60
Diluted	\$ 0.69	\$ 0.57	\$ 0.64	\$ 0.59
<b>Dividends declared and paid per share</b>	<b>\$ 0.45</b>	<b>\$ 0.45</b>	<b>\$ 0.90</b>	<b>\$ 0.90</b>

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

**Table of Contents****Greenhill & Co., Inc. and Subsidiaries****Condensed Consolidated Statements of Comprehensive Income (unaudited)**

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Consolidated net income	\$ 21,489,265	\$ 18,887,706	\$ 19,908,393	\$ 21,739,508
Currency translation adjustment, net of tax	5,888,794	(11,479,009)	10,058,664	(14,691,950)
Comprehensive income	27,378,059	7,408,697	29,967,057	7,047,558
Less: Net income allocated to noncontrolling interests	6,302	1,337,676	6,302	3,677,582
Comprehensive income allocated to common stockholders	\$ 27,371,757	\$ 6,071,021	\$ 29,960,755	\$ 3,369,976

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



**Table of Contents****Greenhill & Co., Inc. and Subsidiaries****Condensed Consolidated Statements of Changes in Equity**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>Year Ended</b>
	<b>2011</b>	<b>December 31,</b>
	<b>(unaudited)</b>	<b>2010</b>
<b>Common stock, par value \$0.01 per share</b>		
Common stock, beginning of the year	\$ 351,174	\$ 332,543
Common stock issued	5,867	18,631
Common stock, end of the period	357,041	351,174
<b>Contingent convertible preferred stock, par value \$0.01 per share</b>		
Contingent convertible preferred stock, beginning of the year	46,950,226	
Contingent convertible preferred stock issued		46,950,226
Contingent convertible preferred stock, end of the period	46,950,226	46,950,226
<b>Restricted stock units</b>		
Restricted stock units, beginning of the year	89,365,292	81,219,868
Restricted stock units recognized	27,369,388	43,214,505
Restricted stock units delivered	(38,052,244)	(35,069,081)
Restricted stock units, end of the period	78,682,436	89,365,292
<b>Additional paid-in capital</b>		
Additional paid-in capital, beginning of the year	368,090,229	237,716,672
Common stock issued	38,150,085	125,850,372
Restricted stock units cash settlement		(1,010,273)
Tax benefit from the delivery of restricted stock units	601,360	5,533,458
Additional paid-in capital, end of the period	406,841,674	368,090,229
<b>Exchangeable shares of subsidiary</b>		
Exchangeable shares of subsidiary, beginning of the year	6,578,403	7,937,414
Exchangeable shares of subsidiary delivered		(1,359,011)
Exchangeable shares of subsidiary, end of the period	6,578,403	6,578,403
<b>Retained earnings</b>		
Retained earnings, beginning of the year	184,621,197	206,974,630
Dividends	(28,641,493)	(56,879,344)
Net income allocated to common stockholders	19,902,091	34,525,911
Retained earnings, end of the period	175,881,795	184,621,197
<b>Accumulated other comprehensive income (loss)</b>		
Accumulated other comprehensive income (loss), beginning of the year	5,127,132	(8,737,728)
Currency translation adjustment, net of tax	10,058,664	13,864,860

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Accumulated other comprehensive income, end of the period	15,185,796	5,127,132
<b>Treasury stock, at cost; par value \$0.01 per share</b>		
Treasury stock, beginning of the year	(330,602,168)	(293,391,405)
Repurchased	(37,021,631)	(37,210,763)
Treasury stock, end of period	(367,623,799)	(330,602,168)
<b>Total stockholders equity</b>	<b>362,853,572</b>	<b>370,481,485</b>
<b>Noncontrolling interests</b>		
Noncontrolling interests, beginning of the year	2,381,024	1,501,214
Net income allocated to noncontrolling interests	6,302	4,894,833
Contributions from noncontrolling interests		163,761
Distributions to noncontrolling interests	(958,277)	(4,178,784)
Noncontrolling interests, end of period	1,429,049	2,381,024
<b>Total equity</b>	<b>\$ 364,282,621</b>	<b>\$ 372,862,509</b>

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

**Table of Contents****Greenhill & Co., Inc. and Subsidiaries****Condensed Consolidated Statements of Cash Flows (unaudited)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating activities:</b>		
Consolidated net income	\$ 19,908,393	\$ 21,739,508
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Non-cash items included in consolidated net income:		
Depreciation and amortization	3,866,651	2,415,796
Net investment gains	(4,256,270)	(25,123,956)
Restricted stock units recognized and common stock issued	27,473,083	26,113,171
Deferred taxes	2,907,253	10,108,315
Deferred gain on the sale of certain merchant banking assets	(405,510)	(549,864)
Changes in operating assets and liabilities:		
Financial advisory fees receivable	(3,418,811)	1,734,201
Due from affiliates	(141,549)	(662,141)
Other receivables and assets	(4,137,148)	421,242
Compensation payable	(6,714,995)	(25,829,526)
Accounts payable and accrued expenses	7,864,457	(11,721,953)
Settlement of restricted stock units in cash	(2,092,596)	
<b>Net cash provided by (used in) operating activities</b>	<b>40,852,958</b>	<b>(1,355,207)</b>
<b>Investing activities:</b>		
Purchases of merchant banking investments	(914,091)	(11,536,627)
Purchases of other investments	(150,315)	(208,026)
Sale of merchant banking investments	48,467,132	
Caliburn acquisition, net of cash received		534
Distributions from investments	1,099,711	5,898,387
Purchases of property and equipment	(2,339,522)	(1,221,214)
<b>Net cash provided by (used in) investing activities</b>	<b>46,162,915</b>	<b>(7,066,946)</b>
<b>Financing activities:</b>		
Proceeds of revolving bank loan	40,570,000	58,275,000
Repayment of revolving bank loan	(82,900,000)	(40,000,000)
Contributions from noncontrolling interests		151,387
Distributions to noncontrolling interests	(958,277)	(1,125,680)
Dividends paid	(28,641,493)	(27,732,769)
Purchase of treasury stock	(37,021,631)	(25,150,223)
Net tax benefit from the delivery of restricted stock units and payment of dividend equivalents	601,360	7,538,815
<b>Net cash used in financing activities</b>	<b>(108,350,041)</b>	<b>(28,043,470)</b>
Effect of exchange rate changes on cash and cash equivalents	2,486,322	(422,017)
<b>Net decrease in cash and cash equivalents</b>	<b>(18,847,846)</b>	<b>(36,887,640)</b>
Cash and cash equivalents, beginning of period	78,227,209	74,473,459
<b>Cash and cash equivalents, end of period</b>	<b>\$ 59,379,363</b>	<b>\$ 37,585,819</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 1,206,526	\$ 1,196,420
Cash paid for taxes, net of refunds	\$ 3,916,610	\$ 3,733,140

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

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**Greenhill & Co., Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements (unaudited)**

**Note 1 Organization**

Greenhill & Co., Inc., a Delaware corporation, together with its subsidiaries (collectively, the Company), is a leading independent investment bank focused on providing financial advice on significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. The Company acts for clients located throughout the world from offices located in New York, London, Frankfurt, Sydney, Tokyo, Toronto, Chicago, Dallas, Houston, Los Angeles, Melbourne and San Francisco.

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

Financial advisory, which includes engagements relating to mergers and acquisitions, financing advisory and restructuring, and private equity and real estate capital advisory services; and

Merchant banking, which includes the Company's principal investments in certain merchant banking funds, Iridium Communications Inc. (Iridium) and other investments. Prior to 2011, merchant banking also included the management of outside capital invested in affiliated merchant banking funds.

The Company's wholly-owned subsidiaries that provide financial advisory services include Greenhill & Co., LLC (G&Co), Greenhill & Co. International LLP (GCI), Greenhill & Co. Europe LLP (GCEI), Greenhill & Co. Japan Ltd. (GCJ), Greenhill & Co. Canada Ltd. (GCC) and Greenhill Caliburn Pty Limited (Greenhill Caliburn).

