GREENHILL & CO INC
Form 10-Q
November 01, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 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	**51-0500737**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
300 Park Avenue	
New York, New York	**10022**
(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 x 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

As of October 25, 2011, there were 28,906,214 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.

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Part I. Financial Information

Item 1. Financial Statements

Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition

	As of	
	September 30, 2011 (unaudited)	**December 31, 2010**
Assets		
Cash and cash equivalents ($7.2 million and $7.7 million restricted from use at September 30, 2011 and December 31, 2010, respectively)	$ 62,112,260	$ 78,227,209
Advisory fees receivable (net of allowance for doubtful accounts of $0.1 million and $0.0 million at September 30, 2011 and December 31, 2010, respectively)	36,373,464	30,187,204
Other receivables	2,124,930	2,899,309
Property and equipment (net of accumulated depreciation of $48.9 million and $45.8 million at September 30, 2011 and December 31, 2010, respectively)	16,776,809	17,563,099
Investments in merchant banking funds	38,189,328	73,532,503
Other investments	64,800,668	87,372,799
Goodwill	153,569,289	162,507,267
Deferred tax asset	46,263,538	47,842,045
Other assets	6,578,244	8,546,405
Total assets	$ 426,788,530	$ 508,677,840
Liabilities and Equity		
Compensation payable	$ 21,082,504	$ 30,515,366
Accounts payable and accrued expenses	22,952,607	13,123,718
Financing liability	14,301,759	
Bank loan payable	25,300,000	67,000,000
Deferred tax liability	15,385,425	25,031,882
Due to affiliates	3,129	144,365
Total liabilities	99,025,424	135,815,331
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 35,761,378 and 35,117,356 shares issued as of September 30, 2011 and December 31, 2010, respectively; 28,896,519 and 29,341,604 shares outstanding as of September 30, 2011 and December 31, 2010, respectively	357,614	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 September 30, 2011 and December 31, 2010	46,950,226	46,950,226
Restricted stock units	81,476,288	89,365,292
Additional paid-in capital	410,182,698	368,090,229
Exchangeable shares of subsidiary; 257,156 shares issued as of September 30, 2011 and December 31, 2010; 110,191 shares outstanding as of September 30, 2011 and December 31, 2010	6,578,403	6,578,403
Retained earnings	170,465,076	184,621,197
Accumulated other comprehensive income (loss)	(3,458,512)	5,127,132
Treasury stock, at cost, par value $0.01 per share; 6,864,859 and 5,775,752 shares as of September 30, 2011 and December 31, 2010, respectively	(386,217,736)	(330,602,168)
Stockholders equity	326,334,057	370,481,485
Noncontrolling interests	1,429,049	2,381,024

Total equity	327,763,106	372,862,509
Total liabilities and equity	$ 426,788,530	$ 508,677,840

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

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Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Income (unaudited)

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Revenues				
Advisory fees	$ 83,198,482	$ 97,004,262	$ 217,286,233	$ 195,523,025
Merchant banking and other investment revenues	(23,243,984)	(13,065,904)	(18,582,204)	20,671,497
Interest income	400,627	111,891	786,101	240,258
Total revenues	60,355,125	84,050,249	199,490,130	216,434,780
Expenses				
Employee compensation and benefits	30,445,892	44,187,076	108,425,829	114,710,433
Occupancy and equipment rental	4,443,565	4,389,557	13,076,513	11,219,748
Depreciation and amortization	2,092,982	1,708,195	5,959,633	4,123,991
Information services	2,000,530	1,993,469	5,569,043	5,166,950
Professional fees	1,580,879	1,633,245	4,391,220	5,865,781
Travel related expenses	2,917,466	2,597,777	8,370,867	7,724,301
Interest expense	374,770	636,686	1,618,071	1,749,068
Other operating expenses	3,521,138	2,994,547	8,470,080	8,546,205
Total expenses	47,377,222	60,140,552	155,881,256	159,106,477
Income before taxes	12,977,903	23,909,697	43,608,874	57,328,303
Provision for taxes	4,413,577	8,695,516	15,136,155	20,374,614
Consolidated net income	8,564,326	15,214,181	28,472,719	36,953,689
Less: Net income allocated to noncontrolling interests		744,332	6,302	4,421,914
Net income allocated to common stockholders	$ 8,564,326	$ 14,469,849	$ 28,466,417	$ 32,531,775
Average shares outstanding:				
Basic	30,693,194	30,754,685	31,064,054	30,546,017
Diluted	30,693,194	30,800,556	31,065,257	30,609,821
Earnings per share:				
Basic	$ 0.28	$ 0.47	$ 0.92	$ 1.07
Diluted	$ 0.28	$ 0.47	$ 0.92	$ 1.06
Dividends declared and paid per share	$ 0.45	$ 0.45	$ 1.35	$ 1.35

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

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Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Consolidated net income	$ 8,564,326	$ 15,214,181	$ 28,472,719	$ 36,953,689
Currency translation adjustment, net of tax	(18,644,308)	20,958,339	(8,585,644)	6,266,389
Comprehensive income (loss)	(10,079,982)	36,172,520	19,887,075	43,220,078
Less: Net income allocated to noncontrolling interests		744,332	6,302	4,421,914
Comprehensive income (loss) allocated to common stockholders	$ (10,079,982)	$ 35,428,188	$ 19,880,773	$ 38,798,164

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

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Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Changes in Equity

	Nine Months Ended September 30, 2011 (unaudited)	Year Ended December 31, 2010
Common stock, par value $0.01 per share		
Common stock, beginning of the year	$ 351,174	$ 332,543
Common stock issued	6,440	18,631
Common stock, end of the period	357,614	351,174
Contingent convertible preferred stock, par value $0.01 per share		
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
Restricted stock units		
Restricted stock units, beginning of the year	89,365,292	81,219,868
Restricted stock units recognized	33,656,634	43,214,505
Restricted stock units delivered	(41,545,638)	(35,069,081)
Restricted stock units, end of the period	81,476,288	89,365,292
Additional paid-in capital		
Additional paid-in capital, beginning of the year	368,090,229	237,716,672
Common stock issued	41,694,790	125,850,372
Restricted stock units cash settlement		(1,010,273)
Tax benefit from the delivery of restricted stock units	397,679	5,533,458
Additional paid-in capital, end of the period	410,182,698	368,090,229
Exchangeable shares of subsidiary		
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
Retained earnings		
Retained earnings, beginning of the year	184,621,197	206,974,630
Dividends	(42,622,538)	(56,879,344)
Net income allocated to common stockholders	28,466,417	34,525,911
Retained earnings, end of the period	170,465,076	184,621,197
Accumulated other comprehensive income (loss)		
Accumulated other comprehensive income (loss), beginning of the year	5,127,132	(8,737,728)
Currency translation adjustment, net of tax	(8,585,644)	13,864,860

