GREENHILL & CO INC
Form 10-Q
May 03, 2007

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 March 31, 2007

OR

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

For the transition period fromto

Commission file number 001-32147

Greenhill & Co., Inc.

(Exact name of registrant as specified in its charter)

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

Registrant's telephone number (212) 389-1500

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of April 27, 2007, there were 28,469,487 shares of the registrant's common stock outstanding.

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AVAILABLE INFORMATION

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

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

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Part I. Financial Information

Item 1. Financial Statements

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

	As of March 31, 2007	As of December 31, 2006
Assets		
Cash and cash equivalents	$ 37,645,980	$ 62,386,286
Securities	—	38,753,193
Financial advisory fees receivable, net of allowance for doubtful accounts of $0.1 million and $0 million as of March 31, 2007 and December 31, 2006, respectively	24,625,091	21,443,944
Other receivables	2,426,853	2,031,277
Property and equipment, net of accumulated depreciation and amortization of $29.9 million and $28.9 million as of March 31, 2007 and December 31, 2006, respectively	14,036,506	14,260,376
Investments	137,702,306	129,431,273
Due from affiliates	42,966	708,643
Goodwill	17,691,889	17,691,889
Other assets	11,031,738	11,024,522
Total assets	$ 245,203,329	$ 297,731,403

Liabilities and Stockholders' Equity		
Compensation payable	$ 11,904,490	$ 64,355,140
Accounts payable and accrued expenses	10,584,085	6,283,004
Bank loan payable	31,000,000	19,500,000
Taxes payable	32,703,690	48,356,002
Due to affiliates	1,445,044	1,445,044
Total liabilities	87,637,309	139,939,190
Minority interest in net assets of affiliates	2,523,492	2,230,903
Common stock, par value $0.01 per share; 100,000,000 shares authorized, 31,118,077 and 31,034,727 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively	311,179	310,345
Restricted stock units	24,491,461	21,205,268
Additional paid-in capital	121,347,687	116,251,930
Exchangeable shares of subsidiary; 257,156 shares issued and outstanding as of March 31, 2007 and December 31, 2006	15,352,213	15,352,213
Retained earnings	113,127,721	112,052,519
Accumulated other comprehensive income	3,105,382	2,896,461
Treasury stock, at cost, par value $0.01 per share; 2,650,045 and 2,512,437 shares as of March 31, 2007 and December 31, 2006, respectively	(122,693,115)	(112,507,426)
Stockholders' equity	155,042,528	155,561,310
Total liabilities, minority interest and stockholders' equity	$ 245,203,329	$ 297,731,403

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

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

	For the Three Months Ended March 31,	
	2007	2006
Revenues		
Financial advisory fees	$ 36,330,134	$ 49,315,516
Merchant banking revenue	6,339,869	50,947,129
Interest income	807,998	658,326
Total revenues	43,478,001	100,920,971
Expenses		
Employee compensation and benefits	20,231,255	47,168,274
Occupancy and equipment rental	2,261,873	1,926,226
Depreciation and amortization	995,686	570,803
Information services	1,231,714	830,824
Professional fees	835,497	747,154

Travel related expenses	1,823,209	1,083,028
Other operating expenses	2,005,813	1,395,771
Total expenses	29,385,047	53,722,080
Income before tax and minority interest	14,092,954	47,198,891
Minority interest in net income of affiliates	37,709	1,619,340
Income before tax	14,055,245	45,579,551
Provision for taxes	5,335,330	17,369,072
Net income	$ 8,719,915	$ 28,210,479
Weighted average common shares outstanding:		
Basic	29,420,772	29,656,961
Diluted	29,611,811	29,842,594
Earnings per share:		
Basic	$ 0.30	$ 0.95
Diluted	$ 0.29	$ 0.94
Dividends declared and paid per common share	$ 0.25	$ 0.16

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

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

	Three Months Ended March 31, 2007	Year Ended December 31, 2006
Common stock, par value $0.01 per share		
Common stock, beginning of the year	$ 310,345	$ 308,800
Common stock issued	834	1,545
Common stock, end of the period	311,179	310,345
Restricted stock units		
Restricted stock units, beginning of the year	21,205,268	8,931,618
Restricted stock units recognized	7,683,758	15,834,888
Restricted stock units delivered	(4,397,565)	(3,561,238)
Restricted stock units, end of the period	24,491,461	21,205,268
Additional paid-in capital		
Additional paid-in capital, beginning of the year	116,251,930	109,961,120
Common stock issued	4,433,114	3,704,731
Tax benefit from the delivery of restricted stock units	662,643	2,586,079
Additional paid-in capital, end of the period	121,347,687	116,251,930
Exchangeable shares of subsidiary		
Exchangeable shares of subsidiary, beginning of the year	15,352,213	—

