

GREENHILL & CO INC  
Form 10-Q  
November 04, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-Q

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(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2015

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

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GREENHILL & CO., INC.  
(Exact Name of Registrant as Specified in its Charter)

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|   |   |
|---|---|
| Delaware<br>(State or Other Jurisdiction<br>of Incorporation or Organization) | 51-0500737<br>(I.R.S. Employer<br>Identification No.) |
|---|---|

|   |                     |
|---|---------------------|
| 300 Park Avenue<br>New York, New York<br>(Address of Principal Executive Offices) | 10022<br>(ZIP Code) |
|---|---------------------|

Registrant's telephone number, including area code: (212) 389-1500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

As of October 30, 2015, there were 29,325,374 shares of the registrant's common stock outstanding.

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#### AVAILABLE INFORMATION

Greenhill & Co., Inc. files current, annual and quarterly reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the United States Securities and Exchange Commission (the "SEC"). You may read and copy any document the company files at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The company's SEC filings are also available to the public from the SEC's internet site at <http://www.sec.gov>. Copies of these reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, U.S.A. Our public internet site is <http://www.greenhill.com>. We make available free of charge through our internet site, via a link to the SEC's internet site at <http://www.sec.gov>, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Also posted on our website in the "Corporate Governance" section, and available in print upon request of any stockholder to our Investor Relations Department, are charters for our Audit Committee, Compensation Committee and Nominating & Corporate Governance Committee, our Corporate Governance Guidelines, Related Party Transaction Policy and Code of Business Conduct & Ethics governing our directors, officers and employees. You may need to have Adobe Acrobat Reader software installed on your computer to view these documents, which are in PDF format.

## Part I. Financial Information

## Item 1. Financial Statements

## Greenhill &amp; Co., Inc. and Subsidiaries

## Condensed Consolidated Statements of Financial Condition

(in thousands except share and per share data)

|  | As of<br>September<br>30,<br>2015<br>(unaudited) | December<br>31,<br>2014 |
|--|--|-------------------------|
| <b>Assets</b>  |  |                         |
| Cash and cash equivalents (\$4.6 million and \$6.2 million restricted from use at September 30, 2015 and December 31, 2014, respectively)  | \$35,286   | \$50,940                |
| Advisory fees receivable, net of allowance for doubtful accounts of \$0.3 million and \$0.1 million at September 30, 2015 and December 31, 2014, respectively  | 82,517   | 81,771                  |
| Other receivables  | 6,054  | 5,493                   |
| Property and equipment, net of accumulated depreciation of \$59.5 million at September 30, 2015 and \$58.5 million at December 31, 2014  | 10,240   | 10,335                  |
| Investments in merchant banking funds  | 3,451  | 4,173                   |
| Goodwill   | 206,182  | 130,976                 |
| Deferred tax asset, net  | 53,613   | 50,244                  |
| Other assets   | 6,182  | 3,718                   |
| <b>Total assets</b>  | <b>\$403,525</b>                                 | <b>\$337,650</b>        |
| <b>Liabilities and Equity</b>  |  |                         |
| Compensation payable   | \$11,846   | \$26,404                |
| Accounts payable and accrued expenses  | 11,526   | 9,035                   |
| Current income taxes payable   | 10,939   | 10,007                  |
| Bank revolving loan payable  | 44,920   | 35,600                  |
| Bank term loans payable  | 33,750   | —                       |
| Contingent obligation due selling unitholders of Cogent  | 13,244   | —                       |
| Deferred tax liability   | 993  | 362                     |
| <b>Total liabilities</b>   | <b>127,218</b>                                   | <b>81,408</b>           |
| Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 40,505,914 and 38,898,163 shares issued as of September 30, 2015 and December 31, 2014, respectively; 29,321,202 and 28,053,563 shares outstanding as of September 30, 2015 and December 31, 2014, respectively | 405  | 389                     |
| Contingent convertible preferred stock, par value \$0.01 per share; 10,000,000 shares authorized and 1,099,877 shares issued as of September 30, 2015 and December 31, 2014; 0 and 439,951 shares outstanding as of September 30, 2015 and December 31, 2014, respectively               | —  | 14,446                  |
| Restricted stock units   | 73,182   | 90,107                  |
| Additional paid-in capital   | 697,396  | 596,463                 |
| Exchangeable shares of subsidiary; 257,156 shares issued as of September 30, 2015 and December 31, 2014; 32,804 shares outstanding as of September 30, 2015 and December 31, 2014  | 1,958  | 1,958                   |
| Retained earnings  | 116,200  | 141,290                 |
| Accumulated other comprehensive income (loss)  | (30,520)   | (17,969)                |
|  | (583,008)  | (571,136)               |

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Treasury stock, at cost, par value \$0.01 per share; 11,184,712 and 10,844,600 shares as of September 30, 2015 and December 31, 2014, respectively

|                              |           |           |
|------------------------------|-----------|-----------|
| Stockholders' equity         | 275,613   | 255,548   |
| Noncontrolling interests     | 694       | 694       |
| Total equity                 | 276,307   | 256,242   |
| Total liabilities and equity | \$403,525 | \$337,650 |

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

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Greenhill & Co., Inc. and Subsidiaries  
Condensed Consolidated Statements of Income (unaudited)  
(in thousands except share and per share data)

|   | For the Three Months Ended,<br>September 30, |            | For the Nine Months Ended,<br>September 30, |            |
|---|--|------------|---|------------|
|   | 2015   | 2014       | 2015  | 2014       |
| Revenues                                    |  |            |   |            |
| Advisory revenues                           | \$50,278                                     | \$91,669   | \$185,132                                   | \$204,111  |
| Investment revenues (losses)                | 354  | 324        | 725   | (5,526)    |
| Total revenues                              | 50,632                                       | 91,993     | 185,857                                     | 198,585    |
| Expenses                                    |  |            |   |            |
| Employee compensation and benefits          | 30,703                                       | 45,996     | 103,724                                     | 109,974    |
| Occupancy and equipment rental              | 5,559  | 4,956      | 15,901                                      | 14,088     |
| Depreciation and amortization               | 894  | 804        | 2,536                                       | 2,447      |
| Information services                        | 2,332  | 2,419      | 6,714                                       | 6,618      |
| Professional fees                           | 1,606  | 1,453      | 5,765                                       | 4,078      |
| Travel related expenses                     | 3,257  | 2,225      | 8,916                                       | 8,534      |
| Interest expense                            | 666  | 402        | 1,733                                       | 978        |
| Other operating expenses                    | 4,473  | 3,106      | 11,486                                      | 8,348      |
| Total expenses                              | 49,490                                       | 61,361     | 156,775                                     | 155,065    |
| Income before taxes                         | 1,142  | 30,632     | 29,082                                      | 43,520     |
| Provision for taxes                         | 458  | 10,759     | 11,376                                      | 15,355     |
| Net income allocated to common stockholders | \$684  | \$19,873   | \$17,706                                    | \$28,165   |
| Average shares outstanding:                 |  |            |   |            |
| Basic                                       | 31,196,845                                   | 30,046,450 | 30,971,658                                  | 30,326,050 |
| Diluted                                     | 31,215,999                                   | 30,048,128 | 31,023,713                                  | 30,338,516 |
| Earnings per share:                         |  |            |   |            |
| Basic                                       | \$0.02                                       | \$0.66     | \$0.57                                      | \$0.93     |
| Diluted                                     | \$0.02                                       | \$0.66     | \$0.57                                      | \$0.93     |
| Dividends declared and paid per share       | \$0.45                                       | \$0.45     | \$1.35                                      | \$1.35     |

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

Greenhill & Co., Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (unaudited)

(in thousands)

|  | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |          |
|--|---|----------|--|----------|
|  | 2015  | 2014     | 2015                                       | 2014     |
| Net income allocated to common stockholders                  | \$684                                       | \$19,873 | \$17,706                                   | \$28,165 |
| Currency translation adjustment, net of tax                  | (7,305 )                                    | (8,196 ) | (12,551 )                                  | (3,374 ) |
| Comprehensive income (loss) allocated to common stockholders | \$(6,621 )                                  | \$11,677 | \$5,155                                    | \$24,791 |

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



Greenhill & Co., Inc. and Subsidiaries  
Condensed Consolidated Statements of Changes in Equity  
(in thousands, except for per share data)

|  | Nine Months<br>Ended September<br>30,<br>2015<br>(unaudited) | Year Ended<br>December 31,<br>2014 |   |
|--|--|------------------------------------|---|
| Common stock, par value \$0.01 per share                               |  |                                    |   |
| Common stock, beginning of the period                                  | \$389  | \$379                              |   |
| Common stock issued  | 16   | 10                                 |   |
| Common stock, end of the period  | 405  | 389                                |   |
| Contingent convertible preferred stock, par value \$0.01 per share     |  |                                    |   |
| Contingent convertible preferred stock, beginning of the period        | 14,446   | 14,446                             |   |
| Contingent convertible preferred stock canceled                        | (14,446)   | ) —                                |   |
| Contingent convertible preferred stock, end of the period              | —  | 14,446                             |   |
| Restricted stock units   |  |                                    |   |
| Restricted stock units, beginning of the period                        | 90,107   | 117,258                            |   |
| Restricted stock units recognized, net of forfeitures                  | 34,967   | 39,990                             |   |
| Restricted stock units delivered                                       | (51,892)   | ) (67,141                          | ) |
| Restricted stock units, end of the period                              | 73,182   | 90,107                             |   |
| Additional paid-in capital   |  |                                    |   |
| Additional paid-in capital, beginning of the period                    | 596,463  | 534,533                            |   |
| Common stock issued and contingently issued common stock               | 94,353   | 66,591                             |   |
| Contingent convertible preferred stock transferred                     | 14,446   | —                                  |   |
| Tax (expense) from the delivery of restricted stock units              | (7,866)  | ) (4,661                           | ) |
| Additional paid-in capital, end of the period                          | 697,396  | 596,463                            |   |
| Exchangeable shares of subsidiary                                      |  |                                    |   |
| Exchangeable shares of subsidiary, beginning of the period             | 1,958  | 1,958                              |   |
| Exchangeable shares of subsidiary delivered                            | —  | —                                  |   |
| Exchangeable shares of subsidiary, end of the period                   | 1,958  | 1,958                              |   |
| Retained earnings  |  |                                    |   |
| Retained earnings, beginning of the period                             | 141,290  | 152,412                            |   |
| Dividends  | (44,295)   | ) (56,283                          | ) |
| Tax benefit from payment of restricted stock unit dividends            | 1,499  | 1,773                              |   |
| Net income allocated to common stockholders                            | 17,706   | 43,388                             |   |
| Retained earnings, end of the period                                   | 116,200  | 141,290                            |   |
| Accumulated other comprehensive income (loss)                          |  |                                    |   |
| Accumulated other comprehensive income (loss), beginning of the period | (17,969)   | ) (9,361                           | ) |
| Currency translation adjustment, net of tax                            | (12,551)   | ) (8,608                           | ) |
| Accumulated other comprehensive income (loss), end of the period       | (30,520)   | ) (17,969                          | ) |
| Treasury stock, at cost, par value \$0.01 per share                    |  |                                    |   |
| Treasury stock, beginning of the period                                | (571,136)  | ) (534,957                         | ) |
| Repurchased  | (11,872)   | ) (36,179                          | ) |
| Treasury stock, end of the period                                      | (583,008)  | ) (571,136                         | ) |
| Total stockholders' equity   | 275,613  | 255,548                            |   |
| Noncontrolling interests   |  |                                    |   |
| Noncontrolling interests, beginning of the period                      | 694  | 1,042                              |   |

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|   |           |           |   |
|---|-----------|-----------|---|
| Distributions to noncontrolling interests   | —         | (348      | ) |
| Noncontrolling interests, end of the period | 694       | 694       |   |
| Total equity                                | \$276,307 | \$256,242 |   |

