

GREENHILL & CO INC

Form 10-Q

August 04, 2006

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-32147

Greenhill & Co., Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

300 Park Avenue, 23rd Floor
New York, New York
(Address of principal executive offices)

51-0500737
(I.R.S. Employer
Identification No.)
10022
(Zip Code)

Registrant's telephone number (212) 389-1500

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of July 28, 2006, there were 28,782,268 shares of the registrant's common stock outstanding.

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

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

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Part I. Financial Information

Item 1. Financial Statements

Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition (Unaudited)

	As of	
	June 30, 2006	December 31, 2005
Assets		
Cash and cash equivalents	\$ 43,830,828	\$ 83,240,865
Securities	9,584,895	—
Financial advisory fees receivable, net of allowance for doubtful accounts of \$1.1 million as of June 30, 2006 and December 31, 2005, respectively	56,546,055	27,336,205
Other receivables	1,960,716	933,468
Property and equipment, net of accumulated depreciation and amortization of \$27.2 million and \$27.6 million as of June 30, 2006 and December 31, 2005, respectively	13,801,342	8,638,632
Investments	95,695,399	104,135,337
Due from affiliates	829,469	260,537
Other assets	10,288,093	10,396,077

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Total assets	\$ 232,536,797	\$ 234,941,121
Liabilities and Stockholders' Equity		
Compensation payable	\$ 46,200,779	\$ 61,219,698
Accounts payable and accrued expenses	12,978,317	15,984,768
Bank loans payable	3,000,000	—
Taxes payable	42,736,233	38,346,740
Due to affiliates	1,445,044	1,445,044
Total liabilities	106,360,373	116,996,250
Minority interest in net assets of affiliates	2,561,161	3,229,537
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 31,012,321 and 30,880,024 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	310,122	308,800
Restricted stock units	14,822,583	8,931,618
Additional paid-in capital	115,236,968	109,961,120
Retained earnings	89,307,269	57,595,530
Accumulated other comprehensive loss	(618,417)	(3,025,186)
Treasury stock, at cost; 2,230,650 and 1,650,496 shares as of June 30, 2006 and December 31, 2005, respectively	(95,443,262)	(59,056,548)
Stockholders' equity	123,615,263	114,715,334
Total liabilities, minority interest and stockholders' equity	\$ 232,536,797	\$ 234,941,121

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 June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues				
Financial advisory fees	\$ 53,805,027	\$ 16,316,783	\$ 103,120,543	\$ 55,787,498
Merchant banking revenue	4,894,220	12,328,021	55,841,349	16,262,628
Interest income	644,857	817,834	1,303,183	1,340,019
Total Revenues	59,344,104	29,462,638	160,265,075	73,390,145
Expenses				
Employee compensation and benefits	26,408,125	11,732,768	73,576,399	31,653,161
Occupancy and equipment rental	2,324,013	1,631,539	4,250,239	2,963,745
Depreciation and amortization	622,022	646,038	1,192,825	1,274,161
Information services	1,335,528	940,560	2,166,352	1,808,306
Professional fees	906,316	1,651,947	1,653,470	2,275,815
Travel related expenses	1,577,849	1,413,937	2,660,877	2,404,384
Other operating expenses	4,460,912	1,504,300	5,856,683	3,781,577

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Total Expenses	37,634,765	19,521,089	91,356,845	46,161,149
Income before Tax and Minority Interest	21,709,339	9,941,549	68,908,230	27,228,996
Minority interest in net income of affiliate	43,190	130,717	1,662,530	228,975
Income before Tax	21,666,149	9,810,832	67,245,700	27,000,021
Provision for taxes	8,388,704	3,557,565	25,757,776	9,995,017
Net Income	\$ 13,277,445	\$ 6,253,267	\$ 41,487,924	\$ 17,005,004
Average common shares outstanding:				
Basic	29,494,257	30,986,722	29,545,870	30,950,653
Diluted	29,729,213	31,080,138	29,757,056	31,021,351
Earnings per share				
Basic	\$ 0.45	\$ 0.20	\$ 1.40	\$ 0.55
Diluted	\$ 0.45	\$ 0.20	\$ 1.39	\$ 0.55

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

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

	Six Months Ended June 30, 2006	Year Ended December 31, 2005
Common stock, par value \$0.01		
Common stock, beginning of the year	\$ 308,800	\$ 307,500
Common stock issued	1,322	1,300
Common stock, end of the period	310,122	308,800
Restricted stock units		
Restricted stock units, beginning of the year	8,931,618	3,396,714
Restricted stock units recognized	8,720,404	9,023,251
Restricted stock units delivered	(2,829,439)	(3,488,347)
Restricted stock units, end of the period	14,822,583	8,931,618
Additional paid-in capital		
Additional paid-in capital, beginning of the year	109,961,120	106,743,051
Common stock issued	2,900,557	2,344,158
Tax benefit from the delivery of restricted stock units	2,375,291	873,911
Additional paid-in capital, end of the period	115,236,968	109,961,120
Retained earnings		
Retained earnings, beginning of the year	57,595,530	15,781,529
Dividends	(9,776,185)	(13,718,283)
Net income	41,487,924	55,532,284
Retained earnings, end of the period	89,307,269	57,595,530
Other comprehensive income		