G&Co is engaged in investment banking activities principally in the U.S. G&Co is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA), and is licensed in all 50 states and the District of Columbia. G&Co is also registered as a municipal advisor with the SEC and the Municipal Securities Rulemaking Board.

GCI and GCEI are engaged in investment banking activities in the U.K. and Europe, respectively, and are subject to regulation by the U.K. Financial Services Authority (FSA). GCJ and GCC are engaged in investment banking activities in Japan and Canada, respectively.

On April 1, 2010, Greenhill acquired all of the outstanding capital stock of Caliburn Partnership Pty Limited (Caliburn), which was renamed Greenhill Caliburn Pty Limited, an Australian-based independent financial advisory firm. The Company, through Greenhill Caliburn, engages in investment banking activities in Australia and New Zealand. Greenhill Caliburn is licensed and subject to regulation by the Australian Securities and Investment Commission (ASIC). See Note 3 Acquisition.

Greenhill Aviation Co., LLC (GAC), a wholly-owned subsidiary of the Company, owns and operates an aircraft, which is used for the exclusive benefit of the Company's employees and their immediate family members.

The Company separated from the merchant banking business on December 31, 2010. Prior to that time, the merchant banking activities consisted primarily of the management of and the investment in Greenhill's affiliated merchant banking funds: Greenhill Capital Partners (GCP I), Greenhill Capital Partners II (GCP II), Greenhill Capital Partners Europe (GCP Europe), and Greenhill SAV Partners (GSAVP), together with GCP I, GCP II, and GCP Europe, the Merchant Banking Funds, which are families of merchant banking funds.

The Company's U.S. and international wholly-owned subsidiaries that invest in merchant banking funds include Greenhill Capital Partners, LLC (GCPLLC) and Greenhill Venture Partners, LLC (GVP). The Company also owns a majority of the interests in Greenhill Capital Partners II, LLC (GCPII LLC). Greenhill Capital Partners Europe LLP (GCPE) was a wholly-owned subsidiary of the Company, however, as a result of the separation from the merchant banking business, as of December 31, 2010, GCPE is no longer included in the condensed consolidated results.

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GCPLLC is an investment adviser registered under the Investment Advisers Act of 1940 ( IAA ). Prior to 2011, GCPLLC provided investment advisory services to GCP I and GCP II, the U.S. based private equity funds that invest in a diversified portfolio of private equity and equity-related investments. During 2010 GCPII LLC acted as manager for GCP I, GCP II and GSAVP.

GVP is an investment adviser registered under the IAA. Prior to 2011, GVP provided investment advisory services to GSAVP, a venture fund that invests in early growth stage companies in the tech-enabled and business information services industries.

The majority of the investors in GCP I, GCP II and GSAVP are unaffiliated third parties; however, the Company and its employees have also made investments in such entities. See Note 4 Investments Affiliated Merchant Banking Funds .

The Company also owns an interest in Iridium and certain other investments. See Note 4 Investments Other Investments .

## **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 ( GAAP ) 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 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. Certain reclassifications have been made to prior year information to conform to current year presentation.

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 after eliminations of all significant inter-company accounts and transactions. In accordance with the accounting pronouncements related to the consolidation of variable interest entities, the Company consolidates the general partners of the Merchant Banking Funds which it controls. The general partners account for their investments in the Merchant Banking Funds under the equity method of accounting. As such, the general partners record their proportionate shares of income (loss) from the underlying Merchant Banking Funds. As the Merchant Banking Funds follow investment company accounting, and generally record all their assets and liabilities at fair value, the general partners' investment in the Merchant Banking Funds represents an estimation of fair value. 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 the limited partners have certain rights to remove the general partner by a simple majority vote 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, 2010 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission. The condensed consolidated financial information as of December 31, 2010 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.

### ***Noncontrolling Interests***

The Company records the noncontrolling interests of other consolidated entities as equity in the condensed consolidated statements of financial condition. Additionally, the condensed consolidated statements of income separately present income allocated to both noncontrolling interests and common stockholders.

The portion of the consolidated interests in the general partners of the Merchant Banking Funds not held by the Company is presented as noncontrolling interest in equity. See Note 4 Investments Affiliated Merchant Banking Funds .

GCP Capital Partners Holdings LLC ( GCP Capital ), an entity not controlled by the Company, had a preferred economic interest in the 2010 profits of GCPII LLC. During 2010 the excess of management fees revenues over amounts paid for compensation and other operating costs associated with the management of the Merchant Banking Funds accrued to the benefit of GCP Capital and was recorded as noncontrolling interest.



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***Revenue Recognition***

*Financial Advisory Fees*

The Company recognizes financial advisory fee revenue for mergers and acquisitions or financing advisory and restructuring engagements when the services related to the underlying transactions are completed in accordance with the terms of the engagement letter. The Company recognizes private equity and real estate capital advisory fees at the time of the client's acceptance of capital or capital commitments in accordance with the terms of the engagement letter. Retainer fees are recognized as financial advisory fee revenue 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. Client reimbursements totaled \$1.8 million and \$1.2 million for the three months ended June 30, 2011 and 2010, respectively and \$3.1 million and \$2.0 million for the six months ended June 30, 2011 and 2010, respectively.

*Merchant Banking and Other Investment Revenues*

Merchant banking revenues consist of (i) management fees derived from merchant banking activities (for periods prior to January 1, 2011), (ii) gains (or losses) on the Company's investments in Merchant Banking Funds, Iridium and other principal investment activities, and if any, (iii) profit overrides from the Merchant Banking Funds. See Note 4 Investments Affiliated Merchant Banking Funds.

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

The Company recognizes revenue on its investments in the Merchant Banking Funds based on its allocable share of realized and unrealized gains (or losses) reported by such funds. Investments held by the Merchant Banking Funds and certain other investments are recorded at estimated fair value. The value of Merchant Banking Fund investments in privately held companies is 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 qualitative and quantitative factors. Discounts may be 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 Company's investments are carried on its condensed consolidated statements of financial condition are adjusted to estimated 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 estimated fair value of the investments from period to period.

If certain financial returns are achieved over the life of the fund, the Company recognizes merchant banking profit overrides at the time that certain financial returns are achieved. Profit overrides are generally calculated as a percentage of the profits over a specified threshold earned by each fund on investments managed on behalf of unaffiliated investors except the Company. When applicable, the profit overrides earned by the Company are recognized on an accrual basis throughout the year. In accordance with the relevant guidance, the Company records as revenue the amount that would be due pursuant to the fund agreements at each period end as if the fund agreements were terminated at that date. Overrides are generally calculated on a deal-by-deal basis but are subject to investment performance over the life of each merchant banking fund. The Company may be required to repay a portion of the overrides it realized in the event a minimum performance level is not achieved by the fund as a whole (we refer to these potential repayments as "clawbacks"). The Company would be required to establish a reserve for potential clawbacks if it were to determine that the likelihood of a clawback is probable and the amount of the clawback can be reasonably estimated. As of June 30, 2011, the Company believes it is more likely than not that the amount of profit overrides recognized as revenue in prior periods, which relates solely to its interest in GCP I, will be realized and accordingly, the Company has not reserved for any clawback obligations under applicable fund agreements. See Note 4 Investments Affiliated Merchant Banking Funds for further discussion of the merchant banking revenues recognized.



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### ***Investments***

The Company's investments in the Merchant Banking Funds are recorded under the equity method of accounting based upon the Company's proportionate share of the fair value of the underlying merchant banking fund's net assets. The Company's other investments, which consider the Company's influence or control of the investee, are recorded at fair value or under the equity method of accounting based, in part, upon the Company's proportionate share of the investee's net assets.

Gains and losses on investment positions held, which arise from sales or changes in the fair value of investments are not predictable and can cause periodic fluctuations in net income and therefore subject the Company to market and credit risk.

### ***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 \$0.1 million for both of the six month periods ended June 30, 2011 and 2010.