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)  
(in thousands)

|  | For the Nine Months Ended<br>September 30, |           |   |
|--|--|-----------|---|
|  | 2015                                       | 2014      |   |
| Operating activities:  |  |           |   |
| Net income allocated to common stockholders  | \$ 17,706                                  | \$ 28,165 |   |
| Adjustments to reconcile net income allocated to common stockholders to net cash provided by operating activities: |  |           |   |
| Non-cash items included in net income allocated to common stockholders:  |  |           |   |
| Depreciation and amortization  | 2,536                                      | 2,447     |   |
| Net investment (gains) losses  | (24  | ) 6,566   |   |
| Restricted stock units recognized and common stock issued  | 34,967                                     | 30,352    |   |
| Deferred taxes   | (3,351                                     | ) 1,774   |   |
| Deferred gain on sale of certain merchant banking assets   | —  | (146      | ) |
| Changes in operating assets and liabilities:   |  |           |   |
| Advisory fees receivable   | 10,332                                     | (3,088    | ) |
| Other receivables and assets   | 1,820                                      | (1,436    | ) |
| Compensation payable   | (14,558                                    | ) 2,277   |   |
| Accounts payable and accrued expenses  | 1,246                                      | 318       |   |
| Current income taxes payable   | 932  | (4,362    | ) |
| Net cash provided by operating activities  | 51,606                                     | 62,867    |   |
| Investing activities:  |  |           |   |
| Purchases of investments   | (21  | ) (28     | ) |
| Distributions from investments   | 768  | 585       |   |
| Purchases of property and equipment  | (1,954                                     | ) (1,807  | ) |
| Cogent acquisition   | (45,260                                    | ) —       |   |
| Net cash used in investing activities  | (46,467                                    | ) (1,250  | ) |
| Financing activities:  |  |           |   |
| Proceeds from revolving bank loan  | 65,020                                     | 55,351    |   |
| Repayment of revolving bank loan   | (55,700                                    | ) (47,000 | ) |
| Proceeds from bank term loans  | 45,000                                     | —         |   |
| Repayment of bank term loans   | (11,250                                    | ) —       |   |
| Dividends paid   | (44,295                                    | ) (42,191 | ) |
| Purchase of treasury stock   | (11,872                                    | ) (29,586 | ) |
| Net tax (cost) from the delivery of restricted stock units and payment of dividend equivalents                     | (6,368                                     | ) (2,612  | ) |
| Net cash used in financing activities  | (19,465                                    | ) (66,038 | ) |
| Effect of exchange rate changes on cash and cash equivalents   | (1,328                                     | ) (1,388  | ) |
| Net decrease in cash and cash equivalents  | (15,654                                    | ) (5,809  | ) |
| Cash and cash equivalents, beginning of period   | 50,940                                     | 42,679    |   |
| Cash and cash equivalents, end of period   | \$ 35,286                                  | \$ 36,870 |   |
| Supplemental disclosure of cash flow information:  |  |           |   |
| Cash paid for interest   | \$ 1,698                                   | \$ 940    |   |
| Cash paid for taxes, net of refunds  | \$ 14,139                                  | \$ 15,495 |   |

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



Greenhill & Co., Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 — Organization

Greenhill & Co., Inc., a Delaware corporation, together with its subsidiaries (collectively, the “Company”), is a leading independent investment bank focused on providing financial advice on significant mergers, acquisitions, restructurings, financings and capital raising to corporations, partnerships, institutions and governments. The Company acts for clients located throughout the world from its offices located in the United States, United Kingdom, Germany, Canada, Japan, Australia, Sweden, Brazil and Singapore.

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

• Advisory, which includes engagements relating to mergers and acquisitions, financing advisory and restructuring, and capital advisory services; and

• Investments, which includes the Company's principal investments in certain merchant banking funds, and interest income.

The Company's wholly-owned subsidiaries provide advisory services in various jurisdictions. Our most significant operating entities include: Greenhill & Co., LLC (“G&Co”), Greenhill & Co. International LLP (“GCI”) and Greenhill & Co. Australia Pty Limited (“Greenhill Australia”).

G&Co is engaged in investment banking activities principally in the United States. G&Co is registered as a broker-dealer with the Securities and Exchange Commission (“SEC”) and the Financial Industry Regulatory Authority (“FINRA”), and is licensed in all 50 states and the District of Columbia. GCI is engaged in investment banking activities in the United Kingdom, and is subject to regulation by the U.K. Financial Conduct Authority (“FCA”). Greenhill Australia engages in investment banking activities in Australia and New Zealand and is licensed and subject to regulation by the Australian Securities and Investment Commission (“ASIC”).

The Company also operates in other locations throughout the world which are subject to regulation by other governmental and regulatory bodies and self-regulatory authorities.

On April 1, 2015, Greenhill acquired Cogent Partners, LP and its affiliates (“Cogent”) (now known as “Greenhill Cogent”), a global financial advisor to pension funds, endowments and other institutional investors on the secondary market for alternative assets. Greenhill Cogent is engaged in capital advisory services to institutional investors principally in the United States and United Kingdom and is registered as a broker-dealer with the SEC, FINRA and the FCA. See “Note 3 — Acquisition”.

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 (U.S. GAAP), 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 after eliminations of all significant inter-company accounts and transactions. In accordance with the accounting pronouncements related to consolidation of variable interest entities, the Company consolidates the general partners of certain merchant banking funds in which it has a majority of the economic interest and control. The general partners account for their investments in these merchant banking funds under the equity method of accounting. As such, the general partners record their proportionate shares of income (loss) from the underlying merchant banking funds. As the merchant banking funds follow investment company accounting, and generally record all their assets and liabilities at fair value, the general partners’ investment in these merchant banking funds represents estimations of fair value. The Company does not

consolidate the merchant banking funds since the Company, through its general partner and limited partner interests, does not have a majority of the economic interest in such funds and the limited partners have certain rights to remove the general partner by a simple majority vote of unaffiliated third-party investors.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014 included in the Company's Annual

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Report on Form 10-K and subsequent Forms 8-K filed with the SEC. The condensed consolidated financial information as of December 31, 2014 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.

#### Revenue Recognition

##### Advisory Revenues

It is the Company's accounting policy to recognize revenue when (i) there is persuasive evidence of an arrangement with a client, (ii) the agreed-upon services have been completed and delivered to the client or the transaction or events noted in the engagement letter are determined to be substantially complete, (iii) fees are fixed and determinable, and (iv) collection is reasonably assured.

The Company recognizes advisory fee revenues for mergers and acquisitions or financing advisory and restructuring engagements when the services related to the underlying transactions are completed in accordance with the terms of the engagement letter and all other requirements for revenue recognition are satisfied.

The Company recognizes capital advisory fees from primary capital raising transactions at the time of the client's acceptance of capital or capital commitments to a fund in accordance with the terms of the engagement letter. Generally, fee revenue is determined based upon a fixed percentage of capital committed to the fund. For multiple closings, revenue is recognized at each interim closing based on the amount of capital committed at each closing at the fixed fee percentage. At the final closing, revenue is recognized at the fixed percentage for the amount of capital committed since the last interim closing.

The Company recognizes capital advisory fees from secondary market transactions at the time the sale or transfer of the capital interest is completed in accordance with the terms of the engagement letter. Generally, fee revenue is determined based upon a fixed percentage of the transaction value.

While the majority of the Company's fee revenue is earned at the conclusion of a transaction or closing of a fund, on-going retainer fees, substantially all of which relate to non-success based strategic advisory and financing advisory and restructuring assignments, are also earned and recognized as advisory fee revenue over the period in which the related service is rendered.

The Company's clients reimburse certain expenses incurred by the Company in the conduct of advisory engagements. Expenses are reported net of such client reimbursements. Client reimbursements totaled \$0.9 million and \$1.5 million for the three months ended September 30, 2015 and 2014, respectively, and \$4.2 million and \$3.2 million for the nine months ended September 30, 2015 and 2014, respectively.

##### Investment Revenues

Investment revenues consist of (i) gains (or losses) on the Company's investments in certain merchant banking funds and (ii) interest income.

The Company recognizes revenue on its investments in merchant banking funds based on its allocable share of realized and unrealized gains (or losses) reported by such funds. The amount of gains or losses are not predictable and can cause periodic fluctuations in net income and therefore subject the Company to market and credit risk.

##### Cash and Cash Equivalents

The Company's cash and cash equivalents consist of (i) cash held on deposit with financial institutions, (ii) cash equivalents and (iii) restricted cash. The Company maintains its cash and cash equivalents with financial institutions with high credit ratings. The Company considers all highly liquid investments with a maturity date of three months or less, when purchased, to be cash equivalents. Cash equivalents primarily consist of money market funds and overnight deposits.

Management believes that the Company is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held. See "Note 4 — Cash and Cash Equivalents".

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 did not record a bad debt expense for the three month period ended September 30, 2015. For the nine month period ended



September 30, 2015 the Company recorded a bad debt expense of \$0.3 million. The Company did not record a bad debt expense for the three or nine month periods ended September 30, 2014.

Included in the advisory fees receivable balance at September 30, 2015 and December 31, 2014 were \$31.9 million and \$37.3 million, respectively, of long term receivables related to capital advisory engagements which are generally paid in installments over a period of three years.

Included as a component of investment revenues on the condensed consolidated statements of income is interest income related to capital advisory engagements of \$0.2 million and \$0.3 million for the three month periods ended September 30, 2015 and 2014, respectively, and \$0.6 million and \$0.7 million for the nine month periods ended September 30, 2015 and 2014, respectively.

Credit risk related to advisory fees receivable is disbursed across a large number of clients located in various geographic areas. The Company controls credit risk through credit approvals and monitoring procedures but does not require collateral to support accounts receivable.

#### Investments

The Company's investments in merchant banking funds are recorded under the equity method of accounting based upon the Company's proportionate share of the estimated fair value of the underlying merchant banking fund's net assets. The value of merchant banking fund investments in privately held companies is determined by management of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other qualitative and quantitative factors. Discounts may be applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investments in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which the Company's investments are carried on its condensed consolidated statements of financial condition are adjusted to estimated fair value at the end of each quarter and the volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the estimated fair value of the investments from period to period.

#### Goodwill

Goodwill is the cost in excess of the fair value of identifiable net assets at acquisition date. The Company tests its goodwill for impairment at least annually. An impairment loss is triggered if the estimated fair value of an operating unit is less than estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

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

#### Restricted Stock Units

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

#### Earnings per Share

The Company calculates basic earnings per share ("EPS") by dividing net income allocated to common stockholders by the sum of (i) the weighted average number of shares outstanding for the period and (ii) the weighted average number of shares deemed issuable due to the vesting of restricted stock units for accounting purposes. See "Note 9 — Equity". The Company calculates diluted EPS by dividing net income allocated to common stockholders by the sum of (i) basic shares per above and (ii) the dilutive effect of the common stock deliverable pursuant to restricted stock units for which future

service is required. Under the treasury method, the number of shares issuable upon the vesting of restricted stock units included in the calculation of diluted EPS is the excess, if any, of the number of shares expected to be issued, less the number of shares that could be purchased by the Company with the proceeds to be received upon settlement at the average market closing price during the reporting period. See "Note 10— Earnings per Share".

#### Provision for Taxes

The Company accounts for taxes in accordance with the accounting guidance for income taxes which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities.

The Company follows the guidance for income taxes in recognizing, measuring, presenting and disclosing in its financial statements uncertain tax positions taken or expected to be taken on its income tax returns. Income tax expense is based on pre-tax accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions. The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance.

Deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period of change. Management applies the "more-likely-than-not criteria" when determining tax benefits.

