

GREENHILL & CO INC  
Form 10-Q  
August 05, 2014

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 June 30, 2014

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 (State or Other Jurisdiction of Incorporation or Organization)	51-0500737 (I.R.S. Employer Identification No.)
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300 Park Avenue New York, New York (Address of Principal Executive Offices)	10022 (ZIP Code)
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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 July 25, 2014, there were 28,312,111 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 June 30, 2014 (unaudited)	December 31, 2013
Assets		
Cash and cash equivalents (\$4.9 million and \$5.1 million restricted from use at June 30, 2014 and December 31, 2013, respectively)	\$29,160	\$42,679
Advisory fees receivable, net of allowance for doubtful accounts of \$0.0 million at June 30, 2014 and December 31, 2013	74,606	85,236
Other receivables	6,087	2,877
Property and equipment, net of accumulated depreciation of \$58.7 million and \$57.0 million at June 30, 2014 and December 31, 2013, respectively	11,246	11,500
Investments in merchant banking funds	4,525	11,745
Goodwill	150,075	142,972
Deferred tax asset, net	41,679	54,202
Other assets	4,190	2,235
Total assets	\$321,568	\$353,446
Liabilities and Equity		
Compensation payable	\$10,036	\$13,851
Accounts payable and accrued expenses	10,516	13,346
Current income taxes payable	6,805	15,345
Bank loan payable	37,450	30,849
Deferred tax liability	903	2,345
Total liabilities	65,710	75,736
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 38,767,519 and 37,872,756 shares issued as of June 30, 2014 and December 31, 2013, respectively; 28,310,803 and 27,767,702 shares outstanding as of June 30, 2014 and December 31, 2013, respectively	388	379
Contingent convertible preferred stock, par value \$0.01 per share; 10,000,000 shares authorized and 1,099,877 shares issued as of June 30, 2014 and December 31, 2013 and 439,951 shares outstanding as of June 30, 2014 and December 31, 2013	14,446	14,446
Restricted stock units	74,916	117,258
Additional paid-in capital	588,140	534,533
Exchangeable shares of subsidiary; 257,156 shares issued as of June 30, 2014 and December 31, 2013; 32,804 shares outstanding as of June 30, 2014 and December 31, 2013	1,958	1,958
Retained earnings	133,046	152,412
Accumulated other comprehensive income (loss)	(4,539)	(9,361)
Treasury stock, at cost, par value \$0.01 per share; 10,456,716 and 10,105,054 shares as of June 30, 2014 and December 31, 2013, respectively	(553,191)	(534,957)
Stockholders' equity	255,164	276,668
Noncontrolling interests	694	1,042
Total equity	255,858	277,710

Total liabilities and equity	\$321,568	\$353,446
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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, June 30,		For the Six Months Ended, June 30,	
	2014	2013	2014	2013
Revenues				
Advisory revenues	\$63,987	\$83,066	\$112,442	\$164,513
Investment revenues (losses)	(964	) 3,624	(5,850	) 1,767
Total revenues	63,023	86,690	106,592	166,280
Expenses				
Employee compensation and benefits	35,135	45,946	63,978	88,128
Occupancy and equipment rental	4,818	4,330	9,132	8,650
Depreciation and amortization	830	1,024	1,643	2,752
Information services	2,170	1,913	4,199	3,977
Professional fees	1,447	1,639	2,625	2,753
Travel related expenses	3,293	3,237	6,309	6,481
Interest expense	311	247	576	528
Other operating expenses	2,495	2,940	5,242	5,924
Total expenses	50,499	61,276	93,704	119,193
Income before taxes	12,524	25,414	12,888	47,087
Provision for taxes	4,470	9,927	4,596	17,983
Consolidated net income	8,054	15,487	8,292	29,104
Less: Net income allocated to noncontrolling interests	—	—	—	—
Net income allocated to common stockholders	\$8,054	\$15,487	\$8,292	\$29,104
Average shares outstanding:				
Basic	29,954,291	29,912,161	30,218,513	30,131,291
Diluted	29,961,023	29,920,179	30,254,549	30,171,500
Earnings per share:				
Basic	\$0.27	\$0.52	\$0.27	\$0.97
Diluted	\$0.27	\$0.52	\$0.27	\$0.96
Dividends declared and paid per share	\$0.45	\$0.45	\$0.90	\$0.90

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		For the Six Months	
	Ended June 30,		Ended June 30,	
	2014	2013	2014	2013
Consolidated net income	\$8,054	\$15,487	\$8,292	\$29,104
Currency translation adjustment, net of tax	2,110	(13,145 )	4,822	(14,603 )
Comprehensive income	10,164	2,342	13,114	14,501
Less: Net income allocated to noncontrolling interests	—	—	—	—
Comprehensive income allocated to common stockholders	\$10,164	\$2,342	\$13,114	\$14,501

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)

	Six Months Ended June 30, 2014 (unaudited)	Year Ended December 31, 2013	
Common stock, par value \$0.01 per share			
Common stock, beginning of the period	\$379	\$365	
Common stock issued	9	14	
Common stock, end of the period	388	379	
Contingent convertible preferred stock, par value \$0.01 per share			
Contingent convertible preferred stock, beginning of the period	14,446	46,950	
Contingent convertible preferred stock converted	—	(32,504)	)
Contingent convertible preferred stock, end of the period	14,446	14,446	
Restricted stock units			
Restricted stock units, beginning of the period	117,258	107,253	
Restricted stock units recognized, net of forfeitures	15,160	56,100	
Restricted stock units delivered	(57,502)	(46,095)	)
Restricted stock units, end of the period	74,916	117,258	
Additional paid-in capital			
Additional paid-in capital, beginning of the period	534,533	458,642	
Common stock issued	57,233	77,920	
Tax (expense) from the delivery of restricted stock units	(3,626)	(2,029)	)
Additional paid-in capital, end of the period	588,140	534,533	
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	152,412	159,918	
Dividends	(28,575)	(56,225)	)
Tax benefit from payment of restricted stock unit dividends	917	2,037	
Net income allocated to common stockholders	8,292	46,682	
Retained earnings, end of the period	133,046	152,412	
Accumulated other comprehensive income (loss)			
Accumulated other comprehensive income (loss), beginning of the period	(9,361)	6,624	)
Currency translation adjustment, net of tax	4,822	(15,985)	)
Accumulated other comprehensive income (loss), end of the period	(4,539)	(9,361)	)
Treasury stock, at cost, par value \$0.01 per share			
Treasury stock, beginning of the period	(534,957)	(479,551)	)
Repurchased	(18,234)	(55,406)	)
Treasury stock, end of the period	(553,191)	(534,957)	)
Total stockholders' equity	255,164	276,668	
Noncontrolling interests			
Noncontrolling interests, beginning of the period	1,042	1,353	
Net income allocated to noncontrolling interests	—	—	
Distributions to noncontrolling interests	—	(311)	)