### ***Restricted Stock Units***

The Company accounts for its share-based compensation payments under which the fair value of restricted stock units granted to employees with future service requirements is recorded as compensation expense and are generally amortized over a five-year service period following the date of grant. Compensation expense is determined based upon the fair market value of the Company's common stock at the date of grant. As the Company expenses the awards, the restricted stock units recognized are recorded within equity. The restricted stock units are reclassified into common stock and additional paid-in capital upon vesting. The Company records as treasury stock the repurchase of stock delivered to its employees in settlement of tax liabilities incurred upon the vesting of restricted stock units. The Company records dividend equivalent payments, net of estimated forfeitures, on outstanding restricted stock units as a dividend payment and a charge to equity.

### ***Earnings per Share***

The Company calculates basic earnings per share (EPS) by dividing net income allocated to common stockholders by the weighted average number of 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.

Under the treasury method, the number of shares issuable upon the vesting of restricted stock units included in the calculation of diluted EPS is the excess, if any, of the number of shares expected to be issued, less the number of shares that could be purchased by the Company with the proceeds to be received upon settlement at the average market closing price during the reporting period. The denominator for basic EPS includes the number of shares deemed issuable due to the vesting of restricted stock units for accounting purposes.

See Note 8 Earnings per Share for further discussion of the calculation of EPS.

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

Assets and liabilities denominated in foreign currencies have been translated at rates of exchange prevailing at the end of the periods presented in accordance with the accounting guidance for foreign currency translation. Income and expenses transacted in foreign currencies have been translated at average monthly exchange rates during the period. Translation gains and losses are included in the foreign currency translation adjustment which is included as a component of other comprehensive income (loss) in the condensed consolidated statements of changes in equity. Foreign currency transaction gains and losses are included in the condensed consolidated statements of income.

### ***Goodwill***

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. The Company tests its goodwill for impairment at least annually. An impairment loss is triggered if the estimated fair value of an operating unit 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.



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Goodwill is translated at the rate of exchange prevailing at the end of the periods presented in accordance with the accounting guidance for foreign currency translation. Any translation gain or loss is included in the foreign currency translation adjustment included as a component of other comprehensive income in the condensed consolidated statement of changes in equity.

### ***Business Combinations***

Business combinations are accounted for in accordance with the guidance for business combinations. The Company uses a fair value approach to measure the assets acquired and the liabilities assumed in a business combination. Assets acquired and liabilities assumed in a business combination are valued at fair value, regardless of the purchaser's cost of acquisition. Any associated transaction costs are expensed as incurred.

### ***Property and Equipment***

Property and equipment is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the life of the assets. Amortization of leasehold improvements is computed using the straight-line method over the lesser of the life of the asset or the remaining term of the lease. Estimated useful lives of the Company's fixed assets are generally as follows:

Aircraft 7 years

Equipment 5 years

Furniture and fixtures 7 years

Leasehold improvements the lesser of 10 years or the remaining lease term

### ***Provision for Taxes***

The Company accounts for taxes in accordance with the accounting guidance 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.

The Company follows the guidance for income taxes in recognizing, measuring, presenting and disclosing in its financial statements uncertain tax positions taken or expected to be taken on its income 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.

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 of change. Management applies the more-likely-than-not criteria when determining tax benefits.

### ***Cash and Cash Equivalents***

The Company's cash and cash equivalents consist of (i) cash held on deposit with financial institutions, (ii) cash equivalents and (iii) restricted cash.

At June 30, 2011 and December 31, 2010, the Company had \$59.4 million and \$78.2 million, respectively, of cash and cash equivalents. The Company considers all highly liquid investments with a maturity date of three months or less, when purchased, to be cash equivalents. Cash equivalents primarily consist of money market funds and overnight deposits. At June 30, 2011 and December 31, 2010, the carrying value of the Company's cash equivalents amounted to \$10.9 million and \$9.4 million, respectively, which approximated fair value, and are included in total cash and cash equivalents.

Also included in the total cash and cash equivalents balance at June 30, 2011 and December 31, 2010 was \$7.6 million and \$7.7 million, respectively (including \$3.4 million and \$3.3 million at June 30, 2011 and December 31, 2010, respectively, restricted for the payout of the Greenhill Caliburn deferred compensation plan), of restricted cash. See Note 3 Acquisition.



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The Company maintains its cash and cash equivalents with financial institutions with high credit ratings. The Company maintains deposits in federally insured financial institutions in excess of federally insured (FDIC) limits. However, management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

### ***Financial Instruments and Fair Value***

The Company accounts for financial instruments measured at fair value in accordance with accounting guidance for fair value measurements and disclosures which establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the pronouncement are described below:

#### ***Basis of Fair Value Measurement***

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining the appropriate levels, the Company performs an analysis of the assets and liabilities that are subject to these disclosures. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3. Transfers between levels are recognized as of the end of the period in which they occur.

### ***Derivative Instruments***

The Company accounts for warrants under the guidance for accounting for derivative instruments and hedging activities. In accordance with that guidance, the Company records warrants at estimated fair value in the condensed consolidated statements of financial condition with changes in estimated fair value during the period recorded in merchant banking and other investment revenues in the condensed consolidated statements of income. The Iridium \$11.50 warrants, which were held by the Company prior to their conversion to shares of Iridium common stock on June 22, 2011, were not designated as hedging instruments.

### ***Subsequent Events***

The Company evaluates subsequent events through the date on which financial statements are issued.

### ***Accounting Developments***

In January 2010, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2010-06, Improving Disclosures about Fair Value Measurements . ASU No. 2010-06 provides amended disclosure requirements related to fair value measurements and specifically requires entities to disclose: i) the amounts of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for the transfers; ii) the reasons for any transfers in or out of Level 3; and iii) information in the reconciliation of recurring Level 3 measurements about purchases, sales issuances and settlements on a gross basis. Since these amended principles require only additional disclosures concerning fair value measurements, adoption did not affect the Company's condensed consolidated financial statements.

**Table of Contents****Note 3 Acquisition**

On April 1, 2010, the Company acquired 100% ownership of Caliburn from its founding partners (the Acquisition). The Acquisition has been accounted for using the purchase method of accounting and the results of operations for Greenhill Caliburn have been included in the condensed consolidated statements of income from the date of acquisition.

The total purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of April 1, 2010. The excess of the purchase price over the fair value of net assets acquired was recorded as goodwill. The fair value of the identifiable intangible assets acquired, which consisted of the trade name, the backlog of investment banking client assignments that existed at the time of the closing, and customer relationships, is amortized on a straight-line basis over the estimated remaining useful life of each asset over periods ranging between 2 to 3 years. For the three months ended June 30, 2011 and 2010, the Company recorded \$0.9 million and \$0.7 million of amortization expense, respectively, in respect of these assets. For the six months ended June 30, 2011 and 2010, the Company recorded \$1.8 million and \$0.7 million of amortization expense, respectively, in respect of these assets.

In connection with the Acquisition, the Company assumed amounts due under Caliburn's deferred compensation plan and acquired a corresponding amount of investments. Under this plan a portion of certain employees' compensation was deferred and invested in cash or, at the election of each respective employee, in certain mutual fund investments. The cash and mutual fund investments will be distributed to those employees of Greenhill Caliburn, who were employed on the date of acquisition, over a 7 year period ending in 2016. The invested assets relating to this plan have been recorded on the condensed consolidated statements of financial condition as components of both cash and cash equivalents and other investments. A deferred compensation liability relating to the plan of \$7.6 million as of June 30, 2011 has been recorded on the condensed consolidated statements of financial condition as a component of compensation payable. Subsequent to the Acquisition the Company has discontinued future participation in the plan. See Note 2 Summary of Significant Accounting Policies Cash and Cash Equivalents and Note 4 Investments Other Investments.

Set forth below are the Company's summary unaudited consolidated results of operations for the six months ended June 30, 2011 and the Company's summary unaudited pro forma results of operations for the six months ended June 30, 2010. The unaudited pro forma results of operations for the six months ended June 30, 2010 include the historical results of the Company and give effect to the Acquisition as if it had occurred on January 1, 2010. These pro forma results include the actual Caliburn results from January 1, 2010 through March 31, 2010.

