GREENHILL & CO INC
Form 10-K
February 28, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

ANNUAL REPORT PURSUANT TO
SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007.

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 51-0500737 (State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.) 300 Park Avenue
New York, New York 10022 (Address of Principal Executive Offices) (ZIP Code)
Registrant's telephone number, including area code: (212) 389-1500

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered Common Stock, par value $.01 per share New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing price as of the last business day of the Registrant's most recently completed second fiscal quarter, June 30, 2007, was approximately $1,247 million. The Registrant has no non-voting stock.

As of February 21, 2008, 26,836,245 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be delivered to stockholders in connection with the 2008 annual meeting of stockholders to be held on April 30, 2008 are incorporated by reference in response to Part III of this Report.

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PART I

When we use the terms ''Greenhill'', ''we'', ''us'', ''our'', ''the company'', and ''the firm'', we mean Greenhill & Co., Inc., a corporation, and its consolidated subsidiaries (formerly Greenhill & Co. Holdings, LLC and subsidiaries). Our principal subsidiaries are Greenhill & Co., LLC, a registered broker-dealer regulated by the Securities and Exchange Commission which provides investment banking services in North America; Greenhill & Co. International LLP and Greenhill & Co. Europe LLP, each of which provides investment banking services in Europe and is regulated by the United Kingdom Financial Services Authority; Greenhill Capital Partners, LLC and Greenhill Venture Partners, LLC, each of which is a registered investment advisor regulated by the Securities and Exchange Commission, through which we conduct our North American merchant banking business and Greenhill Capital Partners Europe LLP, an investment advisor regulated by the United Kingdom Financial Services Authority through which we conduct our European merchant banking business.

Item 1. Business

Overview

Greenhill is an independent investment banking firm that (i) provides financial advice on significant mergers, acquisitions, restructurings and similar corporate finance matters and (ii) manages merchant banking funds and similar vehicles and commits capital to those funds and vehicles. We act for clients located throughout the world from offices in New York, London, Frankfurt, Toronto and Dallas.

We were established in 1996 by Robert F. Greenhill, the former President of Morgan Stanley and former Chairman and Chief Executive Officer of Smith Barney. Since its 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 management and other relationships. As part of this expansion, we opened a London office in 1998, raised our first merchant banking fund in 2000, opened a Frankfurt office later 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 Dallas office in April 2005 and completed the closing of our second merchant banking fund in June 2005. We opened our Toronto office in July 2006 and completed the final closing of our first venture capital fund in September 2006. We raised our first European merchant banking fund in 2007. In January 2008, we announced the recruitment of a new managing director to open a San Francisco office. In February 2008, we closed the initial public offering of units in GHL Acquisition Corp., a blank-check company sponsored by us. As of December 31, 2007, we had 43 managing directors and senior advisors globally.

Principal Sources of Revenue

Our principal sources of revenue are financial advisory and merchant banking fund management.

For the Year Ended December 31,	2007	2006	2005	2004	2003
Financial advisory	$ 366.7	$ 209.8	$ 142.1	$ 130.9	$ 121.3
Merchant banking fund management & other(1)	33.7	80.8	79.1	21.0	5.4
Total revenue	$ 400.4	$ 290.6	$ 221.2	$ 151.9	$ 126.7

(1) Merchant banking fund management & other includes interest income of $5.4 million, $3.1 million, $2.9 million, $0.8 million, and $0.4 million in 2007, 2006, 2005, 2004, and 2003, respectively.

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Financial Advisory

We provide a broad range of advice to global clients in relation to domestic and cross-border mergers, acquisitions, restructurings and similar corporate finance matters and are generally involved at each stage of these transactions, from initial structuring to final execution. Our focus is on providing high-quality advice to senior executive management and boards of directors of prominent large and mid-cap companies in transactions that typically are of the highest strategic and financial importance to those companies. We advise clients on strategic matters, including acquisitions, divestitures, defensive tactics, special committee assignments and other important corporate events. We provide advice on valuation, strategy, industry dynamics, structuring alternatives, timing and pricing of transactions, and financing alternatives. Where requested to do so, we may provide an opinion regarding the fairness of a transaction. In our restructuring practice, we advise debtors, creditors and companies experiencing financial distress as well as potential acquirors of distressed companies and assets. We provide advice on valuation, restructuring alternatives, capital structures, and sales or recapitalizations. We also assist those clients who seek court-assisted reorganizations by developing and seeking approval for plans of reorganization as well as the implementation of such plans. In providing financial advisory services, we draw on the extensive experience, corporate relationships and industry expertise of our managing directors and senior advisors.

Financial advisory revenues accounted for 92% and 72% of our revenues in 2007 and 2006, respectively. Non-U.S. clients are a significant part of our business, generating 64% and 53% of our advisory revenues in 2007 and 2006, respectively. We generate revenues from our financial advisory services by charging our clients fees consisting principally of fees paid upon the commencement of an engagement, fees paid upon the announcement of a transaction, fees paid upon the successful conclusion of a transaction and, in connection principally with restructuring assignments, monthly retainer fees.

Merchant Banking Fund Management

Our merchant banking fund management activities currently consist primarily of management of and investment in Greenhill's merchant banking funds, Greenhill Capital Partners I (or ''GCP I''), Greenhill Capital Partners II (or ''GCP II'', and collectively with GCP I, ''Greenhill Capital Partners'' or ''GCP''), Greenhill SAV Partners (or ''GSAVP'') and Greenhill Capital Partners Europe (or ''GCP Europe''), which are families of merchant banking funds that invest in portfolio companies. Merchant banking funds are private investment funds raised from contributions by qualified institutional investors and financially sophisticated individuals. The funds generally make investments in non-public companies, typically with a view toward divesting within 3 to 5 years. We pursue merchant banking fund management and other investment activities in addition to our financial advisory activities because we believe merchant banking can generate attractive returns on the firm's capital, and because it allows us to further leverage our managing directors' industry knowledge and corporate relationships. We believe we can pursue merchant banking opportunities without creating conflicts with our advisory clients by typically focusing on significantly smaller companies than those with respect to which we seek to provide financial advice. GCP typically makes controlling or influential minority investments of $10 million to $75 million in companies with valuations that are between $50 million and $500 million at the time of investment. GCP has invested a substantial portion of its capital in the energy, financial services and telecommunications industries. GSAVP typically makes smaller investments in early-growth-stage companies that offer technology-enabled or business information services. Such investments typically involve higher levels of risk and are more speculative than our GCP investments. GCP Europe typically makes controlling or influential minority investments of £10 million to £30 million in companies with valuations that are between £50 million and £250 million at the time of investment. We expect to expand our merchant banking fund management and related activities over time.

Merchant banking revenues accounted for 8% and 28% of our revenues in 2007 and 2006, respectively. We generate merchant banking revenue from (i) management fees paid by the funds, (ii) gains (or losses) on our investments in the merchant banking funds, and (iii) profit overrides. We charge management fees to all non-affiliated investors in each of our funds and all employees in

GCP II, GSAVP and GCP Europe. We may also earn gains (or losses) from our capital investment in our merchant banking funds depending upon the performance of the funds. Our investments in our merchant banking funds generate realized and unrealized investment gains (or losses) based on our allocable share of earnings generated by the funds. As the general partner of our merchant banking funds we make investment decisions for the funds and are entitled to receive an override on the profits of the funds.

We began our merchant banking activities in 2000 with the establishment of GCP I, which had total committed capital of $423 million. In 2005 we closed our second merchant banking fund, GCP II, which had total committed capital of $875 million. The firm has committed approximately 10%, or $88.5 million, to GCP II and our managing directors and other employees have committed an additional $136 million to that fund. In 2006 we expanded our merchant banking activities with the closing of our venture capital fund, GSAVP, which had total committed capital of $101.5 million. The firm has committed $10.9 million to GSAVP and our managing directors and other employees have committed an additional $22.6 million to that fund. In 2007 we closed our first European merchant banking fund, GCP Europe, which had total committed capital of approximately £191 million. The firm has committed £25 million to GCP Europe and our managing directors and other employees have committed an additional £41.9 million.

Employees

Our managing directors and senior advisors have an average of 26 years of relevant experience, and many of them are able to use this experience to advise on mergers and acquisitions, restructuring transactions and merchant banking investments, depending on the situation. We spend significant amounts of time training and mentoring our junior professionals. We generally provide our junior professionals with exposure to mergers and acquisitions, restructurings and merchant banking fund management to varying degrees, which provides us with the flexibility to allocate resources depending on the economic environment, and provides our bankers consistent transactional experience and a wide variety of experiences to assist in the development of business and financial judgment.

As of December 31, 2007, Greenhill employed a total of 214 people (including our managing directors and senior advisors), of which 83 were based in our European offices. We strive to maintain a work environment that fosters professionalism, excellence, diversity, and cooperation among our employees worldwide. We utilize a comprehensive evaluation process at the end of each year to measure performance, determine compensation and provide guidance on opportunities for improved performance.

Competition

In our financial advisory services business, we operate in a highly competitive environment where there are no long-term contracted sources of revenue. Each revenue-generating engagement is separately awarded and negotiated. Our list of clients, and our list of clients with whom there is an active revenue-generating engagement, changes continually. To develop new client relationships, and to develop new engagements from historic client relationships, we maintain a business dialog with a large number of clients and potential clients, as well as with their financial and legal advisors, on an ongoing basis. We have gained a significant number of new clients each year through our business development initiatives, through recruiting additional senior investment banking professionals who bring with them client relationships and through referrals from members of boards of directors, attorneys and other parties with whom we have relationships. At the same time, we lose clients each year as a result of the sale or merger of a client, a change in a client's senior management, competition from other investment banks and other causes.

The financial services industry is intensely competitive, and we expect it to remain so. Our competitors are other investment banking firms, merchant banks and financial advisory firms. We compete with some of our competitors globally and with some others on a regional, product or niche basis. We compete on the basis of a number of factors, including transaction execution skills, our range of products and services, innovation, reputation and price.

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Over the years there has been substantial consolidation and convergence among companies in the financial services industry. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired broker-dealers or have merged with other financial institutions. Many of these firms have the ability to offer a wider range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking and securities products with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in pricing pressure in our businesses. This trend toward consolidation and convergence has significantly increased the capital base and geographic reach of our competitors.

We believe our primary competitors in securing mergers and acquisitions and restructuring advisory engagements are Citigroup Inc., Credit Suisse Holdings (USA), Inc., Goldman Sachs Group, Inc., JPMorgan Chase & Co., Lehman Brothers Holdings Inc., Merrill Lynch & Co., Inc., Morgan Stanley, UBS A.G. and other bulge bracket firms as well as investment banking firms such as Blackstone Group, Evercore Partners Inc., Jefferies Group, Inc. and Lazard Ltd.

In our merchant banking business, we face competition both in the pursuit of outside investors for our merchant banking funds and to acquire investments in attractive portfolio companies. The activity of identifying, completing and realizing attractive private equity investments of the types our merchant banking funds have made and expect to make is competitive and involves a high degree of uncertainty. We may be competing with other investors, including other merchant banking funds, and corporate buyers for the investments that we make. The level of capital committed to merchant banking funds generally has increased dramatically in recent years, intensifying the competition in the acquisition of attractive investments.

