

GREENHILL & CO INC  
Form 10-Q  
July 28, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark one)

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

For the quarterly period ended **June 30, 2009**

**OR**

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

For the transition period from to

**Commission file number 001-32147**

**Greenhill & Co., Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State of Incorporation)

**51-0500737**

(I.R.S. Employer Identification No.)

**300 Park Avenue  
New York, New York**

(Address of principal executive offices)

**10022**

(Zip Code)

**Registrant's telephone number (212) 389-1500**

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

Indicate by check mark whether the registrant 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 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)

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

As of July 24, 2009, there were 28,156,741 shares of the registrant's common stock outstanding.

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**AVAILABLE INFORMATION**

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

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

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements**

**Greenhill & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Financial Condition**

	<b>June 30, 2009 (unaudited)</b>	<b>As of December 31, 2008</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 55,048,701	\$ 62,848,655
Financial advisory fees receivable, net of allowance for doubtful accounts of \$0.0 million and \$0.3 million as of June 30, 2009 and December 31, 2008, respectively	25,986,816	26,255,995
Other receivables	5,738,007	4,434,227
Property and equipment, net of accumulated depreciation and amortization of \$38.0 million and \$35.5 million as of June 30, 2009 and December 31, 2008, respectively	11,634,827	12,074,207
Investments in affiliated merchant banking funds	68,642,271	73,412,898
Other investments	40,159,439	34,951,710
Due from affiliates	1,268,905	455,615
Goodwill	16,948,567	16,133,050
Deferred tax asset	35,712,335	33,996,719
Other assets	663,699	1,216,117
<b>Total assets</b>	<b>\$ 261,803,567</b>	<b>\$ 265,779,193</b>
<b>Liabilities and Equity</b>		
Compensation payable	\$ 4,987,550	\$ 19,448,513
Accounts payable and accrued expenses	4,683,178	9,614,649
Bank loan payable	33,375,000	26,500,000
Taxes payable	1,629,860	10,149,231
<b>Total liabilities</b>	<b>44,675,588</b>	<b>65,712,393</b>
Common stock, par value \$0.01 per share; 100,000,000 shares authorized, 33,120,076 and 32,830,423 shares issued as of June 30, 2009 and December 31, 2008, respectively; 28,155,943 and 27,981,150 shares outstanding as of June 30, 2009 and December 31, 2008, respectively	331,201	328,304
Restricted stock units	69,886,518	59,525,357
Additional paid-in capital	224,682,364	213,365,812
Exchangeable shares of subsidiary; 257,156 shares issued and 208,418 shares outstanding as of June 30, 2009 and December 31, 2008, respectively	12,442,555	12,442,555
Retained earnings	185,818,041	189,357,441
Accumulated other comprehensive income (loss)	(10,477,878)	(17,408,714)
Treasury stock, at cost, par value \$0.01 per share; 4,945,313 and 4,849,273 shares as of June 30, 2009 and December 31, 2008, respectively	(267,086,584)	(259,361,550)

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Stockholders' equity	215,596,217	198,249,205
Noncontrolling interests	1,531,762	1,817,595
Total equity	217,127,979	200,066,800
Total liabilities and equity	\$ 261,803,567	\$ 265,779,193

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenues</b>				
Financial advisory fees	\$ 45,511,600	\$ 49,892,910	\$ 110,656,294	\$ 119,342,305
Merchant banking revenue	8,345,598	57,728,641	4,954,843	62,259,456
Interest income	243,538	1,048,124	316,278	2,448,299
<b>Total revenues</b>	<b>54,100,736</b>	<b>108,669,675</b>	<b>115,927,415</b>	<b>184,050,060</b>
<b>Expenses</b>				
Employee compensation and benefits	25,215,512	49,838,192	53,655,786	84,513,169
Occupancy and equipment rental	3,022,834	2,770,988	5,572,830	5,385,936
Depreciation and amortization	1,277,820	1,146,535	2,431,581	2,252,356
Information services	1,256,388	1,325,522	2,745,994	3,059,004
Professional fees	1,552,136	1,287,675	2,984,252	2,211,974
Travel related expenses	1,984,481	1,652,221	3,896,168	3,599,115
Interest expense	341,958	911,155	695,604	2,067,341
Other operating expenses	2,301,531	2,715,864	4,402,035	3,907,927
<b>Total expenses</b>	<b>36,952,660</b>	<b>61,648,152</b>	<b>76,384,250</b>	<b>106,996,822</b>
Income before taxes	17,148,076	47,021,523	39,543,165	77,053,238
Provision for taxes	6,854,759	17,727,176	15,531,376	28,596,829
<b>Consolidated net income</b>	<b>10,293,317</b>	<b>29,294,347</b>	<b>24,011,789</b>	<b>48,456,409</b>
Less: Net income (loss) allocated to noncontrolling interests	509	375,975	(179,134)	325,776
<b>Net income allocated to common stockholders</b>	<b>\$ 10,292,808</b>	<b>\$ 28,918,372</b>	<b>\$ 24,190,923</b>	<b>\$ 48,130,633</b>
Average shares outstanding:				
Basic	29,508,520	27,848,736	29,495,056	27,903,707
Diluted	29,623,249	27,904,439	29,572,969	27,962,961
Earnings per share:				
Basic	\$ 0.35	\$ 1.04	\$ 0.82	\$ 1.72
Diluted	\$ 0.35	\$ 1.04	\$ 0.82	\$ 1.72
Dividends declared and paid per share	\$ 0.45	\$ 0.45	\$ 0.90	\$ 0.90