The unaudited pro forma results of operations do not purport to represent what the Company's results of operations would actually have been had the Acquisition occurred as of January 1, 2010, or to project the Company's results of operations for any future period. Actual future results may vary considerably based on a variety of factors beyond the Company's control.

	<b>For</b>	
	<b>the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(in millions, unaudited)</b>	
	<b>(actual)</b>	<b>(pro forma)</b>
Revenues	\$139.1	\$136.7
Income before taxes	30.6	33.5
Net income allocated to common stockholders	19.9	18.1
Diluted earnings per share	\$0.64	\$0.60

The pro forma results include: (i) an adjustment to Caliburn's compensation expense to Greenhill's historical ratio of compensation expense to revenue for the period presented, (ii) the elimination of professional fees of \$1.4 million incurred by Caliburn in connection with the Acquisition in the three months ended March 31, 2010, and (iii) the recording of income tax expense resulting from the pro forma adjustments before tax at the Australian effective tax rate of 30%. The calculation of pro forma diluted earnings per share does not include the contingent convertible preferred shares issued to the founding partners of Caliburn in connection with the Acquisition. These shares may be converted in aggregate to 1,099,877 common shares in the event that Greenhill Caliburn achieves certain three and five year revenue targets.



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**Table of Contents****Note 4 Investments*****Affiliated Merchant Banking Funds***

In December 2009, the Company sold certain assets related to the merchant banking business, including the right to raise subsequent merchant banking funds and a 24% ownership interest in GCPII LLC, to GCP Capital, an entity not controlled by the Company. The Company retained a 76% interest in GCPII LLC. Under the terms of the separation agreement, the general partners of the Merchant Banking Funds delegated to GCPII LLC their obligation to manage and administer the affiliated funds during a transition period, which ended on December 31, 2010.

As consideration for the sale of the merchant banking business, in December 2009 the Company received 289,050 shares of its common stock with a value of \$24.4 million. The Company recognized a gain of \$21.8 million in 2009 and deferred \$2.6 million of gains on the sale related to non-compete and trademark licensing agreements, which will be amortized over a 5 year period ending in 2014. For the three month periods ended June 30, 2011 and June 30, 2010, deferred gains of \$0.2 million and \$0.2 million, respectively, were recognized. For the six month periods ended June 30, 2011 and June 30, 2010, deferred gains of \$0.4 million and \$0.5 million, respectively, were recognized.

During 2010, the Company recorded the revenues and expenses related to the management of the Merchant Banking Funds in its consolidated results. However, during that period GCP Capital had a preferred economic interest in the first \$10.0 million of profits of GCPII LLC and accordingly, the excess of management fee revenue over amounts incurred for compensation and other operating expenses during 2010 that accrued to the benefit of GCP Capital was presented as noncontrolling interest expense, which reduced net income allocated to common stockholders.

Effective January 1, 2011, the Company no longer manages the Merchant Banking Funds but will continue to retain control as the general partner of the Merchant Banking Funds. In addition to recording its direct investments in the affiliated funds, the Company consolidates each general partner in which it has a majority economic interest.

Prior to 2011, the Company's management fee income consisted of fees paid by the Merchant Banking Funds and other transaction fees paid by the portfolio companies. Effective January 1, 2011, the Company no longer receives any management fees and it delegated the management of the Merchant Banking Funds to GCP Capital.

On June 10, 2011, the Company sold substantially all of its capital interests in GCP II and its affiliated funds to certain unaffiliated third parties and certain principals of GCP Capital for an aggregate purchase price of \$44.8 million, which represented the Company's carrying value of such capital interest as of March 31, 2011. The transaction agreement provided that the purchasers have the right, exercisable only in December 2012, to cause the Company to repurchase each of the capital account interests attributable to two specified portfolio companies of GCP II at a specified aggregate price of \$14.3 million, subject to adjustments for distributions or capital calls (the "Put Options"). The transfer of the GCP II capital interests, which were not associated with the Put Options, was accounted for as a sale in accordance with accounting guidance for financial asset transfers. The GCP II capital account interests associated with the Put Options did not meet the requirements of sale accounting and therefore have been accounted for as secured borrowings in accordance with accounting guidance for financial asset transfers. In accordance with that guidance, the Company continues to record these capital interests subject to the Put Options as a component of investments in merchant banking funds on the condensed consolidated statements of financial condition and will recognize its proportional share of earnings or loss related to the capital interests subject to the Put Options on the condensed consolidated statements of income. The Company also recorded a corresponding liability for the consideration received, which has been included as a financing liability on the condensed consolidated statements of financial condition. For the three months ending June 30, 2011 the Company recorded a loss of \$1.4 million on these capital accounts, which has been included as a component of merchant banking and other revenues on the condensed consolidated statements of income.

On June 14, 2011, the Company sold substantially all of its capital interests in GSAVP and its affiliated funds to an unaffiliated third party for a purchase price of \$3.7 million, which represented the Company's carrying value of such capital interests as of March 31, 2011. The transfer of all the capital interests related to GSAVP has been accounted for as a sale in accordance with accounting guidance for financial asset transfers, with no associated gain or loss recorded during the three months ending June 30, 2011.

Investment gains or losses from merchant banking and other investment activities are comprised of investment income, realized and unrealized gains or losses from the Company's investment in the Merchant Banking Funds, Iridium and certain other investments, and the consolidated earnings of the general partner in which it has control, offset by allocated expenses of the funds. That portion of the earnings or losses of the general partner which is held by employees and former employees of the Company is recorded as net income allocated to noncontrolling interests.





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As the general partner, the Company controls investment decisions for the Merchant Banking Funds and is entitled to receive from the funds a portion of the override of the profits realized from investments. The Company recognizes profit overrides related to the Merchant Banking Funds at the time certain performance hurdles are achieved.

The Company's merchant banking and other investment revenues, by source, are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, unaudited)			
Management fees	\$	\$ 3,666	\$	\$ 8,064
Net realized and unrealized gains (losses) on investments in merchant banking funds		(874)		521
Net realized and unrealized merchant banking profit overrides		(49)		91
Net unrealized gain on investment in Iridium		5,618		24,902
Other realized and unrealized investment income (loss)		36		(390)
Recognition of deferred gain on sale of merchant banking assets		203		549
<b>Total merchant banking and other investment revenues</b>	<b>\$</b>	<b>\$ 4,934</b>	<b>\$</b>	<b>\$ 33,737</b>

The carrying value of the Company's investments in the Merchant Banking Funds are as follows:

	As of June 30, 2011 (in thousands, unaudited)	As of December 31, 2010 (in thousands, audited)
Investment in GCPE	\$ 20,506	\$ 18,271
Investment in GCP II	1,610	46,533
Investment in GCP II subject to Put Options	12,900	
Investment in other merchant banking funds	5,763	8,728
<b>Total investments in the Merchant Banking Funds</b>	<b>\$ 40,779</b>	<b>\$ 73,532</b>

The Company's investment in other merchant banking funds are principally comprised of the remaining investments in GCP I, GCP III, and GSAVP.

The investment in GCP I included \$0.3 million at both June 30, 2011 and December 31, 2010 related to the noncontrolling interests in the managing general partner of GCP I held directly by the limited partners of its general partner. The investment in GCP II included \$1.1 million at both June 30, 2011 and December 31, 2010 related to the noncontrolling interests in the general partner of GCP II.

Approximately \$0.3 million of the Company's compensation payable related to profit overrides for unrealized gains of the Merchant Banking Funds at both June 30, 2011 and December 31, 2010. This amount may increase or decrease depending on the change in the fair value of the Merchant Banking Funds' portfolio, and is payable, subject to clawback, at the time cash proceeds are realized.

At June 30, 2011, the Company had unfunded commitments of \$23.8 million to certain of the Merchant Banking Funds, which included unfunded commitments to GCP Europe of \$19.5 million (or £12.2 million), which may be drawn through December 2012. In addition, the Company had unfunded commitments of \$4.3 million to other merchant banking funds, the majority of which may be drawn through November 2015. For each of the Merchant Banking Funds, up to 15% of the commitment amount may be drawn for follow-on investments over the two year period after the expiration of the commitment period.