Accumulated other comprehensive (loss) income, end of the period	(3,458,512)	5,127,132
Treasury stock, at cost; par value $0.01 per share		
Treasury stock, beginning of the year	(330,602,168)	(293,391,405)
Repurchased	(55,615,568)	(37,210,763)
Treasury stock, end of the period	(386,217,736)	(330,602,168)
Total stockholders equity	326,334,057	370,481,485
Noncontrolling interests		
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 the period	1,429,049	2,381,024
Total equity	$ 327,763,106	$ 372,862,509

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

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Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (unaudited)

	For the Nine Months Ended September 30, 2011	2010
Operating activities:		
Consolidated net income	$ 28,472,719	$ 36,953,689
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	5,959,633	4,123,991
Net investment (gains) losses	19,190,469	(9,164,756)
Restricted stock units recognized and common stock issued	33,812,203	41,376,736
Deferred taxes	(5,870,377)	1,476,660
Deferred gain on the sale of certain merchant banking assets	(608,265)	(824,797)
Changes in operating assets and liabilities:		
Advisory fees receivable	(6,186,260)	(20,359,512)
Due from affiliates	(141,236)	(457,697)
Other receivables and assets	95,674	2,708,279
Compensation payable	(7,340,266)	(22,875,687)
Accounts payable and accrued expenses	389,197	328,578
Taxes payable	10,047,957	8,246,671
Settlement of restricted stock units in cash	(2,092,596)	
Net cash provided by operating activities	75,728,852	41,532,155
Investing activities:		
Purchases of merchant banking investments	(716,874)	(11,536,627)
Purchases of other investments	(150,315)	(208,026)
Proceeds from sale of merchant banking investments	49,384,344	
Caliburn acquisition, net of cash received		(3,029,527)
Distributions from investments	4,201,779	7,138,275
Purchases of property and equipment	(2,539,261)	(3,836,779)
Net cash provided by (used in) investing activities	50,179,673	(11,472,684)
Financing activities:		
Proceeds of revolving bank loan	74,900,000	84,875,000
Repayment of revolving bank loan	(116,600,000)	(59,500,000)
Contributions from noncontrolling interests		151,387
Distributions to noncontrolling interests	(958,277)	(1,514,225)
Dividends paid	(42,622,538)	(42,234,879)
Purchase of treasury stock	(55,615,568)	(36,854,826)
Net tax benefit from the delivery of restricted stock units and payment of dividend equivalents	397,678	8,319,445
Net cash used in financing activities	(140,498,705)	(46,758,098)
Effect of exchange rate changes on cash and cash equivalents	(1,524,769)	(1,008,369)
Net decrease in cash and cash equivalents	(16,114,949)	(17,706,996)
Cash and cash equivalents, beginning of the period	78,227,209	74,473,459
Cash and cash equivalents, end of the period	$ 62,112,260	$ 56,766,463
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,543,010	$ 1,832,767

Cash paid for taxes, net of refunds	$ 6,998,942	$ 3,071,595

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:

- 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 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. GCJ is registered with the Kanto Local Finance Bureau in Japan.

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), which currently has no operations. 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.

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.

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.

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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.

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 $1.3 million and $1.6 million for the three months ended September 30, 2011 and 2010, respectively and $4.4 million and $3.6 million for the nine months ended September 30, 2011 and 2010, respectively.

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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 September 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.

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.

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 and $0.2 million for the nine month periods ended September 30, 2011 and 2010, respectively.

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

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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.

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 (loss) 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 September 30, 2011 and December 31, 2010, the Company had $62.1 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 September 30, 2011 and December 31, 2010, the carrying value of the Company s cash equivalents amounted to $5.6 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 September 30, 2011 and December 31, 2010 was $7.2 million and $7.7 million, respectively (including $3.1 million and $3.3 million at September 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 .

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.

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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.

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 September 30, 2011 and 2010, the Company recorded $0.9 million and $0.8 million of amortization expense, respectively, in respect of these assets. For the nine months ended September 30, 2011 and 2010, the Company recorded $2.6 million and $1.5 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 $5.4 million as of September 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 nine months ended September 30, 2011 and the Company s summary unaudited pro forma results of operations for the nine months ended September 30, 2010. The unaudited pro forma results of operations for the nine months ended September 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.

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	For the Nine Months Ended September 30, 2011 (in millions, unaudited) (actual)	2010 (pro forma)
Revenues	$ 199.5	$ 220.8
Income before taxes	43.6	57.4
Net income allocated to common stockholders	28.5	32.6
Diluted earnings per share	$ 0.92	$ 1.06

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.

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. Effective January 1, 2011, the Company no longer manages the Merchant Banking Funds.

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 September 30, 2011 and September 30, 2010, deferred gains of $0.2 million and $0.3 million, respectively, were recognized. For the nine month periods ended September 30, 2011 and September 30, 2010, deferred gains of $0.6 million and $0.8 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.

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.

In June 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 September 30, 2011 the Company did not record earnings or loss related to the capital interests subject to the Put Options. For the nine months ended September 30, 2011 the Company recorded a loss related to the capital interests subject to the Put Options of $1.4 million, which has been included as a component of merchant banking and other revenues on the condensed consolidated statements of income.

In June 2011, the Company also 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. On September 30, 2011, the Company sold its remaining capital interests in GSAVP and its affiliated funds to the same unaffiliated third party for a purchase price of $0.6 million, which also represented the Company s carrying value of such capital interests. 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 and nine months ending September 30, 2011.

Prior to 2011 the Company was the general partner of the Merchant Banking Funds. In addition to recording its direct investments in the affiliated funds, the Company consolidated each general partner in which it has a majority economic interest. In conjunction with the sale of the merchant banking business effective in 2011 the Company transferred ownership of the general partner of GCP Europe to GCP Capital. Further, in conjunction with the sale of its capital interests in GSAVP and its affiliated funds ownership of the general partner of GSAVP was transferred to an unaffiliated third party. As of September 30, 2011 the Company continues to retain control only of the general partner of GCP I and GCP II and consolidates the results of each such general partner.

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.