#### Foreign Currency Translation

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

#### Financial Instruments and Fair Value

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

##### Basis of Fair Value Measurement

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

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

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

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining the appropriate levels, the Company performs an analysis of the assets and liabilities that are subject to these disclosures. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3. Transfers between levels are recognized as of the end of the period in which they occur. See "Note 6 — Fair Value of Financial Instruments".

#### Fair Value of Other Financial Instruments

The Company believes that the carrying values of all other financial instruments presented in the condensed consolidated statements of financial condition approximate their fair value generally due to their short-term nature and generally negligible credit risk. These fair value measurements would be categorized as Level 2 within the fair value hierarchy.



#### Noncontrolling Interests

The Company records the noncontrolling interests of other consolidated entities as equity in the condensed consolidated statements of financial condition.

The portion of the consolidated interests in the general partners of certain of the merchant banking funds not held by the Company is presented as noncontrolling interest in equity. See "Note 5 — Investments in Merchant Banking Funds".

#### Property and Equipment

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

Aircraft – 7 years

Equipment – 5 years

Furniture and fixtures – 7 years

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

#### Accounting Developments

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition - Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. Management is currently evaluating the impact of the future adoption of ASC 606 on the Company's consolidated financial statements. The guidance is effective for fiscal years beginning after December 15, 2016. On April 1, 2015, the FASB proposed a one-year deferral for the new guidance that would delay by one year the effective date of its new recognition standard. Under the proposal, the standard would be effective for public entities for annual reporting periods beginning after December 15, 2017.

#### Note 3 — Acquisition

On April 1, 2015, the Company acquired 100% ownership of Cogent (the "Acquisition") in exchange for a combination of (i) approximately \$44.0 million in cash and 779,454 shares of Greenhill common stock paid at closing and (ii) approximately \$18.9 million in cash and 334,048 shares of Greenhill common stock payable in the future if certain agreed revenue targets are achieved (the "Earnout"). The cash component of the consideration paid at closing was funded by two bank term loan facilities, each in an original principal sum of \$22.5 million, and together in aggregate \$45.0 million. See "Note 8 — Bank Loan Facilities".

The cash payment and the issuance of common shares related to the Earnout will be made if Greenhill Cogent achieves a revenue target during either the two year period ending on the second anniversary of the closing or the two year period ending on the fourth anniversary of the closing. If the revenue target is achieved, the contingent consideration will be paid on the second or fourth anniversary date of the closing, as applicable. If the revenue target is achieved during both Earnout periods, only one payment will be made at the end of the first Earnout period. If the revenue target is not achieved during either of the two year Earnout periods, a payment will not be made. The fair value of the contingent issuance of common shares was valued on the date of the Acquisition at \$11.9 million and has been recorded as a component of equity in the condensed consolidated statement of financial condition. The fair value of the contingent cash consideration was valued on the date of the Acquisition at \$13.1 million and will be remeasured quarterly based on a probability weighted present value discount that the revenue target may be achieved. For the three and nine months ended September 30, 2015, the fair value of the contingent consideration increased by \$0.1 million based on changes in the estimated probability of achievement and present value of the remaining term. See "Note 6 — Fair Value of Financial Instruments".

The Acquisition has been accounted for using the purchase method of accounting and the results of operations for Greenhill Cogent have been included in the condensed consolidated statements of income from the date of acquisition. The Company incurred \$1.2 million of transaction costs related to the Acquisition which have been included as a component of professional fees in the condensed consolidated statement of income for the period ended September 30,

2015.

A preliminary allocation of the total purchase price of approximately \$100.0 million has been made to the assets acquired and liabilities assumed based on their fair values as of April 1, 2015, the date of the acquisition, as follows (in thousands, unaudited):

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## Preliminary allocation of assets acquired and liabilities assumed:

|                                |          |
|--------------------------------|----------|
| Assets:                        |          |
| Current assets                 | \$13,970 |
| Property and equipment         | 1,214    |
| Other assets                   | 651      |
| Identifiable intangible assets | 1,300    |
| Goodwill                       | 92,981   |
| Total assets                   | 110,116  |
| Liabilities:                   |          |
| Current liabilities            | 9,621    |
| Deferred tax liability         | 500      |
| Total liabilities              | 10,121   |
| Net assets                     | \$99,995 |

The excess of the purchase price over the fair value of the net assets acquired of \$93.0 million has been recorded as goodwill. Goodwill includes the in-place workforce, which allows the Company to continue serving its existing client base, begin marketing to potential clients and avoid significant costs reproducing the workforce.

The estimated fair value of the intangible assets acquired, which consist of Cogent's backlog of client assignments that existed at the time of the closing, customer relationships, and trade name, is based, in part, on a valuation using an income approach, market approach or cost approach and has been included in other assets on the condensed consolidated statement of financial condition as of September 30, 2015. The estimated fair value ascribed to the identifiable intangible assets will be amortized on a straight-line basis over the estimated remaining useful life of each asset over periods ranging between one to three years. For the three and nine months ended September 30, 2015, the Company recorded amortization expense of \$0.2 million and \$0.4 million, respectively, in respect of these assets. The total purchase includes an escrow amount of \$8.9 million, which is held by a third party agent, and may be used to cover potential post-closing obligations of the sellers prior to the first anniversary of the closing.

Under the terms of the purchase, the purchase price is subject to a post-closing adjustment based upon Cogent's net working capital, as defined, as of March 31, 2015. Included in accrued expense in the condensed consolidated statement of financial condition as of September 30, 2015 is an amount due to sellers of approximately \$0.6 million. The Acquisition will be treated as an asset purchase for tax purposes. Similar to the purchase accounting method used for book purposes, the excess of the purchase price paid over the fair value of the net assets acquired will be recorded as goodwill for tax purposes. The amount of goodwill recorded for tax purposes will be determined based on the consideration paid at closing and will be amortized for tax purposes ratably over a fifteen year period. If the Earnout is achieved, the additional consideration paid will also be treated as goodwill for tax purposes and will be amortized ratably over the remainder of the fifteen year period. For book purposes, the tax benefit realized from the amortization of goodwill will be recorded as a deferred tax liability.

Consistent with the Company's normal personnel recruiting policies, and in order to provide long term incentives for retention and continued strong performance, Greenhill also granted restricted stock units and other deferred compensation awards to a number of Cogent employees, subject to continued employment. The awards will generally vest on the third or fifth anniversary of the Acquisition. The awards have not been recorded as a component of the purchase price and will be expensed over the service period during which they are earned.

Set forth below are the Company's summary unaudited pro forma results of operations for the nine months ended September 30, 2015 and the three and nine months ended September 30, 2014. The unaudited pro forma results of operations for the nine months ended September 30, 2015 include the historical results of the Company and give effect to the Acquisition if it had occurred on January 1, 2015. These pro forma results include the actual results of Cogent from January 1, 2015 through March 31, 2015. For the period April 1, 2015 through September 30, 2015, Cogent's results were included in the consolidated results of the Company. The unaudited results of operations for the three and nine months ended September 30, 2014 include the historical results of the Company and give effect to the

Acquisition as if it had occurred on January 1, 2014. The pro forma amounts include Cogent's actual results for the three and nine months ended September 30, 2014. See "Note 9 — Equity" and "Note 10 — Earnings per Share". The unaudited pro forma results of operations do not purport to represent what the Company's results of operations would

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actually have been had the Acquisition occurred on January 1, 2015, or to project the Company's results of operations for any future period. Actual future results may vary considerably based on a variety of factors beyond the Company's control.

|   | For the Three Months Ended<br>September 30,            |             |
|---|--|-------------|
|   | 2015   | 2014        |
|   | (in millions, except per share<br>amounts) (unaudited) |             |
|   | (actual)   | (pro forma) |
| Revenues                                    | \$50.7   | \$101.1     |
| Income before taxes                         | 1.1  | 32.6        |
| Net income allocated to common stockholders | 0.7  | 21.1        |
| Diluted earnings per share                  | \$0.02   | \$0.69      |
|   | For the Nine Months Ended<br>September 30,             |             |
|   | 2015   | 2014        |
|   | (in millions, except per share<br>amounts) (unaudited) |             |
|   | (pro forma)  | (pro forma) |
| Revenues                                    | \$196.3  | \$217.2     |
| Income before taxes                         | 31.0   | 45.1        |
| Net income allocated to common stockholders | 18.9   | 29.2        |
| Diluted earnings per share                  | \$0.59   | \$0.94      |

The pro forma results include (i) compensation and benefits expense based upon a ratio of compensation to total revenues of 54%, the rate used by the Company in the pro forma periods presented, (ii) the amortization of identifiable intangible assets of Cogent, (iii) the estimated interest expense related to the bank term loan borrowings used to fund the Acquisition, (iv) the elimination of non-recurring revenue and expense items of Cogent which were directly attributable to the Acquisition, and (v) the estimated income tax expense related to the historical earnings of Cogent's earnings, which as a result of the Acquisition, will be subject to income tax at the effective tax rate of the Company.

#### Note 4 — Cash and Cash Equivalents

The carrying values of the Company's cash and cash equivalents are as follows:

|  | As of<br>September<br>30,<br>2015 | As of<br>December<br>31,<br>2014 |
|--|-----------------------------------|----------------------------------|
|  | (in thousands, unaudited)         |                                  |
| Cash   | \$29,364                          | \$35,748                         |
| Cash equivalents                             | 1,282                             | 8,998                            |
| Restricted cash - deferred compensation plan | 113                               | 498                              |
| Restricted cash - letters of credit          | 4,527                             | 5,696                            |
| Total cash and cash equivalents              | \$35,286                          | \$50,940                         |

The carrying value of the Company's cash equivalents approximates fair value. Cash is restricted for the payout of Greenhill Australia's deferred compensation plan, which is being distributed over a 7 year period ending in 2016. A deferred compensation liability relating to the plan of \$0.1 million and \$0.5 million as of September 30, 2015 and December 31, 2014, respectively, has been recorded on the condensed consolidated statements of financial condition

as a component of compensation payable.

Letters of credit are secured by cash held on deposit.

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Note 5 — Investments in Merchant Banking Funds

The Company has invested in certain previously sponsored merchant banking funds: Greenhill Capital Partners (“GCP I”) and Greenhill Capital Partners II (“GCP II”), which are families of merchant banking funds.

The carrying value of the Company’s investments in merchant banking funds are as follows:

|   | As of<br>September 30,<br>2015 | As of<br>December 31,<br>2014 |
|---|--------------------------------|-------------------------------|
|   | (in thousands, unaudited)      |                               |
| Investment in GCP I                         | \$1,019                        | \$1,600                       |
| Investment in GCP II                        | 784                            | 907                           |
| Investment in other merchant banking funds  | 1,648                          | 1,666                         |
| Total investments in merchant banking funds | \$3,451                        | \$4,173                       |

As of September 30, 2015, the Company continues to retain control only of the general partners of GCP I and GCP II and consolidates the results of each such general partner.

The investment in GCP I represents an interest in a previously sponsored merchant banking fund and includes \$0.1 million at each of September 30, 2015 and December 31, 2014, respectively, related to the noncontrolling interests in the managing general partner of GCP I. The investment in GCP II represents an interest in a previously sponsored merchant banking fund and includes \$0.6 million at each of September 30, 2015 and December 31, 2014, respectively, related to the noncontrolling interests in the general partner of GCP II.

Investment in other merchant banking funds includes the Company's investment in Barrow Street III, a real estate investment fund.

At September 30, 2015, the Company had no remaining unfunded commitments.