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



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**Greenhill & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Comprehensive Income (unaudited)**

	<b>For the Three Months</b>		<b>For the Six Months Ended</b>	
	<b>Ended</b>		<b>June 30,</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Consolidated net income	\$ 10,293,317	\$ 29,294,347	\$ 24,011,789	\$ 48,456,409
Currency translation adjustment, net of tax	8,749,380	384,990	6,930,836	852,360
Comprehensive income	19,042,697	29,679,337	30,942,625	49,308,769
Less: Net income (loss) allocated to noncontrolling interests	509	375,975	(179,134)	325,776
Comprehensive income allocated to common stockholders	\$ 19,042,188	\$ 29,303,362	\$ 31,121,759	\$ 48,982,993

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

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**Greenhill & Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Changes in Equity**

	<b>Six Months Ended June 30, 2009 (unaudited)</b>	<b>Year Ended December 31, 2008</b>
<b>Common stock, par value \$0.01 per share</b>		
Common stock, beginning of the year	\$ 328,304	\$ 312,322
Common stock issued	2,897	15,982
Common stock, end of the period	331,201	328,304
<b>Restricted stock units</b>		
Restricted stock units, beginning of the year	59,525,357	42,743,802
Restricted stock units recognized	20,292,003	32,196,650
Restricted stock units delivered	(9,930,842)	(15,415,095)
Restricted stock units, end of the period	69,886,518	59,525,357
<b>Additional paid-in capital</b>		
Additional paid-in capital, beginning of the year	213,365,812	126,268,395
Common stock issued	10,089,033	85,940,317
Tax benefit from the delivery of restricted stock units	1,227,519	1,157,100
Additional paid-in capital, end of the period	224,682,364	213,365,812
<b>Exchangeable shares of subsidiary</b>		
Exchangeable shares of subsidiary, beginning of the year	12,442,555	15,352,213
Exchangeable shares of subsidiary delivered		(2,909,658)
Exchangeable shares of subsidiary, end of the period	12,442,555	12,442,555
<b>Retained earnings</b>		
Retained earnings, beginning of the year	189,357,441	190,416,057
Dividends	(27,730,323)	(50,036,686)
Net income allocated to common shareholders	24,190,923	48,978,070
Retained earnings, end of the period	185,818,041	189,357,441
<b>Accumulated other comprehensive income (loss)</b>		
Accumulated other comprehensive income (loss), beginning of the year	(17,408,714)	4,727,125
Currency translation adjustment, net	6,930,836	(22,135,839)
Accumulated other comprehensive income (loss), end of the period	(10,477,878)	(17,408,714)
<b>Treasury stock, at cost; par value \$0.01 per share</b>		
Treasury stock, beginning of the year	(259,361,550)	(237,529,448)

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Repurchased	(7,725,034)	(21,832,102)
Treasury stock, end of the period	(267,086,584)	(259,361,550)
<b>Total stockholders equity</b>	215,596,217	198,249,205
<b>Noncontrolling interests</b>		
Noncontrolling interests, beginning of the year	1,817,595	2,253,122
Net loss allocated to noncontrolling interests	(179,134)	(511,670)
Contributions from noncontrolling interests	18,000	318,101
Distributions to noncontrolling interests	(124,699)	(241,958)
Noncontrolling interests, end of period	1,531,762	1,817,595
<b>Total equity</b>	\$ 217,127,979	\$ 200,066,800