Exchangeable shares of subsidiary issued	—	15,352,213
Exchangeable shares of subsidiary, end of the period	15,352,213	15,352,213
Retained earnings		
Retained earnings, beginning of the year	112,052,519	57,595,530
Dividends	(7,644,713)	(21,208,956)
Net income	8,719,915	75,665,945
Retained earnings, end of the period	113,127,721	112,052,519
Other comprehensive income		
Other comprehensive income (loss), beginning of the year	2,896,461	(3,025,186)
Currency translation adjustment	208,921	5,921,647
Other comprehensive income, end of the period	3,105,382	2,896,461
Treasury stock, at cost ; par value $0.01 per share		
Treasury stock, beginning of the year	(112,507,426)	(59,056,548)
Repurchased	(10,185,689)	(53,450,878)
Treasury stock, end of the period	(122,693,115)	(112,507,426)
Total stockholders’ equity	$ 155,042,528	$ 155,561,310

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

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

	For the Three Months Ended March 31,	
	2007	2006
Operating activities:		
Net income	$ 8,719,915	$ 28,210,479
Adjustments to reconcile net income to net cash provided by operating activities:		
Adjustments to net income:		
Depreciation and amortization	995,686	570,803
Net realized and unrealized gains on investments	(2,496,952)	(47,584,965)
Restricted stock units recognized and common stock issued	7,720,141	4,490,170
Changes in operating assets and liabilities:		
Financial advisory fees receivable	(3,181,147)	(3,825,262)
Due from affiliates	665,677	119,877
Other receivables and assets	(402,792)	(103,851)
Compensation payable	(52,450,650)	(11,494,631)
Accounts payable and accrued expenses	4,301,081	(6,402,266)
Minority interest in net assets of affiliates	292,589	1,607,728
Taxes payable	(15,652,312)	7,288,990
Net cash used in operating activities	(51,488,764)	(27,122,928)

Investing activities:		
Purchase of investments	(10,715,854)	—
Distributions received from investments	4,941,773	2,078,386
Purchase of securities	(5,000,000)	—
Sale of securities	43,753,193	—
Purchase of property and equipment	(771,816)	(1,996,881)
Net cash provided by investing activities	32,207,296	81,505
Financing activities:		
Proceeds of revolving bank loan	24,000,000	10,000,000
Repayment of revolving bank loan	(12,500,000)	(4,000,000)
Dividends paid	(7,644,713)	(4,907,872)
Purchase of treasury stock	(10,185,689)	(6,108,815)
Net tax benefit from the delivery of restricted stock units	662,643	140,627
Net cash used in financing activities	(5,667,759)	(4,876,060)
Effect of exchange rate changes on cash and cash equivalents	208,921	385,312
Net decrease in cash and cash equivalents	(24,740,306)	(31,532,171)
Cash and cash equivalents, beginning of period	62,386,286	83,240,865
Cash and cash equivalents, end of period	$ 37,645,980	$ 51,708,694
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 312,858	$ —
Cash paid for taxes, net of refunds	$ 20,418,259	$ 9,955,400

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 SAV Partners (''GSAVP''), and the Company's principal investments in GCP, GSAVP and other merchant banking funds.

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

G&Co is a 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'') and Greenhill Capital Partners Europe LLP (''GCPE''), 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''). GCPE is engaged in investment advisory services in Europe, and is subject to regulation by the FSA.

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

GCPLLC is a registered investment adviser under the Investment Advisers Act of 1940 (''IAA''). 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.

GVP became a registered investment advisor under the IAA in 2007. GVP provides investment advisory services to GSAVP, our venture funds that invest in early growth stage companies in the tech-enabled and business information services industries. The majority of the investors in GSAVP are third parties; however, the Company and its employees have also made investments in GSAVP.

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

Note 2 — Summary of Significant Accounting Policies

Basis of Financial Information

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

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

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

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

Minority Interest

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

Revenue Recognition

Financial Advisory Fees

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

The Company's clients reimburse certain expenses incurred by the Company in the conduct of financial advisory engagements. Expenses are reported net of such client reimbursements. Reimbursed expenses totaled $0.3 million and $1.1 million for the three months ended March 31, 2007 and 2006, respectively.

Merchant Banking Revenues

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

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

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

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Notes to Condensed Consolidated Financial Statements (Unaudited)

The Company recognizes merchant banking profit overrides when certain financial returns are achieved over the life of the fund. 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 in 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 a 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. The Company's other investments are recorded at estimated fair value.