The Company controls investment decisions for those merchant banking funds where it acts as general partner and is entitled to receive from those 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 September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, unaudited)			
Management fees	$	$ 2,618	$	$ 10,682
Net realized and unrealized gains on investments in merchant banking funds	74	1,155	901	1,676
Net realized and unrealized merchant banking profit overrides		(6)	(49)	84
Net unrealized gain (loss) on investment in Iridium	(23,573)	(17,223)	(20,130)	7,679
Other realized and unrealized investment income (loss)	52	115	88	(275)
Recognition of deferred gain on sale of merchant banking assets	203	275	608	825
Total merchant banking and other investment revenues	$ (23,244)	$ (13,066)	$ (18,582)	$ 20,671

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

	As of September 30, 2011	As of December 31, 2010

	(in thousands, unaudited)	(in thousands, audited)
Investment in GCPE	$ 19,907	$ 18,271
Investment in GCP II	1,852	46,533
Investment in GCP II subject to Put Options	12,900	
Investment in GSAVP	76	4,726
Investment in other merchant banking funds	3,454	4,002
Total investments in the Merchant Banking Funds	$ 38,189	$ 73,532

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

The investment in GCP I included $0.3 million at both September 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 September 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 September 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 September 30, 2011, the Company had unfunded commitments of $22.9 million, which included unfunded commitments to GCP Europe of $19.0 million (or £12.2 million) and GCP III of $3.9 million, which may be drawn through December 2012 and November 2015, respectively. For each of the 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.

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 September 30, 2011 (in thousands, unaudited)	As of December 31, 2010 (in thousands, audited)
Iridium Common Stock	$ 60,785	$ 73,623
Iridium $11.50 Warrants		7,280
Barrow Street III	2,336	2,383
Deferred compensation plan investments	1,680	4,087
Total other investments	$ 64,801	$ 87,373

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 September 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 September 30, 2011 and December 31, 2010, the carrying value of the investments in Iridium Common Stock was valued at its closing quoted market price. During the period that the Iridium $11.50 Warrants were outstanding an active trading market did not exist. Accordingly, for each period the Iridium $11.50 Warrants were outstanding 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 September 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.

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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.

Assets Measured at Fair Value on a Recurring Basis as of September 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of September 30, 2011
		(in thousands, unaudited)		
Assets				
Iridium Common Stock	$ 60,785	$	$	$ 60,785
Deferred compensation plan investments		1,680		1,680
Total investments	$ 60,785	$ 1,680	$	$ 62,465

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)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
		(in thousands, unaudited)		
Assets				
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 Company did not hold any Level 3 investments during the three months ended September 30, 2011.

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

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

Effective June 2011, the Company exchanged the Iridium $11.50 Warrants for shares of Iridium 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 September 30, 2010.

	Beginning Balance July 1, 2010	Realized Gains or (Losses)	Unrealized Gains or (Losses)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers in and/or out of Level 3	Ending Balance September 30, 2010
			(in thousands, unaudited)			
Assets						
Iridium $11.50 Warrants	$ 10,280	$	$ (2,840)	$	$	$ 7,440
Total Level 3 investments	$ 10,280	$	$ (2,840)	$	$	$ 7,440

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

	Beginning Balance January 1, 2010	Realized Gains or (Losses)	Unrealized Gains or (Losses)	Purchases, Sales, Other Settlements and Issuances, net	Net Transfers in and/or out of Level 3	Ending Balance September 30, 2010
			(in thousands, unaudited)			
Assets						
Iridium $11.50 Warrants	$ 8,015	$	$ (575)	$	$	$ 7,440
Total Level 3 investments	$ 8,015	$	$ (575)	$	$	$ 7,440

Note 5 Related Parties

At September 30, 2011 and December 31, 2010, the Company had payables of $3,129 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 the Chairman of the Company. The Company recognized rent reimbursements of $0.4 million and $17,430 for the three months ended September 30, 2011 and 2010, respectively, and $1.1 million and $52,290 for the nine months ended September 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 September 30, 2011, the Company had a $50.0 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 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 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 $51.2 million and $57.2 million for the nine months ended September 30, 2011 and 2010, respectively. The weighted average interest rate was 4.0% for both periods ended September 30, 2011 and 2010. At September 30, 2011, the Company was compliant with all loan covenants.

Note 7 Equity

On September 21, 2011, a dividend of $0.45 per share was paid to stockholders of record on September 7, 2011. During both the nine months ended September 30, 2011 and 2010, dividend equivalents of $3.8 million, were paid on the restricted stock units that are expected to vest.

During the nine months ended September 30, 2011, 641,635 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 279,290 shares at an average price of $67.67 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 nine months ended September 30, 2011, the Company repurchased in open market transactions 809,817 shares of its common stock at an average price of $45.34.

During the nine months ended September 30, 2010, 724,869 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 312,870 shares at an average price of $78.21 per share in conjunction with the

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payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units. In addition, during the nine months ended September 30, 2010, the Company repurchased in open market transactions 181,550 shares of its common stock at an average price of $68.21.

Note 8 Earnings per Share

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

	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
	(in thousands, except per share amounts, unaudited)			
Numerator for basic and diluted EPS net income allocated to common stockholders	$ 8,564	$ 14,470	$ 28,466	$ 32,532
Denominator for basic EPS weighted average number of shares	30,693	30,755	31,064	30,546
Add dilutive effect of:				
Weighted average number of incremental shares issuable from restricted stock units		46	1	64
Denominator for diluted EPS weighted average number of shares and dilutive potential shares	30,693	30,801	31,065	30,610
Earnings per share:				
Basic	$ 0.28	$ 0.47	$ 0.92	$ 1.07
Diluted	$ 0.28	$ 0.47	$ 0.92	$ 1.06

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 $1.9 million as of December 31, 2010.

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 September 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.

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 September 30, 2011, G&Co s net

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capital was $4.1 million, which exceeded its requirement by $3.6 million. G&Co s aggregate indebtedness to net capital ratio was 1.78 to 1 at September 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 Caliburn is subject to capital requirements of the ASIC. As of September 30, 2011, GCI, GCEI and Greenhill Caliburn 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:

- 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 nine month periods ended September 30, 2011 and 2010, respectively:

	For the Three Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Advisory fees	$ 83.2	138%	$ 97.0	115%
Merchant banking and other investment revenues	(22.8)	(38)%	(12.9)	(15)%
Total revenues	$ 60.4	100%	$ 84.1	100%

	For the Nine Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Advisory fees	$ 217.3	109%	$ 195.5	90%
Merchant banking and other investment revenues	(17.8)	(9)%	20.9	10%
Total revenues	$ 199.5	100%	$ 216.4	100%

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; following the transactions described above, the Company will continue to act as the general partner of certain of these funds. In reporting to management, the Company distinguishes the sources of its investment banking revenues between 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 Events

On October 4, 2011, the Company announced that it had entered into a 10b5-1 sales plan to sell its entire interest in Iridium over a period of approximately two years.