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Increases (decreases) in noncontrolling interests	(348	) —
Noncontrolling interests, end of the period	694	1,042
Total equity	\$255,858	\$277,710

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 Six Months Ended	
	June 30,	
	2014	2013
Operating activities:		
Consolidated net income	\$8,292	\$29,104
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Non-cash items included in consolidated net income:		
Depreciation and amortization	1,643	2,752
Net investment (gains) losses	6,531	(1,217)
Restricted stock units recognized and common stock issued	15,160	28,596
Deferred taxes	5,042	2,064
Deferred gain on sale of certain merchant banking assets	(97)	(97)
Changes in operating assets and liabilities:		
Advisory fees receivable	10,630	(2,571)
Other receivables and assets	(5,166)	(1,757)
Compensation payable	(3,815)	(6,070)
Accounts payable and accrued expenses	664	1,748
Current income taxes payable	(8,540)	(7,197)
Net cash provided by operating activities	30,344	45,355
Investing activities:		
Purchases of investments	(28)	(500)
Proceeds from sales of investments	—	11,751
Distributions from investments	370	922
Purchases of property and equipment	(1,311)	(802)
Net cash used in investing activities	(969)	11,371
Financing activities:		
Proceeds from revolving bank loan	33,851	70,675
Repayment of revolving bank loan	(27,250)	(67,550)
Distributions to noncontrolling interests	—	(311)
Dividends paid	(28,575)	(28,121)
Purchase of treasury stock	(18,234)	(45,631)
Net tax (cost) from the delivery of restricted stock units and payment of dividend equivalents	(2,708)	(682)
Net cash used in financing activities	(42,916)	(71,620)
Effect of exchange rate changes on cash and cash equivalents	22	(1,897)
Net decrease in cash and cash equivalents	(13,519)	(16,791)
Cash and cash equivalents, beginning of period	42,679	50,324
Cash and cash equivalents, end of period	\$29,160	\$33,533
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$568	\$427
Cash paid for taxes, net of refunds	\$9,878	\$24,132

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 raisings 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 and Brazil.

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

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

• 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.

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

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2013 included in the Company's Annual Report on Form 10-K filed with the SEC. The condensed consolidated financial information as of December 31, 2013 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 private equity and real estate capital advisory fees 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.

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 \$1.0 million and \$1.6 million for the three months ended June 30, 2014 and 2013, respectively, and \$1.7 million and \$3.5 million for the six months ended June 30, 2014 and 2013, respectively.

## Investment Revenues

Investment revenues consist of (i) gains (or losses) on the Company's investments in certain merchant banking funds, Iridium Communications Inc. ("Iridium") (prior to the sale of the Company's entire investment that was completed in December 2013) and other investments 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 Company recognizes revenue on its other investments, including Iridium, after considering the Company's influence or control of the investee, based on gains and losses on investment positions held, which arise from sales or changes in the fair value of investments. 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 3 — 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 charge for bad debt expense for either of the three or six month periods ended June 30, 2014 or 2013.

Included in the advisory fees receivable balance were \$40.1 million and \$34.0 million of long term receivables at June 30, 2014 and December 31, 2013, respectively, which relate to private equity and real estate capital advisory engagements that 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 for each of the three month periods ended June 30, 2014 and 2013, and \$0.4 million and \$0.3 million for the six month periods ended June 30, 2014 and 2013, 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 the 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. 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 value of merchant banking fund investments in publicly traded securities is determined using quoted market prices discounted for any legal or contractual restrictions on sale. 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 of acquired companies in excess of the fair value of identifiable net assets at acquisition date. The Company tests its goodwill for impairment at least annually. An impairment loss is triggered if the estimated fair value of an operating unit is less than estimated net book value. Such loss is calculated as the difference between the estimated fair value of goodwill and its carrying value.

Goodwill is translated at the rate of exchange prevailing at the end of the periods presented in accordance with the accounting guidance for foreign currency translation. Any translation gain or loss is included in the foreign currency translation adjustment, which is included as a component of other comprehensive income in the condensed consolidated statements of changes in equity. At June 30, 2014, goodwill increased by \$7.1 million from the beginning of the year as a result of the foreign currency translation adjustment.

#### 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. In addition, the outstanding contingent convertible preferred shares will be included in the weighted average number of shares to the extent the performance target is deemed to have been met.

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

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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 8 — 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 in the condensed consolidated statements of changes in equity. Foreign currency transaction gains and losses are included in the condensed consolidated statements of income.

#### Fair Value of Other Financial Instruments

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

The portion of the consolidated interests in the general partners of certain of the merchant banking funds not held by the Company is presented as noncontrolling interest in equity. See "Note 4 — Investments — 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 new guidance is effective for fiscal years beginning after December 15, 2016.



## Note 3 — Cash and Cash Equivalents

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

	As of June 30, 2014	As of December 31, 2013
	(in thousands, unaudited)	
Cash	\$23,513	\$34,099
Cash equivalents	788	3,484
Restricted cash - deferred compensation plan	535	867
Restricted cash - letters of credit	4,324	4,229
Total cash and cash equivalents	\$29,160	\$42,679

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 \$0.5 million and \$0.9 million as of June 30, 2014 and December 31, 2013, 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.