Competition is also intense for the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees.

Regulation

Our business, as well as the financial services industry generally, is subject to extensive regulation in the United States, Europe and elsewhere. As a matter of public policy, regulatory bodies in the United States and the rest of the world are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the United States, the Securities and Exchange Commission (‘‘SEC’’) is the federal agency responsible for the administration of the federal securities laws. Greenhill & Co., LLC, a wholly-owned subsidiary of Greenhill through which we conduct our U.S. financial advisory business, is registered as a broker-dealer with the SEC and the Financial Industry Regulatory Authority (‘‘FINRA’’), and in all 50 states and the District of Columbia. Greenhill & Co., LLC is subject to regulation and oversight by the SEC. In addition, FINRA, a self-regulatory organization that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including Greenhill & Co., LLC. State securities regulators also have regulatory or oversight authority over Greenhill & Co., LLC. Similarly, Greenhill & Co. International LLP and Greenhill & Co. Europe LLP, our controlled affiliated partnerships with offices in the United Kingdom and Germany, respectively, through which we conduct our European financial advisory business, are licensed by and also subject to regulation by the United Kingdom’s Financial Services Authority. Our business may also be subject to regulation by non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where Greenhill operates.

Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure, record-keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. Additional legislation, changes in rules promulgated by self-regulatory organizations or changes in the interpretation or enforcement of existing laws and rules, either in the United States or elsewhere, may directly affect the mode of operation and profitability of Greenhill.

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The U.S. and non-U.S. government agencies and self-regulatory organizations, as well as state securities commissions in the United States, are empowered to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer or its directors, officers or employees.

In addition, Greenhill Capital Partners, LLC and Greenhill Venture Partners, LLC are registered investment advisers under the Investment Advisers Act of 1940. As such, they are subject to regulation and periodic examinations by the SEC. Greenhill Capital Partners Europe LLP is licensed by and subject to regulation by the United Kingdom's Financial Services Authority.

Where You Can Find Additional 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 the company files at the SEC's public reference room located at 450 Fifth Street, N.W., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The firm'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 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.

Item 1A.

Risk Factors

Our ability to retain our managing directors is critical to the success of our business

The success of our business depends upon the personal reputation, judgment, business generation capabilities and project execution skills of our 43 managing directors and senior advisors at December 31, 2007, particularly our senior managing directors. Founded in 1996, our business has a more limited operating history than many of our competitors and, as a result, our managing directors' personal reputations and relationships with our clients are a critical element in obtaining and maintaining client engagements, and forming and investing merchant banking funds. Accordingly, the retention of our managing directors is particularly crucial to our future success. The departure or other loss of Mr. Greenhill, our founder and Chairman, or the departure or other loss of any other managing director, each of whom manages substantial client relationships and possesses substantial experience and expertise, could materially adversely affect our ability to secure and successfully complete engagements and conduct our merchant banking business, which would materially adversely affect our results of operations.

In addition, if any of our managing directors were to join an existing competitor or form a competing company, some of our clients could choose to use the services of that competitor instead of our services. There is no guarantee that the compensation arrangements, non-competition agreements and lock-up agreements we have entered into with our managing directors are sufficiently broad or effective to prevent our managing directors from resigning to join our competitors or that the non-competition agreements would be upheld if we were to seek to enforce our rights under these agreements.

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A significant portion of our revenues are derived from advisory fees

We have historically earned a significant portion of our revenues from advisory fees paid to us by our clients, in large part upon the successful completion of the client's transaction or restructuring. Financial advisory revenues represented 92% and 72% of our total revenues in 2007 and 2006, respectively. Unlike diversified investment banks, we only have one other significant alternative source of revenue, but lack such other sources of revenue as securities trading or underwriting. We expect that our reliance on advisory fees will continue for the foreseeable future and a decline in our advisory engagements or the market for advisory services generally would have a material adverse effect on our business and results of operations.

Our merger and acquisition and restructuring advisory engagements are singular in nature and do not provide for subsequent engagements

Our clients generally retain us on a non-exclusive, short-term, engagement-by-engagement basis in connection with specific merger or acquisition transactions or restructuring projects, rather than under exclusive long-term contracts. As these transactions are singular in nature and our engagements are not likely to recur, we must seek out new engagements when our current engagements are successfully completed or are terminated. As a result, high activity levels in any period are not necessarily indicative of continued high levels of activity in the next-succeeding or any other period. In addition, when an engagement is terminated, whether due to the cancellation of a transaction due to market reasons or otherwise, we may earn limited or no fees and may not be able to recoup the costs that we incurred prior to that termination.

A high percentage of our financial advisory revenues are derived from a few clients and the termination of any one advisory engagement could reduce our revenues and harm our operating results

Each year, we advise a limited number of clients. Our top ten clients accounted for 56% of our total revenues in 2007 and 39% of our total revenues in 2006. Our single largest clients accounted for 12% and 10% of our total revenues in 2007 and 2006, respectively. While the composition of the group comprising our largest clients varies significantly from year to year, we expect that our advisory engagements will continue to be limited to a relatively small number of clients and that an even smaller number of those clients will account for a high percentage of revenues in any particular year. As a result, the adverse impact on our results of operation of one lost mandate or the failure of one transaction or restructuring on which we are advising to be completed can be significant.

Investment gains from our merchant banking portfolio vary from period to period; these gains may not recur and may not be replaced by other gains; our investments may lose money

We have a limited number of investments in our merchant banking portfolio. The fair value of these investments may appreciate (or depreciate) at different rates based on a variety of factors. There were no gains from any single investment that accounted for more than 10% of total revenues recognized by the firm in 2007 or 2006. Historically, gains from investments have been significantly impacted by market factors, specific industry conditions and other factors beyond our control, and we cannot predict the timing or size of any such gains in future periods. The lack of investment gains (and any losses which may be attributable to the investments in our merchant banking portfolio) may adversely affect our stock price.

There will not be a consistent pattern in our financial results from quarter to quarter, which may result in increased volatility of our stock price

We can experience significant variations in revenues and profits during the year. 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, the timing of which is uncertain and is not subject to our control. Moreover, our ability to realize gains from our merchant banking portfolio may vary significantly from period to period and depends on a number of factors beyond our control, including most notably market and general economic conditions.

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Compared to our larger, more diversified competitors in the financial services industry, we generally experience even greater variations in our revenues and profits. This is due to our dependence on a relatively small number of transactions for most of our revenues, with the result that our earnings can be significantly affected if any particular transaction is not completed successfully, and to the fact that we lack other, more stable sources of revenue in material amounts, such as brokerage and asset management fees, which could moderate some of the volatility in advisory revenues. In addition, our merchant banking investments are adjusted for accounting purposes to fair value at the end of each quarter. The value of our investment may increase or decrease significantly depending upon market factors that are beyond our control. As a result, it may be difficult for us to achieve steady earnings growth on a quarterly basis, which could adversely affect our stock price.

In addition, in many cases we are not paid for advisory engagements that do not result in the successful consummation of a transaction or restructuring. As a result, our business is highly dependent on market conditions and the decisions and actions of our clients and interested third parties. For example, a client could delay or terminate a transaction because of a failure to agree upon final terms with the counterparty, failure to obtain necessary regulatory consents or board or shareholder approvals, failure to secure necessary financing, or adverse market conditions. Anticipated bidders for assets of a client during a restructuring transaction may not materialize or our client may not be able to restructure its operations or indebtedness due to a failure to reach agreement with its principal creditors. In these circumstances, in many cases we do not receive any advisory fees, other than the reimbursement of certain out-of-pocket expenses. The failure of the parties to complete a transaction on which we are advising, and the consequent loss of revenue to us, could lead to large adverse movements in our stock price.

Difficult market conditions could adversely affect our business in many ways

Adverse market or economic conditions would likely affect the number and size of transactions on which we provide mergers and acquisitions advice and therefore adversely affect our financial advisory fees. As our operations in the United States and Europe have historically provided most of our revenues and earnings, our revenues and profitability are particularly affected by economic conditions in these locations.

Adverse market or economic conditions as well as a slowdown of activity in the sectors in which the portfolio companies of our merchant banking funds operate could have an adverse effect on the earnings of those portfolio companies, and therefore, our earnings. In addition, in the event of a market downturn, our merchant banking funds may find fewer opportunities to exit and realize value from their investments.

In the event of an economic downturn, revenues from mergers and acquisitions advisory activities may decline, and revenues from restructuring advisory activities may not fully offset any such decline

During a period when mergers and acquisitions activity declines and debt defaults increase, we increasingly rely on the provision of restructuring and bankruptcy advisory services as a source of new business. We provide various restructuring and restructuring-related advice to companies in financial distress or their creditors or other stakeholders. A number of factors affect demand for these advisory services, including general economic conditions and the availability and cost of debt and equity financing. However, our restructuring advisory business is significantly smaller than our mergers and acquisitions advisory business, and we may not be able to offset a decline in mergers and acquisitions revenue with revenue generated from restructuring advisory assignments.

The requirement of Section 327 of the U.S. Bankruptcy Code requiring that one be a ‘‘disinterested person’’ to be employed in a restructuring was modified recently to allow a person not to be disqualified solely by virtue of its status as an underwriter of securities. The ‘‘disinterested person’’ definition of the U.S. Bankruptcy Code, as previously in effect, disqualified certain of our competitors. The new definition could allow for more financial services firms to compete for restructuring engagements as well as with respect to the recruitment and retention of professionals. If our competitors succeed in being retained in new restructuring engagements, our financial restructuring practice, and thereby our results of operations, could be materially adversely affected.

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If demand for our restructuring services decreases, we could suffer a decline in revenues, which could lower our overall profitability.

We are continuing to expand our merchant banking fund management business, which will entail increased levels of investments in high-risk, illiquid assets

We continued to expand our merchant banking fund management business by establishing a new European merchant banking fund in 2007 and may expand our merchant banking business further. Our revenues from this business are primarily derived from management fees calculated as a percentage of committed capital and/or assets under management, investment gains and profit overrides, which are earned if investments are profitable over a specified threshold. Our ability to form new merchant banking funds is subject to a number of uncertainties, including adverse market or economic conditions, competition from other fund managers, and the ability to negotiate terms with major investors. There can be no assurance that we will be able to form new merchant banking funds.

In 2007, we committed £25.0 million to our European merchant banking fund, GCP Europe. Those funds generally make investments in relatively high-risk, illiquid assets. Contributing capital to these funds is risky and we may lose some or all of the principal amount of our investments.

We may occasionally make principal investments, such as our investment in GHL Acquisition Corp., a newly organized blank check company. These investments may be in high-risk, illiquid assets, and we may be required to hold such investments for a long time. We may lose all of the money we commit to such investments.

Given the nature of the investments contemplated by GCP, GSAVP and GCP Europe, there is a significant risk that our merchant banking funds will be unable to realize their investment objectives by sale or other disposition at attractive prices or will otherwise be unable to complete any exit strategy. In particular, these risks could arise from changes in the financial condition or prospects of the portfolio company in which the investment is made, changes in technology, changes in national or international economic conditions or changes in laws, regulations, fiscal policies or political conditions of countries in which investments are made.