On October 19, 2011, the Board of Directors of the Company declared a quarterly dividend of $0.45 per share. The dividend will be payable on December 21, 2011 to the common stockholders of record on December 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.

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 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. 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, GHL Acquisition Corp., in 2008, and that entity merged with Iridium Communications, Inc. (Iridium) in 2009. Effective December 31, 2010, we exited the merchant banking business in order to focus entirely on our advisory business. In 2011 we also began the liquidation of a substantial portion of our principal investments in our merchant banking funds and Iridium. 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. In September 2011, we sold our remaining interest in GSAVP. As of September 30, 2011 our investments principally consisted of our investments in Iridium and our European merchant banking fund.

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In September 2011, we adopted a Rule 10b5-1 trading plan to sell our entire interest in Iridium over a period of approximately two years. The first sale under such plan occurred in October 2011, and subsequent sales will continue systematically under the plan until all of our interests in Iridium have been sold.

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 advisory revenues decreased by 14% to $83.2 million in the third quarter of 2011 compared to $97.0 million in the third quarter of 2010. For the nine months ended September 30, 2011 advisory revenues were $217.3 million compared to $195.5 million for the comparable period in 2010, representing an increase of 11%. During the nine months ended September 30, 2011 as compared to the same period in the prior year, worldwide completed M&A volume increased by 30%, from $1,360.7 billion to $1,763.5 billion. [1]

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 an 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 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 nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. Source: Thomson Financial as of October 4, 2011.

Results of Operations

Summary

Our revenues of $60.4 million for the third quarter of 2011 compare with revenues of $84.1 million for the third quarter of 2010, which represents a decrease of $23.7 million, or 28%. Advisory revenues for the third quarter of 2011 were $83.2 million compared to $97.0 million for the same period in 2010, representing a decrease of $13.8 million, or 14%. The decline in total revenues for the third quarter was significantly impacted by a mark to market loss of $23.6 million from our investment in Iridium. On a year-to-date basis, revenues were $199.5 million compared to $216.4 million for the comparable period in 2010, representing a decrease of $16.9 million, or 8%. Advisory revenues for the nine months ended September 30, 2011 were $217.3 million compared to $195.5 million, up 11% over the same year-to-date period in 2010. Total year-to-date 2011 revenues declined due to the recognition of a mark to market loss in the value of Iridium as compared to the recognition of a mark to market gain in Iridium in the same period in 2010.

Our third quarter 2011 net income allocable to common stockholders of $8.6 million and diluted earnings per share of $0.28 compare to net income allocable to common stockholders of $14.5 million and diluted earnings per share of $0.47 in the third quarter of 2010. For the nine months ended September 30, 2011 we earned net income available to common stockholders of $28.5 million and diluted earnings per share of $0.92 as compared to net income available to common stockholders of $32.5 million and diluted earnings per share of $1.06, 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.

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Revenues By Source

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

Revenue by Principal Source of Revenue

	For the Three Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Advisory fees	$ 83.2	138%	$ 97.0	115%
Merchant banking and other investment revenues	(22.8)	(38)%	(12.9)	(15)%
Total revenues	$ 60.4	100%	$ 84.1	100%

	For the Nine Months Ended			
	September 30, 2011		September 30, 2010	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Advisory fees	$ 217.3	109%	$ 195.5	90%
Merchant banking and other investment revenues	(17.8)	(9)%	20.9	10%
Total revenues	$ 199.5	100%	$ 216.4	100%

Advisory Revenues

Advisory revenues primarily consist of advisory and transaction related fees earned in connection with advising clients in mergers, acquisitions, financings, restructurings, capital raisings or similar transactions. We earned $83.2 million in advisory revenue in the third quarter of 2011 compared to $97.0 million in the third quarter of 2010, which represents a decrease of 14%. While the level of our advisory revenues for the third quarter of 2011 was strong, those results are compared with the third quarter of 2010, when we generated our largest quarterly advisory revenues since 2007. For the three months ended September 30, 2011 we had a slight decrease in the number of transactions closings, which were on average slightly smaller in scale than in the same period in 2010. However, in the third quarter of 2011 we experienced an increase in the volume of both strategic advisory assignments with related retainer fees and private capital advisory assignments as compared to the third quarter of 2010.

For the nine months ended September 30, 2011, advisory revenues were $217.3 million compared to $195.5 million for the comparable period in 2010, representing an increase of 11%. This increase principally resulted from a greater volume of both merger and acquisition and private capital advisory assignments. During the nine months ended September 30, 2011 we earned $1 million or more from 51 clients compared to 42 clients in the same period in 2010, representing an increase of 21%.

Advisory assignments completed in the third quarter of 2011 included:

- the acquisition by A.O. Smith Corporation of Lochinvar Corporation;

the sale of A.O. Smith Corporation s Electrical Products Company to Regal Beloit Corporation;

the acquisition by AXA Private Equity of limited partnership interests in private equity buyout funds and a portfolio of direct stakes in companies from Citigroup;

the representation of Centrebet International Limited on a recommended offer from Sportingbet plc;

the sale of The Forzani Group Ltd. to Canadian Tire Corporation, Limited;

the representation of KemFine Group Oy and 3i in conjunction with the disposal of KemFine Group Oy to CABB AG;

the acquisition by Key Energy Services, Inc. of Edge Oilfield Services;

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the representation of Minerva plc on a recommended offer from a consortium consisting of AREA Property Partners and Delancey Real Estate Asset Management; and

the acquisition by VF Corporation of The Timberland Company.

During the quarter, our private capital advisory group served as financial advisor and global placement agent on behalf of private equity and real estate funds in connection with seven interim closings and one final closing of the sale of their limited partnership interests in such funds.