Financial Advisory Fees Receivables

Receivables are stated net of an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is derived by the Company by utilizing past client transaction history and an assessment of the client's creditworthiness. The Company recorded bad debt expense of approximately $0.1 million for the three months ended March 31, 2007 and had no bad debt expense for the three months ended March 31, 2006.

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.

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.

Goodwill

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

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization. For assets acquired on or after January 1, 2005, depreciation is computed by the straight-line method over

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Greenhill & Co., Inc. and Subsidiaries
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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. Tax benefits are recognized when it is probable that the deduction will be sustained. A valuation allowance is established when it is more likely than not that all or a portion of a deferred tax asset will not be realized.

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 condensed consolidated statement of changes in stockholders' equity. Foreign currency transaction gains and losses are included in consolidated net income.

Cash Equivalents

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

Securities

Securities represent 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 March 31, 2007, the Company did not hold any municipal auction rate securities. At December 31, 2006, the carrying value approximated fair value and the coupon rates ranged from

3.6% to 3.9%.

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, was 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.

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On September 15, 2006 the FASB issued, FASB Statement No. 157 (‘‘FAS 157’’) on fair value measurement. The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors’ requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The provisions of FAS 157 are effective for fiscal years beginning after November 17, 2007. At this time, the Company is evaluating the implications, including the additional disclosure requirements, of FAS 157, and its potential 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 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 general partner in which it has a majority economic interest, offset by allocated expenses of the funds. That portion of the earnings of the general partner which are held by employees and former employees of the Company is recorded as minority interest.

The Company makes investment decisions for GCP and GSAVP and is entitled to receive from the general partners an override of the profits realized from the funds. The Company includes in consolidated merchant banking revenue all realized and unrealized profit overrides it earns from GCP. 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 all merchant banking 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

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Greenhill & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

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 March 31,	
	2007	2006
	(in thousands)	
Management fees	$ 3,843	$ 3,362
Net realized and unrealized gains on investments in merchant banking	912	19,100
Merchant banking profit overrides	600	28,300
Other unrealized investment income	985	185
Merchant banking revenue	$ 6,340	$ 50,947

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

	As of March 31, 2007	As of December 31, 2006
	(in thousands)	
Investment in GCP I	$ 52,441	$ 55,718
Investment in GCP II	45,662	34,436
Investment in GSAVP	1,532	1,532
Investment in Ironshore, Inc.	30,053	30,053
Other investments	8,014	7,692
Investments	$ 137,702	$ 129,431

At March 31, 2007 and December 31, 2006, included in investment in GCP I is $1.5 million and $1.4 million, respectively, related to the interests in the managing general partner of GCP I held directly by various employees of the Company. At March 31, 2007 and December 31, 2006, included in investment in GCP II is $1.0 million and $0.8 million, respectively, related to the interests in the general partner of GCP II held directly by various employees of the Company. At March 31, 2007 and December 31, 2006, approximately $10.8 million and $10.5 million, respectively, of the Company's compensation payable related to profit overrides for unrealized gains of GCP. This amount may increase or decrease depending on the change in the fair value of the GCP funds portfolio and is payable, subject to clawback, at the time the funds realize cash proceeds.

At March 31, 2007, the Company had unfunded commitments of $41.1 million and $9.9 million to 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. The Company's remaining unfunded commitment to GCP I expired at March 31, 2007.

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

	As of March 31, 2007	As of December 31, 2006
	(in thousands)	
Portfolio Investments	$ 650,490	$ 861,610
Total Assets	681,854	883,890
Total Liabilities	1,932	105,278
Partners' Capital	679,922	778,612

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Greenhill & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31,	
	2007	2006
	(in thousands)	
Net realized and unrealized gains on investments	$ 6,803	$ 330,991
Investment income	1,871	7,406
Expenses	(2,279)	(2,072)
Net income	6,395	336,325

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

	As of March 31, 2007	As of December 31, 2006
	(in thousands)	
Portfolio Investments	$ 424,273	$ 359,849
Total Assets	438,070	368,293
Total Liabilities	78	37,408
Partners' Capital	437,992	330,885

	Three Months Ended March 31,	
	2007	2006
	(in thousands)	
Net realized and unrealized gain on investments	$ 4,145	$ 4,500
Investment income	1,602	405
Expenses	(3,640)	(3,088)
Net income	2,107	1,817

Other Investments

In December 2006, GCE acquired ordinary shares of Ironshore Inc., a newly formed insurance company, for $30 million. The Company expects these securities will be acquired by a new merchant banking fund to be formed by the Company in the first half of 2007. If the Company does not form the new fund, the Company will retain its investment in Ironshore Inc.