**Table of Contents****Other Investments**

The Company has other investments including investments in Iridium, Barrow Street Capital III, LLC ( Barrow Street III ) and certain deferred compensation plan investments related to the Caliburn Acquisition. The Company's other investments are as follows:

	As of June 30, 2011 (in thousands, unaudited)	As of December 31, 2010 (in thousands, audited)
Iridium Common Stock	\$ 84,805	\$ 73,623
Iridium \$11.50 Warrants	-	7,280
Barrow Street III	2,284	2,383
Deferred compensation plan investments	4,250	4,087
<b>Total other investments</b>	<b>\$ 91,339</b>	<b>\$ 87,373</b>

**Iridium**

At December 31, 2010, the Company owned 8,924,016 shares of Iridium Common Stock and warrants to purchase 4,000,000 additional shares of Iridium Common Stock at \$11.50 per share ( Iridium \$11.50 Warrants ). At December 31, 2010, the Company's fully diluted share ownership in Iridium was approximately 12%.

At June 30, 2011, the Company owned 9,804,016 shares of Iridium Common Stock and had a fully diluted share ownership in Iridium of approximately 13%. In June 2011, the Company participated in Iridium's tender offer to exchange its Iridium \$11.50 Warrants, which permitted any holder of such warrants to receive one common share of Iridium Common Stock for every 4.55 warrants validly tendered. The Company tendered 4,000,000 Iridium \$11.50 Warrants in exchange for 880,000 shares of Iridium Common Stock.

At June 30, 2011 and December 31, 2010, the carrying value of the investments in Iridium Common Stock was valued at its closing quoted market price. Since the closing of the acquisition of Iridium in September 2009, an active trading market had not existed for the Iridium \$11.50 Warrants and accordingly, at December 31, 2010, the Company used an internally developed model to value such warrants, which took into account various standard option valuation methodologies, including Black Scholes modeling. Selected inputs for the Company's model include: (i) the terms of the warrants, including exercise price, exercisability threshold and expiration date; and (ii) externally observable factors including the trading price of Iridium shares, yields on U.S. Treasury obligation and various equity volatility measures, including historical volatility of broad market indices.

**Barrow Street Capital III**

The Company committed \$5.0 million to Barrow Street III, a real estate investment fund, of which \$0.1 million remains unfunded at June 30, 2011. The unfunded amount may be called at any time prior to the expiration of the fund in 2013 to preserve or enhance the value of existing investments.

**Other Investments**

In connection with the Acquisition, the Company acquired certain mutual fund investments related to Caliburn's deferred compensation plan. See Note 3 Acquisition .

**Fair Value Hierarchy**

The following tables set forth, by level, the assets and liabilities measured at fair value on a recurring basis. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.



**Table of Contents****Assets Measured at Fair Value on a Recurring Basis as of June 30, 2011**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands, unaudited)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2011
<b>Assets</b>				
Iridium Common Stock	\$ 84,805	\$	\$	\$ 84,805
Deferred compensation plan investments		4,250		4,250
Total investments	\$ 84,805	\$ 4,250	\$	\$ 89,055

**Assets Measured at Fair Value on a Recurring Basis as of December 31, 2010**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (in thousands, unaudited)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
<b>Assets</b>				
Iridium Common Stock	\$ 73,623	\$	\$	\$ 73,623
Iridium \$11.50 Warrants			7,280	7,280
Deferred compensation plan investments		4,087		4,087
Total investments	\$ 73,623	\$ 4,087	\$ 7,280	\$ 84,990

**Level 3 Gains and Losses**

The following table sets forth a summary of changes in the fair value of the Company's Level 3 investments for the three months ended June 30, 2011.

	Beginning Balance April 1, 2011	Realized Gains or (Losses)	Unrealized Gains or (Losses) (in thousands, unaudited)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers in and/or out of Level 3	Ending Balance June 30, 2011
<b>Assets</b>						

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Iridium \$11.50 Warrants	\$ 7,960	\$	\$	\$	\$ (7,960)	\$
<b>Total Level 3 investments</b>	<b>\$ 7,960</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ (7,960)</b>	<b>\$</b>

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 investments for the six months ended June 30, 2011

	<b>Beginning Balance January 1, 2011</b>	<b>Realized Gains or (Losses)</b>	<b>Unrealized Gains or (Losses)</b>	<b>Purchases, Sales, Other Settlements and Issuances, net</b>	<b>Net Transfers in and/or out of Level 3</b>	<b>Ending Balance June 30, 2011</b>
	<b>(in thousands, unaudited)</b>					
<b>Assets</b>						
Iridium \$11.50 Warrants	\$ 7,280	\$	\$ 680	\$	\$ (7,960)	\$
<b>Total Level 3 investments</b>	<b>\$ 7,280</b>	<b>\$</b>	<b>\$ 680</b>	<b>\$</b>	<b>\$ (7,960)</b>	<b>\$</b>

Effective June 22, 2011, the Company participated in Iridium's tender offer to exchange the Iridium \$11.50 Warrants for shares of common stock. The Iridium \$11.50 Warrants were historically valued using an internally developed model and classified as a Level 3 investment. Upon exchange, the shares are valued using quoted market prices and classified as a Level 1 investment.

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The following table sets forth a summary of changes in the fair value of the Company's Level 3 investments for the three months ended June 30, 2010.

	<b>Beginning Balance April 1, 2010</b>	<b>Realized Gains or (Losses)</b>	<b>Unrealized Gains or (Losses) (in thousands, unaudited)</b>	<b>Purchases, Sales, Other Settlements and Issuances, net</b>	<b>Net Transfers in and/or out of Level 3</b>	<b>Ending Balance June 30, 2010</b>
<b>Assets</b>						
Iridium \$11.50 Warrants	\$ 8,760	\$	\$ 1,520	\$	\$	\$ 10,280
<b>Total Level 3 investments</b>	<b>\$ 8,760</b>	<b>\$</b>	<b>\$ 1,520</b>	<b>\$</b>	<b>\$</b>	<b>\$ 10,280</b>

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 investments for the six months ended June 30, 2010.

	<b>Beginning Balance January 1, 2010</b>	<b>Realized Gains or (Losses)</b>	<b>Unrealized Gains or (Losses) (in thousands, unaudited)</b>	<b>Purchases, Sales, Other Settlements and Issuances, net</b>	<b>Net Transfers in and/or out of Level 3</b>	<b>Ending Balance June 30, 2010</b>
<b>Assets</b>						
Iridium \$11.50 Warrants	\$ 8,015	\$	\$ 2,265	\$	\$	\$ 10,280
<b>Total Level 3 investments</b>	<b>\$ 8,015</b>	<b>\$</b>	<b>\$ 2,265</b>	<b>\$</b>	<b>\$</b>	<b>\$ 10,280</b>

**Note 5 Related Parties**

At June 30, 2011 and December 31, 2010, the Company had payables of \$2,816 and \$144,365, respectively, due to the Merchant Banking Funds, which relate to general operating expenses, and are included in due to affiliates on the condensed consolidated statements of financial condition.

In conjunction with the sale of certain assets of the merchant banking business, the Company agreed to sublease office space to GCP Capital for a period of three to five years beginning in January 2011. The Company also subleases airplane and office space to a firm owned by an executive of the Company. The Company recognized rent reimbursements of \$0.4 million and \$17,430 for the three months ended June 30, 2011 and 2010, respectively, and \$0.7 million and \$34,860 for the six months ended June 30, 2011 and 2010, respectively, as a reduction of occupancy and equipment rental on the condensed consolidated statements of income.