Investment revenues

The Company’s investment revenues, by source, are as follows:

|   | For the Three Months<br>Ended September 30, |         | For the Nine Months<br>Ended September 30, |            |
|---|---|---------|--|------------|
|   | 2015  | 2014    | 2015                                       | 2014       |
|   | (in thousands, unaudited)                   |         |  |            |
| Net realized and unrealized gains (losses) on investments in merchant banking funds | \$147                                       | \$(35 ) | \$25                                       | \$(6,539 ) |
| Deferred gain on sale of certain merchant banking assets                            | —   | 48      | —  | 146        |
| Interest income   | 207   | 311     | 700  | 867        |
| Total investment revenues (losses)  | \$354                                       | \$324   | \$725                                      | \$(5,526 ) |

Note 6 — Fair Value of Financial Instruments

There were no Level 1 or Level 2 assets or liabilities measured in the fair value hierarchy during the three and nine month periods ended September 30, 2015 and 2014. There were no Level 3 assets or liabilities measured at fair value during the three and nine months ended September 30, 2014.

The following table sets forth the measurement at fair value on a recurring basis of the contingent cash consideration due the selling unitholders of Cogent related to the Earnout. The liability arose as a result of the Acquisition on April 1, 2015 and is categorized as a Level 3 liability. See "Note 3 — Acquisition".



Liabilities Measured at Fair Value on a Recurring Basis as of September 30, 2015

|  | Quoted Prices in<br>Active<br>Markets for<br>Identical Assets<br>(Level 1)<br>(in thousands) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Balance as of<br>September 30,<br>2015 |
|--|--|--|--|--|
| Liabilities  |  |  |  |  |
| Contingent obligation due selling unitholders<br>of Cogent | \$—  | \$—  | \$13,244   | \$13,244                               |
| Total  | \$—  | \$—  | \$13,244   | \$13,244                               |

Changes in Level 3 liabilities measured at fair value on a recurring basis for the three and nine month periods ended September 30, 2015 are as follows:

|  | Opening<br>Balance<br>as of July<br>1, 2015<br><br>(in thousands) | Total<br>realized<br>and<br>unrealized<br>gains<br>(losses)<br>included<br>in Net<br>Income | Unrealized<br>gains (losses)<br>included in<br>Other<br>Comprehensive<br>Income | Purchases | Issues | Sales | Settlements<br>of | Closing<br>Balance as<br>September<br>30, 2015 | Unrealized<br>gains<br>(losses) for<br>Level 3<br>liabilities<br>outstanding<br>at<br>September<br>30, 2015 |
|--|---|---|---|-----------|--------|-------|-------------------|--|---|
| Liabilities  |   |   |   |           |        |       |                   |  |   |
| Contingent<br>obligation due<br>selling unitholders<br>of Cogent | \$13,144  | \$(100 )  | \$ —  | \$—       | \$—    | \$—   | \$—               | \$13,244                                       | \$(100 )  |
| Total  | \$13,144  | \$(100 )  | \$ —  | \$—       | \$—    | \$—   | \$—               | \$13,244                                       | \$(100 )  |

|  | Opening<br>Balance<br>as of<br>January<br>1, 2015<br><br>(in thousands) | Total<br>realized<br>and<br>unrealized<br>gains<br>(losses)<br>included<br>in Net<br>Income | Unrealized<br>gains (losses)<br>included in<br>Other<br>Comprehensive<br>Income | Purchases | Issues | Sales | Settlements<br>of | Closing<br>Balance as<br>September<br>30, 2015 | Unrealized<br>gains<br>(losses) for<br>Level 3<br>liabilities<br>outstanding<br>at<br>September<br>30, 2015 |
|--|---|---|---|-----------|--------|-------|-------------------|--|---|
| Liabilities  |   |   |   |           |        |       |                   |  |   |
| Contingent<br>obligation due<br>selling unitholders<br>of Cogent | \$—   | \$(100 )  | \$ —  | \$13,144  | \$—    | \$—   | \$—               | \$13,244                                       | \$(100 )  |
| Total  | \$—   | \$(100 )  | \$ —  | \$13,144  | \$—    | \$—   | \$—               | \$13,244                                       | \$(100 )  |

Realized and unrealized gains (losses) are reported as a component of other operating expenses in the condensed consolidated statements of income.

The following table presents quantitative information about the significant unobservable inputs utilized by the Company in the fair value measure of Level 3 liabilities measured at fair value on a recurring basis, as of September 30, 2015:

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|  | Fair Value as<br>of September<br>30, 2015<br>(in thousands) | Valuation<br>Technique(s)                | Unobservable<br>Input(s)                 | Range<br>(Weighted<br>Average) |   |
|--|---|--|--|--------------------------------|---|
| <b>Liabilities</b>   |   |  |  |                                |   |
| Contingent obligation due selling unitholders of<br>Cogent | \$ 13,244   | Present value<br>of expected<br>payments | Discount rate<br><br>Forecast<br>revenue | 12<br><br>(a)                  | % |

(a) The Company's estimate of contingent consideration as of September 30, 2015 was principally based on the acquired business' projected revenue generation from April 1, 2015 through March 31, 2017 and April 1, 2017 through March 31, 2019.

**Valuation Processes - Level 3 Measurements** - The Company utilizes a valuation technique based on a present value method applied to the probability of achieving a range of potential revenue outcomes. The valuation was conducted by the Company. The Company updates unobservable inputs each reporting period and has a formal process in place to review changes in fair value.

**Sensitivity Analysis - Level 3 Measurements** - The significant unobservable inputs used in determining fair value are the discount rate and forecast revenue information. Significant increases (decreases) in the discount rate would have resulted in a lower (higher) fair value measurement. Significant increases (decreases) in the forecast revenue information would result in a higher (lower) fair value measurement. For all significant unobservable inputs used in the fair value measurement of the Level 3 liabilities, a change in one of the inputs would not necessarily result in a directionally similar change in the other.

**Note 7 — Related Parties**

At September 30, 2015 and December 31, 2014, the Company had no amounts receivable or payable to related parties. The Company subleases airplane and office space to a firm owned by the Chairman of the Company. The Company recognized rent reimbursements of \$18,300 and \$19,200 for the three month periods ended September 30, 2015 and 2014, respectively, and \$52,800 and \$57,600 for the nine month periods ended September 30, 2015 and 2014, which are included as a reduction of occupancy and equipment rental on the condensed consolidated statements of income.

**Note 8 — Bank Loan Facilities**

At September 30, 2015, the Company had a revolving bank loan facility to provide for working capital needs and for other general corporate purposes. In conjunction with the acquisition of Cogent, the amount of the revolving bank loan facility was increased to \$50.0 million and the maturity date was extended to April 30, 2016. The revolving bank loan facility bears interest at the higher of the Prime Rate or 3.25%. The weighted average daily borrowings outstanding under the revolving bank loan facility were approximately \$34.4 million and \$34.5 million for the nine months ended September 30, 2015 and 2014, respectively. The weighted average interest rate was 3.25% for the nine months ended September 30, 2015 and 2014.

In connection with the acquisition of Cogent on April 1, 2015, the Company funded the cash component of the consideration paid at closing with two bank term loan facilities (the "Term Loan Facilities"), each in an original principal amount of \$22.5 million, and together in the aggregate amount of \$45.0 million. One Term Loan Facility is payable in full on April 30, 2016 (the "12 Month Facility") and bears interest at the Prime Rate plus three-quarters of one percent (0.75%) per annum. The other Term Loan Facility matures on April 30, 2018 (the "36 Month Facility"), is payable in four equal semi-annual installments beginning October 31, 2016 and bears interest at the Prime Rate plus

one and one-quarter percent (1.25%) per annum, which interest rate shall be reduced to the Prime Rate plus three-quarters of one percent (0.75%) per annum when the amount outstanding on the bank term loan facility is \$7.5 million or less. There are no prepayment penalties for the early repayment of either Term Loan Facility. Principal amounts repaid on the Term Loan Facilities cannot be reborrowed. The interest rate applicable to the Term Loan Facilities shall never be less than four percent (4.00%) per annum. The weighted average interest rate related to the Term Loan Facilities was 4.33% for the three months ended September 30, 2015. At September 30, 2015, the outstanding principal balances of the 12 Month Facility and the 36 Month Facility were \$11.3 million and \$22.5 million, respectively. See "Note 3 — Acquisition".

The revolving and term loan facilities are provided by a U.S. banking institution and are secured by any cash distributed in respect of the Company's investment in the U.S. based merchant banking funds and cash distributions from G&Co. In addition, the bank loan facilities have a prohibition on the incurrence of additional indebtedness without the prior approval of the lenders



and the Company is required to comply with certain financial and liquidity covenants. At September 30, 2015 and December 31, 2014, the Company was compliant with all loan covenants.

#### Note 9 — Equity

In connection with the acquisition of Cogent on April 1, 2015, the Company issued 779,454 shares of common stock on the acquisition date. In addition, the Company will issue 334,048 shares of common stock on the second or fourth anniversary of the Acquisition, as the case may be, if the revenue target related to the Earnout is achieved. If the revenue target related to the Earnout is not achieved the common shares will not be issued. The fair value of the contingent issuance of common shares was valued on the date of the Acquisition at \$11.9 million and has been recorded as additional paid in capital in the condensed consolidated statement of financial condition. A portion of the value will be transferred to common stock if the Earnout is achieved. See "Note 3 — Acquisition" and "Note 10 — Earnings Per Share".

On September 16, 2015, a dividend of \$0.45 per share was paid to stockholders of record on September 2, 2015. For the nine months ended September 30, 2015 dividend payments of \$1.35 per share were paid to stockholders.

Dividends include dividend equivalents of \$5.1 million and \$4.0 million, which were paid on outstanding restricted stock units for the nine months ended September 30, 2015 and 2014, respectively.

During the nine months ended September 30, 2015, 823,639 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 340,112 shares at an average price of \$34.91 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units.

During the nine months ended September 30, 2014, 958,178 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 380,130 shares at an average price of \$51.51 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units. In addition, during the nine months ended September 30, 2014, the Company repurchased in open market transactions 212,200 shares of its common stock at an average price of \$47.15 per share.

In connection with the acquisition of Greenhill Australia in April 2010, the Company issued 1,099,877 shares of contingent convertible preferred stock ("Performance Stock"). The Performance Stock does not pay dividends, was issued in tranches of 659,926 shares and 439,951 shares, and would be converted to shares of the Company's common stock promptly after the third and fifth anniversaries of the closing of the acquisition, respectively, if certain separate revenue targets were achieved. The revenue target for the first tranche was achieved and, on April 1, 2013, the third anniversary of the closing, 659,926 shares of Performance Stock, which had a fair value of \$32.5 million at the acquisition date, were converted to common stock. The revenue target for the second tranche was not achieved and, effective April 1, 2015, the fifth anniversary of the closing, 439,951 shares of Performance Stock, which had a fair value of \$14.4 million at the acquisition date, were canceled and the value was transferred to additional paid in capital.

#### Note 10 — Earnings per Share

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

|  | For the Three Months<br>Ended September 30,<br>2015    |          | For the Nine Months<br>Ended September 30,<br>2015 |          |
|--|--|----------|--|----------|
|  | 2014   | 2015     | 2014   | 2015     |
|  | (in thousands, except per share amounts,<br>unaudited) |          |  |          |
| Numerator for basic and diluted EPS — net income allocated to common stockholders  | \$684  | \$19,873 | \$17,706   | \$28,165 |
| Denominator for basic EPS — weighted average number of shares                      | 31,197   | 30,046   | 30,972   | 30,326   |
| Add — dilutive effect of:  |  |          |  |          |
| Weighted average number of incremental shares issuable from restricted stock units | 19   | 2        | 52   | 13       |
|  | 31,216   | 30,048   | 31,024   | 30,339   |

Denominator for diluted EPS — weighted average number of shares  
and dilutive potential shares

Earnings per share:

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Basic   | \$0.02 | \$0.66 | \$0.57 | \$0.93 |
| Diluted | \$0.02 | \$0.66 | \$0.57 | \$0.93 |

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The weighted number of shares and dilutive potential shares do not include 334,048 shares of common stock, which will be issued to the selling unitholders of Cogent, on the second or fourth anniversary of the Acquisition, as the case may be, if the revenue target related to the Earnout is achieved. At the time a revenue target is achieved such shares will be included in the Company's share count. If the revenue target is not achieved, the shares of common stock will not be issued. See "Note 3 — Acquisition".