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Other comprehensive income, beginning of the year	(3,025,186)	1,222,235
Currency translation adjustment	2,406,769	(4,247,421)
Other comprehensive (loss) income, end of the period	(618,417)	(3,025,186)
Treasury Stock, at cost, par value \$0.01 per share		
Treasury stock, beginning of the year	(59,056,548)	(211,926)
Repurchased	(36,386,714)	(58,844,622)
Treasury stock, end of the period	(95,443,262)	(59,056,548)
Total stockholders' equity	\$ 123,615,263	\$ 114,715,334

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

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

	For the Six Months Ended June 30,	
	2006	2005
Operating activities:		
Net income	\$ 41,487,924	\$ 17,005,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Adjustments to net income:		
Depreciation and amortization	1,192,825	1,274,161
Net realized and unrealized (gains) losses on investments	(48,693,064)	(11,726,067)
Restricted stock units recognized and common stock issued	8,792,845	4,909,824
Changes in operating assets and liabilities:		
Financial advisory fees receivable	(29,209,850)	11,990,154
Due from affiliates	(568,932)	62,114
Other receivables and assets	(655,098)	262,502
Compensation payable	(15,018,919)	(18,694,656)
Accounts payable and accrued expenses	(3,006,451)	(3,399,027)
Minority interest in net assets of affiliates	(668,376)	959,634
Taxes payable	4,389,493	1,581,077
Cash settlement of restricted stock units	—	(1,988,870)
Net cash (used in) provided by operating activities	(41,957,603)	2,235,850
Investing activities:		
Purchase of investments	(2,371,115)	(14,104,193)
Distribution from investments	59,504,117	5,999,994
Purchase of securities	(9,584,895)	(99,581,476)
Sale of securities	—	151,998,146
Purchase of property and equipment	(6,619,701)	(780,329)
Net cash provided by investing activities	40,928,406	43,532,142

Financing activities:

Proceeds of revolving bank debt	20,500,000	—
Repayment of revolving bank debt	(17,500,000)	—
Dividends paid	(9,776,185)	(6,356,384)
Purchase of treasury stock	(36,386,714)	(4,473,415)
Net tax benefit from the delivery of restricted stock units	2,375,291	717,187
Net cash used in financing activities	(40,787,608)	(10,112,612)
Effect of exchange rate changes on cash and cash equivalents	2,406,768	(2,042,922)
Net (decrease) increase in cash and cash equivalents	(39,410,037)	33,612,458
Cash and cash equivalents, beginning of period	83,240,865	60,806,951
Cash and cash equivalents, end of period	\$ 43,830,828	\$ 94,419,409
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 46,361	\$ —
Cash paid for taxes, net of refunds	\$ 19,266,083	\$ 7,586,460

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 an independent investment banking firm. The Company has clients located throughout the world, with offices located in New York, London, Frankfurt, Toronto and Dallas.

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

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

The Company’s U.S. and international wholly-owned subsidiaries include Greenhill & Co., LLC (“G&Co”), Greenhill Capital Partners, LLC (“GCPLLC”), Greenhill Aviation Co., LLC (“GAC”) and Greenhill & Co. Europe Limited (“GCE”).

G&Co is a registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is registered with the National Association of Securities Dealers, Inc. G&Co is engaged in the investment banking business principally in North America.

GCE is a U.K. based holding company. GCE controls Greenhill & Co. International LLP (“GCI”), through its controlling membership interest. GCI is engaged in investment banking activities, principally in Europe, and is subject to regulation by the U.K. Financial Services Authority (“FSA”).

GCPLLC is a registered investment adviser under the Investment Advisers Act of 1940. GCPLLC provides investment advisory services to GCP, our private equity funds that invest in a diversified portfolio of private equity and equity related investments. The majority of the investors in GCP are third parties. However, the Company and its employees have also made investments in GCP.

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

Note 2 — Summary of Significant Accounting Policies

Basis of Financial Information

These condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions regarding future events that affect the amounts reported in our financial statements and these footnotes, including investment valuations, compensation accruals and other matters. Management believes that the estimates used in preparing its condensed consolidated financial statements are reasonable and prudent. Actual results could differ materially from those estimates.