**Note 6 Revolving Bank Loan Facility**

At June 30, 2011, the Company had a \$60.0 million revolving loan facility from a U.S. banking institution to provide for working capital needs and for other general corporate purposes. The revolving loan facility was reduced from \$75.0 million at December 31, 2010 to \$60.0 million effective April 30, 2011. The revolving loan facility is secured by any cash distributed in respect of the remainder of our interests in the U.S. based merchant banking funds and cash distributions from G&Co, and is subject to a borrowing base limitation. The facility reduces to \$50.0



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million effective September 30, 2011 and has a maturity date of April 30, 2012. Interest on borrowings is based on the higher of the Prime Rate or 4.0% and is payable monthly. In addition, the revolving loan facility has a prohibition on the incurrence of additional indebtedness without the prior approval of the lenders and the Company is required to comply with certain financial and liquidity covenants. The weighted average daily borrowings outstanding under the loan facility were approximately \$60.1 million and \$54.7 million for the six months ended June 30, 2011 and 2010, respectively. The weighted average interest rate was 4.0% for both periods ended June 30, 2011 and 2010. At June 30, 2011, the Company was compliant with all loan covenants.

### **Note 7 Equity**

On June 15, 2011, a dividend of \$0.45 per share was paid to stockholders of record on June 1, 2011. During the six months ended June 30, 2011 and 2010, dividend equivalents of \$2.6 million and \$2.5 million, respectively, were paid on the restricted stock units that are expected to vest.

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During the six months ended June 30, 2011, 585,368 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 256,778 shares at an average price of \$69.32 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units. In addition, during the six months ended June 30, 2011, the Company repurchased in open market transactions 372,262 shares of its common stock at an average price of \$51.63.

During the six months ended June 30, 2010, 658,829 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 283,629 shares at an average price of \$79.05 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units. In addition, during the six months ended June 30, 2010, the Company repurchased in open market transactions 42,000 shares of its common stock at an average price of \$65.02.

**Note 8 Earnings per Share**

The computations of basic and diluted earnings per share are set forth below:

	For the Three Months Ended June 30, 2011		For the Six Months Ended June 30, 2010	
	(in thousands, except per share amounts, unaudited)			
Numerator for basic and diluted EPS net income allocated to common stockholders	\$ 21,483	\$ 17,550	\$ 19,902	\$ 18,062
Denominator for basic EPS weighted average number of shares	31,010	30,708	31,179	30,301
Add dilutive effect of:				
Weighted average number of incremental shares issuable from restricted stock units	1	61	9	71
Denominator for diluted EPS weighted average number of shares and dilutive potential shares	31,011	30,769	31,188	30,372
Earnings per share:				
Basic	\$ 0.69	\$ 0.57	\$ 0.64	\$ 0.60
Diluted	\$ 0.69	\$ 0.57	\$ 0.64	\$ 0.59

The weighted number of shares and dilutive potential shares do not include the contingent convertible preferred shares issued to the founding partners of Caliburn in connection with the Acquisition. Such shares will potentially convert to shares of the Company's common stock in tranches of 659,926 and 439,951 shares on the third and fifth anniversary of the closing of the Acquisition, respectively, if certain revenue targets are achieved. At the time a revenue target is achieved such shares will be included in the Company's share count. If the revenue targets for a tranche are not achieved, the contingent convertible preferred shares in that tranche will be cancelled.

**Note 9 Income Taxes**

The Company's effective tax 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.

Based on the Company's historical taxable income and its expectation for taxable income in the future, management expects that the deferred tax asset, which relates principally to compensation expense deducted for book purposes but not yet deducted for tax purposes, will be realized as offsets to: (i) the realization of its deferred tax liabilities and (ii) future taxable income. Included in other receivables in the condensed consolidated statements of financial condition are income tax receivables of \$0.2 million and \$1.9 million as of June 30, 2011 and December 31, 2010, respectively.

Any gain or loss resulting from the translation of deferred taxes for foreign affiliates is included in the foreign currency translation adjustment incorporated as a component of other comprehensive income, net of tax, in the condensed consolidated statements of changes in equity.

The Company's income tax returns are routinely examined by the U.S. federal, U.S. state, and international tax authorities. The Company regularly assesses its tax positions with respect to applicable income tax issues for open tax years in each respective jurisdiction in which the Company operates. As of June 30, 2011, the Company does not believe the resolution of any current ongoing income tax examinations will have

a material adverse impact on the financial position of the Company.

**Table of Contents****Note 10 Regulatory Requirements**

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

G&Co is subject to the SEC'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 minimum net capital of the greater of \$5,000 or 1/15 of aggregate indebtedness, as defined in the Rule. As of June 30, 2011, G&Co's net capital was \$2.5 million, which exceeded its requirement by \$2.0 million. G&Co's aggregate indebtedness to net capital ratio was 3.01 to 1 at June 30, 2011. Certain distributions and other capital withdrawals of G&Co are subject to certain notifications and restrictive provisions of the Rule.

GCI and GCEI are subject to capital requirements of the FSA. Greenhill Calburn is subject to capital requirements of the ASIC. As of June 30, 2011, GCI, GCEI and Greenhill Calburn were in compliance with 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 engagements relating to mergers and acquisitions, financing advisory and restructuring, and private equity and real estate capital advisory services; and

Merchant banking, which includes the Company's principal investments in the Merchant Banking Funds, Iridium and other investments. Prior to 2011, merchant banking also included the management of outside capital invested in affiliated merchant banking funds.

The following provides a breakdown of our revenues by source for the three and six month periods ended June 30, 2011 and 2010, respectively:

	For the Three Months Ended			
	June 30, 2011		June 30, 2010	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Financial advisory fees	\$ 85.6	94%	\$ 61.9	74%
Merchant banking and other investment revenues	5.2	6%	21.6	26%
<b>Total revenues</b>	<b>\$ 90.8</b>	<b>100%</b>	<b>\$ 83.5</b>	<b>100%</b>

	For the Six Months Ended			
	June 30, 2011		June 30, 2010	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Financial advisory fees	\$ 134.1	96%	\$ 98.5	74%
Merchant banking and other investment revenues	5.0	4%	33.9	26%
<b>Total revenues</b>	<b>\$ 139.1</b>	<b>100%</b>	<b>\$ 132.4</b>	<b>100%</b>

As described in Note 4 Investments - Affiliated Merchant Banking Funds, the Company completed the sale of certain assets related to our merchant banking business in December 2009. Effective December 31, 2010, the Company no longer manages the Merchant Banking Funds but will continue to act as the general partner of the funds. In reporting to management, the Company distinguishes the sources of its investment

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banking revenues between financial advisory and merchant banking and other investment revenues. 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. See Note 4 Investments Affiliated Merchant Banking Funds .

### **Note 12 Subsequent Event**

On July 16, 2011, the Board of Directors of the Company declared a quarterly dividend of \$0.45 per share. The dividend will be payable on September 21, 2011 to the common stockholders of record on September 7, 2011.

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**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 us refer to Greenhill & Co., Inc.*

*This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and subsequent Forms 8-K.*

***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, intend, predict, potential or continue, the negative of these terms and other 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. In particular, you should consider the numerous risks outlined under Risk Factors in our 2010 Annual Report on Form 10-K.*

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*Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. 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 of this filing to conform our prior statements to actual results or revised expectations.*

### **Overview**

Greenhill is a leading independent investment bank focused on providing financial advice related to significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. We act for clients located throughout the world from our offices in New York, London, Frankfurt, Sydney, Tokyo, Toronto, Chicago, Dallas, Houston, Los Angeles, Melbourne and San Francisco.

Our revenues are principally derived from providing financial advisory services on mergers and acquisitions, or M&A, financings and restructurings, and are primarily driven by total deal volume and size of individual transactions. Additionally, our private capital and real estate capital advisory groups provide fund placement and other capital raising advisory services, where revenues are driven primarily by the amount of capital raised.

Greenhill was established in 1996 by Robert F. Greenhill, the former President of Morgan Stanley and former Chairman and Chief Executive Officer of Smith Barney. Since our founding, Greenhill has grown steadily, recruiting a number of managing directors from major investment banks (as well as senior professionals from other institutions), with a range of geographic, industry and transaction specialties as well as different sets of corporate management and other relationships. As part of this expansion, we opened a London office in 1998, opened a Frankfurt office in 2000 and began offering financial restructuring advice in 2001. On May 11, 2004, we converted from a limited liability company to a corporation, and completed an initial public offering of our common stock. We opened our Dallas office in 2005 and our Toronto office in 2006. In 2008, we opened offices in Chicago, San Francisco and Tokyo, and we entered the private capital advisory business, which provides capital raising and related services to private equity and real estate funds. We opened our Houston and Los Angeles offices in 2009.