#### Note 11 — Income Taxes

The Company's effective tax rate will vary depending on the source of the income. Investment and certain foreign sourced income are taxed at a lower effective rate than U.S. trade or business income.

Under the requirements of ASC 740, the Company intends to indefinitely reinvest its non-U.S. subsidiaries earnings outside the United States and does not provide residual U.S. tax on these earnings.

The Company believes it is more likely than not that the deferred tax asset, which relates principally to compensation expense deducted for book purposes but not yet deducted for tax purposes, will be realized as offsets to: (i) the realization of its deferred tax liabilities and (ii) future taxable income.

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

The Company's income tax returns are routinely examined by the U.S. federal, U.S. state, and international tax authorities. The Company regularly assesses its tax positions with respect to applicable income tax issues for open tax years in each respective jurisdiction in which the Company operates. As of September 30, 2015, the Company does not believe the resolution of any current ongoing income tax examinations will have a material adverse impact on the financial position of the Company.

#### Note 12 — Regulatory Requirements

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

G&Co is subject to the SEC's Uniform Net Capital requirements under Rule 15c3-1 (the "Rule"), which specifies, among other requirements, minimum net capital requirements for registered broker-dealers. The Rule requires G&Co to maintain a minimum net capital of the greater of \$5,000 or 1/15 of aggregate indebtedness, as defined in the Rule. As of September 30, 2015, G&Co's net capital was \$4.6 million, which exceeded its requirement by \$4.3 million. G&Co's aggregate indebtedness to net capital ratio was 0.8 to 1 at September 30, 2015. Certain 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 FCA. Greenhill Australia is subject to capital requirements of the ASIC. Greenhill Cogent is subject to capital requirements of the SEC and the FCA. We are also subject to certain regulatory capital requirements in other jurisdictions. As of September 30, 2015, GCI, Greenhill Australia, Greenhill Cogent and our other regulated operations were in compliance with local capital adequacy requirements.

#### Note 13 — Business Information

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

- Advisory, which includes engagements relating to mergers and acquisitions, financing advisory and restructuring, and capital advisory services; and
- Investments, which includes the Company's principal investments in merchant banking funds and interest income.



The following provides a breakdown of our revenues by source for the three and nine month periods ended September 30, 2015 and 2014, respectively:

|                              | For the Three Months Ended |            |                    |            |        |            |
|------------------------------|----------------------------|------------|--------------------|------------|--------|------------|
|                              | September 30, 2015         |            | September 30, 2014 |            |        |            |
|                              | Amount                     | % of Total | Amount             | % of Total | Amount | % of Total |
|                              | (in millions, unaudited)   |            |                    |            |        |            |
| Advisory revenues            | \$50.3                     | 99         | %                  | \$91.7     | 100    | %          |
| Investment revenues          | 0.4                        | 1          | %                  | 0.3        | —      | %          |
| Total revenues               | \$50.7                     | 100        | %                  | \$92.0     | 100    | %          |
|                              | For the Nine Months Ended  |            |                    |            |        |            |
|                              | September 30, 2015         |            | September 30, 2014 |            |        |            |
|                              | Amount                     | % of Total | Amount             | % of Total | Amount | % of Total |
|                              | (in millions, unaudited)   |            |                    |            |        |            |
| Advisory revenues            | \$185.1                    | 100        | %                  | \$204.1    | 103    | %          |
| Investment revenues (losses) | 0.7                        | —          | %                  | (5.5)      | (3)    | )%         |
| Total revenues               | \$185.8                    | 100        | %                  | \$198.6    | 100    | %          |

In reporting to management, the Company distinguishes the sources of its revenues between advisory and investment revenues. However, management does not evaluate other financial data or operating results such as operating expenses, profit and loss or assets by its advisory and investment activities.

#### Note 14 — Subsequent Events

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

On October 22, 2015, the Board of Directors of the Company declared a quarterly dividend of \$0.45 per share. The dividend will be payable on December 16, 2015 to the common stockholders of record on December 2, 2015.

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

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2014 and subsequent Forms 8-K.

### Cautionary Statement Concerning Forward-Looking Statements

The following discussion should be read in conjunction with our condensed consolidated financial statements and the related notes that appear elsewhere in this report. We have made statements in this discussion that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "intend", "predict", "potential" or "continue", the negative of these words and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, based on our growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks outlined under "Risk Factors" in our 2014 Annual Report on Form 10-K.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to and we do not undertake any obligation to update or review any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations whether as a result of new information, future developments or otherwise.

### Overview

Greenhill is a leading independent investment bank that provides financial and strategic advice on significant domestic and cross-border mergers and acquisitions, restructurings, financings, capital raisings and other strategic transactions to a diverse client base, including corporations, partnerships, institutions and governments. We act for clients located throughout the world from our global offices in the United States, United Kingdom, Germany, Sweden, Australia, Japan, Singapore, Canada and Brazil.

Our revenues are principally derived from advisory services on mergers and acquisitions (or M&A), financings and restructurings and are primarily driven by total deal volume and the size of individual transactions. Additionally, our global capital advisory group provides capital raising advisory services in the primary market for real estate and private equity funds, where revenues are driven primarily by the amount of capital raised, and in the secondary market for alternative assets, where revenue is determined based upon a fixed percentage of the transaction value.

Greenhill was established in 1996 by Robert F. Greenhill, the former President of Morgan Stanley and former Chairman and Chief Executive Officer of Smith Barney. Since our founding, Greenhill has grown steadily, through recruiting talented managing directors and other senior professionals from major investment banks, independent financial advisory firms and other institutions, with a range of geographic, industry and transaction specialties as well as high-level corporate and other relationships, as well as through training, developing and promoting professionals internally. Since the opening of our original office in New York, we have expanded beyond merger and acquisition advisory services to include financing, restructuring and capital advisory services, have expanded the breadth of our sector expertise to cover substantially all major industries and have expanded globally to 15 offices across five continents.

During the first nine months of 2015, we recruited five M&A focused Managing Directors who joined our teams in Houston, San Francisco, Sydney and Tokyo and one M&A focused Senior Advisor who joined our team in London. In

addition, on April 1, 2015, we completed the acquisition of Cogent Partners, LP and its affiliates ("Cogent") (now known as "Greenhill Cogent"), a global financial advisor to pension funds, endowments and other institutional investors on the secondary market for alternative assets. Greenhill Cogent's principal office is in Dallas and it has personnel who are located in London, New York, San Francisco and Singapore. All eight of Cogent's client-facing Managing Directors and total staff of 41 employees joined the Firm at closing.

Our financial results include the financial results of Greenhill Cogent from the date of our acquisition. As a result of the acquisition, we will incur additional recurring non-compensation costs, which have historically approximated \$7.0 million annually. We will also incur interest expense related to the financing of the acquisition as well as the cost of the amortization of identifiable intangibles as determined based on the allocation of the purchase price. We expect compensation costs for the new employees will approximate our historical ratio of compensation to revenues.

In addition, as part of the purchase value of Greenhill Cogent we valued the contingent cash consideration related to the Earnout at the date of acquisition at \$13.1 million. If the likelihood that Greenhill Cogent will achieve the Earnout increases during a quarterly period we will record as expense the change in the estimated fair value of the contingent cash consideration until it reaches its face value of \$18.9 million. And contrarily, if the likelihood that Greenhill Cogent will achieve the Earnout decreases during a quarterly period we will record as income the decrease in the estimated fair value of the contingent consideration until it reaches zero.

Beginning in 2011, as a result of our exit from the management of the merchant banking funds, we began to monetize our principal investments, which we substantially completed by December 2013. As a result, we do not expect to report meaningful investment revenues or losses in future periods. At September 30, 2015, we held remaining investments in merchant banking funds with an estimated fair value of \$3.5 million.

#### Business Environment

Economic and global financial market conditions can materially affect our financial performance. See “Risk Factors” in our 2014 Annual Report on Form 10-K filed with Securities and Exchange Commission. Revenues and net income in any period may not be indicative of full year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Advisory revenues were \$50.3 million in the third quarter of 2015 compared to \$91.7 million in the third quarter of 2014, a decrease of \$41.4 million, or 45%. For the nine months ended September 30, 2015, advisory revenues were \$185.1 million compared to \$204.1 million, a decrease of \$19.0 million, or 9%.

The largest driver of our revenues is M&A completions and, on a year to date basis through September 30, 2015, the number of completed transactions globally decreased 3% versus the prior year, while the volume of completed transactions (reflecting the sum of all transaction sizes) increased by 36%, driven by a small number of large transaction completions.<sup>1</sup> General market data continues to show significant improvement in M&A only for the very largest transactions, with the number of global deals under \$500 million on track to be down relative to last year, and the number of transactions in the \$500 million to \$5 billion range on track to be up only slightly.<sup>2</sup> For the Firm, the timing of transaction completions can create volatility in our quarterly revenues and profits, which was the case in the third quarter of 2015 when we realized very few transaction completions resulting in lower than typical advisory revenue. However, based on the number of large announced transactions in which we have been involved in 2015 and the expected timing of the completion of those transactions, we expect a larger backlog of fees from announced transactions, as we begin 2016, than we have had in the past several years.

Much of the transaction activity in the market generally has been in the U.S. For the Firm, consistent with the general market data, during the nine months ended September 30, 2015, the U.S. M&A business continued to be the strongest performing region for us. Our European business was our next largest contributor, with the largest portion of that generated in the U.K., although our revenues declined in Europe as we had fewer transaction completions during the first nine months of 2015 compared to the same period in 2014. Our Australian and Asian businesses, in aggregate, remained relatively flat. In Brazil, despite a challenging economic and political environment, our team remains active on many transaction assignments. As transaction activity broadens across deal sizes and to markets outside the U.S. and U.K., as history suggests it ultimately will, we expect our opportunities for M&A revenue globally to grow materially.

We believe our business performance is best measured over longer periods of time, as we generally experience significant variations in revenues and profits from quarter to quarter. These variations can generally be attributed to the fact that our revenues are typically earned in large amounts throughout the year upon the successful completion of a transaction or restructuring or closing of a fund, the timing of which is uncertain and is not subject to our control. Accordingly, our results in one period may not be indicative of our results in any future period.



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(1) Excludes transactions less than \$100,000 and withdrawn/canceled deals. Source: Thomson Financial as of October 22, 2015.

(2) Source: Thomson Financial as of October 22, 2015.

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## Results of Operations

## Summary

Our total revenues of \$50.7 million for the third quarter of 2015 compare to total revenues of \$92.0 million for the third quarter of 2014, which represented a decrease of \$41.3 million, or 45%. Advisory revenues for the third quarter of 2015 were \$50.3 million compared to \$91.7 million for the third quarter of 2014. In the third quarters of 2015 and 2014, we recognized investment revenues of \$0.4 million and \$0.3 million, respectively. The decrease in our third quarter revenues as compared to the same period in 2014 resulted from the decrease in advisory revenues.

For the nine months ended September 30, 2015, total revenues were \$185.8 million compared to \$198.6 million for the comparable period in 2014, a decrease of \$12.8 million, or 6%. Advisory revenues for the nine months ended September 30, 2015 were \$185.1 million compared to \$204.1 million over the same year to date period in 2014. For the nine months ended September 30, 2015, we recognized investment revenues of \$0.7 million compared to an investment loss of \$5.5 million for the same period in 2014. The decrease in our year to date revenues as compared to the same period in 2014 principally resulted from a decrease in advisory revenues of \$19.0 million.