Our merchant banking funds will typically invest in securities of a class that are not publicly-traded. In many cases we may be prohibited by contract or by applicable securities laws from selling such securities for a period of time or otherwise be restricted from disposing of such securities. We will generally not be able to sell these securities publicly unless their sale is registered under applicable securities laws, or unless an exemption from such registration requirements is available. In particular, our merchant banking funds’ ability to dispose of investments is heavily dependent on the merger and acquisition environment, the initial public offering market, which fluctuates in terms of both volume of transactions as well as the types of companies which are able to access the market. Furthermore, the types of investments made may require a substantial length of time to liquidate.

In addition, the investments in these funds are adjusted for accounting purposes to fair value at the end of each quarter and our allocable share of these gains or losses will affect our revenue even though such market fluctuations may have no cash impact, which could increase the volatility of our quarterly earnings. It takes a substantial period of time to identify attractive merchant banking opportunities, to raise all the funds needed to make an investment and then to realize the cash value of our investment through resale. Even if a merchant banking investment proves to be profitable, it may be several years or longer before any profits can be realized in cash from such investment.

We value our merchant banking portfolio and other investments each quarter using a fair value methodology, which could result in gains or losses to the firm; the fair value methodology may over- or under-state the ultimate value we will realize; clawbacks and losses could affect our stock price adversely

The firm makes principal investments in GCP, GSAVP and GCP Europe and similar vehicles. As of December 31, 2007, the value of the firm's principal investment in GCP, GSAVP and GCP Europe and other investments was $98.0 million. The value of our fund investments is determined on a quarterly basis by the general partner of each fund based on the fair value of such investments. The

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fair value of each investment is determined based on a number of factors including the length of time for which the investment has been held, the trading price of the shares (in the case of publicly traded securities), restrictions on transfer and other recognized valuation methodologies. Significant changes in the public equity markets may have a material effect on the fair value of our principal investments and therefore on our results of operations. The values at which the principal investments are carried on our books may increase or decrease depending on a number of factors beyond our control and may vary significantly from period to period. In addition, because of the inherent uncertainty of valuations, the estimated fair values of non-public securities may differ significantly from the values that would have been used had a ready market for the securities existed. It may not be possible to sell these investments at the fair values attributed to them in our financial statements. Moreover, that portion of our merchant banking revenue which is attributable to profit overrides is subject to repayment to the limited partners of our merchant banking funds if certain performance hurdles for those funds are not met (which we refer to as a ‘‘clawback’’). As a result, our stock price could be adversely affected by losses in the value of these investments or clawbacks.

Investors in our merchant banking funds may elect remove us as the general partner of those funds at any time without cause. These events would lead to a decrease in our revenues, which could be substantial and lead, therefore, to a material adverse effect on our business.

The investors in our merchant funds may, subject to certain conditions, act at any time to remove us as the general partner in those funds without cause, resulting in a reduction in management fees we earn from such funds, and a significant reduction in the amounts of profit overrides we could earn from those funds. In addition to the significant negative impact on our revenue and earnings, the occurrence of such an event with respect to any of our funds would likely result in significant reputational damages as well.

A significant deterioration in the credit markets or the failure of one or more banking institutions could adversely affect our ability to access the cash invested by us

A significant portion of our assets consist of cash and cash equivalents. We have invested these assets in instruments which we believe are highly liquid, and monitor developments relating to the liquidity of these investments on a regular basis, but in the event of a significant deterioration of the credit markets or the failure of one or more banking institutions, there can be no assurance that we will be able to liquidate these assets or access our cash. Our inability to access our cash investments could have a material adverse effect on our liquidity and result in a charge to our earnings which could have a material adverse effect on the value of our stock

We face strong competition from far larger firms and small independent firms

The investment banking industry is intensely competitive and we expect it to remain so. We compete on the basis of a number of factors, including the quality of our advice and service, innovation, reputation and price. We believe we may experience pricing pressures in our areas of operation in the future as some of our competitors seek to obtain market share by reducing prices. We are a relatively small investment bank, with 214 employees (including managing directors and senior advisors) on December 31, 2007 and total revenues of approximately $400.4 million in 2007. Most of our competitors in the investment banking industry have a far greater range of products and services, greater financial and marketing resources, larger customer bases, greater name recognition, more managing directors to serve their clients’ needs, greater global reach and more established relationships with their customers than we have. These larger and better capitalized competitors may be better able to respond to changes in the investment banking market, to compete for skilled professionals, to finance acquisitions, to fund internal growth and to compete for market share generally.

The scale of our competitors has increased over the years as a result of substantial consolidation among companies in the investment banking industry. In addition, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired financial advisory practices and broker-dealers or have merged with other financial institutions. These firms have the ability to offer a wide range of products, from loans, deposit-taking and insurance to brokerage, asset management and investment banking services, which may enhance their competitive position. They also have the ability to support investment banking with commercial banking, insurance and other financial services revenues in an effort to gain market share, which could result in pricing pressure in our businesses. In particular, the ability to provide financing as well as advisory services has become an important advantage for some of our larger competitors, and because we are unable to provide such financing we may be unable to compete for advisory clients in a significant part of the advisory market.

In addition to our larger competitors, over the last few years, a number of new, smaller independent investment banks have emerged which offer independent advisory services. These firms differentiate themselves from the large multi-line investment banks and compete with us for business where independent, unconflicted advice is sought.

Strategic investments or acquisitions and joint ventures may result in additional risks and uncertainties in our business.

We intend to grow our core business through both internal expansion and through strategic investments, acquisitions or joint ventures. To the extent we make strategic investments or acquisitions or enter into joint ventures, we face numerous risks and uncertainties combining or integrating the relevant businesses and systems, including the need to combine accounting and data processing systems and management controls. In the case of joint ventures, we are subject to additional risks and uncertainties in that we may be dependent upon, and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our control. In addition, conflicts or disagreements between us and our joint venture partners may negatively impact our business.

To the extent that we pursue business opportunities outside the United States, we will be subject to political, economic, legal, operational and other risks that are inherent in operating in a foreign country, including risks of possible nationalization, expropriation, price controls, capital controls, exchange controls and other restrictive governmental actions, as well as the outbreak of hostilities. In many countries, the laws and regulations applicable to the financial services industries are uncertain and evolving, and it may be difficult for us to determine the exact requirements of local laws in every market. Our inability to remain in compliance with local laws in a particular foreign market could have a significant and negative effect not only on our businesses in that market but also on our reputation generally. We are also subject to the enhanced risk that transactions we structure might not be legally enforceable in the relevant jurisdictions.

Greenhill is controlled by its managing directors whose interests may differ from those of our public shareholders

Our managing directors and their affiliated entities collectively own approximately 58% of the total shares of common stock outstanding at December 31, 2007. Robert F. Greenhill and members of his family beneficially own approximately 18% of our common stock.

As a result of these shareholdings, Robert F. Greenhill and our other employees currently are able to exercise significant influence over the election of our entire board of directors, the management and policies of Greenhill and the outcome of any corporate transaction or other matter submitted to the shareholders for approval, including mergers, consolidations and the sale of all or substantially all of the assets of Greenhill. Our employees currently are able to prevent or cause a change in control of Greenhill.

Employee misconduct could harm Greenhill and is difficult to detect and deter

There have been a number of highly publicized cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur at our company. For example, misconduct by employees could involve the improper use or disclosure of confidential information, which could result in regulatory sanctions and serious reputational or financial harm. Our advisory business often requires that we deal with client confidences of the greatest significance to our clients, improper use of which may have a material adverse impact on our clients. Any breach of our clients' confidences as a result of employee misconduct may impair our ability to attract and retain advisory clients. It is not always possible to deter employee misconduct and the precautions we take to detect and prevent this activity may not be effective in all cases.

We may face damage to our professional reputation and legal liability to our clients and affected third parties if our services are not regarded as satisfactory

As an investment banking firm, we depend to a large extent on our relationships with our clients and our reputation for integrity and high-caliber professional services to attract and retain clients. As a result, if a client is not satisfied with our services, it may be more damaging in our business than in other businesses. Moreover, our role as advisor to our clients on important mergers and acquisitions or restructuring transactions involves complex analysis and the exercise of professional judgment, including rendering ''fairness opinions'' in connection with mergers and other transactions. Our activities may subject us to the risk of significant legal liabilities to our clients and aggrieved third parties, including shareholders of our clients who could bring securities class actions against us. In recent years, the volume of claims and amount of damages claimed in litigation and regulatory proceedings against financial intermediaries have been increasing. These risks often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. Our engagements typically include broad indemnities from our clients and provisions to limit our exposure to legal claims relating to our services, but these provisions may not protect us or may not be enforceable in all cases. As a result, we may incur significant legal expenses in defending against litigation. Substantial legal liability or significant regulatory action against us could have material adverse financial effects or cause significant reputational harm to us, which could seriously harm our business prospects.

We are subject to extensive regulation in the financial services industry

We, as a participant in the financial services industry, are subject to extensive regulation in the United States and elsewhere. In the U.S., our broker-dealer subsidiary, Greenhill & Co., LLC is subject to regulation in the United States, including by the SEC and FINRA. In the U.K., our subsidiaries, Greenhill & Co. International LLP and Greenhill & Co. Europe LLP, as well as Greenhill Capital Partners Europe LLP, are subject to regulation by the Financial Services Authority. Any failure to comply with applicable laws and regulations could result in fines, suspensions of personnel or other sanctions, including revocation of the registration of us or any of our broker-dealer or investment advisor subsidiaries. Even if a sanction imposed against us or our personnel is small in monetary amount, the adverse publicity arising from the imposition of sanctions against us by regulators could harm our reputation and cause us to lose existing clients or fail to gain new clients. Our U.S. broker-dealer and our U.K. and German investment banking affiliates are subject to periodic examinations by regulatory authorities. We cannot predict the outcome of any such examination. Our business may also be subject to regulation by non-U.S. governmental and regulatory bodies and self-regulatory authorities in other countries where Greenhill operates.

Some of our subsidiaries are registered as investment advisors with the SEC. Registered investment advisors are subject to the requirements and regulations of the Investment Advisors Act of 1940. Such requirements relate to, among other things, recordkeeping and reporting requirements, disclosure requirements, limitations on transactions between an advisor and its clients or between an advisor's clients, as well as general anti-fraud prohibitions.

In addition, as a result of recent highly publicized financial scandals, the regulatory environment in which we operate may be subject to further regulation. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to our clients may also adversely affect our business. Further, financial services firms are subject to numerous conflicts of interest or perceived

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conflicts. While we have adopted various policies, controls and procedures to address or limit actual or perceived conflicts, these policies and procedures carry attendant costs and may not be adhered to by our employees. Failure to adhere to these polices and procedures may result in regulatory sanctions or client litigation.

Legal restrictions on our clients may reduce the demand for our services

New laws or regulations or changes in enforcement of existing laws or regulations applicable to our clients may also adversely affect our businesses. For example, changes in antitrust enforcement could affect the level of mergers and acquisitions activity and changes in regulation could restrict the activities of our clients and their need for the types of advisory services that we provide to them.