Merchant Banking and Other Investment Revenues

Effective December 31, 2010, we exited the merchant banking business in order to focus entirely on our advisory business. Prior to that time, our merchant banking activities consisted primarily of management of and investment in Greenhill s former 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. In September 2011, we sold the remainder of our interest in GSAVP at book value for $0.6 million. Because we sold our interests in GCP II and GSAVP at book value we did not recognize any gain or loss on the sale. We continue to hold our investments in Greenhill Capital Partners Europe (GCP Europe) and certain other merchant banking funds. We also hold approximately 9.8 million common shares of Iridium, or approximately 13% of the fully diluted shares outstanding, and on October 3, 2011 we initiated sales under a Rule 10b5-1 trading plan to sell our entire interest in Iridium over a period of approximately two years. 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 Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions, unaudited)			
Management fees	$	$ 2.6	$	$ 10.7
Net realized and unrealized gains (losses) on investments in merchant banking funds	0.1	1.2	0.1	1.7
Net realized and unrealized merchant banking profit overrides				0.1
Net unrealized gain (loss) on investment in Iridium	(23.6)	(17.2)	(20.1)	7.7
Other realized and unrealized investment income (loss)	0.1	0.1	0.1	(0.3)
Recognition of deferred gain on sale of merchant banking assets	0.2	0.3	0.6	0.8
Interest income	0.4	0.1	0.8	0.2
Total merchant banking and other investment revenues	$ (22.8)	$ (12.9)	$ (17.8)	$ 20.9

For the third quarter of 2011, we recorded a loss of $22.8 million in total merchant banking and other investment revenues compared to a loss of $12.9 million in the third quarter of 2010. The losses in each of the three month periods ended September 30, 2011 and 2010 resulted predominantly from mark to market declines in the value of Iridium. 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 third quarter of 2010 we earned management fees of $2.6 million.

For the nine months ended September 30, 2011, we recorded a loss of $17.8 million in merchant banking and other investment revenues compared to a gain of $20.9 million for the nine months ended September 30, 2010. The year-to-year decrease in our merchant banking and other investment revenues of $38.7 million primarily resulted from a mark to market loss of $20.1 million in the value of our investment in

Iridium, which was recognized during the nine month period ended September 30, 2011, compared to the recognition of a mark to market gain in Iridium of $7.7 million in the same year-to-date period in 2010. Additionally, our 2011 revenues were impacted by the absence of merchant banking management fees due to our discontinuation of the management of merchant banking funds at year-end 2010. For the nine months ended September 30, 2010 we earned management fee revenue of $10.7 million.

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We recognize gains or losses from our investment in Iridium from marking to market our holdings to record unrealized gains or losses at the end of any period. At September 30, 2011, our investment in Iridium had a value of $60.8 million. Beginning in the fourth quarter of 2011 we initiated a program to sell our entire interest in Iridium over a period of two or more years. To the extent we sell our holdings in Iridium for a price above or below our most recent quarterly mark we will recognize realized gains or losses on such sales.

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. 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 sales. 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. 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 .

In addition, we recognize the consolidated earnings of the general partners of the funds which we control, offset by allocated expenses of those funds. Prior to 2011 we were the general partner of GCP I, GCP II, GSAVP and GCP Europe. As a result of our sale of the merchant banking business effective December 31, 2010 we no longer control the general partner of GCP Europe. Further, in conjunction with the sale of GSAVP we transferred ownership of the general partner of GSAVP to an unaffiliated third party. Consequently, as of September 30, 2011 we no longer consolidate earnings of the general partners of GSAVP or GCP Europe. Although we sold substantially all of our interests in GCP II, we continue to control the general partner of such fund and consolidate the earnings of the general partner of that fund.

During the time we acted as general partner of the Merchant Banking Funds we were entitled to a share of the profit overrides of such funds. 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). During the time we acted as general partner of the Merchant Banking Funds we only recognized profit overrides on GCP I. We did not recognize profit overrides on any of the other funds. We would be required to establish a reserve for potential clawbacks if we were to determine that the likelihood of a clawback is probable and the amount of the clawback can be reasonably estimated. As of September 30, 2011, we believe it is more likely than not that the amount of profit overrides recognized as revenue in prior periods, which relates solely to our interest in GCP I, will be realized and accordingly, we have not reserved for any clawback obligations under applicable fund agreements. As a result of the sale of GSAVP we no longer have the right to receive profit overrides from GSAVP. Following the separation and sale transactions described above, we remain entitled to receive reduced portions of the profit override earned from GCP Europe and GCP II after certain performance hurdles are met; whether these hurdles can be met will depend on the underlying fair value of each portfolio company. Unless there are significant gains in the value of the portfolio companies in each fund it is not likely that the profit threshold for either fund will be exceeded and accordingly is not likely that profit override revenue will be recognized.

As of September 30, 2011 we had remaining investments in merchant banking funds of $40.5 million. Included in this amount is the estimated fair market value of $12.9 million as of September 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 (Put Options). Until the Put Options expires or is exercised in December 2012 we will record gains or losses on these investments. During the third quarter of 2011 we did not record earnings or loss related to the capital interests subject to the Put Options and on a year-to-date basis we recorded a loss of $1.4 million on these capital accounts. 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,

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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 third quarter of 2011 were $47.3 million, which compares to $60.1 million of total operating expenses for the third quarter of 2010. This represents a decrease in total operating expenses of $12.8 million, or 21%, and resulted principally from a decrease in our compensation expense as described in more detail below. Our pre-tax income margin was 22% for the third quarter of 2011 as compared to 29% for the third quarter of 2010.

For the nine months ended September 30, 2011, total operating expenses were $155.9 million compared to $159.1 million of total operating expenses for the same period in 2010. The decrease of $3.2 million, or 2%, related to a decrease in our compensation expense offset by an increase in our non-compensation expense, each as described in more detail below. The pre-tax income margin for the nine months ended September 30, 2011 was 22% compared to 27% for the comparable period in 2010.

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 September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in millions, unaudited)			
Employee compensation & benefits expense	$ 30.4	$ 44.2	$ 108.4	$ 114.7
% of revenues	*50%*	*53%*	*54%*	*53%*
Non-compensation expense	16.9	15.9	47.5	44.4
% of revenues	*28%*	*19%*	*24%*	*21%*
Total operating expense	47.3	60.1	155.9	159.1
% of revenues	*78%*	*72%*	*78%*	*74%*
Total income before tax	13.0	24.0	43.6	57.3
Pre-tax profit margin	*22%*	*29%*	*22%*	*27%*

Compensation and Benefits Expenses

Our employee compensation and benefits expenses in the third quarter of 2011 were $30.4 million, which reflects a 50% ratio of compensation to revenue. This amount compared to $44.2 million for the third quarter of 2010, which reflected a 53% ratio of compensation to revenue. The decrease of $13.8 million, or 31%, principally resulted from lower amortization of restricted stock units due to the departure of certain employees who forfeited their awards in the third quarter of 2011.