Our third quarter 2015 net income allocated to common stockholders of \$0.7 million and diluted earnings per share of \$0.02 compare to net income allocable to common stockholders of \$19.9 million and diluted earnings per share of \$0.66 in the third quarter of 2014. On a year to date basis, net income allocated to common stockholders was \$17.7 million through September 30, 2015, compared to \$28.2 million for the comparable period in 2014. Diluted earnings per share for the nine months ended September 30, 2015 were \$0.57 compared to \$0.93 for the same period in 2014. Our quarterly revenues and net income can fluctuate materially depending on the number, size and timing of completed transactions on which we advised, the size of investment gains (or losses), and other factors. Accordingly, the revenues and net income in any particular period may not be indicative of future results.

## Revenues by Source

The following provides a breakdown of total revenues by source for the three and nine month periods ended September 30, 2015 and 2014, respectively:

|                              | For the Three Months Ended |            |                    |            |
|------------------------------|----------------------------|------------|--------------------|------------|
|                              | September 30, 2015         |            | September 30, 2014 |            |
|                              | Amount                     | % of Total | Amount             | % of Total |
|                              | (in millions, unaudited)   |            |                    |            |
| Advisory revenues            | \$50.3                     | 99 %       | \$91.7             | 100 %      |
| Investment revenues          | 0.4                        | 1 %        | 0.3                | — %        |
| Total revenues               | \$50.7                     | 100 %      | \$92.0             | 100 %      |
|                              | For the Nine Months Ended  |            |                    |            |
|                              | September 30, 2015         |            | September 30, 2014 |            |
|                              | Amount                     | % of Total | Amount             | % of Total |
|                              | (in millions, unaudited)   |            |                    |            |
| Advisory revenues            | \$185.1                    | 100 %      | \$204.1            | 103 %      |
| Investment revenues (losses) | 0.7                        | — %        | (5.5)              | (3) %      |
| Total revenues               | \$185.8                    | 100 %      | \$198.6            | 100 %      |

## Advisory Revenues

Advisory revenues primarily consist of financial advisory and transaction related fees earned in connection with advising clients on mergers, acquisitions, financings, restructurings, capital advisory transactions, or similar transactions. A majority of our advisory revenue is contingent upon the closing of a merger, acquisition, financing, restructuring, fund raising or similar transaction. While fees payable upon the successful conclusion of a transaction generally represent the largest portion of our advisory fees, we also earn on-going retainer and strategic advisory fees, and fees payable upon the commencement of an engagement, on a monthly or quarterly basis, or upon the achievement of certain milestones, such as the announcement of a transaction or the rendering of a fairness opinion. Additionally, in our capital advisory business, we generally earn advisory fees based upon a



percentage of capital committed to the fund at each interim closing and at the final closing for the amount of capital committed since the last interim closing.

We earned \$50.3 million in advisory revenues in the third quarter of 2015 compared to \$91.7 million in the third quarter of 2014, a decrease of \$41.4 million, or 45%. The decrease in advisory revenues in the third quarter of 2015 as compared to the same period in 2014 primarily resulted from a significant decrease in completed transaction fees due to fewer transaction closings, as well as the smaller scale of the transactions that closed.

For the nine months ended September 30, 2015, advisory revenues were \$185.1 million compared to \$204.1 million in 2014, a decrease of \$19.0 million, or 9%. This decrease in our advisory revenues principally resulted from a decrease in completed transaction fees, offset in part by an increase in revenues from announcement fees and capital advisory fees, including fees from Greenhill Cogent.

Completed assignments in the third quarter of 2015 included:

• the acquisition by Alcoa Inc. of RTI International Metals, Inc.;

• the acquisition by Emdeon Inc. of Altegra Health, Inc.;

• the sale by GlaxoSmithKline Consumer Healthcare of a portfolio of OTC brands to Perrigo Company plc; and,

• the representation of Tabcorp Holdings Limited on a long-term media rights deal for Victorian thoroughbred racing.

During the third quarter of 2015, our capital advisory group advised real estate and private equity fund general partners on one final closing and three interim closings of primary capital commitments from institutional investors to such funds. In addition, our secondary capital advisory group, through Greenhill Cogent, advised institutional investors on 23 closings of sales of limited partnership interests in secondary market transactions.

#### Investment Revenues

Investment revenues consist of investment gains and losses from our investments in merchant banking funds and interest income.

The following table sets forth additional information relating to our investment revenues for the three and nine months ended September 30, 2015 and 2014:

|   | For the Three<br>Months Ended<br>September 30,<br>2015 |       | For the Nine<br>Months Ended<br>September 30,<br>2014 |         |
|---|--|-------|---|---------|
|   | 2015   | 2014  | 2015  | 2014    |
|   | (in millions, unaudited)                               |       |   |         |
| Net realized and unrealized gains (losses) on investments in merchant banking funds | \$0.2  | \$—   | \$—   | \$(6.5) |
| Deferred gain on sale of certain merchant banking assets                            | —  | —     | —   | 0.1     |
| Interest income   | 0.2  | 0.3   | 0.7   | 0.9     |
| Total investment revenues (losses)  | \$0.4  | \$0.3 | \$0.7   | \$(5.5) |

For the third quarter of 2015, we recorded investment revenues of \$0.4 million compared to \$0.3 million in the third quarter of 2014. Investment revenues primarily consisted of interest income during both quarterly periods.

For the nine months ended September 30, 2015, we recorded investment revenues of \$0.7 million as compared to an investment loss of \$5.5 million for the nine months ended September 30, 2014. The investment revenues for the nine months ended September 30, 2015 were principally derived from interest income. The investment loss for the nine months ended September 30, 2014 principally resulted from a write down of a merchant banking fund investment, partially offset by interest income.

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. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair value of investments

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in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed.

At September 30, 2015, we had principal investments of \$3.5 million, which consists of many small investments in our previously sponsored and other merchant banking funds. For our remaining investments in the merchant banking funds, the size and timing of changes in the fair value of these investments are tied to a number of different factors, including the performance of the particular portfolio companies, general economic conditions in the debt and equity markets and other factors which affect the industries in which the funds are invested. We will continue to record realized and unrealized changes in the fair value of our investments on a quarterly basis until such investments are fully liquidated. Adverse changes in general economic conditions, commodity prices, credit and public equity markets could negatively impact the amount of investment revenues or losses we record in any period.

### Operating Expenses

We classify operating expenses as employee compensation and benefits expenses and non-compensation expenses. Our total operating expenses for the third quarter of 2015 were \$49.5 million, which compared to \$61.4 million of total operating expenses for the third quarter of 2014. This represents a decrease in total operating expenses of \$11.9 million, or 19%, and resulted from a decrease in our compensation and benefits expenses, partially offset by an increase in non-compensation expenses, both as described in more detail below. As a result of our relatively low revenue during the current quarter, the pre-tax profit margin for the three months ended September 30, 2015 was 2% as compared to 33% for the same period in 2014.

For the nine months ended September 30, 2015, total operating expenses were \$156.8 million, compared to \$155.1 million of total operating expenses for the same period in 2014. The increase of \$1.7 million, or 1%, resulted from an increase in our non-compensation expenses, partially offset by a decrease in our compensation and benefit expenses, both as described in more detail below. The pre-tax profit margin for the nine months ended September 30, 2015 was 16% as compared to 22% for the same period in 2014.

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

|   | For the Three Months<br>Ended September 30,<br>2015 |        | For the Nine Months<br>Ended September 30,<br>2015 |         |   |
|---|---|--------|--|---------|---|
|   | 2015  | 2014   | 2015   | 2014    |   |
|   | (in millions, unaudited)                            |        |  |         |   |
| Employee compensation and benefits expenses | \$30.7  | \$46.0 | \$103.7  | \$110.0 |   |
| % of revenues                               | 61  | % 50   | % 56   | % 55    | % |
| Non-compensation expenses                   | 18.8  | 15.4   | 53.1   | 45.1    |   |
| % of revenues                               | 37  | % 17   | % 29   | % 23    | % |
| Total operating expenses                    | 49.5  | 61.4   | 156.8  | 155.1   |   |
| % of revenues                               | 98  | % 67   | % 84   | % 78    | % |
| Total income before tax                     | 1.1   | 30.6   | 29.1   | 43.5    |   |
| Pre-tax profit margin                       | 2   | % 33   | % 16   | % 22    | % |
| Compensation and Benefits Expenses          |   |        |  |         |   |

Our employee compensation and benefits expenses in the third quarter of 2015 were \$30.7 million, which reflected a 61% ratio of compensation to revenues. This amount compared to \$46.0 million for the third quarter of 2014, which reflected a 50% ratio of compensation to revenues. The decrease of \$15.3 million, or 33%, was principally attributable to a reduction in amount of accrued year-end bonuses commensurate with the decline in quarterly revenues. The increase in the ratio of compensation to revenues in the third quarter of 2015 as compared to the same period in 2014 resulted from the effect of spreading our lower compensation costs over significantly lower revenues.

For the nine months ended September 30, 2015, our employee compensation and benefits expenses were \$103.7 million compared to \$110.0 million for the same period in the prior year. The decrease of \$6.3 million, or 6%, was

principally attributable to a lower year-end bonus accrual related to lower year to date revenues. The ratio of compensation to revenues was 56% for the first nine months of 2015 compared to 55% for the same period in 2014.

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

#### Non-Compensation Expenses

Our non-compensation expenses include the costs for occupancy and equipment rental, communications, information services, professional fees, recruiting, travel and entertainment, insurance, depreciation and amortization, interest expense and other operating expenses. Reimbursed client expenses are netted against non-compensation expenses. Our non-compensation expenses were \$18.8 million in the third quarter of 2015 compared to \$15.4 million in the third quarter of 2014, reflecting an increase of \$3.4 million, or 22%. The increase in non-compensation expenses principally resulted from operating costs related to Greenhill Cogent, which we acquired on April 1, 2015, non-recurring foreign currency losses related to funding our Brazilian business, higher travel costs for business development activities, and an increase in interest costs related to the funding of the acquisition of Greenhill Cogent. Interest expense for the quarter, included within non-compensation expenses, was \$0.7 million.

For the nine months ended September 30, 2015, our non-compensation expenses were \$53.1 million compared to \$45.1 million for the same period in 2014, representing an increase of \$8.0 million, or 18%. The increase in non-compensation expenses principally resulted from operating, borrowing and transaction costs related to the acquisition and operation of Greenhill Cogent, foreign currency losses related to our Brazilian operation, and one-time costs associated with new office space in Sydney. We expect that certain costs related to the Cogent acquisition will decline over future periods as we sublease rental space, amortize intangible assets and repay our borrowings. Interest expense for the first nine months of 2015, included within non-compensation expenses, was \$1.7 million.

Non-compensation expenses as a percentage of revenues for the three months ended September 30, 2015 were 37% compared to 17% for the same period in 2014. Non-compensation expenses as a percentage of revenues for the nine months ended September 30, 2015 were 29% compared to 23% for the same period in the prior year. The increase in non-compensation expenses as a percentage of revenues in the first nine months of 2015 as compared to the same period in 2014 resulted from the effect of spreading higher non-compensation costs over lower revenues.

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

#### Provision for Income Taxes

For the third quarter of 2015, the provision for income taxes was \$0.5 million, which reflected an effective tax rate of 40%. This compared to a provision for income taxes in the third quarter of 2014 of \$10.8 million, which reflected an effective tax rate of 35%. The decrease in the provision for income taxes in the third quarter of 2015 as compared to the same period in the prior year was attributable to significantly lower pre-tax income and a higher effective tax rate due to the generation of a greater proportion of U.S. source earnings, which are generally taxed at a higher rate than foreign source earnings.