In 2006, GCP LLC received a distribution in kind from GCP I of marketable securities of a portfolio company. The fair value of the investment of $6.5 million and $5.6 million is included in other investments above at March 31, 2007 and December 31, 2006, respectively. In 2004, GCP LLC was granted stock options as a transaction fee from a GCP I portfolio company. The options were exercised for common stock, and the fair value of the common stock of $1.0 million and $1.6 million is included in other investments above at March 31, 2007 and December 31, 2006, respectively.

In June 2005, the Company committed $5.0 million to Barrow Street Capital III, LLC (''Barrow Street III''), of which $4.5 million remains unfunded at March 31, 2007. The remaining commitment to Barrow Street III will be funded as required through April 2009. Included above in other investments at March 31, 2007 and December 31, 2006, is $0.5 million and $0.5 million, respectively, related to the investment in Barrow Street III.

Note 4 — Goodwill

On July 6, 2006, the Company acquired through its wholly owned subsidiary, GCH, 100 % of the outstanding share capital of Beaufort Partners Limited, an independent investment bank based in Toronto, Canada. The acquisition was accounted for as a purchase and the Company preliminarily allocated approximately $17.7 million of the purchase price to goodwill.

Note 5 — Related Parties

At March 31, 2007 and December 31, 2006, the Company had receivables of $0.0 million and $0.7 million, respectively, due from GCP and GSAVP relating to expense reimbursements, which is included in due from affiliates.

Until August 2006, Barrow Street subleased office space from the Company and reimbursed the Company for the use of other facilities and participation in the Company's health care plans.

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

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

Note 6 — Revolving Bank Loan Facility

At March 31, 2007, the Company had an unsecured $50.0 million revolving loan facility from a U.S. commercial bank to provide for working capital needs, facilitate the funding of short-term investments and other general corporate purposes. Interest on borrowings is based on one month LIBOR plus 1.45% and interest is payable monthly. The revolving bank loan facility matures on August 1, 2008, but may be extended by a written agreement of lender and borrower. In addition, the Company must comply with certain financial and liquidity covenants. The Company's weighted average daily borrowings outstanding under the loan facility during the three months ended March 31, 2007 and 2006, respectively, was approximately $17.5 million and $2.1 million, with average interest rates of 7.25% and 6.50%, respectively.

In April 2007, the Board of Directors of the Company approved an increase in the credit facility to permit borrowings up to $75.0 million. The increased credit line will be secured by all management fees earned by GCPLLC and any cash distributed to GCPLLC in respect of its partnership interests in GCP I and GCP II.

Note 7 — Stockholders' Equity

On March 21, 2007, a dividend of $0.25 per share was paid to shareholders of record on March 7, 2007. Dividend equivalents of $0.5 million were paid on the restricted stock units that are expected to vest. Additionally, in April 2007, the Board of Directors of the Company declared a quarterly dividend of $0.25 per share. The dividend will be payable on June 13, 2007 to the common stockholders of record on May 30, 2007.

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

During the three months ended March 31, 2007, the Company repurchased in open market transactions 105,700 shares of its common stock at an average price of $73.99. In April 2007, the Board of Directors of the Company authorized the Company to repurchase up to $150.0 million of common stock through April 2008. In addition, during the three months ended March 31, 2007, the Company is deemed to have repurchased 31,908 shares of its common stock at an average price of $74.12 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units.

During the three months ended March 31, 2006, the Company repurchased in open market transactions 61,150 shares of its common stock at an average price of $56.80, and completed the

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repurchase of 244,028 shares at an average price of $47.19 per share from a former employee. In addition, during the three months ended March 31, 2006, the Company is deemed to have repurchased 4,419 shares of its common stock at an average price of $57.95 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units.

Note 8 — Earnings Per Share

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

	Three Months Ended March 31,	
	2007	2006
	(in thousands, except per share amounts)	
Numerator for basic and diluted EPS – Earnings available to common stockholders	$ 8,720	$ 28,210
Denominator for basic EPS – weighted average number of common shares	29,421	29,657

Effect of dilutive securities		
Restricted stock units	191	186
Denominator for diluted EPS – weighted average number of common shares and dilutive potential common shares	29,612	29,843
Earnings per share:		
Basic	$ 0.30	$ 0.95
Diluted	$ 0.29	$ 0.94

Note 9 — Income Taxes

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

Note 10 — Regulatory Requirements

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

G&Co is subject to the Securities and Exchange Commission's Uniform Net Capital requirements under Rule 15c3-1 (the ''Rule''), which specifies, among other requirements, minimum net capital requirements for registered broker-dealers. The Rule requires G&Co to maintain a minimum net capital of the greater of $5,000 or 1/15 of aggregate indebtedness, as defined in the Rule. As of March 31, 2007, G&Co's net capital was $5.5 million, which exceeded its requirement by $4.7 million. G&Co's aggregate indebtedness to net capital ratio was 2.23 to 1 at March 31, 2007. Certain advances, distributions and other capital withdrawals of G&Co are subject to certain notifications and restrictive provisions of the Rule.