*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)**

	<b>For the Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities:</b>		
Consolidated net income	\$ 24,011,789	\$ 48,456,409
Adjustments to reconcile consolidated net income to net cash provided by (used in) operating activities:		
Non-cash items included in net income:		
Depreciation and amortization	2,431,581	2,252,356
Net investment losses (gains)	3,999,083	(52,618,053)
Restricted stock units recognized and common stock issued	20,458,261	16,734,815
Deferred taxes	(1,715,616)	
Changes in operating assets and liabilities:		
Financial advisory fees receivable	269,179	2,789,417
Due to (from) affiliates	(813,290)	(418,142)
Other receivables and assets	(711,709)	170,380
Compensation payable	(14,460,963)	(62,025,950)
Accounts payable and accrued expenses	(4,931,471)	(1,709,464)
Taxes payable	(8,519,371)	(8,579,143)
 Net cash provided by (used in) operating activities	 20,017,473	 (54,947,375)
<b>Investing activities:</b>		
Purchases of merchant banking investments	(7,635,270)	(13,425,116)
Purchases of investments	(525,000)	(1,212,500)
Proceeds from investments		11,232,727
Distributions from investments	7,889,307	3,953,659
Purchases of property and equipment	(1,743,880)	(1,368,889)
 Net cash used in investing activities	 (2,014,843)	 (820,119)
<b>Financing activities:</b>		
Proceeds of revolving bank loan	62,875,000	54,600,000
Repayment of revolving bank loan	(56,000,000)	(63,075,000)
Repayment of notes to UK members		(1,445,044)
Contributions from noncontrolling interests	18,000	24,744
Distributions to noncontrolling interests	(124,699)	(220,260)
Dividends paid	(27,730,323)	(26,024,156)
Purchase of treasury stock	(7,725,034)	(21,041,463)
Net tax benefit from the delivery of restricted stock units and payment of dividend equivalents	1,227,519	1,215,596
 Net cash used in financing activities	 (27,459,537)	 (55,965,583)
Effect of exchange rate changes on cash and cash equivalents	1,656,953	213,355
 Net decrease in cash and cash equivalents	 (7,799,954)	 (111,519,722)

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Cash and cash equivalents, beginning of period	62,848,655	191,670,516
Cash and cash equivalents, end of period	\$ 55,048,701	\$ 80,150,794

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$ 663,181	\$ 1,863,805
Cash paid for taxes, net of refunds	\$ 25,764,840	\$ 36,709,943

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

**Table of Contents****Notes to Condensed Consolidated Financial Statements (unaudited)****Note 1 Organization**

Greenhill & Co., Inc., a Delaware corporation, together with its subsidiaries (collectively, the Company), is an independent investment banking firm. The Company acts for clients located throughout the world from offices located in New York, London, Frankfurt, Toronto, Tokyo, Chicago, Dallas, Los Angeles, San Francisco and will open an office in Houston shortly.

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

Financial advisory, which includes engagements relating to mergers, acquisitions, financing advisory and restructurings, and fund placement advisory; and

Merchant banking, which includes the management of outside capital invested in the Company's merchant banking funds and other similar vehicles, primarily Greenhill Capital Partners (GCP I), Greenhill Capital Partners II (GCP II), Greenhill Capital Partners Europe (GCP Europe), and Greenhill SAV Partners (GSAVP) together with GCP I, GCP II and GCP Europe, the Greenhill Funds), and the Company's principal investments in the Greenhill Funds and other merchant banking funds and similar vehicles.

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

G&Co is a registered broker-dealer under the Securities Exchange Act of 1934, as amended, and is registered with the Financial Industry Regulation Authority. G&Co is engaged in the investment banking business principally in North America.

GCE is a U.K. based holding company. GCE controls Greenhill & Co. International LLP (GCI), Greenhill & Co Europe LLP (GCEI) and Greenhill Capital Partners Europe LLP (GCPE), through its controlling membership interests. GCI and GCEI are engaged in investment banking activities, principally in Europe, and are subject to regulation by the U.K. Financial Services Authority (FSA). GCPE is also regulated by the FSA and provides investment advisory services to GCP Europe, the Company's UK-based private equity fund that invests in a diversified portfolio of private equity and equity related investments in mid-market companies located primarily in the United Kingdom and Continental Europe. The majority of the investors in GCP Europe are third parties; however, the Company and its employees have also made investments in GCP Europe.

The Company, through Greenhill & Co. Canada Ltd., a wholly-owned Canadian subsidiary of GCH, engages in investment banking activities in Canada.

GCPLL is an investment adviser, registered under the Investment Advisers Act of 1940 (IAA). GCPLL provides investment advisory services to GCP I and GCP II, our U.S. based private equity funds that invest in a diversified portfolio of private equity and equity related investments. The majority of the investors in GCP I and GCP II are third parties; however, the Company and its employees have also made investments in GCP I and GCP II.

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

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

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On February 21, 2008, the Company completed the initial public offering of units in its subsidiary, GHL Acquisition Corp., a blank check company ( GHLAC ). In the offering, GHLAC sold 40,000,000 units for an aggregate purchase price of \$400,000,000. Each unit consists of one share of GHLAC's common stock and one warrant (the Founder Warrants ). In addition, the Company purchased private placement warrants for an aggregate purchase price of \$8,000,000 (the GHLAC Private Placement Warrants ), together with the Founder Warrants, the GHLAC Warrants ). As of June 30, 2009, the Company owns 8,369,563 (17.3%) of the outstanding common stock of GHLAC, 8,369,563 Founder Warrants and 8,000,000 GHLAC Private Placement Warrants. As a result of its public offering, GHLAC is no longer a wholly-owned subsidiary of the Company. See Note 3 Investments Other Investments and Note 11 Subsequent Events .