Fees earned in connection with advisory assignments in the bankruptcy context may be subject to challenge and reduction

In our advisory business we from time to time advise debtors or creditors of companies which are involved in bankruptcy proceedings in the United States Bankruptcy Courts. Under the applicable rules of those courts, our fees are subject to approval by the court and other interested parties have the ability to challenge the payment of those fees. Fees earned and reflected in our revenues may from time to time be subject to successful challenges, which could result in a reduction of revenues and affect our stock price adversely.

Our share price may decline due to the large number of shares eligible for future sale

Sales of substantial amounts of common stock by our managing directors and other employees, or the possibility of such sales, may adversely affect the price of the common stock and impede our ability to raise capital through the issuance of equity securities.

As of December 31, 2007, there were 26,729,886 shares of common stock outstanding, which is net of 4,502,350 shares of common stock held in treasury. Subject to certain exceptions, 15,252,287 shares of common stock may not be sold until May 11, 2009, except in one or more underwritten public offerings approved by our underwritten offering committee which consists of Robert F. Greenhill (who chairs the committee), Scott L. Bok and Simon A. Borrows. Approval of an underwritten offering by the committee will require approval of either the chair of the committee or the joint approval of the other two members of the committee. Accordingly, Robert Greenhill alone, or Scott Bok and Simon Borrows together, may permit a sale of shares of our common stock that could adversely affect the market price of our common stock. After May 11, 2009, there will be no remaining contractual restrictions on resale on the shares issued to our managing directors at the time of the initial public offering. In addition, 5,331,599 of the shares of common stock outstanding held by Robert F. Greenhill through his affiliated entities and by Lord James Blyth are eligible for resale pursuant to Rule 144 and are not subject to such contractual restrictions.

A significant portion of the compensation of our managing directors is paid in restricted stock units and the shares we expect to issue on the vesting of those restricted stock units could result in a significant increase in the number of shares of common stock outstanding

At the time of and since our initial public offering we have awarded our directors, managing directors and other employees restricted stock units. At December 31, 2007, 1,746,363 restricted stock units were outstanding. A significant portion of the compensation of our managing directors has been paid in restricted stock units. Each restricted stock unit represents the holder's right to receive one share of our common stock or a cash payment equal to the fair value thereof, at our election, following the applicable vesting date. Awards of restricted stock units to our managing directors and other employees generally vest either ratably over a five year period beginning on the first anniversary of the grant date or do not vest until the fifth anniversary of their grant date, when they vest in full. Shares will be issued in respect of restricted stock units only under the circumstances specified in the applicable award agreements and the equity incentive plan, and may be forfeited in certain cases. Assuming all of the conditions to vesting are fulfilled, shares in respect of the 1,746,363 restricted

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stock units that are outstanding as of December 31, 2007 would be issued as follows: 274,496 shares in 2008, 284,306 shares in 2009, 565,991 shares in 2010, 503,200 shares in 2011 and 118,370 shares in 2012. While we have historically been able to repurchase in the open market and through privately negotiated transactions a significant number of our shares of common stock, if we were to cease to or were unable to repurchase shares of common stock, the number of shares outstanding would increase over time, diluting the ownership of our existing stockholders.

The market price of our common stock may decline

The price of the common stock may fluctuate widely, depending upon many factors, including the perceived prospects of Greenhill and the financial services industry in general, differences between our actual financial and operating results and those expected by investors, the performance of our merchant banking portfolio, changes in general economic or market conditions and broad market fluctuations. Declines in the price of our stock may adversely affect our ability to recruit and retain key employees, including our managing directors.

The historical and unaudited pro forma consolidated financial information in this Form 10-K may not permit you to predict our costs of operations

The historical consolidated financial information in this Form 10-K relating to periods before May 11, 2004 does not reflect the added costs that we have incurred since that date as a public company or the changes that have occurred in our capital structure and operations as a result of our initial public offering. Because we operated through partnerships and limited liability companies prior to our transition to corporate form, at the time of our initial public offering in May 2004, we paid little or no taxes on profits and paid limited salaries to our managing directors. In preparing our unaudited pro forma consolidated financial information for 2004 and years prior, we deducted and charged to earnings estimated income taxes based on an estimated tax rate, which may be different from our actual tax rate in the future, and estimated salaries, payroll taxes and benefits for our managing directors. The estimates we used in our unaudited pro forma consolidated financial information may not be similar to our actual experience as a public corporation. For more information on our historical financial statements and unaudited pro forma consolidated financial information, see ‘‘Unaudited Pro Forma Consolidated Financial Information’’ included elsewhere in this Form 10-K.

We have experienced rapid growth over the past several years, which may be difficult to sustain and which may place significant demands on our administrative, operational and financial resources

Our future growth will depend, among other things, on our ability to successfully identify practice groups and individuals to join our firm. It may take more than one year for us to determine whether new professionals will be effective. During that time, we may incur significant expenses and expend significant time and resources toward training, integration and business development. If we are unable to hire and retain successful professionals, we will not be able to implement our growth strategy and our financial results may be materially adversely affected.

Sustaining growth will also require us to commit additional management, operational, and financial resources to this growth and to maintain appropriate operational and financial systems to adequately support expansion. There can be no assurance that we will be able to manage our expanding operations effectively or that we will be able to maintain or accelerate our growth, and any failure to do so could adversely affect our ability to generate revenue and control our expenses.

We may be required to make substantial payments under certain indemnification agreements

In connection with our initial public offering and conversion to corporate form in May 2004, we entered into agreements that provide for the indemnification of our managing directors, directors, officers and certain other persons authorized to act on our behalf against certain liabilities of our managing directors relating to the time they were members or partners of Greenhill & Co. Holdings, LLC or its affiliates, and certain tax liabilities of our members that may arise in respect of periods prior to the offering when we were a limited liability company. We may be required to make substantial payments under these indemnification agreements, which could adversely affect our financial condition.

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Cautionary Statement Concerning Forward-Looking Statements

We have made statements under the captions ‘‘Business’’, ‘‘Risk Factors’’, and ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations’’ and in other sections of this Form 10-K that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as ‘‘may’’, ‘‘might’’, ‘‘will’’, ‘‘should’’, ‘‘expect’’, ‘‘plan’’, ‘‘anticipate’’, ‘‘believe’’, ‘‘estimate’’, ‘‘predict’’, ‘‘potential’’ or ‘‘continue’’, the negative of t 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’’.

These risks are not exhaustive. Other sections of this Form 10-K may include additional factors which could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

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 update any of these forward-looking statements after the date of this filing to conform our prior statements to actual results or revised expectations.

Forward-looking statements include, but are not limited to, the following:

- the statements about (i) our expectation that our total compensation and benefits, including that payable to our managing directors, will not exceed 50% of total revenues each year in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Compensation and Benefits’’ and (ii) our expectation to make certain principal investments and our expectation of revenues from a profit override and from gains on investments of our capital beginning in 2004 in ‘‘Business – Principal Sources of Revenue – Merchant Banking Fund Management’’ and ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources’’;
- the statement about our expectation that revenues from our financial advisory business will continue to account for the majority of our revenues in the near to medium-term in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview’’;
- the statement about our expectations that we will expand our merchant banking management business in ‘‘Overview – Merchant Banking Fund Management’’;
- the statement about new managing directors adding incrementally to our revenue and income growth potential in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview’’;
- the statements about our expectations that the profit overrides we earn in our merchant banking management business will or could

increase in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Merchant Banking Fund Management and Other Revenues’’;

• the statement about our expectation that operating costs will increase as we grow our business in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-Compensation Expense’’; and

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- the discussion of our ability to meet liquidity needs in ‘‘Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources’’.

Item 1B. Unresolved Staff Comments

There are no unresolved written comments that were received from the SEC staff 180 days or more before the end of the year relating to our periodic or current reports under the Securities Act of 1934.

Item 2. Properties

At December 31, 2007, we occupied five offices, all of which are leased. Our headquarters are located at 300 Park Avenue, New York, New York, and comprise approximately 70,000 square feet of leased space, pursuant to lease agreements expiring in 2010 (with options to renew for five years). In London, we lease approximately 19,000 square feet of office space (of which 6,000 square feet is sublet) at Lansdowne House, 57 Berkeley Square in London, pursuant to lease agreements expiring in 2013. Our Frankfurt office is located at Neue Mainzer Strasse 52 and consists of approximately 12,800 square feet of leased space, pursuant to a lease agreement expiring in 2015 (with options to renew for five years). Our Dallas office is located at 300 Crescent Court and consists of approximately 6,000 square feet, pursuant to a lease agreement expiring in 2013. Our Toronto office is located at 200 Bay Street and consists of approximately 3,600 square feet, pursuant to a lease agreements expiring in 2008.

Item 3. 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 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of our fiscal year ended December 31, 2007.

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers are Scott L. Bok (Co-Chief Executive Officer), Simon A. Borrows (Co-Chief Executive Officer), Robert H. Niehaus (Chairman, Greenhill Capital Partners), John D. Liu (Chief Financial Officer and Co-Head of U.S. Mergers and Acquisitions), Harold J. Rodriguez (Managing Director – Finance, Regulation & Operations, Chief Compliance Officer and Treasurer), and Ulrika Ekman (General Counsel and Secretary). Set forth below is a brief biography of each executive officer.

Scott L. Bok, 48, has served as our Co-Chief Executive Officer since October 2007, served as U.S. President from January 2004 until October 2007 and has been a member of our Management Committee since its formation in January 2004. In addition, Mr. Bok has been a director of Greenhill & Co., Inc. since its incorporation in March 2004. From 2001 until the formation of our Management Committee, Mr. Bok participated on the two-person administrative committee responsible for managing Greenhill’s operations. Mr. Bok has also served as a Senior Member of Greenhill Capital Partners since its formation. Mr. Bok joined Greenhill as a managing director in February 1997. Before joining Greenhill, Mr. Bok was a managing director in the mergers, acquisitions and restructuring department of Morgan Stanley & Co., where he worked from 1986 to 1997, based in New York and London. From 1984 to 1986, Mr. Bok practiced mergers and acquisitions and securities law in New York with Wachtell, Lipton, Rosen & Katz.

Mr. Bok is a member of the board of directors of GHL Acquisition Corp., Heartland Payment Systems, Inc. and various private companies. Mr. Bok is also a member of the Investment Committee of Greenhill Capital Partners.

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Simon A. Borrows, 49, has served as our Co-Chief Executive Officer since October 2007, served as our Non-U.S. President from January 2004 until October 2007 and been a member of our Management Committee since its formation in January 2004. In addition, Mr. Borrows has been a director of Greenhill & Co., Inc. since its incorporation in March 2004. From 2001 until the formation of our Management Committee, Mr. Borrows participated on the two-person administrative committee responsible for managing Greenhill's operations. Mr. Borrows joined Greenhill as a managing director in June 1998. Prior to joining Greenhill, Mr. Borrows was the managing director of Baring Brothers International Limited (the corporate finance division of ING Barings), a position Mr. Borrows had held since 1995. Mr. Borrows was a director of Baring Brothers from 1989 to 1998. Prior to joining Baring Brothers in 1988, Mr. Borrows worked in the corporate finance department of Morgan Grenfell. Mr. Borrows is also a member of the Investment Committee of Greenhill Capital Partners and Greenhill Capital Partners Europe.