For the nine months ended September 30, 2011, our employee compensation and benefits expenses were $108.4 million, compared to $114.7 million of compensation and benefits expenses for the same period in the prior year. The decrease of $6.3 million, or 5%, principally resulted from resulted from lower amortization of restricted stock units, as discussed above, in the first nine months of 2011 as compared to the same period in 2010. On a year-to-date basis in 2011, the ratio of compensation expense to total revenues was 54% as compared to 53% for the same nine month period in 2010. The slight increase in the compensation ratio for the nine months ended September 30, 2011 resulted from the spreading of our 2011 compensation expense over a lower revenue base compared to the same period in 2010. On a year-to-date basis in 2011 the ratio of compensation expense to advisory revenues was 50%.

Our compensation costs consist of (i) base salary and benefits, (ii) annual incentive compensation payable as cash bonus awards and (iii) amortization of long-term incentive compensation awards of restricted stock units, which generally are charged to expense over five years from the date of issuance. Based upon our current headcount we expect our annual 2011 fixed compensation cost, which is the sum of base salaries and benefits and the amortization of previously issued restricted stock units, will be approximately

$120.0 million. For 2010, our annual fixed compensation cost was approximately $135.0 million. The expected decrease in fixed compensation costs for the year ended December 31, 2011 as compared to the prior year is expected to result from lower base compensation and lower than expected charges for the amortization of restricted stock units due to the departure of certain employees, who in aggregate had a large amount of unvested restricted stock units. The ratio of compensation to revenue for the year ended December 31, 2011 will be largely dependent upon the amount of transaction and related revenues we generate in the final quarter of this year. While it continues to be our objective to maintain a ratio of compensation to revenue of no greater than 50%, we will, however, balance that goal with our objective of retaining our core personnel and compensating them competitively in order to maintain our strong franchise.

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

Non-Compensation Expenses

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

Our non-compensation expenses were $16.9 million in the third quarter of 2011 compared to $15.9 million in the third quarter of 2010, representing an increase of $1.0 million, or 6%. The increase in non-compensation expenses principally resulted from increased travel related to greater business development activities, increased leasehold amortization and other general operating costs as a result of office expansions, and the negative impact on our foreign non-compensation costs of a stronger U.S. dollar as compared to the prior year.

For the first nine months of 2011, our non-compensation expenses were $47.5 million compared to $44.4 million for the same period in 2010, representing an increase of $3.1 million, or 7%. The increase in non-compensation expenses was primarily attributable to greater occupancy costs as a result of the acquisition of Greenhill Caliburn in April 2010 and the expansion of other office space in existing locations, the amortization of the acquired Australian intangible assets, increased travel costs related to greater business development activities, and the impact of foreign currency conversion on our operating costs, offset in part by the absence of professional fees associated with the acquisition of Greenhill Caliburn.

Non-compensation expenses as a percentage of revenues for the three months ended September 30, 2011 were 28% compared to 19% for the same period in the prior year. This increase in non-compensation expense as a percentage of revenues resulted from increased costs referred to above spread over lower revenues in the third quarter of 2011 as compared to the same period in 2010.

Non-compensation expenses as a percentage of revenues in the nine months ended September 30, 2011 were 24% compared to 21% for the same period in the prior year. The increase in non-compensation expenses as a percentage of revenues in the nine months ended September 30, 2011 compared to the same period in the prior year reflected the higher expenses referred to above spread over lower revenues.

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

Provision for Income Taxes

The provision for taxes in the third quarter of 2011 was $4.4 million, which reflected an effective tax rate on income allocated to common stockholders of 34%. This compares to a provision for taxes in the third quarter of 2010 of $8.7 million, which reflected an effective tax rate of 38% for the period. The decrease in the provision for income taxes in the third quarter of 2011 as compared to the same period in 2010 was attributable to both lower pre-tax income allocated to common shareholders and a lower effective rate due to an increase in the proportion of income earned in lower tax rate jurisdictions.

For the nine months ended September 30, 2011, the provision for taxes was $15.1 million, which reflects an effective tax rate of 35%. This compares to a provision for taxes for the nine months ended September 30, 2010 of $20.4 million, which reflected an effective tax rate of 39% for the period. The decrease in the provision for income taxes in the nine months ended September 30, 2011 as compared to the same period in 2010 was primarily due to both lower pre-tax income allocated to common shareholders and a lower effective rate due to an increase in the proportion of income in lower tax rate jurisdictions.

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

Liquidity and Capital Resources

Our liquidity position is monitored by our Management Committee, which generally meets monthly. The Management Committee monitors cash, other significant working capital assets and liabilities, debt, principal investment commitments and other matters relating to liquidity requirements. As cash accumulates, it is retained in financial institutions with high credit ratings and/or invested in short-term investments which are expected to provide significant liquidity.

We generate cash from our operating activities principally in the form of advisory fees and in the form of distributions or sale proceeds from our investment activities. We use our cash primarily for operating purposes, compensation of our employees, payment of income taxes, the funding of our remaining commitments to the merchant banking funds, payment of dividends, repurchase of shares of our stock (both in open market purchases and repurchases from our employees in conjunction with the payment of taxes liabilities incurred on the vesting of restricted stock awards) and leasehold improvements.

Because a portion of the compensation we pay to our employees is distributed in annual bonus awards (usually in February of each year), our net cash balance is generally at its lowest level during the first quarter and generally accumulates from our operating activities throughout the remainder of the year. In general, we collect our accounts receivable within 60 days except for fees generated through our private capital advisory services, which are generally paid in installments over a period of years and for fees generated from certain restructuring transactions, where collections may take longer due to court-ordered holdbacks. Our liabilities typically consist of accounts payable, which are generally paid monthly, accrued compensation, which includes accrued cash bonuses and taxes payable. In February 2011, cash bonuses and accrued benefits of $17.6 million relating to 2010 compensation were paid to our employees.

Our deferred tax liabilities, which were $15.4 million as of September 30, 2011, principally relate to an unrealized gain in our investment in Iridium and may increase or decrease from period to period depending upon the change in the quoted market value and are expected to decrease over time as we realize taxable gains upon the sale of that investment. In the event we realize losses on our investments, such losses will only be available to offset realized investment gains in the current or future periods.

Our investment in Iridium, which represents approximately 13% of Iridium s fully diluted common stock, had a value of $60.8 million as of September 30, 2011. In September 2011, we adopted a Rule 10b5-1 trading plan to sell our entire interest in Iridium over a period of approximately two years. The first sale under such plan occurred on October 3, 2011, and subsequent sales will continue systematically under the plan until all of our interests in Iridium have been sold. The plan calls for the sale of our shares in Iridium in small daily increments, which represent a small percentage of recent daily trading volume levels. Specifically, we will sell 15,000 shares of Iridium common stock per trading day when the prior day s closing price of Iridium common stock is below $8.50, or 20,000 shares per day when the prior day s closing price is between $8.50 - $9.50, or 25,000 shares per day when the prior day s closing price is above $9.50. The only exception is that we will not sell shares on the last five trading days of any calendar quarter. We expect to use the net proceeds from the sales to repurchase our common stock.