## Note 4 — Investments

## 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 June 30, 2014	As of December 31, 2013
	(in thousands, unaudited)	
Investment in GCP I	\$1,826	\$2,257
Investment in GCP II	907	7,690
Investment in other merchant banking funds	1,792	1,798
Total investments in merchant banking funds	\$4,525	\$11,745

As of June 30, 2014, 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 June 30, 2014 and December 31, 2013, 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 also includes \$0.6 million and \$0.9 million at June 30, 2014 and December 31, 2013, 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 June 30, 2014, \$0.3 million of the Company's commitment remains unfunded and may be drawn any time prior to the expiration of the fund in June 2015.



## Investment revenues

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, unaudited)			
Net realized and unrealized gains (losses) on investments in merchant banking funds	\$(1,299 )	\$(3,354 )	\$(6,503 )	\$(3,354 )
Net realized and unrealized gains on investment in Iridium	—	6,652	—	4,570
Deferred gain on sale of certain merchant banking assets	49	49	97	98
Interest income	286	277	556	453
Total investment revenues (losses)	\$(964 )	\$3,624	\$(5,850 )	\$1,767

## Note 5 — Related Parties

At June 30, 2014 and December 31, 2013, the Company had no amounts receivable or payable to related parties. The Company subleases airplane and aircraft hangar space to a firm owned by the Chairman of the Company. The Company recognized rent reimbursements of \$19,200 and \$18,300 for the three month periods ended June 30, 2014 and 2013, respectively, and \$38,400 and \$36,600 for the six month periods ended June 30, 2014 and 2013, respectively, which are included as a reduction of occupancy and equipment rental on the condensed consolidated statements of income.

## Note 6 — Revolving Bank Loan Facility

At June 30, 2014, the Company had a \$45.0 million revolving loan facility from a U.S. banking institution to provide for working capital needs and for other general corporate purposes. The loan facility, which was renewed in April 2014, has a maturity date of April 30, 2015. The revolving loan facility is 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 revolving loan facility has a prohibition on the incurrence of additional indebtedness without the prior approval of the lender and the Company is required to comply with certain financial and liquidity covenants. The weighted average daily borrowings outstanding under the revolving loan facility were approximately \$35.0 million and \$31.8 million for the six months ended June 30, 2014 and 2013, respectively. The weighted average interest rate was 3.25% for the six months ended June 30, 2014 and 2013. At June 30, 2014 and December 31, 2013, the Company was compliant with all loan covenants.

## Note 7 — Equity

On June 18, 2014, a dividend of \$0.45 per share was paid to stockholders of record on June 4, 2014. Dividends include dividend equivalents of \$3.1 million, which were paid on outstanding restricted stock units for each of the six months ended June 30, 2014 and 2013.

During the six months ended June 30, 2014, 892,038 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 351,662 shares at an average price of \$51.85 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 six months ended June 30, 2013, 581,546 restricted stock units vested and were issued as common stock of which the Company is deemed to have repurchased 180,667 shares at an average price of \$58.69 per share in conjunction with the payment of tax liabilities in respect of stock delivered to its employees in settlement of restricted stock units. In addition, during the six months ended June 30, 2013, the Company repurchased in open market transactions 701,367 shares of its common stock at an average price of \$49.94 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 will convert to shares of the Company's common stock

on a one for one basis promptly after the third and fifth anniversary of the closing of the acquisition, respectively, if certain separate revenue targets are achieved. The revenue target for the first tranche was achieved on April 1, 2013, the third anniversary of the closing, and 659,926 shares of Performance Stock, which had a fair value of \$32.5 million at the acquisition date, were converted to common stock. If the revenue target for the second tranche is achieved, the Performance Stock in that tranche will be converted to common stock on April 1, 2015. If the revenue target for the second tranche is not achieved, the Performance Stock in that tranche will be canceled.



## Note 8 — Earnings Per Share

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts, unaudited)			
Numerator for basic and diluted EPS — net income allocated to common stockholders	\$8,054	\$15,487	\$8,292	\$29,104
Denominator for basic EPS — weighted average number of shares	29,954	29,912	30,219	30,131
Add — dilutive effect of:				
Weighted average number of incremental shares issuable from restricted stock units	7	8	36	40
Denominator for diluted EPS — weighted average number of shares and dilutive potential shares	29,961	29,920	30,255	30,171
Earnings per share:				
Basic	\$0.27	\$0.52	\$0.27	\$0.97
Diluted	\$0.27	\$0.52	\$0.27	\$0.96

The weighted number of shares and dilutive potential shares for the three and six month periods ended June 30, 2014 and 2013 includes the conversion of the first tranche of Performance Stock to common stock. The weighted average number of shares and dilutive potential shares for the three and six month periods ended June 30, 2014 and 2013 do not include the shares of the second tranche, since the revenue target has not been achieved. If the revenue target for the second tranche is achieved, the shares related to that tranche will be included in the Company's share count at the time the revenue target is met. If the revenue target for the second tranche is not achieved, the Performance Stock in that tranche will be canceled.

## Note 9 — Income Taxes

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

Under the requirements of ASC 740, the Company provides residual U.S. deferred tax for the earnings of non-U.S. subsidiaries not considered to be permanently invested outside the United States to the extent these earnings cannot be repatriated in a tax-free manner. As of the second quarter of 2014, the Company has not incurred any additional tax liabilities, net of credits for foreign taxes paid, on these non-U.S. subsidiary 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 June 30, 2014, the Company does not believe the resolution of any current ongoing income tax examinations will have a material adverse impact on the financial position of the Company.

## Note 10 — Regulatory Requirements

Certain subsidiaries of the Company are subject to various regulatory requirements in the United States, 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 June 30, 2014, G&Co's net capital was \$5.2 million, which exceeded its requirement by \$4.7 million. G&Co's aggregate indebtedness to net

capital ratio was 1.4 to 1 at June 30, 2014. 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. We are also subject to certain capital regulatory requirements in other jurisdictions. As of June 30, 2014, GCI, Greenhill Australia, and our other regulated operations were in compliance with local capital adequacy requirements.