For the nine months ended September 30, 2015, the provision for taxes was \$11.4 million, which reflected an effective tax rate of 39%. This compares to a provision for taxes for the nine months ended September 30, 2014 of \$15.4 million, which reflected an effective tax rate of 35%. The decrease in the provision for income taxes in the nine months ended September 30, 2015 as compared to the same period in 2014 resulted from lower pre-tax income and a higher effective rate due to the generation of a greater proportion of U.S. source earnings as discussed above.

The effective tax rate can fluctuate as a result of variations in the amount of income earned and the tax rate imposed in the tax jurisdictions in which we operate. Accordingly, the effective tax rate in any particular period may not be indicative of the effective tax rate in future periods.



## Liquidity and Capital Resources

Our liquidity position, which consists of cash, other significant working capital assets and liabilities, debt and other matters relating to liquidity requirements and current market conditions, is monitored by management on a regular basis. At September 30, 2015, we had cash and cash equivalents of \$35.3 million, of which \$20.8 million was held outside the U.S. We retain our cash in financial institutions with high credit ratings and/or invest in short-term investments which are expected to provide liquidity.

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We generate cash from our operating activities principally in the form of advisory fees. We use our cash primarily for recurring operating expenses and the payment of dividends and non-recurring disbursements such as the repayment of debt obligations, the repurchase of shares of our common stock and the funding of leasehold improvements for the build out of office space. Our recurring monthly operating disbursements principally consist of base compensation expense, occupancy, travel and entertainment, and other operating expenses. Our recurring quarterly and annual disbursements consist of cash bonus payments, tax payments, dividend payments, debt repayments and repurchases of our common stock from our employees in conjunction with the payment of tax liabilities incurred on vesting of restricted stock units. These amounts vary depending upon our profitability and other factors.

Because a portion of the compensation we pay to our employees is distributed in annual cash bonus awards (usually in February of each year), our net cash balance is typically at its lowest level during the first quarter of each year and generally accumulates from our operating activities throughout the remainder of the year. In general, we collect our accounts receivable within 60 days, except for fees generated through our primary capital advisory engagements, which are generally paid in installments over a period of three years, and certain restructuring transactions, where collections may take longer due to court-ordered holdbacks. At September 30, 2015, we had long-term receivables related to our global primary capital advisory engagements of \$31.9 million.

Our current liabilities typically consist of accounts payable, which are generally paid monthly, accrued compensation, which includes accrued cash bonuses that are generally paid in the first quarter of the following year to the large majority of our employees, and current taxes payable. In February 2015, cash bonuses and accrued benefits of \$20.7 million relating to 2014 compensation were paid to our employees. In addition, in 2015, we have paid \$8.6 million related to income taxes owed principally in the U.S. and the U.K. for the year ended December 31, 2014.

To provide for working capital needs and other general corporate purposes in the U.S, we have a \$50.0 million revolving bank loan facility, which matures April 30, 2016. Historically, we have been able to extend the maturity date of the revolving bank loan facility for a one year period shortly before maturity, and we expect to renew the revolving bank loan facility in future periods although our ability to do so in the future is not certain. The revolving bank loan facility bears interest at the higher of the Prime Rate or 3.25%. At September 30, 2015, we had \$44.9 million outstanding under the revolving bank loan facility. On October 30, 2015, our revolving bank loan balance decreased to \$37.6 million while we had cash and cash equivalents on hand of \$59.3 million.

As part of the consideration paid for our acquisition of Cogent, at closing on April 1, 2015, we paid approximately \$44.0 million in cash and issued 779,454 shares of our common stock to those former Cogent equity holders who joined Greenhill Cogent. To fund the cash portion of the consideration paid and transaction costs, we borrowed \$45.0 million under bank term loan facilities, of which \$22.5 million is payable in full by April 30, 2016 and the remaining \$22.5 million is payable in four equal semi-annual installments beginning October 31, 2016. The bank term loan facilities may be prepaid without penalty but amounts prepaid may not be reborrowed. During the second quarter of 2015, we repaid \$11.3 million, or 50% of the amount due on April 30, 2016. The interest rate applicable to the bank term loan amount due in April 2016 is equal to the Prime Rate plus three-quarters of one percent (0.75%) per annum. The interest rate generally applicable to the bank term loan facility with the first installment due in October 2016 is equal to the Prime rate plus one and one-quarter percent (1.25%) per annum. The interest rate applicable to either of the bank term loan facilities will never be less than four percent (4.00%) per annum.

Both the revolving bank loan facility and the bank term loan facilities are secured by any cash distributed in respect of the Company's investment in the U.S. based merchant banking funds and cash distributions from G&Co. In addition, each of the bank loan facilities have a prohibition on the incurrence of additional indebtedness without the prior approval of the lenders and the Company is required to comply with certain financial and liquidity covenants on a quarterly basis. At September 30, 2015, we were compliant with all loan covenants and we expect to continue to be compliant with all loan covenants in future periods.

As additional contingent consideration for the purchase of Cogent, we agreed to pay approximately \$18.9 million in cash and issue 334,048 shares of our common stock in the future if certain agreed revenue targets are achieved (the "Earnout"). The cash payment and the issuance of common shares related to the Earnout will be made if Greenhill Cogent achieves a revenue target during either the two year period ended on the second anniversary of the closing (April 1, 2017) or the two year period ending on the fourth anniversary of the closing (April 1, 2019). If the revenue

target is achieved, the contingent consideration will be paid on the second or fourth anniversary date of the closing, as applicable. If the revenue target is achieved during both Earnout periods, only one payment will be made at the end of the first Earnout period. If the revenue target is not achieved during either of the two year Earnout periods, a payment will not be made.

Since 2010, we have generated significant earnings outside of the U.S. and through September 2014, we repatriated a substantial portion of foreign earnings in excess of local working capital requirements and other forecast needs to the U.S. The repatriation of the foreign earnings during that period did not result in incremental U.S. taxes because we were able to utilize

excess foreign tax credits generated by our Australian operations to offset any incremental U.S. tax burden. During 2014, we utilized most of the excess foreign tax credits available to us and, as a result, if we were to repatriate foreign earnings in 2015 or in future periods we would be subject to incremental U.S. tax. As of September 30, 2015, we have not repatriated any foreign earnings and it is our intention to indefinitely reinvest future foreign earnings in our non-U.S. operations unless circumstances change. To the extent we need to support our corporate cash needs in the U.S. beyond the generation of cash domestically, we may utilize our revolving bank loan facility or seek other debt financing. In the event we are unable to meet our U.S. cash needs with cash generated domestically, or through borrowings, we could incur additional U.S. tax on amounts repatriated for the difference between the U.S. tax rate of 35% and the rate of tax paid in the foreign jurisdictions. Historically, we have generated a substantial portion of our foreign earnings in the U.K., Germany and Australia, which are currently subject to tax rates of approximately 20%, 32% and 30%, respectively.

Since our exit from the merchant banking business in 2010, we have monetized substantially all of our principal investments in previously sponsored merchant banking funds and used the net proceeds principally to make open market share repurchases and to reduce borrowings outstanding on the revolving bank loan facility. At September 30, 2015, our remaining investments in previously sponsored and other merchant banking funds were valued at \$3.5 million. Because merchant banking funds typically invest in privately held companies, the ability of the merchant banking funds to sell or dispose of the securities they own depends on a number of factors beyond the control of the funds, including general economic and sector conditions, stock market conditions, commodity prices, and the availability of financing to potential buyers of such securities, among other issues. As a result, we consider our investments in the merchant banking funds illiquid for the short term. At September 30, 2015, we do not have any remaining commitments to fund capital calls for principal investments.

In January 2015, our Board of Directors authorized the repurchase of up to \$75.0 million of our common stock during 2015. For the nine months ended September 30, 2015, we were deemed to have repurchased 340,112 shares of our common stock at an average price of \$34.91 per share (for a total cost of \$11.9 million) in conjunction with the payment of tax liabilities in respect of stock delivered to our employees in settlement of restricted stock units that vested. While we expect to fund future repurchases of our common stock (if any) with operating cash flow, we are unable to predict the timing or magnitude of our share repurchases. As a result of the bank financing arrangements related to our acquisition of Cogent, we expect to use a large portion of our operating cash flow in 2015, after the payment of dividends, to fund the bank term loan payment due in April 2016, of which we repaid \$11.3 million in the second quarter of 2015. During the nine months ended September 30, 2015, we have not made any open market purchases of our common stock. Future repurchases of our common stock will be dependent upon our cash flow generation and take into account the payment of dividends, repayments of the bank term loan facilities and potential obligations under the Earnout.

Under the terms of our stock equity plan, we generally repurchase from our employees that portion of restricted stock unit awards used to fund income tax withholding due at the time the restricted stock unit awards vest. Based upon the number of restricted stock unit grants outstanding at October 30, 2015, we estimate repurchases of our common stock from our employees in conjunction with the cash settlement of tax liabilities incurred on vesting of restricted stock units of approximately \$41.5 million (as calculated based upon the closing share price as of October 30, 2015 of \$25.82 per share and assuming a withholding tax rate of 43%) over the next five years, of which an additional \$9.6 million will be payable in 2016, \$9.7 million will be payable in 2017, \$9.4 million will be payable in 2018, \$6.1 million will be payable in 2019 and \$6.7 million will be payable in 2020. We will realize a corporate income tax benefit concurrently with the cash settlement payments.

Since 2004, we have paid quarterly dividends to our shareholders and dividend equivalent payments to our employees who hold restricted stock units. Our quarterly dividend has been \$0.45 per share since 2007. For the year ended December 31, 2014, we made dividend distributions of \$56.3 million, or \$1.80 per common share and outstanding restricted stock unit. During the nine months ended September 30, 2015, we made dividend distributions of \$44.3 million, or \$1.35 per common share and outstanding restricted stock unit. On October 22, 2015, our Board of Directors declared a dividend of \$0.45 per share to be paid in December 2015. We intend to continue to pay quarterly dividends, subject to capital availability and periodic determinations that cash dividends are in the best interest of our

stockholders. Future declaration and payment of dividends on our common stock is at the discretion of our Board of Directors and depends upon, among other things, our future operations and earnings, capital requirements and surplus, general financial condition, obligations under our bank loan facilities, contractual restrictions and other factors as the Board of Directors may deem relevant.

While we believe that the cash generated from operations and borrowings from the revolving bank loan facility will be sufficient to meet our expected operating needs, tax obligations, bank term loan repayments, potential payments due under the Earnout, common dividend payments, share repurchases and build-out costs of new office space, we may adjust our variable expenses and other disbursements, if necessary, to meet our liquidity needs. There is no assurance that our current lender will continue to renew our revolving loan facility annually on comparable terms, or at all, and if it is not renewed that we would be able to obtain a new credit facility from a different lender. In that case, we could be required to promptly repatriate foreign earnings, issue additional securities, reduce operating costs or take a combination of these actions, in each case, on terms which may not

be favorable to us. In the event that we are not able to meet our liquidity needs, we may consider a range of financing alternatives to meet any such needs.

#### Cash Flows

In the nine months ending September 30, 2015, our cash and cash equivalents decreased by \$15.7 million from December 31, 2014, including a decrease of \$1.3 million from the effect of the translation of foreign currency amounts into U.S. dollars at the quarter-end foreign currency conversion rates. We generated \$51.6 million from operating activities, including \$51.8 million from net income after giving effect to non-cash items and a net increase in working capital of \$0.2 million principally from the payment of annual bonuses offset by a decrease in advisory fees receivable. We used \$46.5 million in investing activities, principally as a result of the net payment of \$45.3 million for the acquisition of Cogent, including transaction costs, and \$2.0 million for leasehold improvements and other capital expenditures, offset in part by proceeds of \$0.8 million from merchant banking fund investments. We used \$19.5 million in financing activities, including \$44.3 million for the payment of dividends, \$11.9 million for the repurchase of our common stock from employees in conjunction with the payment of tax liabilities in settlement of restricted stock units, and \$6.4 million of tax costs related to delivery of restricted stock units at a vesting price lower than the grant price, offset in part by the net borrowing of \$33.8 million of bank term loan facilities (\$45.0 million of bank term loans to finance Cogent, net of a repayment of \$11.3 million), and net borrowings of \$9.3 million on our revolving bank loan facility.