**Note 2 Summary of Significant Accounting Policies*****Basis of Financial Information***

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

The condensed consolidated financial statements of the Company include all consolidated accounts of Greenhill & Co., Inc. and all other entities in which the Company has a controlling interest, including GCI, GCEI and GCPE, after eliminations of all significant inter-company accounts and transactions. In accordance with FASB Interpretation No. 46, Consolidation of Variable Interest Entities, ( FIN 46-R ), the Company consolidates the general partners of its merchant banking funds in which it has a majority of the economic interest. The general partners account for their investments in their merchant banking funds under the equity method of accounting pursuant to Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock ( APB 18 ). 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 represent 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 under EITF No. 04-5,

Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights ( EITF 04-5 ), is subject to removal by a simple majority of unaffiliated third-party investors.

These condensed consolidated financial statements are unaudited and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2008 filed with the Securities and Exchange Commission. The condensed consolidated financial information as of December 31, 2008 has been derived from audited consolidated financial statements not included herein. The results of operations for interim periods are not necessarily indicative of results for the entire year.

***Noncontrolling Interests***

The Company adopted FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51 ( SFAS 160 ), as of January 1, 2009. SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity), present income allocated to both noncontrolling interests and common stockholders, and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The Company has revised its prior period presentation, as required, to conform to this new pronouncement.

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The portion of the consolidated interests in the general partners of our merchant banking funds, which are held directly by employees of the Company are represented as noncontrolling interests in equity.

***Revenue Recognition******Financial Advisory Fees***

The Company recognizes financial advisory fee revenue for mergers and acquisitions or financing advisory and restructuring engagements when the services related to the underlying transactions are completed in accordance with the terms of its engagement letters. The Company recognizes fund placement advisory fees at the time of the client's acceptance of capital or capital commitments in accordance with the terms of the engagement letter. Retainer fees are recognized as financial advisory fee revenue over the period in which the related service is rendered.

The Company's clients reimburse certain expenses incurred by the Company in the conduct of financial advisory engagements. Expenses are reported net of such client reimbursements. Client reimbursements totaled \$1.1 million for both the three months ended June 30, 2009 and 2008 and \$1.5 million and \$1.9 million for the six months ended June 30, 2009 and 2008, respectively.

***Merchant Banking and Other Revenues***

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

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

The Company recognizes revenue on investments in its merchant banking funds based on its allocable share of realized and unrealized gains (or losses) reported by such funds. Investments held by merchant banking funds are recorded at estimated fair value. The value of merchant banking fund investments in privately held companies is determined by the general partner of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other qualitative and quantitative factors. Discounts may be applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments held by the merchant banking funds as well as those held by the Company in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investments in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which the Company's investments are carried on its books 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.

The Company recognizes merchant banking profit overrides when certain financial returns are achieved over the life of the fund. Profit overrides are generally calculated as a percentage of the profits over a specified threshold earned by each fund on investments managed on behalf of unaffiliated investors in GCP I and principally all investors except the Company in GCP II, GCP Europe and GSAVP. The profit overrides earned by the Company are recognized on an accrual basis throughout the year in accordance with Method 2 of EITF Issue No. D-96, *Accounting for Management Fees Based on a Formula* (EITF D-96). In accordance with Method 2 of EITF D-96, the Company records as revenue the amount that would be due pursuant to the fund agreements at each period end as if the fund agreements were terminated at that date. Overrides are generally calculated on a deal-by-deal basis but are subject to investment performance over the life of each merchant banking fund. We may be required to repay a portion of the overrides paid to the limited partners of the funds in the event a minimum performance level is not achieved by the fund as a



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whole (we refer to these potential repayments as "clawbacks"). We would be required to establish a reserve for potential clawbacks if we were to determine the likelihood of a clawback is probable and the amount of the clawback can be reasonably estimated. As of June 30, 2009, the Company has not reserved for any clawback obligations under applicable fund agreements. See Note 3 "Investments" for further discussion of the merchant banking revenues recognized.

***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 fair value of the underlying merchant banking fund's net assets. The Company's holdings of the GHAC common stock is also recorded under the equity method of accounting. The Company's other investments are recorded at estimated fair value.

***Financial Advisory Fees Receivables***

Receivables are stated net of an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is derived by the Company by utilizing past client transaction history and an assessment of the client's creditworthiness. The Company reversed bad debt expense previously recorded of \$0.3 million during the six months ended June 30, 2009. No bad debt expense was recorded for the six months ended June 30, 2008.

***Restricted Stock Units***

In accordance with the fair va