#### Note 11 - Business Information

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

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

The following provides a breakdown of our revenues by source for the three and six month periods ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended					
	June 30, 2014		June 30, 2013			
	Amount	% of Total	Amount	% of Total		
	(in millions, unaudited)					
Advisory revenues	\$64.0	102	% \$83.1	96	%	
Investment revenues (losses)	(1.0	) (2	)%	3.6	4	%
Total revenues	\$63.0	100	% \$86.7	100	%	
	For the Six Months Ended					
	June 30, 2014		June 30, 2013			
	Amount	% of Total	Amount	% of Total		
	(in millions, unaudited)					
Advisory revenues	\$112.4	105	% \$164.5	99	%	
Investment revenues (losses)	(5.8	) (5	)%	1.8	1	%
Total revenues	\$106.6	100	% \$166.3	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 12 — Subsequent Events

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

On July 24, 2014, the Board of Directors of the Company declared a quarterly dividend of \$0.45 per share. The dividend will be payable on September 17, 2014 to the common stockholders of record on September 3, 2014.

## 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, 2013 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 2013 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 focused on providing financial advice related to significant mergers, acquisitions, restructurings, financings and capital raisings to corporations, partnerships, institutions and governments. We represent clients throughout the world and have offices located in the United States, United Kingdom, Germany, Canada, Japan, Australia, Sweden 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 private capital and real estate capital advisory group provides fund placement and other capital raising advisory services, where revenues are driven primarily by the amount of capital raised.

Greenhill was established in 1996 by Robert F. Greenhill, the former President of Morgan Stanley and former Chairman and Chief Executive Officer of Smith Barney. Since our founding, Greenhill has grown steadily, recruiting a number of managing directors from major investment banks (as well as senior professionals from other institutions), with a range of geographic, industry and transaction specialties as well as different sets of corporate and other relationships. As part of this expansion, we opened a London office in 1998, opened a Frankfurt office in 2000 and began offering financial restructuring advice in 2001. On May 11, 2004, we converted from a limited liability company to a corporation, and completed an initial public offering of our common stock. We opened our second U.S. office in 2005, and we currently have five offices in the U.S. We opened a Canadian office in 2006. In 2008, we opened an office in Tokyo. Also in 2008, we entered the capital advisory business, which provides capital raising advice and related services to private equity and real estate funds and sponsors. In 2010, we acquired the Australian advisory firm, Caliburn, which has two Australian offices. In 2012, we opened our Stockholm office, and in October 2013, we opened an office in São Paulo, Brazil.

We exited the merchant banking business in 2010 to focus entirely on the client advisory business and beginning in 2011 we began the monetization of our investments in our previously sponsored merchant banking funds and Iridium. In 2011, we sold substantially all of our interests in GCP II and GSAVP for \$49.4 million, which represented their total book value. In December 2012, the purchasers of GCP II exercised their put rights requiring us to repurchase substantially all of our original interests in two portfolio companies for \$15.5 million. Also, in 2012, we sold our entire interest in GCP Europe for \$27.2 million, which represented approximately 90% of its book value. In July 2013, we sold our entire investment in GCP III for \$2.0 million, which represented the book value of our investment. At June 30, 2014, our remaining investments in previously sponsored and other merchant banking funds were valued at \$4.5 million.

In October 2011, we initiated a plan to sell our entire interest in Iridium (NASDAQ: IRDM) systematically over a period of two or more years. In December 2013, we completed our sale of all of our holdings in Iridium and we realized aggregate proceeds of \$70.5 million over the period of sale. The net proceeds from the sale of our investments in the merchant banking funds and Iridium, since we began our monetization of our investments, were in aggregate \$133.6 million, and were principally used to repurchase our common stock and reduce the outstanding amount of our revolving loan facility.

#### Business Environment

Economic and global financial market conditions can materially affect our financial performance. See “Risk Factors” in our 2013 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 \$64.0 million in the second quarter of 2014 compared to \$83.1 million in the second quarter of 2013, which represents a decrease of 23%. For the six months ended June 30, 2014, advisory revenues were \$112.4 million compared to \$164.5 million in 2013, a decrease of \$52.1 million, or 32%.

In terms of geographic diversity, during the first six months of 2014, North America, and specifically the U.S. M&A business, continued to be the strongest performing region for us, consistent with the global market statistics by region. Our European business, compared to the prior year, continued to show improvement in the first six months of 2014. Our Australian revenue declined year-over-year, in what has been a more challenging environment over the past few years, but we are seeing increased cross border opportunities into that market from elsewhere. In Brazil, our team is in the early stages of developing our presence in that market.

The largest driver of our revenues is M&A completions and, for the sixth months ended June 30, 2014, the number of completed transactions globally decreased by 3% versus the prior year, while the volume of completed transactions (reflecting the sum of all transaction sizes) declined by 7%.<sup>1</sup> For the Firm, the timing of transaction completions can create volatility among our quarterly results. For instance, our largest transaction of this year to date closed on the first day of the third quarter, while last year our largest transaction closed in the second quarter.

While there have been fewer global transaction completions and aggregate completed volume is down in the first six months of 2014, the number of announced transactions globally increased by 7% for the first six months of 2014 as compared to the same period in the prior year, and the volume of announced transactions rose by 66%.<sup>1</sup> Although the number of year to date transaction announcements has not increased materially from its weak level last year, aggregate deal volume has risen sharply as a result of a relatively small number of very large transactions. Based on our current interactions with clients, our expectation is that this increase in announced transaction volume will be sustained, and that as clients respond to changing industry dynamics resulting from large strategic transactions, the upturn in M&A will ultimately be more broadly reflected in the number of transactions being announced as well as in strong aggregate deal volume.