GCI is subject to capital requirements of the FSA. As of March 31, 2007, GCI was in compliance with its local capital adequacy requirements.

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Greenhill & Co., Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 11 — Business Information

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

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

The following provides a breakdown of our aggregate revenues by source for the three-month period ended March 31, 2007 and 2006, respectively:

	Three Months Ended			
	March 31, 2007		March 31, 2006	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Financial advisory	$ 36.3	83%	$ 49.3	49%
Merchant banking fund management & other	7.2	17%	51.6	51%
Total revenues	$ 43.5	100%	$ 100.9	100%

The Company's financial advisory and merchant banking activities are closely aligned and have similar economic characteristics. A similar network of business and other relationships upon which the Company relies for financial advisory opportunities also generate merchant banking opportunities. Generally, the Company's professionals and employees are treated as a common pool of available resources and the related compensation and other Company costs are not directly attributable to either particular revenue source. In reporting to management, the Company distinguishes the sources of its investment banking revenues between financial advisory and merchant banking. However, management does not evaluate other financial data or operating results such as operating expenses, profit and loss or assets by its financial advisory and merchant banking activities.

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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 '
refer to Greenhill & Co., Inc.

Cautionary Statement Concerning Forward-Looking Statements

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

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

Overview

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

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

Historically, our financial advisory business has accounted for the majority of our revenues, and we expect that to remain so for the near to medium term, although there may be periods, such as the first quarter of 2006, in which merchant banking results outweigh our financial advisory earnings. The main driver of the Financial Advisory business is overall mergers and acquisitions, or M&A, and restructuring volume, particularly in the industry sectors and geographic markets in which we focus. In addition, new managing director hires add incrementally to our revenue and income growth potential. The principal drivers of our merchant banking fund management revenues are realized and unrealized gains on investments and profit overrides, the size and timing of which are tied to a number of different factors including the performance of the particular companies in which we invest, general economic conditions in the debt and equity markets and other factors which affect the industries in which we invest, such as commodity prices.

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Business Environment

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

Financial advisory revenues were $36.3 million for the three months ended March 31, 2007 compared to $49.3 million for the three months ended March 31, 2006, which represents a decrease of 26%. Global volume of completed M&A transactions was $757 billion in the first three months of 2007 compared to $717 billion in the first three months of 2006, a 6% increase[1].

Although we may benefit from any sustained increase in M&A volume, we have been and will continue to be constrained by the relatively small size of our firm and we may not grow as rapidly as our principal competitors. In addition, some of the benefits we expect to experience in connection with the recent increase in M&A volume will be partially offset by the continued decline in restructuring activity.

Merchant banking fund management and other revenues were $7.2 million for the three months ended March 31, 2007 compared to $51.6 million for the three months ended March 31, 2006, which represents a decrease of 86%. Merchant banking revenues principally consisted of realized and unrealized gains on investments in GCP, merchant banking profit overrides and management fees. While the amount of management fees earned from our existing merchant banking funds is principally a function of the amount of capital invested (in the case of GCP I) or committed (in the case of GCP II and GSAVP), those portions of merchant banking revenues consisting of gains and profit overrides may vary considerably depending on economic conditions and the performance of the individual companies in which we invest. During the first quarter of 2006, several GCP portfolio companies benefited from favorable conditions in the financing markets. Adverse changes in general economic conditions, commodity prices, credit and public equity markets could impact negatively the amount of merchant banking revenue realized by the firm.

Results of Operations

Summary

Our first quarter 2007 revenues of $43.5 million compare with revenues of $100.9 million for the first quarter of 2006, which represents a decrease of $57.4 million or 57%. The decrease in revenue in the first quarter 2007 revenue as compared to the same period in the prior year was primarily attributable to a lower incidence of completed financial advisory assignments and lower merchant banking revenue.

Our first quarter net income of $8.7 million compares with net income of $28.2 million for the first quarter of 2005, which represents a decrease of $19.5 million or 69%. The decrease was due to a lower incidence of completed financial advisory assignments and a decline in merchant banking revenue, partially offset by lower compensation expense.

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

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[1] Source: Thomson Financial as of April 25, 2007.