The condensed consolidated financial statements of the Company include all consolidated accounts of Greenhill & Co., Inc. and all other entities in which the Company has a controlling interest, including GCI, after eliminations of all significant inter-company accounts and transactions. In accordance with revised FASB Interpretation No. 46 (“FIN 46-R”), “Consolidation of Variable Interest Entities,” the Company consolidates the general partners of its merchant banking funds in which it has a majority of the economic interest. The Company does not consolidate the merchant banking funds since the Company, through its general partner and limited partner interests, does not have a majority of the economic interest in such funds and under EITF No. 04-5, “Accounting for an

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Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights,” is subject to removal by a simple majority of unaffiliated third-party investors.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2005 filed with the Securities and Exchange Commission. The condensed consolidated financial information as of December 31, 2005 has been derived from audited consolidated financial statements not included herein. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Minority Interest

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

Revenue Recognition

Financial Advisory Fees

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

The Company's clients reimburse certain expenses incurred by the Company in the conduct of financial advisory engagements. Expenses are reported net of such client reimbursements. Reimbursed expenses totaled \$0.9 million and \$1.3 million for the three months ended June 30, 2006 and 2005, respectively and \$2.0 million and \$1.8 million for the six months ended June 30, 2006 and 2005, respectively.

Merchant Banking Revenues

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

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

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

The Company recognizes merchant banking profit overrides when certain financial returns are achieved over the life of the fund. Profit overrides are calculated as a percentage of the profits over a specified threshold earned by each fund on investments managed on behalf of unaffiliated investors for GCP I and principally all investors, except the Company, in GCP II and GSAVP, and are subject to clawback. Future losses (if any) in the value of the fund's investments may require amounts previously recognized as profit overrides to be adjusted downward. Accordingly, merchant banking profit overrides are recognized as revenue only after material contingencies have been resolved. See "Note 3 — Investments" for further discussion of the merchant banking revenues recognized.

Investments

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

Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Financial Advisory Fees Receivables

Receivables are stated net of an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is derived by the Company by utilizing past client transaction history and an assessment of the client's creditworthiness. The Company had no bad debt expense for the six months ended June 30, 2006 and recorded bad debt expense of approximately \$1.0 million for the six months ended June 30, 2005.

Restricted Stock Units

In accordance with the fair value method prescribed by FASB Statement No. 123(R), "Share-Based Payment", which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation", restricted stock units with future service requirements are recorded as compensation expense and generally is amortized over a five-year service period following the date of grant. Compensation expense is determined at the date of grant. As the Company expenses the awards, the restricted stock units recognized are recorded within stockholders' equity. The Company records dividend equivalents in stockholders' equity on outstanding restricted stock units that are expected to vest. The Company adopted FASB Statement 123(R) as of January 1, 2005, and it did not have a material effect on the Company's accounting for awards of restricted stock units in its financial statements.

Earnings per Share

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

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. For assets acquired on or after January 1, 2005, depreciation is computed by the straight-line method over the life of the assets. For assets acquired prior to January 1, 2005, depreciation is computed principally by an accelerated method over the life of the assets. Amortization of leasehold improvements is computed by the straight-line method over the lesser of the life of the asset or the term of the lease. The change in depreciation method in 2005 did not have a material impact on the Company's results of operations.

Provision for Taxes

The Company accounts for taxes in accordance with Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes", which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities. The Company's deferred tax assets and liabilities are presented as a component of other assets and taxes payable, respectively, on the condensed consolidated statements of financial condition.

Foreign Currency Translation

Foreign currency assets and liabilities have been translated at rates of exchange prevailing at the end of the periods presented. Income and expenses transacted in foreign currency have been translated at average monthly exchange rates during the period. Translation gains and losses are included in the foreign currency translation adjustment

included as a component of other comprehensive income in the consolidated statement of changes in stockholders' equity.

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Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Cash Equivalents

The Company considers all highly liquid investments with a maturity date of three months or less, when purchased, to be cash equivalents. At June 30, 2006 and December 31, 2005, the carrying value of the Company's financial instruments approximated fair value.

Securities

Securities represents municipal auction rate securities held by the Company which are treated as available for sale securities under FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Auction rate securities have legal maturities in excess of 20 years when issued, but have periodic interest rate resets, generally every seven, twenty-eight or thirty-five days. At June 30, 2006, the Company had a highly diversified portfolio of AAA-rated auction rate securities which generally provide liquidity at par, as they can be sold at regularly scheduled auctions on the interest reset dates. At December 31, 2005, the Company did not hold any municipal auction rate securities.

Accounting Developments

In June 2005, the EITF reached consensus on Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights," which requires general partners (or managing members in the case of limited liability companies) to consolidate their partnerships or to provide limited partners with rights to remove the general partner or to terminate the partnership. The Company, as the general partner of merchant banking partnerships, is required to adopt the provisions of EITF 04-5(i) immediately for partnerships formed or modified after June 29, 2005 and (ii) in the first quarter of 2006 for partnerships formed on or before June 29, 2005 that have not been modified. The Company provides the unaffiliated limited partners in these funds with simple majority rights to remove the general partner or rights to terminate the partnerships and, therefore, the adoption of EITF 04-5 on January 1, 2006 did not have an effect on the Company's financial condition, results of operations or cash flows.