Generally, an increase in announced M&A activity is indicative of future potential revenue. However, there is often a significant lead time between announcement and completion of a transaction, and consequently we cannot predict the timing of transaction completions. Further, given that many of this year’s largest announced deals are contested situations or face considerable regulatory delays, it is possible that both the number and volume of completed transactions for the entire industry will be down for the full year versus last year and slightly below the average level of the past four years despite the year to date increase in announcement activity. For the Firm, we began to see an increase in our transaction announcements late in the second quarter. Our current level of activity would suggest that this trend of transaction announcement activity should continue in the weeks and months to come, subject to changes in economic conditions, capital market activity, geo-political events and other factors.

We believe our business performance is best measured over longer periods of time, and 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 usually earned in large amounts throughout the year upon the successful completion of a transaction or restructuring or closing of a fund, the timing of which is uncertain and is not subject to our control. As a result, our quarterly results vary and our results in one period may not be indicative of our results in any future period.

The M&A environment is inherently difficult to predict, and the downturn in activity since the financial crisis has continued despite the development of more favorable economic conditions such as strong capital markets, high levels of corporate cash and low interest rates. Nevertheless, both market data and our own level of client activity suggest that the long awaited rebound in transaction activity, both in the U.S. and in Europe, may finally be beginning.

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(1) Excludes transactions less than \$100,000 and withdrawn/canceled deals. Source: Thomson Financial as of July 24, 2014.

## Results of Operations

## Summary

Our total revenues of \$63.0 million for the second quarter of 2014 compared to total revenues of \$86.7 million for the second quarter of 2013, which represented a decrease of \$23.7 million, or 27%. Advisory revenues for the second quarter of 2014 were \$64.0 million compared to \$83.1 million for the second quarter of 2013. We recorded an investment loss of \$1.0 million for the second quarter of 2014 compared to an investment gain of \$3.6 million in the second quarter of the prior year. The decrease in our second quarter revenues as compared to the same period in 2013 principally resulted from a decrease in advisory revenues of \$19.1 million.

For the six months ended June 30, 2014, total revenues were \$106.6 million compared to \$166.3 million for the comparable period in 2013, a decrease of \$59.7 million, or 36%. Advisory revenues for the six months ended June 30, 2014 were \$112.4 million compared to \$164.5 million over the same year to date period in 2013. For the six months ended June 30, 2014, we incurred an investment loss of \$5.8 million compared to an investment gain of \$1.8 million for the same period in 2013. The decrease in our year to date revenues as compared to the same period in 2013 principally resulted from a decrease in advisory revenues of \$52.1 million.

Our second quarter 2014 net income allocated to common stockholders of \$8.1 million and diluted earnings per share of \$0.27 compare to net income allocable to common stockholders of \$15.5 million and diluted earnings per share of \$0.52 in the second quarter of 2013. On a year to date basis, net income allocated to common stockholders was \$8.3 million through June 30, 2014, compared to \$29.1 million for the comparable period in 2013. Diluted earnings per share for the six months ended June 30, 2014 were \$0.27 compared to \$0.96 for the same period in 2013.

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 six month periods ended June 30, 2014 and 2013, respectively:

	For the Three Months Ended			
	June 30, 2014		June 30, 2013	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Advisory revenues	\$64.0	102	% \$83.1	96
Investment revenues (losses)	(1.0	) (2	)% 3.6	4
Total revenues	\$63.0	100	% \$86.7	100
	For the Six Months Ended			
	June 30, 2014		June 30, 2013	
	Amount	% of Total	Amount	% of Total
	(in millions, unaudited)			
Advisory revenues	\$112.4	105	% \$164.5	99
Investment revenues (losses)	(5.8	) (5	)% 1.8	1
Total revenues	\$106.6	100	% \$166.3	100

## Advisory Revenues

Advisory revenues primarily consist of financial advisory and transaction related fees earned in connection with advising clients in mergers, acquisitions, financings, restructurings, capital raisings or similar transactions. We earned \$64.0 million in advisory revenues in the second quarter of 2014 compared to \$83.1 million in the second quarter of 2013, a decrease of 23%. The decrease in advisory revenues in the second quarter of 2014 as compared to the same period in 2013 primarily resulted from a





decrease in transaction fees due to fewer and less significant transaction closings, offset in part by an increase in revenues from announcement and opinion fees and fund placement fees.

For the six months ended June 30, 2014, advisory revenues were \$112.4 million compared to \$164.5 million in 2013, a decrease of \$52.1 million, or 32%. This decrease in our advisory revenues principally resulted from a decrease in transaction fees due to a decline in the size and number of engagements that closed and lower retainer fees, offset in part by an increase in revenues from announcement and opinion fees and greater fund placement fees.

During the six months ended June 30, 2014, we earned \$1 million or more from 29 clients compared to 33 clients in the same period in 2013. For the year to date period ended June 30, 2014 as compared to the same period in 2013, we generated greater revenues from fund placement fees, announcement and opinion fees and financing and restructuring advisory fees, while our completed transaction and retainer fees were lower.

Completed assignments in the second quarter of 2014 included:

- the representation of the management buy-in team on the acquisition by leading institutional investors of AA Limited from Acromas and simultaneous listing on the London Stock Exchange;

- the sale of ARTnews to Skate Capital Corp.;

- the sale of BancTec, Inc. to HandsOn3, LLC;

- the sale of Clariant International Ltd's Leather Services business to Stahl Holdings B.V.;

- the representation of the Independent Committee of the Board of Essar Energy plc in connection with offers from Essar Global Fund Limited;

- the sale of Filter Specialists, Inc. to Pall Corporation;

- the acquisition by Resolution Life Holdings, Inc. of Lincoln Benefit Life Company; and

- the representation of Tesco plc on the formation of a joint venture with China Resources Enterprise Ltd.

During the second quarter of 2014, our capital advisory group served as global placement agent on behalf of private equity and real estate funds for two final closings and three interim closings of limited partnership interests in such funds.

#### Investment Revenues

Investment revenues primarily consist of our investment gains and losses from our investments in previously sponsored merchant banking funds and, in 2013, in Iridium.