Robert H. Niehaus, 52, has served as the Chairman of Greenhill Capital Partners since June 2000. Mr. Niehaus has been a member of our Management Committee since its formation in January 2004. Mr. Niehaus joined Greenhill in January 2000 as a managing director to begin the formation of Greenhill Capital Partners. Prior to joining Greenhill, Mr. Niehaus spent 17 years at Morgan Stanley & Co., where he was a managing director in the merchant banking department from 1990 to 1999. Mr. Niehaus was vice chairman and a director of the Morgan Stanley Leveraged Equity Fund II, L.P., a $2.2 billion private equity investment fund, from 1992 to 1999, and was vice chairman and a director of Morgan Stanley Capital Partners III, L.P., a $1.8 billion private equity investment fund, from 1994 to 1999. Mr. Niehaus was also the chief operating officer of Morgan Stanley's merchant banking department from 1996 to 1998. Mr. Niehaus is a director of GHL Acquisition Corp., Heartland Payment Systems, Inc., Exco Holdings, Inc. and various private companies. Mr. Niehaus is also a member of the Investment Committee of Greenhill Capital Partners Europe.

John D. Liu, 39, became Chief Financial Officer and a managing director of Greenhill in January 2004 and Co-Head, U.S. Mergers and Acquisitions in January 2007. Mr. Liu joined Greenhill in May 1996 as an Associate. Mr. Liu was promoted to Vice President in January 2000 and to Principal in January 2002. Prior to joining Greenhill, Mr. Liu was an associate at Wolfensohn & Co., a mergers & acquisitions firm, from 1995 to 1996. Mr. Liu was an analyst in investment banking at Donaldson, Lufkin & Jenrette from 1990 to 1992. Mr. Liu is also a member of the Investment Committee of GSAVP.

Harold J. Rodriguez, Jr., 52, has served as our Managing Director – Finance, Regulation and Operations and as our Chief Compliance Officer and Treasurer since January 2004. From November 2000 through December 2003, Mr. Rodriguez was Chief Financial Officer of Greenhill. Mr. Rodriguez has been with Greenhill since June 2000. Prior to joining Greenhill, Mr. Rodriguez was Executive Vice-President and Chief Financial Officer of MVL Group, Inc. from January 2000 to May 2000. Prior to that, Mr. Rodriguez was Vice President – Finance and Controller of Silgan Holdings, Inc., a major consumer packaging goods manufacturer, from 1987 to 2000. From 1978 to 1987, Mr. Rodriguez worked with Ernst & Young, where he was a senior manager specializing in taxation.

Ulrika Ekman, 45, has served as our General Counsel and Secretary since May 2004. Prior to joining Greenhill, Ms. Ekman was a partner in the mergers and acquisitions group of the corporate department of Davis Polk & Wardwell, where she practiced law since 1990. She is a director of a private company.

Our Board of Directors has seven members, three of whom are employees (Robert F. Greenhill, Scott L. Bok and Simon A. Borrows) and four of whom are independent, John C. Danforth, Steven F. Goldstone, Stephen L. Key and Isabel V. Sawhill. A brief biography of each of Ms. Sawhill and Messrs. Danforth, Greenhill, Goldstone and Key is set forth below.

Robert F. Greenhill, 71, our founder, has served as our Chairman since the time of our founding in 1996, served as Chief Executive Officer from 1996 until October 2007 and was a member of our Management Committee from its formation in January 2004 until October 2007. In addition, Mr. Greenhill has been a director of Greenhill & Co., Inc. since its incorporation in March 2004. Prior

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to founding and becoming Chairman of Greenhill, Mr. Greenhill was chairman and chief executive officer of Smith Barney Inc. and a member of the board of directors of the predecessor to the present Travelers Corporation (the parent of Smith Barney) from June 1993 to January 1996. From January 1991 to June 1993, Mr. Greenhill was president of, and from January 1989 to January 1991, Mr. Greenhill was a vice chairman of, Morgan Stanley Group, Inc. Mr. Greenhill joined Morgan Stanley in 1962 and became a partner in 1970. In 1972, Mr. Greenhill directed Morgan Stanley's newly-formed mergers and acquisitions department. In 1980, Mr. Greenhill was named director of Morgan Stanley's investment banking division, with responsibility for domestic and international corporate finance, mergers and acquisitions, merchant banking, capital markets services and real estate. Also in 1980, Mr. Greenhill became a member of Morgan Stanley's management committee. Mr. Greenhill is also a member of the Investment Committee of Greenhill Capital Partners.

John C. Danforth, 71, has served on our Board of Directors since February of 2005. He served as the United States Representative to the United Nations between July of 2004 and January of 2005 and, except during his service at the United Nations, has been a Partner in the law firm of Bryan Cave LLP since 1995. He served in the United States Senate from 1976 to 1995. Senator Danforth is a Director of Cerner Corporation. He is ordained to the clergy of the Episcopal Church.

Steven F. Goldstone, 62, has served on our Board of Directors since July of 2004. He currently manages Silver Spring Group, a private investment firm. From 1995 until his retirement in 2000, Mr. Goldstone was chairman and chief executive officer of RJR Nabisco, Inc. (which was subsequently named Nabisco Group Holdings following the reorganization of RJR Nabisco, Inc.). Prior to joining RJR Nabisco, Inc., Mr. Goldstone was a partner at Davis Polk & Wardwell, a law firm in New York City. He is also non-executive chairman of ConAgra Foods, Inc. and a director of Merck & Co. and Trane, Inc. Mr. Goldstone is also a director of several private companies and non-profit organizations.

Stephen L. Key, 64, has served on our Board of Directors since May 2004. Since 2003, Mr. Key has been the sole proprietor of Key Consulting, LLC. Since 2001, he has served as the Vice Chairman and Chief Financial Officer of J.D. Watkins Enterprises, Inc. and as a member of its Advisory Board of Directors. From 1995 to 2001, Mr. Key was the Executive Vice President and Chief Financial Officer of Textron Inc., and from 1992 to 1995, Mr. Key was the Executive Vice President and Chief Financial Officer of ConAgra, Inc. From 1968 to 1992, Mr. Key worked at Ernst & Young, serving in various capacities, including as the Managing Partner of Ernst & Young's New York Office from 1988 to 1992. Mr. Key is a Certified Public Accountant in the State of New York. Mr. Key is also a member of the Board of Trustees of the Rhode Island School of Design and is a director of a private company.

Isabel V. Sawhill, 70, has served on our Board of Directors since July of 2004. Dr. Sawhill currently serves as a Senior Fellow (Economic Studies) of the Brookings Institution. From 2003 until 2006, Dr. Sawhill was Vice President and Director of Economic Studies at the Brookings Institution and prior to that had been a senior fellow at Brookings since 1997. From 1995 until 1997 she was a Senior Fellow at the Urban Institute. From 1993 until 1995, she served as an Associate Director at the Office of Management and Budget. Ms. Sawhill is a member of the Board of Directors of a number of non-profit organizations.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market on which our common stock (ticker: GHL) is traded is the New York Stock Exchange. The following tables set forth, for the fiscal quarters indicated, the high and low sales prices per share of our common stock, as reported in the consolidated transaction reporting system, and the quarterly dividends declared since our initial public offering.

Fiscal 2007	Sales Price		Dividends per share of common stock
	High	Low	
First quarter	$ 75.65	$59.68	$ 0.25
Second quarter	73.73	59.89	0.25
Third quarter	68.87	51.05	0.38
Fourth quarter	75.80	64.06	0.38

Fiscal 2006	Sales Price		Dividends per share of common stock
	High	Low	
First quarter	$ 66.59	$ 53.50	$ 0.16
Second quarter	75.70	52.01	0.16
Third quarter	67.02	51.20	0.19
Fourth quarter	74.05	65.51	0.19

As of February 21, 2008, there were approximately 33 holders of record of the firm's common stock.

On February 21, 2008, the last reported sales price for the firm's common stock on the New York Stock Exchange was $67.17 per share.

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The following performance graph and related information shall not be deemed ‘‘soliciting material’’ or to be ‘‘filed’’ with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent we specifically incorporate it by reference into such filing. Our stock price performance shown in the graph below is not indicative of future stock price performance.

ASSUMES $100 INVESTED ON MAY 6, 2004
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING DECEMBER 31, 2007

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The following table provides information as of December 31, 2007 regarding securities issued under our equity compensation plans that were in effect during fiscal 2007.

Plan Category		Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the Second Column)
Equity compensation plans approved by security holders	None	—	$ —	—
Equity compensation plans not approved by security holders	Equity Incentive Plan(1)	1,746,363	— (2)	17,338,031
Total		1,746,363	—	17,338,031

(1) Our Equity Incentive Plan was established prior to our initial public offering in May 2004 and, as a result, did not require approval by security holders. See Note 11 of the Consolidated Financial Statements for a description of our Equity Incentive Plan.

(2) The restricted stock units awarded under our Equity Incentive Plan were granted at no cost to the persons receiving them and do not have an exercise price.

Share Repurchases in the Fourth Quarter of 2007

Period	Total Number of Shares Purchased(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) October 1 – October 31 — $ — — $ 37,769,867 November 1 – November 30 — — — 37,769,867 December 1 – December 31 — — — 37,769,867

(1)

Excludes 1,717 shares the Company is deemed to have repurchased at $73.65 from employees in conjunction with the payment of tax liabilities in respect of stock delivered to employees in settlement of restricted stock units. (2) On January 31, 2008, we announced that our Board of Directors has authorized us to purchase up to $100.0 million in shares of our common stock, all of which remains available for use.

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Item 6. Selected Financial Data

As of or for the Year Ended December 31,	2007	2006	2005	2004	2003
(in thousands, except per share and number of employee data)					
Statement of Income Data:					
Total revenues	$ 400,422	$ 290,646	$ 221,152	$ 151,853	$ 126,679
% change from prior year	38 %	31 %	46 %	20 %	12 %
Compensation & benefit expense	183,456	134,134	102,441	61,447	27,094
Non-compensation expense	39,765	37,355	28,711	26,898	18,924
Income before tax and minority interest(a)(b)	177,201	119,157	90,000	63,508	80,661
Net income	115,276	75,666	55,532	38,316	45,400
Diluted earnings per share	4.01	2.55	1.81	1.33	n/a
Balance Sheet Data:					
Total assets	$ 374,213	$ 297,731	$ 234,941	$ 177,016	$ 60,638
Total liabilities	228,814	139,939	116,996	49,273	18,209
Minority interest	2,253	2,231	3,230	504	10,172
Stockholders’ and members’ equity	143,146	155,561	114,715	127,239	32,257
Dividends declared per share	1.26	0.70	0.44	0.16	n/a
Pro Forma Data (unaudited)(a)					
Pro forma income before tax and minority interest(b)	$ 177,201	$ 119,157	$ 90,000	$ 57,275	$ 50,749
Pro forma net income(c)(d)	115,276	75,666	55,532	34,327	29,435
% change from prior year					
Pro forma diluted earnings per share	4.01	2.55	1.81	1.19	1.18
Pro forma diluted average shares outstanding(e)	28,728	29,628	30,672	28,789	25,000
Selected Data and Ratios (unaudited)					
Income before tax and minority interest as a percentage of revenues	44 %	41 %	41 %	42 %	64 %
Revenues per employee(f)	1,930	1,651	1,591	1,298	1,201
Employees(g):					
North America	131	116	90	76	63
Europe	83	85	61	51	44
Total employees	214	201	151	127	107

(a) Prior to the initial public offering the firm was a limited liability company and its earnings did not fully reflect the compensation expense the firm pays its managing directors or taxes that it pays as a public corporation. Additionally, a portion of the firm’s earnings attributable to its European operations was recorded as minority interest. The firm believes that the pro forma results, which increase compensation expense and tax expense to amounts it expects it would have paid as a corporation and eliminate the minority interest, more accurately depict its results as a public company. During the years ended December 31, 2007, 2006 and 2005, the firm operated as a public company for the entire period, and the pro forma amounts presented above reflect actual results for that period. The amounts for the year ended December 31, 2004 include the pro forma results of operations as if the firm operated as a public company during the period January 1, 2004 to the date of its public offering combined with the actual results of operations for the period after the public offering. The amounts for the year ended December 31, 2003 reflect pro forma results of operations as if the initial public offering had occurred as of January 1 of that year.