In June 2011, we sold substantially all of our interests in GCP II and GSAVP for an aggregate price of $48.5 million. In September 2011, we sold our remaining capital interests in GSAVP and its affiliated funds for $0.6 million. 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 and nine months ending September 30, 2011. In conjunction with the sale of GCP II the purchasers have the right, exercisable in December 2012, to cause the firm to repurchase their interests in either of the capital account interest attributable to two GCP II portfolio companies for an aggregate value of $14.3 million. As of September 30, 2011, the value of our remaining investments in merchant banking funds was $40.5 million, which includes the estimated fair value of $12.9 million attributable to the Put Options. Because we cannot be certain of the variables that the purchasers will evaluate to determine whether or not they will exercise the Put Options for either or both of the portfolio companies which they may require us to repurchase, we are unable to estimate the likelihood that the Put Options will be exercised. Further, because merchant banking funds typically invest in privately held companies, the ability of the merchant banking funds to sell or dispose of the securities they own depends on a number of factors beyond the control of the funds, including general economic and sector conditions, stock market conditions, commodity prices, and the availability of financing to potential buyers of such securities, among other issues. As a result we consider our investments illiquid for the short term.

At September 30, 2011, we had unfunded commitments (not reflected on our balance sheet) of $22.9 million relating to future principal investments in certain of the merchant banking funds, which included unfunded commitments to GCP Europe of $19.0 million (or £12.2 million), which may be drawn through December 2012. We had unfunded commitments of $3.9 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.

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To provide for working capital needs and other general corporate purposes we have a $50.0 million revolving bank loan facility, of which $25.3 million was drawn as of September 30, 2011. Borrowings under the facility are secured by any cash distributed in respect of the remainder of our investment in the U.S. based merchant banking funds and cash distributions from Greenhill & Co. LLC, and is subject to a borrowing base limitation. Interest on borrowings is based on the higher of the Prime Rate or 4.0%. The maturity date of the facility is April 30, 2012. Historically, the revolving loan facility has been renewed annually. The revolving loan facility has a prohibition on the incurrence of additional indebtedness without the prior approval of the lenders and requires that we comply with certain financial and liquidity covenants on a quarterly basis. At September 30, 2011, the firm was compliant with all loan covenants and we expect to continue to be compliant with all loan covenants.

We generally use a portion of our cash reserves to repurchase shares of our common stock, pay dividends and fund capital commitments. In April 2010, our Board of Directors authorized the repurchase of up to $100.0 million of our common stock. We expect to fund repurchases of shares (if any) with proceeds from our investments and/or operating cash flow as transaction activity further rebounds. Our remaining commitments to our merchant banking funds, principally GCP Europe, may require us to fund capital calls on short notice. We are unable to predict the timing or magnitude of share repurchase opportunities, capital calls or distribution of investment proceeds.

During the nine months ended September 30, 2011, we repurchased 809,817 shares of our common stock in open market purchases at an average price of $45.34. In October 2011, we repurchased an additional 258,902 shares of our common stock in open market purchases at an average price of $38.62. During 2011, we have repurchased in aggregate 1,068,719 shares of our common stock. As of October 31, 2011, we had remaining authorization to repurchase up to $40.9 million approximate dollar amount of our common shares. Additionally, during the nine months ended September 30, 2011, we are deemed to have repurchased 279,290 shares of its common stock at an average price of $67.67 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units.

As of September 30, 2011, we had cash and cash equivalents on hand of $62.1 million, of which $48.8 million were held outside the U.S. We intend to repatriate foreign earnings to the extent such earnings can be repatriated in a tax efficient manner and to the extent we have needs for such cash in the U.S. We will retain adequate cash for operating purposes in our foreign locations. In the event our cash needs in the U.S. exceed our cash reserves in the U.S. and availability under the revolving loan facility, we may repatriate additional cash from our foreign operations regardless of associated tax costs.

We evaluate our cash operating position on a regular basis in light of current market conditions. Our recurring monthly operating disbursements consist of base compensation expense and other operating expenses, which principally include costs for occupancy, information services, professional fees, travel and entertainment, interest expense and other general expenses. Our recurring quarterly and annual disbursements consist of tax payments, dividend payments, repurchases of our common stock from our employees in conjunction with the payment of tax liabilities incurred on vesting of restricted stock units and cash bonus payments. These amounts vary depending upon our profitability and other factors. We incur non-recurring disbursements for our investments in the merchant banking funds, leasehold improvements and open market share repurchases. While we believe that the cash generated from operations and funds available from the revolving bank loan facility will be sufficient to meet our expected operating needs, commitments to the merchant banking activities, build-out costs of new office space, tax obligations, share repurchases and common dividends, we may adjust our variable expenses and non-recurring disbursements, if necessary, to meet our liquidity needs. In the event that we are not able to meet our liquidity needs, we may consider a range of financing alternatives to meet any such needs.

Cash Flows

In the first nine months of 2011, our cash and cash equivalents decreased by $16.1 million from December 31, 2010. We generated $75.7 million from operating activities, as we used $81.0 million generated from earnings (after giving effect to the non-cash items) to fund a net decrease in working capital of $5.2 million principally from the annual payment of bonuses. We generated $50.2 million from investing activities, primarily from the sale of our interests in two merchant banking funds for $49.4 million and distributions from other merchant banking funds $4.2 million which was used in part to fund $0.9 million for capital calls on our remaining merchant banking fund investments and $2.5 million for the build-out of new office space. We used $140.5 million in financing activities, including $41.7 million of net repayments on our revolving loan facility, $42.6 million for the payment of dividends, $36.7 million for open market repurchases of our common stock, $18.5 million for the repurchase of our common stock from employees in conjunction with the payment of tax liabilities in settlement of restricted stock units (net of $0.4 million of tax benefits from the delivery of restricted stock units), and $1.0 million of distributions of excess 2010 profits to GCP Capital.