The following table sets forth additional information relating to our investment revenues for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013	2014	2013
	(in millions, unaudited)			
Net realized and unrealized gains (losses) on investments in merchant banking funds	\$(1.3)	\$(3.4)	\$(6.5)	\$(3.4)
Net realized and unrealized gains (losses) on investment in Iridium	—	6.7	—	4.6

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Deferred gain on sale of certain merchant banking assets	—	—	0.1	0.1
Interest income	0.3	0.3	0.6	0.5
Total investment revenues (losses)	\$(1.0	) \$3.6	\$(5.8	) \$1.8

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For the second quarter of 2014, we recorded an investment loss of \$1.0 million compared to an investment gain of \$3.6 million in the second quarter of 2013. The investment loss in the second quarter of 2014 principally related to a write down of an investment in our previously sponsored merchant banking fund, GCP II. In the second quarter of 2013, our investment gain of \$3.6 million principally resulted from an increase in the quoted market value of our previous investment in Iridium Communications, Inc. ("Iridium"), offset in part by a loss in our merchant banking fund investments.

For the six months ended June 30, 2014, we recorded an investment loss of \$5.8 million compared to an investment gain of \$1.8 million for the six months ended June 30, 2013. The investment loss in the six month period ended June 30, 2014 principally resulted from a write down of \$6.5 million in a GCP II fund investment. The investment gain in the six months ended June 30, 2013 resulted from an increase in the quoted value of our investment in Iridium, offset in part by a loss in our merchant banking fund investments.

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

During our period of ownership of Iridium, which ended in December 2013, we recognized gains or losses from our investment in Iridium from marking to market our holdings at the end of each period to record unrealized gains or losses based upon the quoted market price for Iridium common stock. To the extent we sold our holdings in Iridium for a price above or below our mark for the previously reported period, we recognized realized gains or losses on such sales during the period of sale.

At June 30, 2014, we had principal investments of \$4.5 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 second quarter of 2014 were \$50.5 million, which compared to \$61.3 million of total operating expenses for the second quarter of 2013. This represents a decrease in total operating expenses of \$10.8 million, or 18%, and resulted from a decrease in our compensation and benefits expenses as described in more detail below. The pre-tax profit margin for the second quarter of 2014 was 20% compared to 29% for the second quarter of 2013.

For the six months ended June 30, 2014, total operating expenses were \$93.7 million, compared to \$119.2 million of total operating expenses for the same period in 2013. The decrease of \$25.5 million, or 21%, resulted from decreases in both our compensation and benefits expenses and our non-compensation expenses as described in more detail below. The pre-tax profit margin for the six months ended June 30, 2014 was 12% as compared to 28% for the same period in 2013.

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		For the Six Months		
	Ended June 30, 2014	2013	Ended June 30, 2014	2013	
	(in millions, unaudited)				
Employee compensation and benefits expenses	\$35.1	\$45.9	\$64.0	\$88.1	
% of revenues	56	% 53	% 60	% 53	%
Non-compensation expenses	15.4	15.3	29.7	31.1	
% of revenues	24	% 18	% 28	% 19	%
Total operating expenses	50.5	61.3	93.7	119.2	
% of revenues	80	% 71	% 88	% 72	%
Total income before tax	12.5	25.4	12.9	47.1	
Pre-tax profit margin	20	% 29	% 12	% 28	%
Compensation and Benefits Expenses					

Our employee compensation and benefits expenses in the second quarter of 2014 were \$35.1 million, which reflected a 56% ratio of compensation to revenues. This amount compared to \$45.9 million for the second quarter of 2013, which reflected a 53% ratio of compensation to revenues. The decrease of \$10.8 million, or 24%, resulted from both lower bonus accrual amounts commensurate with lower revenues and reduced amortization of restricted stock units due to higher forfeitures of restricted stock awards. The increase in the ratio of compensation to revenues in the second quarter of 2014 as compared to the same period in 2013 resulted from the effect of spreading our lower compensation costs over lower revenues.

For the six months ended June 30, 2014, our employee compensation and benefits expenses were \$64.0 million compared to \$88.1 million for the same period in the prior year. The decrease of \$24.1 million, or 27%, resulted principally from both reduced amortization of restricted stock units due to higher forfeitures of restricted stock awards and lower bonus accrual amounts commensurate with the decrease in revenues. The ratio of compensation to revenues was 60% for the first six months of 2014 as compared to 53% for the same six month period in 2013. Subject to the timing of transaction completions, it is our expectation that the full year compensation expense ratio will be consistent with that of our past few years, while our compensation expense, including our accrual for cash bonuses, will increase in absolute dollar terms relative to the first half of 2014.

Our compensation expense is generally based upon revenues and can fluctuate materially in any particular period depending upon the 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 \$15.4 million in the second quarter of 2014 compared to \$15.3 million in the second quarter of 2013, reflecting an increase of \$0.1 million.

For the six months ended June 30, 2014, our non-compensation expenses were \$29.7 million compared to \$31.1 million for the same period in 2013, representing a decrease of \$1.4 million, or 5%. The decrease in non-compensation expenses was principally attributable to the benefit of lower amortization of Greenhill Australia's intangible assets, which were fully amortized in the first quarter of 2013, and slightly lower other operating expenses.

Non-compensation expenses as a percentage of revenues for the three months ended June 30, 2014 were 24% compared to 18% for the same period in 2013. The increase in non-compensation expenses as a percentage of

revenues resulted principally from the spreading of non-compensation costs, which were comparable period to period, over lower revenues in the second quarter of 2014 as compared to the second quarter of 2013.

Non-compensation expenses as a percentage of revenues for the six months ended June 30, 2014 were 28% compared to 19% for the same period in the prior year. The increase in non-compensation expenses as a percentage of revenues resulted from the spreading of lower costs over significantly lower revenues in the first six months of 2014 as compared to the same period in 2013.