Table of Contents (b) Because the firm had been a limited liability company prior to the initial public offering, payments for services rendered by its managing directors generally had been accounted for as distributions of members' capital rather than as compensation expense. As a corporation, the firm includes all payments for services rendered by managing directors in compensation and benefits expense.

Compensation and benefits expense, reflecting the firm's conversion to corporate form, consists of cash compensation and non-cash compensation related to the restricted stock units awarded to employees at the time of the firm's initial public offering consummated on May 11, 2004, as well as any additional restricted stock units awarded in the future. It is the firm's policy that total compensation and benefits, including that payable to the managing directors, will not exceed 50% of total revenues each year (although the company retains the ability to change this policy in the future). Adjustments to increase compensation expense for the years ended December 31, 2004 and 2003 of $6.2 million and $29.9 million, respectively, have been made to record total compensation and benefits expense at 45% of total revenues, consistent with the percentage of compensation paid in 2004 for the period after the initial public offering.

(c) For the years ended December 31, 2004 and 2003, historical income before tax has been increased by $6.5 million and $32.2 million, respectively, to reflect the elimination on a pro forma basis of minority interests held by the European managing directors in Greenhill & Co. International LLP. (d) As a limited liability company, the firm was generally not subject to income taxes except in foreign and local jurisdictions. The pro forma provision for income taxes for the year ended December 31, 2004 includes an adjustment of $4.2 million for assumed federal, foreign, state and local income taxes as if the company were a C Corporation for the period January 1, 2004 to the date of the public offering at an assumed effective rate of 42% combined with the actual tax provision for the period after the public offering. For the year ended December 31, 2003, an adjustment of $18.3 million was made to adjust the firm's effective tax rate to 42%, reflecting assumed federal, foreign, state and local income taxes as if it were a corporation on January 1 of that year. (e) For 2004 the actual and pro forma numbers of common shares outstanding give effect to (i) 25,000,000 shares issued in connection with the reorganization of the firm in conjunction with the initial public offering as if it occurred on January 1, 2004, (ii) the weighted average of the 5,750,000 shares and the common stock equivalents issued in conjunction with and subsequent to the initial public offering and (iii) the 9,346 shares of treasury stock purchased by the firm. For 2003 the pro forma number of common shares outstanding gives effect to the shares issued in connection with the reorganization of the firm as if it occurred on January 1 of that year. (f) Total revenues divided by average number of employees (including managing directors and senior advisors) in each period. (g) Includes our managing directors and senior advisors.

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Reconciliation of Unaudited Pro Forma Data to Historical Financial Information

The following table reconciles unaudited pro forma income before tax and minority interest to income before tax and minority interest, for 2007, 2006 and 2005, actual results are presented:

For the Year Ended December 31,	2007	2006	2005	2004	2003
	(in thousands)				
Income before tax and minority interest	$ 177,201	$ 119,157	$ 90,000	$ 63,508	$ 80,661
Add back (deduct):					
Historical compensation and benefits	—	—	—	61,447	27,094
Pro forma compensation and benefits	—	—	—	(67,680)	(57,006)
Pro forma income before tax and minority interest	$ 177,201	$ 119,157	$ 90,000	$ 57,275	$ 50,749

The following table reconciles unaudited pro forma net income to net income, for 2007, 2006 and 2005, actual results are presented:

For the Year Ended December 31,	2007	2006	2005	2004	2003
	(in thousands)				
Net income	$ 115,276	$ 75,666	$ 55,532	$ 38,316	$ 45,400
Add back (deduct):					
Historical compensation and benefits	—	—	—	61,447	27,094
Pro forma compensation and benefits	—	—	—	(67,680)	(57,006)
Minority interest	—	—	—	6,487	32,223
Historical taxes	—	—	—	18,705	3,038
Pro forma taxes	—	—	—	(22,948)	(21,314)
Pro forma net income	$ 115,276	$ 75,666	$ 55,532	$ 34,327	$ 29,435

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

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

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

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economic conditions in the debt and equity markets and other factors which affect the industries in which we invest, such as commodity prices.

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

Business Environment

Economic and global financial market conditions can materially affect our financial performance. See ‘‘Risk Factors.’’ Net income and revenues in any period may not be indicative of full-year results or the results of any other period and may vary significantly from year to year and quarter to quarter.

Financial advisory revenues were $366.7 million for the year ended December 31, 2007 compared to $209.8 million for the year ended December 31, 2006, which represents an increase of 75%. At the same time, worldwide completed M&A volume increased by 25%, from $3,055 billion in 2006 to $3,830 billion in 2007[1], and aggregate advisory revenue reported by the four largest U.S.-based investment banks (by revenue) that publicly disclose their advisory fee revenue increased by 53% from $6.4 billion in 2006 to $9.9 billion in 2007[2]. From a longer term perspective, our 2007 financial advisory revenues were 241% higher than in 2002, while the aggregate advisory revenue reported by the same four investment banks was 175% higher than in 2002.

Merchant banking and other revenues were $33.7 million for the year ended December 31, 2007 compared to $80.8 million in the year ended December 31, 2006, which represents a decrease of 58%. Merchant banking revenues principally consisted of realized and unrealized gains on investments in GCP, merchant banking profit overrides and management fees. While the amount of management fees earned from our existing merchant banking funds are principally a function of the amount of capital invested (in the case of GCP I) or committed (in the case of GCP II, GSAVP and GCP Europe), those portions of merchant banking revenues consisting of gains and profit overrides may vary considerably depending on economic conditions and the performance of the individual companies in which we invest. During 2006, several GCP portfolio companies benefited from favorable conditions in the financing markets.

Adverse changes in general economic conditions, commodity prices, credit and public equity markets could impact negatively the amount of financial advisory and merchant banking revenue realized by the firm.

Results of Operations

The following tables set forth data relating to Greenhill’s sources of revenue:

Revenue by Source

For the Year Ended December 31,	2007	2006	2005	2004	2003
	(in millions)				
Financial advisory	$ 366.7	$ 209.8	$ 142.1	$ 130.9	$ 121.3
Merchant banking fund management & other	33.7	80.8	79.1	21.0	5.4
Total revenue	$ 400.4	$ 290.6	$ 221.2	$ 151.9	$ 126.7

1 Source: Thompson Financial as of January 22, 2008. 2 Data for three of the four investment banks reflect November fiscal year ends.

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Financial Advisory Revenues

Financial Advisory Revenue by Client Location

For the Year Ended December 31,	2007	2006	2005	2004	2003
United States	36 %	47 %	44 %	54 %	48 %
Europe	58 %	51 %	55 %	43 %	44 %
Canada, Latin America & Other	6 %	2 %	1 %	3 %	8 %

Financial Advisory Revenue by Industry

For the Year Ended December 31,	2007	2006	2005	2004	2003
Communications & Media	12 %	15 %	21 %	29 %	24 %
Consumer Goods & Retail	20 %	4 %	8 %	25 %	26 %
Financial Services	26 %	10 %	12 %	17 %	15 %
Technology	2 %	4 %	2 %	1 %	7 %
Energy & Utilities	6 %	7 %	6 %	10 %	9 %
Real Estate, Lodging & Leisure	5 %	4 %	1 %	4 %	1 %
General Industrial & Other	29 %	56 %	50 %	14 %	18 %

We operate in a highly competitive environment where there are no long-term contracted sources of revenue, and each revenue-generating engagement, which typically relates to only one potential transaction, is separately awarded and negotiated. Our list of clients, and our list of clients with whom there is a currently active revenue-generating engagement, changes continually. We gain new clients each year through our business development initiatives, by recruiting additional senior investment banking professionals who bring with them client relationships and through referrals from chief executives, directors, attorneys and other parties with whom we have relationships. At the same time, we lose clients each year as a result of the sale or merger of a client, a change in a client’s senior management, competition from other investment banks and other causes.

We earn a majority of our financial advisory revenue from completion fees that are dependent on the successful completion of a merger, acquisition, restructuring or similar transaction. A transaction can fail to be completed for many reasons, including failure to agree upon final terms with the counterparty, failure to secure necessary board or shareholder approvals, failure to secure necessary financing, failure to achieve necessary regulatory approvals and adverse market conditions. In certain client engagements, often those involving financially distressed companies, we earn a significant portion of our revenue in the form of retainers and similar fees that are contractually agreed upon with each client for each assignment but are not necessarily linked to the end result.

We do not allocate our financial advisory revenue by type of advice rendered (M&A, restructuring or other) because of the complexity of the assignments for which we earn revenue. For example, a restructuring assignment can involve, and in some cases end successfully in, a sale of all or part of the financially distressed client. Likewise, an acquisition assignment can relate to a financially distressed target involved in or considering a restructuring. Finally, an M&A assignment can be received from a relationship that derives from a prior restructuring assignment, and vice versa.

2007 versus 2006. Financial advisory revenues were $366.7 million for the year ended December 31, 2007 compared to $209.8 million for the year ended December 31, 2006, which represents an increase of 75%. The increase reflected generally high levels of M&A volume, increasing demand for independent advisors and our continuing business development efforts.

Prominent advisory assignments in 2007 include:

- the sale of Alliance Boots plc to Kohlberg Kravis Roberts & Co.;
- the sale of Ceridian Corporation to a consortium including Thomas H. Lee Partners and Fidelity National Financial;

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- the sale of Crescent Real Estate Equities Company to Morgan Stanley Real Estate;
- the sale of EMI Group plc to Maltby Limtied;
- the acquisition by Fortis SA/NV, as part of a consortium, of ABN AMRO Holding NV;
- the sale of Gallaher Group plc to Japan Tobacco Inc.;
- the acquisition by IHOP Corp. of Applebee's International, Inc.;
- the sale of Maher Terminals Inc. to RREEF Infrastructure;
- the divestiture by Slough Estates plc of Slough Estates USA to Health Care Property Investors; and
- the restructuring and merger of Visa USA with certain of its international affiliates.

We earned advisory revenue from 74 different clients in 2007, compared to 72 in 2006. We earned $1 million or more from 47 clients in 2007, compared to 45 in 2006. The ten largest fee-paying clients in 2007 contributed 56% to our total revenues, and only one of those clients had in any prior year been among our ten largest fee-paying clients. One client represented approximately 12% of total revenues in 2007 and one client represented 10% of total revenues in 2006.