On April 1, 2010, we acquired the Australian advisory firm Caliburn, with six managing directors and 40 total employees at that time. Caliburn has established a strong position in that market over its 11 year history and operates in Australia and New Zealand under the name Greenhill Caliburn. Caliburn's operating results are included in our financial results effective as of the date of acquisition.

Prior to 2011, we also managed merchant banking funds and similar vehicles. We raised our first private equity fund in 2000, our first venture capital fund in 2006 and our first European merchant banking fund in 2007. We completed the initial public offering of our special purpose acquisition company, GH Acquisition Corp., in 2008, and that entity merged with Iridium Communications, Inc. ( Iridium ) in 2009. In June 2011, we sold substantially all of our interest in two merchant banking funds (Greenhill Capital Partners II ( GCP II ) and Greenhill SAV Partners ( GSAVP )) that we sponsored prior to our exit from that business in 2010. As of June 30, 2011 our investments principally consisted of our investments in Iridium and our European merchant banking fund.

### **Business Environment**

Economic and global financial market conditions can materially affect our financial performance. See Risk Factors in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission. Revenues and net income 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.

Our financial advisory revenues increased by 38% to \$85.6 million in the second quarter of 2011 compared to \$61.9 million in the second quarter of 2010. For the six months ended June 30, 2011 financial advisory revenues were \$134.1 million compared to \$98.5 million for the comparable period in 2010, representing an increase of 36%. During the six months ended June 30, 2011 as compared to the same period in the prior year, worldwide completed M&A volume increased by 36%, from \$906.2 billion to \$1,233.9 billion.<sup>1</sup>

While M&A transaction activity has increased in 2011 as compared to 2010, the level of activity is still far below historic levels. We are observing a significant increase in North American activity, continued strength in Australia and the beginnings of a rebound from an extended difficult transaction period in Europe.

We generally experience significant variations in revenues and profits during each quarterly period. These variations can generally be attributed to the fact that our revenues are usually earned in large amounts throughout the year upon the successful completion of a transaction or restructuring or closing of a fund, the timing of which is uncertain and is not subject to our control. Moreover, the value of our principal

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investments may vary significantly from period to period and depends on a number of factors beyond our control, including most notably credit and public equity markets and general economic conditions. As a result, our quarterly results vary and our results in one period may not be indicative of our results in any future period.

- 1 Global M&A completed transaction volume for the six months ended June 30, 2011 as compared to the six months ended June 30, 2010.  
Source: Thomson Financial as of July 8, 2011.



**Table of Contents****Results of Operations****Summary**

Our revenues of \$90.8 million for the second quarter of 2011 compare with revenues of \$83.5 million for the second quarter of 2010, which represents an increase of \$7.3 million, or 9%. During the second quarter of 2011 our financial advisory revenues increased \$23.7 million over the second quarter of 2010 while merchant banking revenues declined by \$16.4 million. On a year-to-date basis, revenues through June 30, 2011 were \$139.1 million, compared to \$132.4 for the comparable period in 2010, which represented an increase of \$6.7 million, or 5%. The increase in our year-to-date 2011 revenues as compared to the same period in 2010 resulted from an increase in financial advisory revenue of \$35.6 million offset by a decrease in merchant banking revenues of \$28.9 million.

Our second quarter net income allocable to common stockholders of \$21.5 million and diluted earnings per share of \$0.69 compare to net income allocable to common stockholders of \$17.6 million and diluted earnings per share of \$0.57 in the second quarter of 2010. For the six months ended June 30, 2011 we earned net income available to common stockholders of \$19.9 million and diluted earnings per share of \$0.64 as compared to net income available to common stockholders of \$18.1 million and diluted earnings per share of \$0.59, respectively for the same period in 2010.

*Our quarterly revenues and net income can fluctuate materially depending on the number and size of completed transactions on which we advised, the number and size of investment gains (or losses) and other factors. Accordingly, the revenues and net income in any particular period may not be indicative of future results.*

**Revenues By Source**

The following provides a breakdown of total revenues by source for the three month and six month periods ended June 30, 2011 and 2010, respectively:

**Revenue by Principal Source of Revenue**

	For the Three Months Ended		For the Three Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Financial advisory fees	\$ 85.6	94%	\$ 61.9	74%
Merchant banking and other investment revenues	5.2	6%	21.6	26%
<b>Total revenues</b>	<b>\$ 90.8</b>	<b>100%</b>	<b>\$ 83.5</b>	<b>100%</b>

	For the Six Months Ended		For the Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Financial advisory fees	\$ 134.1	96%	\$ 98.5	74%
Merchant banking and other investment revenues	5.0	4%	33.9	26%
<b>Total revenues</b>	<b>\$ 139.1</b>	<b>100%</b>	<b>\$ 132.4</b>	<b>100%</b>

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### ***Financial Advisory Revenues***

Financial advisory revenues primarily consist of financial advisory and transaction related fees earned in connection with advising clients in mergers, acquisitions, financings, restructurings, capital raisings or similar transactions. We earned \$85.6 million in financial advisory revenue in the second quarter of 2011 compared to \$61.9 million in the second quarter of 2010, which represents an increase of 38%. The increase in financial advisory revenue in the second quarter of 2011 as compared to the same period in 2010 resulted from a greater number of completed assignments, an increase in the volume of strategic advisory assignments with related retainer fees, and a greater number of fee generating transaction announcements as compared to the second quarter of 2010.

For the six months ended June 30, 2011, financial advisory revenues were \$134.1 million compared to \$98.5 million for the comparable period in 2010, representing an increase of 36%. This increase principally resulted from a greater volume of assignments. During the six months ended June 30, 2011 we earned \$1 million or more from 36 clients compared to 20 clients in the same period in 2010, representing an increase of 80%.

Completed assignments in the second quarter of 2011 included:

the sale of the publicly held interest in Alcon, Inc. to Novartis AG;

the sell-down of shares in Bionomics Limited by Start-up Australia Ventures Pty Limited;

advising Bridgepoint Advisors Limited on the acquisition of CABB GmbH;

the sale of CHAMP Venture's Retail Apparel Group Pty Ltd to Navis Capital Partners;

the sale of Close Brothers plc's Cayman based offshore business to Intertrust Group Holding S.A.;

the representation of Constar International Inc. in conjunction with its pre-arranged Chapter 11 proceedings;

the acquisition by Earthlink, Inc. of One Communications Corp.;

advising Guinness Peat Group Plc on its strategy to realize value on its investment portfolio;

the sale of Tegel Foods Limited to Affinity Equity Partners;

the acquisition of Tower Australia Group Limited by Dai-ichi Life Insurance Co. and

the acquisition by The Travelers Companies, Inc. of J. Malucelli Participações em Seguros e Resseguros S.A.

During the quarter, we also served as global placement agent on behalf of three private equity funds in connection with interim closings on the sale of their limited partner interests.