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 short term 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

During the second quarter of 2014, the provision for income taxes was \$4.5 million, which reflected an effective tax rate of 36%. This compared to a provision for income taxes in the second quarter of 2013 of \$9.9 million, which reflected an effective tax rate of 39%. The decrease in the provision for income taxes in the second quarter of 2014 as compared to the same period in 2013 was attributable to lower pre-tax income. The lower effective tax rate principally resulted from the generation of a greater proportion of earnings from foreign jurisdictions, which are generally taxed at lower rates than the United States.

For the six months ended June 30, 2014, the provision for taxes was \$4.6 million, which reflected an effective tax rate of 36%. This compares to a provision for taxes for the six months ended June 30, 2013 of \$18.0 million, which reflected an effective tax rate of 38%. The decrease in the provision for income taxes in the six months ended June 30, 2014 as compared to the same period in 2013 resulted from both lower pre-tax income and a lower effective tax rate due to the generation of a greater proportion of our earnings from foreign jurisdictions, as discussed above.

The effective tax rate can fluctuate as a result of variations in the relative amounts of advisory and investment 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 is monitored by our Management Committee, which generally meets monthly. The Management Committee monitors cash, other significant working capital assets and liabilities, debt, principal investment commitments and other matters relating to liquidity requirements. We evaluate our liquid cash operating position on a regular basis in light of current market conditions. As of June 30, 2014, we had cash and cash equivalents of \$29.2 million, of which \$16.7 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. We generate cash from our operating activities principally in the form of advisory fees. Historically, we also generated cash from our investment activities in the form of proceeds from the sales and distributions of our investments. We use our cash primarily for recurring operating expenses and the payment of dividends and non-recurring disbursements such as 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, 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 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 private equity and real estate 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 June 30, 2014, we had long-term receivables related to private equity and real estate capital advisory engagements of \$40.1 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 2014, cash bonuses and accrued benefits of \$11.8 million relating to 2013 compensation were paid to our employees. In addition, in 2014, we have paid \$9.3 million related to income taxes owed principally in the United States and the U.K. for the year ended December 31, 2013. To provide for working capital needs and other general corporate purposes in the United States, we have a \$45.0 million revolving bank loan facility which, pursuant to our most recent renewal, matures on April 30, 2015. Historically, we have been able to extend the maturity date of the revolving loan facility for a one year period shortly before maturity although our ability to do so in the future is not certain. The facility bears interest at the higher of the Prime Rate or 3.25%. Borrowings under the facility

are secured by any cash distributed in respect of our investment in the U.S. based merchant banking funds and cash distributions from G & Co. At June 30, 2014, we had \$37.5 million outstanding under the revolving bank loan facility. The revolving loan facility has a prohibition on the incurrence of additional indebtedness without the prior approval of the lenders and requires that we comply with certain financial and liquidity covenants on a quarterly basis. At June 30, 2014, we were compliant with all loan covenants and we expect to continue to be compliant with all loan covenants in future periods.

Historically, we have generated significant earnings outside the U.S. In 2011, we reviewed our reinvestment needs in our foreign locations and determined that, based on our focus entirely on our advisory business, it is unlikely that we will have future needs that require us to permanently reinvest our foreign earnings in the local jurisdictions. Accordingly, to support our corporate cash needs in the U.S. we may repatriate foreign earnings in excess of our local working capital requirements and other forecast local operating needs. To the extent we repatriate foreign earnings from jurisdictions with a lower tax rate than the U.S., we are subject to incremental U.S. tax on the excess of the U.S. tax rate over the rate of tax paid on the repatriated foreign earnings. We currently have excess foreign tax credits carried forward from prior years which are available to offset incremental U.S. tax associated with the repatriation of foreign earnings. These excess foreign tax credits arose as a result of benefits realized from the structure of our acquisition of Greenhill Australia. We estimate our current excess foreign tax credits may be fully utilized in late 2014 or 2015 depending on the amount of foreign earnings repatriated and the foreign tax paid on such earnings. We may, however, continue to generate additional foreign tax credits in future periods subject to the future earnings of Greenhill Australia. In the event we no longer have foreign tax credits to offset the incremental U.S. tax discussed above, we will 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 impose rates of tax of 21%, 32% and 30%, respectively.

Since our exit from the merchant banking business, we have sought to realize value from our remaining principal investments, which consisted of investments in previously sponsored merchant banking funds and Iridium. We completed our liquidation of Iridium in December 2013. During 2013, we generated net proceeds of \$37.0 million principally from the sale of our remaining investment in Iridium. We used the net proceeds from the sale of our investments in merchant banking funds and Iridium principally to make open market share repurchases and to reduce borrowings outstanding on the revolving loan facility. During the first six months of 2014, as a result of the liquidation of substantially all of our principal investments over the past few years, the proceeds generated from the sale of investments declined to \$0.4 million. We do not expect the proceeds generated from the sale of our principal investments to be significant in future periods.

At June 30, 2014, our remaining investments in previously sponsored and other merchant banking funds were valued at \$4.5 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. Our remaining commitment to fund capital calls for merchant banking fund investments is \$0.3 million.

In January 2014, our Board of Directors authorized the repurchase of up to \$75.0 million of our common stock during 2014. For the six months ended June 30, 2014, we were deemed to have repurchased 351,662 shares of our common stock in connection with the cash settlement of tax liabilities incurred on the vestings of restricted stock units at an average price of \$51.85 per share, for a total purchase cost of \$18.2 million. While we expect to fund future repurchases of common shares (if any) with operating cash flow, we are unable to predict the timing or magnitude of our share repurchases.

Based upon the number of restricted stock unit grants outstanding at July 25, 2014, 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 \$57.0 million (as calculated based upon the closing share price as of July 25, 2014 of \$45.37 per share and assuming a withholding tax rate of 38%) over the next five years, of which an additional \$2.2 million will be payable in 2014, \$15.0 million will be payable in 2015, \$12.2 million will be payable in 2016, \$12.7 million will be payable in 2017, \$9.3 million will be payable in 2018 and \$5.6 million will be payable in 2019. 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, 2013, we made dividend distributions of \$56.2 million, or \$1.80 per common share and outstanding restricted stock unit. During the six months ended June 30, 2014, we made dividend distributions of \$28.6 million, or \$0.90 per common share and outstanding restricted stock unit. We intend to continue to pay quarterly dividends, subject to capital availability and determinations by our Board of Directors 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, contractual restrictions and other factors as the Board of Directors may deem relevant.