2006 versus 2005. Financial advisory revenues were $209.8 million for the year ended December 31, 2006 compared to $142.1 million for the year ended December 31, 2005, which represents an increase of 48%. The increase reflected the benefit of an increase in M&A market volume and our continued business development efforts, offset in part, by the impact of a decline in the volume of financial-distress related business.

Prominent advisory assignments in 2006 include:

- the acquisition by Bayer AG of Schering AG;
- the sale of John Laing plc to Henderson Equity Partners;
- the sale of Kos Pharmaceuticals, Inc. to Abbott Laboratories;
- the sale by MTS Allstream Inc. of its directories business to Yellow Pages Group Co.;
- the representation of the independent committee of Board of Directors of Reckson Associates Realty Corporation in its pending sale to SL Green Realty Corporation; and • the demerger by WH Smith plc of its Retail business.

We earned advisory revenue from 72 different clients in 2006, compared to 55 in 2005. We earned $1 million or more from 45 clients in 2006, compared to 33 in 2005. The ten largest fee-paying clients in 2006 contributed 39% to our total revenues, and only one of those clients had in any prior year been among our ten largest fee-paying clients. One client represented approximately 10% of total revenues in 2006; no clients represented 10% or more of total revenues in 2005.

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Merchant Banking Fund Management and Other Revenues

Our merchant banking fund management activities currently consist primarily of the management of and our investment in Greenhill's merchant banking funds, GCP I, GCP II, GSAVP and GCP Europe. The following table sets forth additional information relating to our merchant banking and interest income:

For the Year Ended December 31,	2007	2006	2005	2004	2003
	(in millions)				
Management fees	$ 17.3	$ 15.2	$ 11.4	$ 4.5	$ 5.0
Net realized and unrealized gains on investments in merchant banking	7.0	27.1	32.0	11.3	—
Merchant banking profit overrides	1.8	34.6	32.3	4.1	—
Other unrealized investment income	2.2	0.8	0.5	0.3	—
Interest income	5.4	3.1	2.9	0.8	0.4
Merchant banking fund management and other revenue	$ 33.7	$ 80.8	$ 79.1	$ 21.0	$ 5.4

We manage four separate families of merchant banking funds: GCP I, GCP II, GCP Europe and GSAVP.

Fund	Type of Fund	Year Commenced	Total Commitments	Amount Committed by the Firm(1)	Amount Committed by Our Employees(1)
GCP I	North America, merchant banking	2000	$423 million	$30.1 million	$69.5 million
GCP II	North America, merchant banking	2005	$875 million	$88.5 million	$136 million
GCP Europe	UK and Europe; merchant banking	2007	£191.0 million	£25.0 million	£41.9 million
GSAVP	Northeastern United States; venture capital	2006	$101.5 million	$10.9 million	$22.6 million

(1) Commitment amounts are stated as of the relevant closing dates of the respective funds with the exception of GCP I, which reflects the commitments after giving effect to its 2004 reorganization.

We generate merchant banking revenue from (i) management fees paid by the funds, (ii) gains (or losses) on our investments in the merchant banking funds and similar vehicles, and (iii) profit overrides.

We charge management fees in GCP I to all outside investors who are not employed or affiliated with us. In GCP II, GSAVP and GCP Europe we charge management fees to all investors except the firm. Management fees are generally charged based upon a percentage of committed capital (ranging from 1.5% to 2.5%) during the 5 year commitment period and as a percentage of invested capital (ranging from 1% to 2.0%) after the termination of the commitment period. Our management fees also include portions of other transactions fees which may be paid directly to us by portfolio companies of the merchant banking funds. For 2008, we expect to earn approximately $0.7 million in management fees from GCP I. The amount of management fees earned from GCP I is dependent on the amount of invested capital and will decline over the remaining life of the fund as investments are liquidated (a process which we expect will end by 2010). We currently earn annual fees from GCP II of approximately $12.0 million, and we expect to earn such amount through 2009 (or such earlier time as the commitment period terminates) and a lesser amount thereafter. We currently earn annual fees from GSAVP of approximately $2.1 million, and we expect to earn such amount through 2011 (or such earlier time as the commitment period terminates) and a lesser amount thereafter. We earned fees from GCP Europe of approximately $2.4 million in 2007 and we expect to earn an annual amount of $4.0 million during 2008 through 2012 (or such earlier time as the commitment period terminates) and a lesser amount thereafter.

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Depending upon the performance of our funds, we will record investment income or losses based upon our allocable share of invested capital in our funds. Net realized and unrealized gains on investments in merchant banking are comprised of investment income, realized and unrealized gains from the firm's investments in merchant banking funds, and the consolidated earnings of the general partners of these funds in which we have a majority economic interest, offset by allocated expenses of the funds. That portion of the earnings of the general partner (exclusive of profit overrides) which is held by employees of the firm is recorded as minority interest.

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. To the extent we make other principal investments, we will also recognize revenue based on the realized and unrealized gains (or losses) from such investments on a quarterly basis. We record our investments at estimated fair value. Investments in privately held companies are initially carried at cost as an approximation of fair value and generally adjusted after being held by the fund for one year to the estimated fair value as determined by the general partner of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other quantitative and qualitative factors. Discounts are generally applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investment in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which our investments are carried on our books are adjusted to fair value at the end of each quarter and the volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the fair value of the investments. Significant changes in the fair value of our investments may have a material effect, positive or negative, on our revenues and thus the results of operations.

As the general partner of our merchant banking funds, we make investment decisions for the funds and are entitled to receive from the funds an override of the profits of the funds. In aggregate, we and our employees are entitled to a profit override percentage of 20% of the profits earned by unaffiliated investors in GCP I, and with certain exceptions, for all investors except the firm in GCP II, GSAVP and GCP Europe. We are deemed to have the majority of the economic interest in the managing general partner of GCP I and the general partners of GCP II, GSAVP and GCP Europe in accordance with FASB Interpretation No. 46, ''Consolidation of Variable Interest Entities''(''FIN 46-R''), (effective for investments made beginning early 2004). Under FIN 46-R we include as consolidated revenue all realized and unrealized profit overrides earned by the managing general partners of GCP I (for all investments made after January 1, 2004), GCP II, GSAVP and GCP Europe. From an economic perspective, profit overrides in respect of such investments are allocated 50% to the firm and 50% to employees of the firm. The economic share of the profit overrides allocated to the employees of the firm is recorded as compensation expense.

Because we include in our revenues all of the profit overrides earned from investments made on or after January 1, 2004, we expect that as the investments mature and, depending upon market conditions, that the amount of our profit overrides could increase. The amount of profit overrides we recognize as revenue will depend upon the underlying fair value of the portfolio company and is subject to the volatility referred to above. We recognize 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 such funds on investments managed on behalf of unaffiliated investors for GCP I and principally all investors except the firm for GCP II, GCP Europe and GSAVP. 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 pay back a portion of the overrides to the limited partners of the funds in the event a minimum performance level is not achieved by the fund as a 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 that the likelihood of a clawback is deemed probable and the amount of the clawback can be reasonably estimated. As of December 31, 2007, we have not reserved for any clawback obligations under applicable fund agreements.

2007 versus 2006. For the year ended December 31, 2007, the firm earned $33.7 million in merchant banking fund management and other revenue compared to $80.8 million in 2006, a decrease of 58%. The decrease was primarily due to lower principal investment gains and related profit overrides, offset by greater interest income and slightly higher asset management fees resulting from greater assets under management. In total, GCP (and the firm) earned revenues relating to 12 portfolio companies and incurred losses relating to 7 portfolio company in 2007. GCP (and the firm) earned revenues relating to 11 portfolio companies and incurred losses relating to one portfolio company in 2006. The firm had no investments in 2007 or 2006 that contributed more than 10% to total revenues in those years. Included in merchant banking fund management & other revenue for the years ended December 31, 2007 and 2006 is $0.1 million and $1.9 million, respectively related to the portion of the interests in the general partners of GCP which are held directly by employees of the firm, which is deducted as minority interest.

2006 versus 2005. For the year ended December 31, 2006, the firm earned $80.8 million in merchant banking fund management & other revenue compared to $79.1 million in 2005, an increase of 2%. The increase was primarily due to higher management fees resulting from a full year of management of GCP II and the establishment of GSAVP. Net investment gains and profit overrides were comparable in 2006 and 2005. In total, GCP (and the firm) earned revenues relating to 11 portfolio companies and incurred losses relating to one portfolio company in 2006. GCP (and the firm) earned revenue from 11 portfolio companies in 2005. The firm had no investments in 2006 that contributed more than 10% to total revenues and one investment in 2005 that contributed more than 10% to total revenues. Included in merchant banking fund management & other revenue for the years ended December 31, 2006 and 2005 is $1.9 million and $1.8 million, respectively related to the portion of the interests in the general partners of GCP which are held directly by employees of the firm, which is deducted as minority interest.

The investment gains or losses in our investment portfolio may fluctuate significantly over time due to factors beyond our control, such as individual portfolio company performance, equity market valuations and merger and acquisition opportunities. Revenue recognized from gains recorded in the 2007, 2006 and 2005 are not necessarily indicative of revenue that may be realized in future periods.

Operating Expenses

Our total operating expenses for the year ended December 31, 2007 were $223.2 million, which compares to $171.5 million of total operating expenses for the year ended December 31, 2006. The increase of $51.7 million, or 30%, principally reflects an increase in compensation expense which is described in more detail below. The pre-tax income margin was 44% in 2007 and 40% in 2006.

We classify operating expenses as compensation and benefits expense and non-compensation expenses. Management does not separately evaluate operating expenses by financial advisory and merchant banking activities.

Operating expenses apart from compensation have been modest in proportion to revenues, as a result of the relatively small number of staff and related costs (including travel, office space, communications, information services, depreciation, professional services and interest expense) that the firm bears. A portion of certain costs are reimbursed by clients under the terms of client engagements. In addition, until August 2006, Barrow Street Capital subleased office space from us and reimbursed us for the use of other facilities and participation in our health care plans.

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

Year Ended December 31,	2007	2006	2005
	(in millions, except employee data)		
Number of employees at year end	214	201	151
Compensation and benefits expenses	$ 183.5	$ 134.1	$ 102.4
% of revenues	46 %	46 %	46 %
Non-compensation expenses	39.7	37.4	28.8
% of revenues	10 %	13 %	13 %
Total operating expenses	223.2	171.5	131.2
% of revenues	56 %	59 %	59 %
Minority interest in net income of affiliates	0.1	1.9	1.8
Total income before tax	177.1	117.3	88.2
Pre-tax income margin	44 %	40 %	40 %

Compensation and Benefits

The principal component of our operating expenses is compensation and benefits expense. It is our policy that our total compensation and benefits, including that payable to our managing directors and senior advisors, will not exceed 50% of total revenues each year (although we retain the ability to change this policy in the future). The actual compensation expense ratio is determined by management in consultation with the Compensation Committee and based on such factors as the relative level of revenues, the anticipated compensation requirements (which may vary depending on the level of recruitment of new managing directors in any given period and other factors), and the level of other costs and expenses.