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating whether FIN 48 will have an impact to the consolidated financial statements.

Note 3 — Investments

Affiliated Merchant Banking Investments

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

The Company recognizes revenue on investments in merchant banking funds based on its allocable share of realized and unrealized gains (or losses) reported by such funds on a quarterly basis. Investments held by merchant banking funds are recorded at estimated fair value. Investments in privately held companies are initially carried at cost as an approximation of fair value and generally adjusted after being held by the fund for one year to the estimated fair value as determined by the general partner of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to

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Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other financial data. Discounts are generally applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investment in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which the investments are carried are adjusted to fair value at the end of each quarter and volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the fair value of the investments and consequently also that portion of the revenues attributable to the Company's merchant banking investments.

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

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

The Company makes investment decisions for GCP and GSAVP and is entitled to receive from principally all of the limited partners an override of the profits realized from the funds. The Company includes in consolidated merchant banking revenue all realized and unrealized profit overrides it earns from GCP and GSAVP. This includes profit overrides of the managing general partner of GCP I with respect to all investments it made after January 1, 2004 and the profit overrides of the general partners of GCP II and GSAVP for all investments. From an economic perspective, profit overrides in respect of the investments made after January 1, 2004 are allocated 50% to the Company and 50% to employees of the Company. In addition, the Company also includes in merchant banking revenue its portion and certain employees' portion of the profit overrides of GCP I with respect to investments made prior to January 1, 2004. The economic share of the profit overrides allocated to the employees of the Company is recorded as compensation expense.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Management fees	\$ 3,786	\$ 3,405	\$ 7,148	\$ 4,537
Net realized and unrealized gains on merchant banking investments	196	5,388	19,296	6,617
Merchant banking overrides	1,000	3,300	29,300	4,800
Other unrealized investment income	(88)	235	97	309
Merchant banking revenue	\$ 4,894	\$ 12,328	\$ 55,841	\$ 16,263

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Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	As of June 30, 2006	As of December 31, 2005
	(in thousands)	
Investment in GCP I	\$ 78,812	\$ 85,293
Investment in GCP II	14,666	17,272
Investment in GSAVP	550	—
Other investments	1,667	1,570
Investments	\$ 95,695	\$ 104,135

At June 30, 2006 and December 31, 2005, included in investment in GCP I is \$2.3 million and \$2.9 million, respectively, related to the interests in the managing general partner of GCP I held directly by various employees of the Company. At June 30, 2006 and December 31, 2005, included in investment in GCP II is \$0.3 million and \$0.3 million, respectively, related to the interests in the general partner of GCP II held directly by various employees of the Company. At June 30, 2006 and December 31, 2005, approximately \$17.1 million and \$17.7 million, respectively, of the Company's compensation payable related to profit overrides for unrealized gains of GCP. This amount may increase or decrease depending on the change in the fair value of the GCP funds portfolio and is payable, subject to claw back, at the time the funds realize cash proceeds.

At June 30, 2006, the Company had unfunded commitments of \$6.5 million, \$71.8 million and \$10.5 million to GCP I, GCP II and GSAVP, respectively. These commitments are expected to be drawn on from time to time over a period

of up to five years from the relevant commitment dates.

At June 30, 2006 consolidated subsidiaries of GCP had outstanding borrowings of \$168 million from a financial institution pursuant to credit agreements secured by the shares of common stock in a portfolio company owned by them and backed, under limited circumstances, by a recourse agreement issued by GCPLLC.

Summarized financial information for the combined GCP I funds, in their entirety, is as follows:

	As of June 30, 2006	As of December 31, 2005
	(in thousands)	
Portfolio Investments	\$ 967,745	\$ 860,974
Total Assets	990,110	911,175
Total Liabilities	159,032	72,235
Partners' Capital	831,078	838,940

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Net unrealized gain (loss) on investments	\$ (73,206)	\$ 64,635	\$ 133,873	\$ 81,285
Net realized gain on investments	82,171	53,609	206,082	64,729
Investment income	8,591	2,189	15,998	10,578
Expenses	(4,092)	(2,087)	(6,164)	(4,615)
Net income	13,464	118,346	349,789	151,977

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Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Summarized financial information for the combined GCP II funds, in their entirety, is as follows:

	As of June 30, 2006	As of December 31, 2005
	(in thousands)	
Portfolio Investments	\$ 164,539	\$ 152,585

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Total Assets	172,663	162,589
Total Liabilities	30,480	3,564
Partners' Capital	142,183	