### ***Merchant Banking and Other Investment Revenues***

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Effective December 31, 2010, we exited the merchant banking business in order to focus entirely on our financial advisory business. Prior to that time, our merchant banking activities consisted primarily of management of and investment in Greenhill's historic merchant banking funds. During a transition period in 2010 we managed and administered the merchant banking funds and recorded the revenue and expenses related to our management of the merchant banking funds in our consolidated results. Under the arrangement with GCP Capital Partners Holdings LLC (GCP Capital), an entity which is independent from the firm, during 2010 the excess of the management fee revenue over the amount paid for compensation and other operating costs associated with the management of the funds accrued to the benefit of GCP Capital and was recorded as noncontrolling interest. On January 1, 2011, GCP Capital took over the management of the merchant banking funds. As a result of our separation from the merchant banking business, beginning in 2011 we no longer generate management fee revenue or incur expenses from the management of the merchant banking funds. In June 2011, we sold substantially all of our interests in GCP II and GSAVP for an aggregate price of \$48.5 million, which represented the book value (which approximated fair value) of these assets as of March 31, 2011. We did not recognize any

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gain or loss on the sale of our interests in GCP II and GSAVP in the current quarter. We continue to hold our investment in Iridium (NASDAQ: IRDM) as well as retain our investments in Greenhill Capital Partners Europe ( GCP Europe ) and certain other merchant banking funds. We will continue to record realized and unrealized changes in the fair value of our investments on a quarterly basis until such investments are liquidated over time. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

The following table sets forth additional information relating to our merchant banking and other principal investment revenues:

	For the Three		For the Six Months	
	Months	Months	Months	Months
	Ended June 30,	Ended June 30,	Ended June 30,	Ended June 30,
	2011	2010	2011	2010
	(in millions, unaudited)			
Management fees	\$	\$ 3.7	\$	\$ 8.1
Net realized and unrealized gains (losses) on investments in merchant banking funds	(0.9)	(1.0)	0.8	0.5
Net realized and unrealized merchant banking profit overrides				0.1
Net unrealized gain on investment in Iridium	5.6	18.9	3.4	24.9
Other realized and unrealized investment income (loss)		(0.3)		(0.3)
Recognition of deferred gain on sale of merchant banking assets	0.2	0.2	0.4	0.5
Interest income	0.3	0.1	0.4	0.1
Total merchant banking and other investment revenues	\$ 5.2	\$ 21.6	\$ 5.0	\$ 33.9

Our total merchant banking and other investment revenues for the second quarter of 2011 were \$5.2 million, which compares to \$21.6 million of merchant banking and other investment revenues for the second quarter of 2010. The decrease of \$16.4 million in the second quarter of 2011 as compared to the same period in 2010 principally related to a smaller increase in the market value of Iridium. For the three months ended June 30, 2011 we recognized an unrealized gain of \$5.6 million from our investment in Iridium compared to the recognition of an unrealized gain in Iridium of \$18.9 million in the same period in 2010. Additionally, as a result of our separation from the management of the merchant banking funds at year-end 2010, we did not earn management fees in 2011. In the second quarter of 2010 we earned management fees of \$3.7 million.

For the six months ended June 30, 2011, we earned \$5.0 million in merchant banking and other investment revenues compared to \$33.9 million for the six months ended June 30, 2010. The decrease in our merchant banking and other investment revenues of \$28.9 million primarily related to a smaller increase in the market value of Iridium year-to-date in 2011 compared to the same period in 2010. During the six month period ended June 30, 2011 we recognized an unrealized gain of \$3.4 million in the value of our investment in Iridium compared to the recognition of an unrealized gain in Iridium of \$24.9 million in the same year-to-date period in 2010. Additionally, for the six months ended June 30, 2010 we earned management fee revenue of \$8.1 million.

We recognize gains or losses from our investment in Iridium from both the recording of realized sale activity, if any, and marking to market our holdings to record unrealized gains or losses at the end of any period. At June 30, 2011, we owned 9,804,016 shares of Iridium, or approximately 13% of Iridium's common stock on a fully diluted basis, which had a value of \$84.8 million. In June 2011, we participated in Iridium's tender offer which permitted us to exchange the 4,000,000 Iridium \$11.50 warrants we owned for 880,000 shares of Iridium common stock.

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. In addition, we recognize the consolidated earnings of the general partners of the funds which we control, offset by allocated expenses of those funds. We record our investments at estimated fair value. The value of the merchant banking fund investments in privately held companies is determined on a quarterly basis 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 quantitative and qualitative factors. Discounts may be applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments held by the merchant banking funds 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. Furthermore, due to the volatility in general economic conditions, stock markets and commodity prices we may record significant changes in the fair value of the investments from quarter to quarter.



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Significant changes in the estimated fair value of our investments may have a material effect, positive or negative, on our revenues and thus our results of operations. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Revenue Recognition Merchant Banking and Other Investment Revenues .

Although we sold substantially all of our interests in GCP II and GSAVP (the Sale ), we continue to act as the general partner of each of the funds and continue to be entitled to a share of the profit override. Under the terms of the Sale we did, however, transfer to each of the respective purchasers of GCP II and GSAVP nine of the ten points of the profit overrides previously allocated to us by each fund for investments made prior to 2010. Accordingly, we are now entitled to receive approximately 5% of the profit override earned from each of GCP II and GSAVP after certain performance hurdles are met; whether these hurdles can be met will depend on the underlying fair value of each portfolio company in each fund. Overrides are generally calculated on a deal-by-deal basis but are subject to investment performance over the life of each merchant banking fund. We may be required to repay a portion of the overrides to the limited partners of the funds in the event a profit override has been realized and paid to the general partner and a minimum performance level is not achieved by the fund as a whole (we refer to these potential repayments as clawbacks ). As of June 30, 2011, the net internal rate of return of the fund investments in GCP Europe and GSAVP were negative and the investment in GCP II was approximately breakeven. We have not recognized profit overrides from GCP II, GSAVP and GCPE. Unless there are significant gains in the value of the portfolio companies in each fund it is not likely that the profit threshold for any of the funds will be exceeded and accordingly is not likely that profit override revenue will be recognized.

As of June 30, 2011 we had remaining investments in merchant banking funds of \$40.8 million. Included in this amount is the estimated fair market value of \$12.9 million as of June 30, 2011 of the capital account interests attributable to two specified portfolio companies of GCP II that the purchasers of our interests in GCP II have the right, exercisable in December 2012, to require us to repurchase. Until the repurchase option expires or is exercised in December 2012 we will record gains or losses on these investments. During the second quarter of 2011 we recorded a loss of \$1.4 million on these investments. See Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources .

For our remaining investments in the merchant banking funds the size and timing of changes in the fair value are tied to a number of different factors, including the performance of the particular portfolio companies, general economic conditions in the debt and equity markets and other factors which affect the industries in which the funds are invested. For our investment in Iridium the value of our investment is based on changes in the quoted market price, which are tied to the company's earnings performance, liquidity requirements, market competition, general economic conditions, market factors and certain other factors. Adverse changes in general economic conditions, commodity prices, credit and public equity markets, and particularly the quoted market value of our investment in Iridium, because of the relative size of that investment, could negatively impact the amount of investment revenue recorded by the firm in any period.

*The investment gains or losses in our merchant banking funds, Iridium and other investment portfolios may fluctuate significantly over time due to factors beyond our control, such as performance of each company in the merchant banking portfolio, equity market valuations, commodity prices and merger and acquisition opportunities. Revenue recognized from gains (or losses) recorded in any particular period are not necessarily indicative of revenue that may be realized and/or recognized in future periods.*

## **Operating Expenses**

We classify operating expenses in two categories: employee compensation and benefits expenses and non-compensation expenses.

Our total operating expenses for the second quarter of 2011 were \$57.6 million, which compares to \$53.3 million of total operating expenses for the second quarter of 2010. This represents an increase in total operating expenses of \$4.3 million, or 8%, and results from increases in both our compensation expense and non-compensation expense, each as described in more detail below. The pre-tax income margin was 37% for the second quarter of 2011 as compared to 36% for the second quarter of 2010.

For the six months ended June 30, 2011, total operating expenses were \$108.5 million, compared to \$99.0 million of total operating expenses for the same period in 2010. The increase of \$9.5 million, or 10%, relates to increases in both our compensation expense and non-compensation expenses, each as described in more detail below. The pre-tax income margin for the six months ended June 30, 2011 was 22% compared to 25% for the comparable period in 2010.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(in millions, unaudited)			
Employee compensation & benefits expense	\$ 41.8	\$ 38.4	\$ 78.0	\$ 70.5
<i>% of revenues</i>	<i>46%</i>	<i>46%</i>	<i>56%</i>	<i>53%</i>
Non-compensation expense	15.9	14.9	30.5	28.4
<i>% of revenues</i>	<i>18%</i>	<i>18%</i>	<i>22%</i>	<i>21%</i>
Total operating expense	57.6			