In the nine months ending September 30, 2014, our cash and cash equivalents decreased by \$5.8 million from December 31, 2013, including a decrease of \$1.4 million from the effect of the translation of foreign currency amounts into U.S. dollars at the quarter-end foreign currency conversion rates. We generated \$62.9 million from operating activities, including \$69.2 million from net income after giving effect to non-cash items and a net increase in working capital of \$6.3 million principally from an increase in advisory fees and other receivables and the payment of accrued income taxes, offset by the increase of annual bonuses payable. We used \$1.3 million for investing activities, including \$1.8 million for leasehold improvements, offset in part by distributions from merchant banking fund investments of \$0.6 million. We used \$66.0 million in financing activities, including \$42.2 million for the payment of dividends, \$19.6 million for the repurchase of our common stock from employees in conjunction with the payment of tax liabilities in settlement of restricted stock units, and \$2.6 million of tax costs related to delivery of restricted stock units at a vesting price lower than the grant price, offset in part by net borrowings of \$8.4 million from on our revolving loan facility.

#### Off-Balance Sheet Arrangements

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

#### Market Risk

Our investments are principally limited to short-term cash investments, which we believe do not face any material interest rate risk, equity price risk or other market risk. We maintain our cash and cash equivalents with financial institutions with high credit ratings. Although these deposits are generally not insured, management believes we are not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

We monitor the quality of our investments on a regular basis and may choose to diversify such investments to mitigate perceived market risk. Our cash and cash equivalents are denominated in U.S. dollars, Australian dollars, Canadian dollars, pound sterling, euros, yen, Swedish krona and Brazilian real, and we face foreign currency risk in our cash balances held in accounts outside the United States due to potential currency movements and the associated foreign currency translation accounting requirements. We currently do not hedge our foreign currency exposure, but we may do so if we expect we will need to fund U.S. dollar obligations with foreign currency.

In addition, the reported amounts of our advisory revenues may be affected by movements in the rate of exchange between the Australian dollar, Canadian dollar, pound sterling, euro, yen, krona and real (in which collectively 29% of

our revenues for the period ended September 30, 2015 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 in those jurisdictions in which we have historically generated a significant portion of our foreign earnings, which include the United Kingdom, Europe and Australia. During the nine month period ended September 30, 2015, as compared to the same period in 2014, the value of the U.S. dollar strengthened considerably relative to the pound sterling, euro and Australian dollar. In aggregate, although there was a negative impact on our revenues in the first nine months of 2015 as compared to the same period in 2014 as a result of movements in the foreign currency exchange rates, we did not deem the impact significant. While our earnings are subject to volatility from changes in foreign currency rates, we do not believe we face any material risk in this respect.

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### Critical Accounting Policies and 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. For further discussion of these and other significant accounting policies, see "Note 2 — Summary of Significant Accounting Policies" in our condensed consolidated financial statements, and our 2014 Annual Report on Form 10-K.

### Basis of Financial Information

The condensed consolidated financial statements are prepared in conformity with GAAP in the United States, which require management to make estimates and assumptions regarding future events that affect the amounts reported in our financial statements and footnotes, including investment valuations, compensation accruals and other matters.

Management believes that the estimates used in preparing our condensed consolidated financial statements are reasonable and prudent. Actual results could differ materially from those estimates.

The condensed consolidated financial statements include all consolidated accounts of Greenhill & Co., Inc. and all other entities in which we have a controlling interest after eliminations of all significant inter-company accounts and transactions. In accordance with the accounting pronouncements on the consolidation of variable interest entities, we consolidate the general partners of the merchant banking funds in which it has a majority of the economic interest and control. The general partners account for their investments in the merchant banking funds under the equity method of accounting. As such, the general partners record their proportionate shares of income (loss) from the underlying merchant banking funds. As the merchant banking funds follow investment company accounting, and generally record all their assets and liabilities at fair value, the general partners' investments in these merchant banking funds represent estimations of fair value. We do not consolidate the merchant banking funds since we, through our general partner and limited partner interests, do not have a majority of the economic interest in such funds and the limited partners have certain rights to remove the general partner by a simple majority vote of unaffiliated third-party investors.

### Revenue Recognition

#### Advisory Revenues

It is our policy to recognize revenue when (i) there is persuasive evidence of an arrangement with a client, (ii) the agreed-upon services have been completed and delivered to the client or the transaction or events noted in the engagement letter are determined to be substantially complete, (iii) fees are fixed and determinable, and (iv) collection is reasonably assured.

We recognize advisory fee revenues for mergers and acquisitions or financing advisory and restructuring engagements when the services related to the underlying transactions are completed in accordance with the terms of the engagement letter and all other requirements for revenue recognition are satisfied.

We recognize capital advisory fees from primary capital raising transactions at the time of the client's acceptance of capital or capital commitments to a fund in accordance with the terms of the engagement letter. Generally, fee revenue is determined based upon a fixed percentage of capital committed to the fund. For multiple closings, revenue is recognized at each interim closing based on the amount of capital committed at each closing at the fixed fee percentage. At the final closing, revenue is recognized at the fixed percentage for the amount of capital committed since the last interim closing.

The Company recognizes capital advisory fees from secondary market transactions at the time the sale or transfer of the capital interest is completed in accordance with the terms of the engagement letter. Generally, fee revenue is determined based upon a fixed percentage of the transaction value.

While the majority of our fee revenue is earned at the conclusion of a transaction or closing of a fund, on-going retainer fees, substantially all of which relate to non-success based strategic advisory and financing advisory and



restructuring assignments, are also earned and recognized as advisory fee revenue over the period in which the related service is rendered.

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

## Investment Revenues

Investment revenues consist of (i) gains (or losses) on our investments in certain merchant banking funds and (ii) interest income.

We recognize revenue on our investments in merchant banking funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds. The amount of gains or losses are not predictable and can cause periodic fluctuations in net income and therefore subject us to market and credit risk.

## Cash and Cash Equivalents

Our cash and cash equivalents consist of (i) cash held on deposit with financial institutions, (ii) cash equivalents and (iii) restricted cash. We maintain our cash and cash equivalents with financial institutions with high credit ratings. We consider all highly liquid investments with a maturity date of three months or less, when purchased, to be cash equivalents. Cash equivalents primarily consist of money market funds and overnight deposits.

We do not believe that we are exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

## Advisory Fees Receivables

Receivables are stated net of an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is derived by utilizing past client transaction history and an assessment of the client's creditworthiness.

Included in the advisory fees receivable balance are long term receivables related to capital advisory engagements, which are generally paid in installments over a period of three years. Included as a component of investment revenues on the condensed consolidated statements of income is interest income related to capital advisory engagements.

Credit risk related to advisory fees receivable is disbursed across a large number of clients located in various geographic areas. We control credit risk through credit approvals and monitoring procedures but do not require collateral to support accounts receivable.

## Goodwill

Goodwill is the cost in excess of the fair value of identifiable net assets at acquisition date. We test goodwill for impairment at least annually. An impairment loss is triggered if the estimated fair value of an operating unit is less than estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

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

## Restricted Stock Units

We account for share-based compensation payments by recording the fair value of restricted stock units granted to employees as compensation expense. The restricted stock units are generally amortized over the five year service period following the date of grant. Compensation expense is determined based upon the fair market value of our common stock at the date of grant. As we expense the awards, the restricted stock units recognized are recorded within equity. The restricted stock units are reclassified into common stock and additional paid-in capital upon vesting. We record as treasury stock the repurchase of stock delivered to its employees in settlement of tax liabilities incurred upon the vesting of restricted stock units. We record dividend equivalent payments, net of forfeitures, on outstanding restricted stock units as a dividend payment and a charge to equity.

## Earnings per Share

We calculate basic earnings per share ("EPS") by dividing net income allocated to common stockholders by the sum of (i) the weighted average number of shares outstanding for the period and (ii) the weighted average number of shares deemed issuable due to the vesting of restricted stock units for accounting purposes.

We calculate diluted EPS by dividing net income allocated to common stockholders by the sum of (i) basic shares per above and (ii) the dilutive effect of the common stock deliverable pursuant to restricted stock units for which future service is required. Under the treasury method, the number of shares issuable upon the vesting of restricted stock units included in the calculation of diluted EPS is the excess, if any, of the number of shares expected to be issued, less the

number of shares that could be purchased by us with the proceeds to be received upon settlement at the average market closing price during the reporting period.

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#### Provision for Taxes

We account for taxes in accordance with the guidance for income taxes which requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and tax bases of its assets and liabilities. We follow the guidance for income taxes in recognizing, measuring, presenting and disclosing in its financial statements uncertain tax positions taken or expected to be taken on its income tax returns. Income tax expense is based on pre-tax accounting income, including adjustments made for the recognition or derecognition related to uncertain tax positions. The recognition or derecognition of income tax expense related to uncertain tax positions is determined under the guidance.

Deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period of change. Management applies the “more-likely-than-not criteria” when determining tax benefits.

#### Foreign Currency Translation

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

#### Financial Instruments and Fair Value

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

##### Basis of Fair Value Measurement

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

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

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

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

#### Accounting Developments

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition - Revenue from Contracts with Customers, which amends the guidance in former ASC 605, Revenue Recognition. Management is currently evaluating the impact of the future adoption of ASC 606 on the Company’s consolidated financial statements. On April 1, 2015, the FASB proposed a one-year deferral for the new guidance that would delay by one year the effective date of its new recognition standard. Under the proposal, the standard would be effective for public entities for annual reporting periods beginning after December 15, 2017.



Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Under the supervision and with the participation of our 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 our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II -- Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our 2014 Annual Report on Form 10-K.

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

Issuer Purchases of Equity Securities in the Third Quarter of 2015:

| Period | Total Number of Shares Repurchased<br>(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<br>(1) | Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs<br>(2) (3) |
|--------|---|------------------------------|---|---|
| Jul    | —   | \$—                          | —   | \$75,000,000  |
| Aug    | —   | —                            | —   | 75,000,000  |
| Sept   | —   | —                            | —   | 75,000,000  |
| Total  | —   | —                            | —   | \$75,000,000  |

Excludes 27,364 shares we are deemed to have repurchased in the third quarter of 2015 at an average price of (1) \$39.06 per share, or \$1.1 million, from employees in conjunction with the payment of tax liabilities in respect of stock delivered to employees in settlement of restricted stock units.

(2) Effective January 28, 2015, the Board of Directors authorized the repurchase of up to \$75,000,000 of our common stock during the period January 1, 2015 to December 31, 2015.

(3) The value of the shares repurchased for the nine months ended September 30, 2015 excludes 340,112 shares we are deemed to have repurchased at an average price of \$34.91 per share, or \$11.9 million, from employees in conjunction with tax liabilities in respect of stock delivered to employees in settlement of

restricted stock units.

Item 3. Defaults Upon Senior Securities

None.

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Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

EXHIBIT INDEX

| Exhibit Number | Description  |
|----------------|--|
| 31.1           | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2           | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1*          | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2*          | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101            | Interactive data files pursuant to Rule 405 of Regulation S-T.   |
| *              | This information is furnished and not filed herewith for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934.      |

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**SIGNATURES**

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

Dated: November 4, 2015

**GREENHILL & CO., INC.**

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

By: /s/ CHRISTOPHER T. GRUBB  
Christopher T. Grubb  
Chief Financial Officer