In the first nine months of 2010, our cash and cash equivalents decreased by $17.7 million from December 31, 2009. We generated $41.5 million in operating activities, as we used $73.9 million generated from earnings (after giving effect to the non-cash items) to fund a net decrease in working capital of $32.4 million (principally from the payments of year-end bonuses and an increase in accounts receivable). We used $11.5 million in investing activities, including $11.7 million in new investments in our merchant banking funds and other investments, $3.8 million for the build-out of new office space and $3.0 million for the payment of post closing distributions of accrued profits prior to the acquisition date to the founders of Caliburn, partially offset by distributions from

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investments of $7.1 million. We used $46.8 million for financing activities, including $24.5 million for the repurchase of our common stock from employees in conjunction with the payment of tax liabilities in settlement of restricted stock units, $12.4 million in open market repurchases of our common stock, and $42.2 million for the payment of dividends, partially offset by $25.4 million of net borrowing from our revolving loan facility and $8.3 million of net tax benefits from the delivery of restricted stock units.

Off-Balance Sheet Arrangements

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

Market Risk

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

We maintain our cash and cash equivalents with financial institutions with high credit ratings. We may maintain deposits in federally insured financial institutions in excess of federally insured (FDIC) limits. However, management believes that the firm is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. We monitor the quality of these investments on a regular basis and may choose to diversify such investments to mitigate perceived market risk. Our cash and cash equivalents are denominated in U.S. dollars, Australian dollars, Canadian dollars, pound sterling, euros, and yen, and we face modest foreign currency risk in our cash balances held in accounts outside the United States due to potential currency movements and the associated foreign currency translation accounting requirements. We may hedge our foreign currency exposure if we expect we will need to fund U.S. dollar obligations with foreign currency.

With regard to our investments in both merchant banking funds and Iridium we face exposure to changes in the fair value of the companies in which we have directly or indirectly invested, which historically has been volatile. Significant changes in the public equity markets, and particularly the quoted market value of our investment in Iridium, because of the relative size of that investment, may have a material effect on our results of operations. Volatility in the general equity markets would impact our operations primarily because of changes in the fair value of our merchant banking or principal investments that are publicly traded securities. Volatility in the availability of credit would impact our operations primarily because of changes in the fair value of merchant banking or principal investments that rely upon a portion of leverage to operate. We have analyzed our potential exposure to general equity market risk by performing sensitivity analyses on those investments in Iridium and other publicly traded securities held in the merchant banking funds. This analysis showed that if we assume that at September 30, 2011, the market prices of Iridium and the public securities held in the merchant banking funds were 10% lower, the impact on our operations would be a decrease in revenues of $6.1 million.

We manage the risks associated with the merchant banking portfolio by assessing information provided by the funds.

In addition, the reported amounts of our financial advisory revenues may be affected by movements in the rate of exchange between the Australian dollar, Canadian dollar, pound sterling, euro, and yen (in which collectively 50% of our revenues for the nine months ended September 30, 2011 were denominated) and the dollar, in which our financial statements are denominated. We do not currently hedge against movements in these exchange rates. We analyzed our potential exposure to a decline in exchange rates by performing a sensitivity analysis on our net income. During the nine month period ended September 30, 2011, as compared to the same period in 2010, the value of the U.S. dollar weakened on a weighted average basis, relative to each of the currencies in the foreign jurisdictions in which we operate. Accordingly, our earnings in the first nine months of 2011 were higher than they would have been in the same period in the prior year had the value of the U.S. dollar relative to those other currencies remained constant. While our earnings are subject to volatility from foreign currency changes, we do not believe we face any material risk in this respect.

Critical Accounting Policies and Estimates

Our 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 their footnotes, including investment valuations, compensation accruals and other matters. Management believes that the estimates used in preparing our 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.

We believe that the following discussion addresses Greenhill s most critical accounting policies, which are those that are most important to the presentation of our financial condition and results of operations and require management s most difficult, subjective and complex judgments. For further discussion of these and other significant accounting policies, see Note 2 Summary of Significant Accounting Policies in our condensed consolidated financial statements, and our 2010 Annual Report on Form 10-K.

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Revenue Recognition

Advisory Fees

The firm recognizes 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 firm 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 advisory fee revenue over the period in which the related service is rendered.

The firm s clients reimburse certain expenses incurred by the firm in the conduct of advisory engagements. Expenses are reported net of such client reimbursements.

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 firm s investments in merchant banking funds, Iridium and other principal investment activities, and if any, (iii) profit overrides from the merchant banking funds.

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

The firm 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 firm 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 firm 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 firm. When applicable, the profit overrides earned by the firm are recognized on an accrual basis throughout the year. In accordance with the relevant guidance, the firm 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 firm 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 firm 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 September 30, 2011, the firm 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 firm has not reserved for any clawback obligations under applicable fund agreements.

Investments

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

Restricted Stock Units

The firm 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 firm s common stock at the date of grant. As the firm expenses the awards, the restricted stock units recognized are recorded within equity. The restricted

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stock units are reclassified into common stock and additional paid-in capital upon vesting. The firm 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 firm 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 firm 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 firm 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.

Goodwill

Goodwill is the cost of acquired companies in excess of the fair value of identifiable net assets at acquisition date. The firm 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.

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.

Provision for Taxes

The firm 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 firm 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.

Financial Instruments and Fair Value

The firm 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 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.

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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 firm 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 firm accounts for warrants under the guidance for accounting for derivative instruments and hedging activities. In accordance with that guidance, the firm 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 firm prior to their conversion to shares of Iridium common stock on June 22, 2011, were not designated as hedging instruments.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are set forth above in Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk .

Item 4. Controls and Procedures

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

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

Part II Other Information

Item 1. Legal Proceedings

The firm is from time to time involved in legal proceedings incidental to the ordinary course of its business. We do not believe any such proceedings will have a material adverse effect on our results of operations.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2010 Annual Report on Form 10-K.

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

Issuer Purchases of Equity Securities in the Third Quarter of 2011:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs(2)
July 1 July 31	206,200	$ 48.48		$ 58,398,914
August 1 August 31				58,398,914
September 1 September 30	231,355	32.42		50,899,079

(1) Excludes 22,512 shares the firm is deemed to have repurchased in July 2011 at $48.78 from employees in conjunction with the payment of tax liabilities in respect of stock delivered to employees in settlement of restricted stock units.

(2) Effective April 22, 2010, the Board of Directors authorized the repurchase of up to $100,000,000 of Greenhill & Co., Inc. common stock.

Item 3. Defaults Upon Senior Securities

None.

Item 4. [Removed and Reserved]

Item 5. Other Information

None.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101*	Interactive data files pursuant to Rule 405 of Regulation S-T.

* This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 31, 2011

GREENHILL & CO., INC.

By: /s/ SCOTT L. BOK
Name: Scott L. Bok
Title: Chief Executive Officer

By: /s/ RICHARD J. LIEB
Name: Richard J. Lieb
Title: Chief Financial Officer