Our acquisition of Caliburn in April 2010 was funded with the issuance of 1,099,874 shares of our common stock and 1,099,877 contingent convertible preferred shares. The contingent convertible preferred shares do not pay dividends and were issued in tranches of 659,926 shares and 439,951 shares, which convert to common shares promptly following the third and fifth anniversary of the closing of the acquisition, respectively, if certain revenue targets are achieved. The performance target for the first tranche was met prior to the third anniversary and 659,926 contingent convertible preferred shares were converted to common shares in April 2013. The second tranche of contingent convertible preferred shares is subject to a measurement period of revenues from April 1, 2013 to March 31, 2015. If the revenue target for the second tranche is achieved, the contingent convertible preferred shares will be converted to common shares on April 1, 2015 and included in our share count at the time the revenue threshold is met. Based on the revenues generated since April 1, 2013, we believe it is more likely than not that the revenue target for the second tranche will not be achieved. If the revenue target for the second tranche is not achieved, the remaining contingent convertible preferred shares will be canceled.

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, 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 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 six months ending June 30, 2014, our cash and cash equivalents decreased by \$13.5 million from December 31, 2013. We generated \$30.3 million from operating activities, including \$36.6 million from net income after giving effect to the non-cash items and a net increase in working capital of \$6.2 million principally from the payment of annual bonuses and accrued income taxes, offset by a decrease in advisory fees receivables. We used \$1.0 million for investing activities, including \$1.3 million for leasehold improvements, offset in part by distributions from other merchant banking funds of \$0.4 million. We used \$42.9 million in financing activities, including \$28.6 million for the payment of dividends, \$18.2 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 \$2.7 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 funding of \$6.6 million from net borrowings on our revolving loan facility.

In the six months ending June 30, 2013, our cash and cash equivalents decreased by \$16.8 million from December 31, 2012, including a decrease of \$1.9 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 \$45.4 million from operating activities, including \$61.2 million from net income after giving effect to the non-cash items and a net increase in working capital of \$15.8 million principally from the payment of annual bonuses and accrued income taxes. We generated \$11.4 million from investing activities, including proceeds from the sale of Iridium of \$11.8 million and distributions from other merchant banking funds of \$0.9 million, offset by the funding of a merchant banking capital call of \$0.5 million and \$0.8 million for equipment purchases. We used \$71.6 million in financing activities, including \$28.1 million for the payment of dividends, \$35.0 million for open market repurchases of our common stock, \$10.6 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 \$0.7 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 funding of \$3.1 million from net borrowings 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

We limit our investments to (1) short-term cash investments, which we believe do not face any material interest rate risk, equity price risk or other market risk and (2) principal investments made in merchant banking investments. We maintain our cash and cash equivalents with financial institutions with high credit ratings. Although these deposits are generally not insured,

management believes that the Firm is not exposed to significant credit risk due to the financial position of the depository institutions in which those deposits are held.

We monitor the quality of 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 may hedge our foreign currency exposure if we expect we will need to fund U.S. dollar obligations with foreign currency.

With regard to our investments in merchant banking funds, we face exposure to changes in the fair value of the companies in which we have directly or indirectly invested, which historically has been volatile. We manage the risks associated with the merchant banking portfolio by assessing information provided by the funds.

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 47% of our revenues for the period ended June 30, 2014 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 generated a significant portion of our foreign earnings, which included the United Kingdom, Europe and Australia. During the six month period ended June 30, 2014, as compared to the same period in 2013, the value of the U.S. dollar strengthened relative to the Australian dollar and weakened relative to the pound sterling and euro. In aggregate, there was not a significant impact on our revenues in the first six months of 2014 as compared to the same period in 2013 as a result of movements in the foreign currency exchange rates. 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.

#### 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 2013 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' investment in merchant banking funds represents an estimation 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.

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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 private equity and real estate capital advisory fees 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.

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.

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.

#### Investment Revenues

Investment revenues consist of (i) gains (or losses) on our investments in certain merchant banking funds, Iridium (prior to the sale of our entire investment that was completed in December 2013) and other investments, 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. We recognize revenue on our other investments, including Iridium, after considering our influence or control of the investee, based on gains and losses on investment positions held, which arise from sales or changes in the fair value of investments. 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. The Company maintains its 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 private equity and real estate 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.

Investments

Our investments in merchant banking funds are recorded under the equity method of accounting based upon our 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

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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. 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 value of merchant banking fund investments in publicly traded securities is determined using quoted market prices discounted for any legal or contractual restrictions on sale. The values at which our investments are carried on our 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. 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. In addition, the outstanding contingent convertible preferred shares will be included in the weighted average number of shares to the extent the performance target is deemed to have been met.

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.

#### 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. We apply the “more-likely-than-not criteria” when determining tax benefits.

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. We are currently evaluating the impact of the

future adoption of ASC 606 on the consolidated financial statements. The new guidance is effective for fiscal years beginning after December 15, 2016.

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 2013 Annual Report on Form 10-K.

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

Issuer Purchases of Equity Securities in the Second Quarter of 2014:

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (2) (3)
Apr	—	\$—	—	\$75,000,000
May	—	—	—	75,000,000
Jun	—	—	—	75,000,000
Total	—	—	—	\$75,000,000

(1) Excludes 28,472 shares we are deemed to have repurchased at \$49.47 per share in the second quarter of 2014 from employees in conjunction with the payment of tax liabilities in respect of stock delivered to employees in settlement of restricted stock units.

(2) The Board of Directors, effective on January 23, 2014, authorized the repurchase of up to \$75,000,000 of our common stock during 2014.

The value of the shares repurchased for the six months ended June 30, 2014 excludes 351,662 shares we are (3) deemed to have repurchased at an average price of \$51.85 per share, or \$18.2 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.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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: August 5, 2014

**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