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Revenues By Source

The following provides a breakdown of our aggregate revenues by source for the three month period ended March 31, 2007 and 2006, respectively:

Revenue by Principal Source of Revenue

Three Months Ended

	March 31, 2007		March 31, 2006	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Financial advisory	$ 36.3	83%	$ 49.3	49%
Merchant banking fund management & other	7.2	17%	51.6	51%
Total revenues	$ 43.5	100%	$ 100.9	100%

Financial Advisory Revenues

Financial advisory revenues consist of retainers and success fees earned in connection with advising companies in mergers, acquisitions, restructurings or similar transactions. Financial advisory revenues were $36.3 million in the first quarter of 2007 compared to $49.3 million in the first quarter of 2006, which represents a decrease of 26%. This decrease was due to a lower incidence of completed assignments in the first quarter of 2007 compared to the first quarter of 2006.

In contrast to the first quarter, the firm booked an unusually high level of advisory revenue in the first weeks of April. By April 26, 2007, the firm had booked advisory revenue of $50.2 million for the second quarter. Our advisory revenues for the month to date (or any other period) may not be indicative of our results for the second quarter or other future results.

Completed assignments in the first quarter of 2007 included:

- the acquisition by ASML Holding, NV of Brion Technologies, Inc.;
- the representation of the Board of Directors of Cardinal Health, Inc. in connection with the sale of its Pharmaceutical Technologies and Services Division to The Blackstone Group;
- the acquisition by The Charles Schwab Corporation of The 401(k) Companies from Nationwide Financial Services;
- the sale by Gilde Buy Out Partners of CABB, a producer of monochloroacetic acid and related specialty intermediates, to AXA Private Equity;
- the sale by Inbev SA of Dinkelacker-Schwaben Bräu KG; and
- the representation of the Board of Directors of The ServiceMaster Company in connection with its sale to Clayton, Dubilier & Rice.

The firm also announced in February 2007 the recruitment of Martin Lewis (former Managing Director at Rhone Group and Co-Founder of Miller, Buckfire, Lewis & Co.) as Managing Director based in New York.

Merchant Banking Fund Management & Other Revenues

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

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	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
	(in millions, unaudited)	
Management fees	$ 3.9	$ 3.4
Net realized and unrealized gains on investments in merchant banking	0.9	19.1
Merchant banking profit overrides	0.6	28.3
Other unrealized investment income	1.0	0.1
Interest income	0.8	0.7
Merchant banking fund management & other revenues	$ 7.2	$ 51.6

The firm earned $7.2 million in merchant banking fund management & other revenues in the first quarter of 2007 compared to $51.6 million in the first quarter of 2006, representing a decrease of 86%. These decreases are primarily due to lower realized and unrealized principal investment gains in the Greenhill Capital Partners (‘‘GCP’’) portfolio and a decrease in the recognized amounts of profit overrides associated with gains in the GCP portfolio, offset partially by higher asset management fees resulting from greater assets under management.

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

During the first quarter of 2007, GCP portfolio company Global Signal, Inc. completed its merger with Crown Castle International Corp. (NYSE: CCI). GCP and the firm received a combination of cash and Crown Castle International stock in the merger. Subsequent to the merger, Crown Castle repurchased approximately $130 million of shares from GCP. Also in the first quarter, GCP sold its remaining shares in Hercules Offshore, Inc. (Nasdaq: HERO). In total, GCP (and the firm) earned revenue related to six portfolio companies in the first quarter of 2007, partially offset by a decrease in the fair market value of two of GCP's publicly-traded portfolio companies.

In terms of new investment activity during the first quarter of 2007, GCP invested an additional $78 million (10% of which was firm capital), consisting of investments in EXCO Resources, Inc., Peregrine Oil & Gas L.P., and Coronado Resources LLC, as compared to $11 million (11% of which was firm capital) invested in the same period of 2006.

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

Operating Expenses

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

Our operating expenses for the first quarter of 2007 were $29.4 million, which compares to $53.7 million of operating expenses for the first quarter of 2006. This represents a decrease in operating expenses of $24.3 million or 45%, which relates principally to a decrease in compensation expense and is described in more detail below. The pre-tax income margin was 32% in the first quarter of 2007 compared to 45% for the first quarter of 2006.

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

	Three Months Ended March 31,	
	2007	2006
	(in millions, unaudited)	
Employee compensation & benefits expense	$ 20.2	$ 47.2
% of revenues	46%	47%
Non-compensation expense	9.2	6.5
% of revenues	21%	6%
Total operating expense	29.4	53.7
% of revenues	68%	53%
Minority interest in net income of affiliates	0.0	1.6
Income before tax	14.1	45.6
Pre-tax income margin	32%	45%

Compensation and Benefits

Our employee compensation and benefits expense in the first quarter of 2007 was $20.2 million, which reflects a 46% ratio of compensation to revenues. This amount compares to $47.2 million for the three months ended March 31, 2006, which reflected a 47% ratio of compensation to revenues. The decrease of $27.0 million or 57% is due to the lower level of revenues in the first quarter of 2007.

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

Non-Compensation Expense

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

Our non-compensation expenses were $9.2 million in the first quarter of 2007, which compared to $6.5 million in the first quarter of 2006, representing an increase of 42%. The increase is related principally to increases in occupancy and other costs associated with new office space in London and New York ($0.8 million), greater travel ($0.7 million) and information services ($0.4 million) as a result of additional personnel and business development and increased interest expense on short-term borrowings ($0.3 million).

Non-compensation expense as a percentage of revenue in the three months ended March 31, 2007 was 21%, compared to 6% for the three months ended March 31, 2006. The increase in non-compensation expenses as a percentage of revenue in the first quarter of 2007 as compared to the same period in 2006 reflects an increase in non-compensation expenses spread over lower revenue.

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

Provision for Income Taxes

The provision for taxes in the first quarter of 2007 was $5.3 million, which reflects an effective tax rate of approximately 38%. This compares to a provision for taxes in the first quarter of 2006 of

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$17.4 million based on an effective tax rate of approximately 38% for the period. The decrease in the provision for taxes is due to the lower pre-tax income in the period.

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

Liquidity and Capital Resources

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

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

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

To increase our financial flexibility, we obtained from a U.S. commercial bank an unsecured $50.0 million revolving loan facility to provide for working capital needs, facilitate the funding of merchant banking investments and other general corporate purposes. Interest on borrowings is based on LIBOR plus 1.45%. The revolving bank loan facility matures on August 1, 2008. At March 31, 2007, $31.0 million of borrowings were outstanding on the loan facility. In April 2007, the Board of Directors of the Company approved an increase in the credit facility to permit borrowings up to $75.0 million. The increased credit line will be secured by all management fees earned by Greenhill Capital Partners, LLC and any cash distributed to it in respect of its partnership interests in GCP I and GCP II.

As of March 31, 2007, we had total commitments (not reflected on our balance sheet) relating to future principal investments in GCP, GSAVP and other merchant banking activities of $55.4 million. These commitments are expected to be drawn on from time to time and be substantially invested over a period of up to five years from the relevant commitment dates. Our unfunded remaining commitment to GCP I expired on March 31, 2007.

On December 28, 2006, one of our subsidiaries acquired ordinary shares of Ironshore Inc., a newly formed insurance company, for $30 million. We expect these securities to be acquired by a new merchant banking fund to be formed by us in the first half of 2007. If we are unsuccessful in raising the new fund, the firm will retain its investment in Ironshore Inc.

The firm repurchased 105,700 shares of its common stock in open market purchases at an average price of $73.99 during the first quarter of 2007. In April 2007, our Board of Directors authorized us to repurchase common stock in the next twelve months for an aggregate purchase price of $150 million.

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

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Cash Flows

In the first three months of 2007, our cash and cash equivalents decreased by $24.7 million from December 31, 2006. We used $51.5 million in operating activities, including $14.9 million from net income after giving effect to the non-cash items and a net decrease in working capital of $66.4 million (principally from the payment of bonuses and taxes). We generated $32.2 million in investing activities, including $38.8 million from the sale of auction rate securities and $4.9 million from distributions received from our merchant banking investments, partially offset by $10.7 million in new investments in our merchant banking funds and $0.8 million primarily for the build-out of new office space. We used $5.7 million for financing activities, including $10.2 million for the repurchase of our common stock and $7.6 million for the payment of dividends. A portion of our financing activities were funded through net borrowings of $11.5 million.

In the first three months of 2006, our cash and cash equivalents decreased by $31.5 million from December 31, 2005. We used $27.1 million in operating activities, including $14.3 million from net income after giving effect to the non-cash items and a net decrease in working capital of $12.8 million (principally from the payment of bonuses). We generated $0.1 million in investing activities, including $2.1 million from distributions from our investments, partially offset by $2.0 million from purchasing property and equipment. We used $4.9 million for financing activities, including $4.9 million for the payment of dividends and $6.1 million for the repurchase of stock, offset by net borrowings of $6.0 million.

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 or on behalf of GCP, GSAVP and other merchant banking funds.

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

With regard to our principal investments (including our portion of any profit overrides earned on such investments), we face exposure to changes in the estimated fair value of the companies in which we and our merchant banking funds invest, which historically has been volatile. Significant changes in the public equity markets may have a material effect on our results of operations. Volatility in the general equity markets would impact our operations primarily because of changes in the fair value of our merchant banking or principal investments that are publicly traded securities. We have analyzed our potential exposure to general equity market risk by performing sensitivity analyses on those investments held by us and in our merchant banking funds which consist of publicly traded securities. This analysis showed that if we assume that at March 31, 2007, the market prices of all public securities were 10% lower, the impact on our operations would be a decrease in revenues of $4.4 million. We meet on a quarterly basis to determine the fair value of the investments held in our merchant banking portfolio and to discuss the risks associated with those investments. The Investment Committee manages the risks associated with the merchant banking portfolio by closely monitoring and managing the types of investments made as well as the monetization and realization of existing investments.

In addition, the reported amounts of our revenues may be affected by movements in the rate of exchange between the euro, pound sterling and Canadian dollar (in which 36% of our revenues for the three months ended March 31, 2007 were denominated) and the dollar, in which our financial statements are denominated. We do not currently hedge against movements in these exchange rates. We analyzed our potential exposure to a decline in exchange rates by performing a sensitivity analysis on our net income. We do not believe we face any material risk in this respect.

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Critical Accounting Policies and Estimates

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

Basis of Financial Information

Our 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 related footnotes, including investment valuations, compensation accruals and other matters. We believe that the estimates used in preparing our condensed consolidated financial statements are reasonable and prudent. Actual results could differ materially from those estimates.

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

Revenue Recognition

Financial Advisory Fees

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

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

Merchant Banking Fund Management Revenues

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

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

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

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by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other financial data. Discounts are generally applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of 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 our investments are carried on our books are adjusted to fair value at the end of each quarter and the volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the fair value of the investments.

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

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 firm expenses the awards, the restricted stock units recognized are recorded within stockholders' equity. The firm records dividend equivalents in stockholders' equity on outstanding restricted stock units that are expected to vest. The firm adopted Statement 123(R) as of January 1, 2005, and it did not have a material effect on the accounting for restricted stock units in its consolidated financial statements.

Provision for Taxes

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

Accounting Developments

On September 15, 2006 the FASB issued, FASB Statement No. 157 (''FAS 157'') on fair value measurement. The standard provides guidance for using fair value to measure assets and liabilities. The standard also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The provisions of FAS 157 are effective for fiscal years beginning after November 17, 2007. At this time, the firm is evaluating the implications, including the additional disclosure requirements, of FAS 157, and its potential impact to the consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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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) of the Exchange Act) occurred during the period covered by this report that materially affected, or is reasonably likely to materially affect, the firm's internal control over financial reporting.

Part II — Other Information

Item 1. Legal Proceedings

None.

Item 1A: Risk Factors

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

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

Share Repurchases in the First Quarter of 2007:

Period	Total Number of Shares Repurchased[2]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs[3]
January 1 – January 31	—	$ —	—	$ 23,329,232
February 1 – February 28	105,700	73.99	105,700	15,508,563
March 1 – March 31	—	—	—	15,508,563

Item 3. Defaults Upon Senior Securities

None.

[2] Excludes 31,908 shares the Company is deemed to have repurchased at $74.12 from employees in conjunction with the payment of tax liabilities in respect of stock delivered to employees in settlement of restricted stock units.

[3] These shares were purchased pursuant to the authorization granted by our Board of Directors to purchase up to $40,000,000 in shares of our common stock, as announced on July 27, 2006. On April 25, 2007, our Board of Directors granted a new authorization to purchase up to $150,000,000 of our common stock.

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

At the 2007 annual meeting of stockholders of the Company held on April 25, 2007, the Company's stockholders elected seven directors each for a one-year term. The tabulation of votes with respect to each nominee for office was as follows:

Nominee	For	Withheld
Robert F. Greenhill	25,122,140	253,991
Scott L. Bok	25,090,213	285,918
Simon A. Borrows	25,014,078	362,053
John C. Danforth	25,271,419	104,712
Steven F. Goldstone	25,271,619	104,512
Stephen L. Key	25,271,586	104,545
Isabel V. Sawhill	25,247,417	128,714

The Audit Committee's retention of Ernst & Young LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2007, was ratified by the stockholders by a vote of 25,368,394 for and 6,154 against. There were 1,582 abstentions.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits:

10.35*	Form of Second Modification Agreement by and between First Republic Bank and Greenhill & Co., Inc.
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

Signatures

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

Date: May 3, 2007

GREENHILL & CO., INC.
By: /s/ ROBERT F. GREENHILL

Name: Robert F. Greenhill
Title: Chairman and Chief Executive Officer

By: /s/ JOHN D. LIU

Name: John D. Liu
Title: Chief Financial Officer