The compensation we pay to our employees consists of base salary and benefits, cash bonus awards and the award of restricted stock units. Base salary and benefits are paid ratably throughout the year. Cash bonuses, which are accrued each period, are discretionary and dependent upon on number of factors, including the performance of the firm. Discretionary cash bonus payments are paid annually in February following year end. Awards of restricted stock units are also discretionary and amortized to compensation expense (based upon the value of the award at the time of grant) during the service period over which the award vests, which is generally five years. As we expense these awards, the restricted stock units recognized are recorded within stockholders' equity. In January 2008, our employees were granted 419,611 restricted stock units in conjunction with the 2007 compensation.

2007 versus 2006. For the year ended December 31, 2007, our employee compensation and benefits expenses were $183.5 million, which compares to $134.1 million of compensation and benefits expense for the year ended December 31, 2006. The increase of $49.4 million or 37% is primarily due to the higher level of revenues in 2007 compared to 2006. For the year ended December 31, 2007, the ratio of compensation to revenues was 46%, which was the same as 2006.

2006 versus 2005. For the year ended December 31, 2006, our employee compensation and benefits expenses were $134.1 million, which compares to $102.4 million of compensation and benefits expense for the year ended December 31, 2005. The increase of $31.7 million or 31% is primarily due to higher level of revenues in 2006 compared to 2005. For the year ended December 31, 2006, the ratio of compensation to revenues was 46%, which was the same as 2005.

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

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Non-Compensation Expense

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

We expect that our non-compensation costs, particularly occupancy, travel and information services costs, will increase as we grow our business and make strategic investments.

2007 versus 2006. For the year ended December 31, 2007, our non-compensation expenses were $39.7 million, which compared to $37.4 million for the year ended December 31, 2006, representing an increase of 6%. The increase is principally related to an increase in interest expense related to greater short-term borrowings, slightly higher occupancy and other costs associated with new office space in London, Frankfurt, New York and Toronto, and greater travel and information service costs, offset in part by realized foreign currency gains and a decrease in provisions for legal contingencies in 2007 as compared to 2006.

Non-compensation expense as a percentage of revenue in the year ended December 31, 2007 was 10%. This compares to 13% for the year ended December 31, 2006. The decrease in these expenses as a percentage of revenue in 2007 as compared to 2006 reflects a small increase in non-compensation costs spread over greater revenue.

2006 versus 2005. For the year ended December 31, 2006, our non-compensation expenses were $37.4 million, which compared to $28.8 million for the year ended December 31, 2005, representing an increase of 30%. The increase in 2006 as compared to 2005 is related principally to expenses and provisions for legal contingencies, increases in occupancy and other costs associated with new office space in London and New York, losses from foreign currency movements, and greater information services and travel costs primarily as a result of the growth in personnel and business development activities, offset in part by the absence of a third-party fee related to fundraising for GCP II and a 2005 charge for uncollectible accounts.

Non-compensation expenses as a percentage of revenues were 13% for the years ended December 31, 2006 and 2005, respectively.

The firm’s non-compensation expense as a percentage of revenue can vary as a result of a variety of factors, including fluctuation in annual revenue amounts, the amount of recruiting and business development activity, 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 expense as a percentage of revenue in any particular year may not be indicative of the non-compensation expense as a percentage of revenue in future periods.

Provision for Income Taxes

We are subject to federal, foreign and state corporate income taxes. In addition, certain of our non-U.S. subsidiaries are subject to income taxes in their local jurisdictions.

2007 versus 2006. For the year ended December 31, 2007, the provision for taxes was $61.8 million, which reflects an effective tax rate of approximately 35%. This compares to a provision for taxes for the year ended December 31, 2006 of $41.6 million, which reflects an effective tax rate of approximately 36% for the year. The increase in the provision for taxes in 2007 as compared to 2006 principally results from higher pre-tax income partially offset by a slightly lower effective tax rate based on the fact that a greater proportion of our pre-tax income was earned in lower tax rate jurisdictions.

2006 versus 2005. For the year ended December 31, 2006, the provision for taxes was $41.6 million, which reflects an effective tax rate of approximately 36%. This compares to a provision for taxes for the year ended December 31, 2005 of $32.6 million based on an effective tax rate of approximately 37%. The increase in the provision for taxes is primarily due to the higher pre-tax income. The lower effective tax rate in 2006 as compared to 2005 results from the fact that a greater proportion of our income was earned in lower tax rate jurisdictions, as well as, lower state and local income taxes.

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

Geographic Data

For a summary of the total revenues, income before minority interest and tax, net income and total assets by geographic region, see Note 15 to the consolidated financial statements.

Liquidity and Capital Resources

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

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

Our cash balances generally accumulate from our operating activities during the year. In general, we collect our accounts receivable within 60 days except for certain restructuring transactions where collections may take longer due to court-ordered holdbacks. Our liabilities typically consist of accounts payable, which are generally paid monthly, accrued compensation, which includes accrued bonuses that are paid in the first quarter of the following year to the large majority of our employees, and taxes payable. In the first quarter of 2008, cash bonuses of $99.3 million relating to 2007 compensation were paid to our employees. In addition, we expect to pay approximately $17.6 million in early 2008 related to income taxes owed for the year ended December 31, 2007.

A portion of our liabilities are associated with unrealized investment earnings (i.e., recorded on our books but for which cash proceeds have not yet been received) from our merchant banking funds. At December 31, 2007 approximately $5.3 million of our bonus accrual related to profit overrides for unrealized gains of our merchant banking funds and $8.7 million related to tax liabilities that are deferred until the gains from the merchant banking fund investments are realized. These amounts may increase or decrease depending on the change in the fair value of the investments in the funds and are payable, subject to clawback, at the time the funds realize cash proceeds.

Since our initial public offering we have used a portion of our cash reserves to repurchase shares of our common stock, pay dividends and make investments in our merchant banking funds. Our commitments to our merchant banking funds may require us to fund capital calls on short notice. On the other hand, distributions from our merchant banking funds are generally made shortly after proceeds are received by the funds. We are unable to predict the timing or magnitude of share repurchase opportunities, capital call requirements or distribution of investment proceeds.

Our merchant banking funds typically invest in privately held companies. The ability of our 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, the availability of financing to potential buyers of such securities, among others. As a result we consider our investments illiquid for the short term.

To increase our financial flexibility, during 2007, we increased our revolving loan facility to $90 million to provide for working capital needs, facilitate the funding of merchant banking investments and other general corporate purposes. Borrowings under the facility are secured by all management fees earned by Greenhill Capital Partners, LLC and Greenhill Venture Partners, LLC and any cash distributed in respect of their partnership interests in GCP I, GCP II and GSAVP, as applicable. Interest on borrowings is based on LIBOR plus 1.45%.

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Because it is not tax efficient, our foreign earnings are generally not available to fund our U.S. working capital needs, including share purchases, dividend payments or merchant banking investments. Accordingly, we fund such working capital needs in the U.S. with cash from operations and short term borrowings. The revolving bank loan facility matures on June 30, 2009. At December 31, 2007, $86.5 million of borrowings were outstanding on the loan facility.

As of December 31, 2007, we had total commitments (not reflected on our balance sheet) relating to future principal investments in GCP II, GSAVP and GCP Europe and other merchant banking and related activities of $82.3 million. These commitments are expected to be drawn on from time to time and be substantially invested over a period of up to five years from the relevant commitment dates. See Management's Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations.

During 2007, we repurchased 1,917,451 shares of our common stock in open market purchases at an average price of $62.61 per share. Additionally, we are deemed to have repurchased 72,462 shares of our common stock at an average of $68.60 per share in conjunction with the payment of tax liabilities in respect of stock delivered to our employees in settlement of restricted stock units. The firm has remaining authorization to repurchase up to $100.0 million of common stock in open market or other transactions.

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

Cash Flows

2007. Cash and cash equivalents increased by $129.3 million in 2007. We generated $145.4 million from operating activities, including $115.4 million from net income after giving effect to the non-cash items and by a net increase in working capital of $30.0 million (principally from an increase in accrued compensation payable offset by in part by a decrease in accounts receivable and taxes payable). We generated $76.5 million from investing activities, including $38.8 million from the net sale of auction rate securities, $37.8 million in distributions received from our merchant banking investments, and $39.1 million from the sale of other investments (including $30.1 million attributable to sale of Ironshore Inc. to GCP Europe), offset by $34.7 million of new investments in merchant banking funds or other principal investments and $4.5 million for the build-out of new office space. We used $92.8 million for financing activities, including $36.9 million for the payment of dividends and $125.0 million for the repurchase of our common stock. A portion of our financing activities were funded through net borrowings of $67.0 million.

2006. Cash and cash equivalents decreased by $20.9 million in 2006. We generated $38.6 million from operating activities, including $30.3 million from net income after giving effect to the non-cash items and by a net increase in working capital of $8.3 million (principally from the accrual of compensation expense and taxes payable and an increase in accounts receivable, offset in part by a decrease in accounts payable and accrued expenses). We used $12.7 million in investing activities, including $53.2 million for new investments in merchant banking funds and shares of Ironshore, Inc., $38.8 million from the net purchase of auction rate securities, $8.8 million from the build-out of new office space and $2.3 million for the purchase of Beaufort Partners Limited, offset in part by $90.4 million in distributions from our merchant banking investments. We used $52.6 million for financing activities, including $21.2 million for the payment of dividends and $53.5 million for the repurchase of our common stock. A portion of our financing activities were funded through net borrowings of $19.5 million.

2005. Cash and cash equivalents increased by $22.4 million in 2005. We generated $61.3 million from operating activities, including $14.4 million from net income after giving effect to the non-cash items and by a net increase in working capital of $46.9 million (principally from the accrual of compensation expense, accounts payable and accrued expenses and taxes payable). We generated

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$37.2 million from investing activities, including $52.4 million from the net sale of auction rate securities and $14.3 million from distributions from our merchant banking investments, partially offset by $27.7 million in new investments in merchant banking funds. We used $71.7 million for financing activities, including $13.7 million for the payment of dividends and $58.8 million for the repurchase of our common stock.

Contractual Obligations

The following table sets forth information relating to our contractual obligations as of December 31, 2007:

	Payment Due by Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Operating lease obligations	$ 36,854	$ 9,407	$ 15,700	$ 7,970	$ 3,777
Merchant banking commitments(a)	82,307	26,152	38,183	17,972	—
Total	$ 119,161	$ 35,559	$ 53,883	$ 25,942	$ 3,777

(a) We may be required to substantially fund our merchant banking commitments at any time through 2012, depending on the timing and level of investments by GCP II, GCP Europe and GSAVP, although we do not expect these commitments to be drawn in full. Since the merchant banking commitments can be drawn at any time over the life of the commitment period, the amounts above are shown as if spread ratably over the life of the primary commitment period.

In 2007, the firm increased its revolving loan facility to $90 million to provide for working capital needs, facilitate the funding of short-term investments and other general corporate purposes. Borrowings under this facility are secured by all management fees earned by Greenhill Capital Partners, LLC and Greenhill Venture Partners, LLC and any cash distributed in respect of their partnership interests in GCP I, GCP II and GSAVP, as applicable. Interest on borrowings is based on one month LIBOR plus 1.45%. The revolving bank loan facility matures on June 30, 2009. At December 31, 2007, $86.5 million of borrowings were outstanding on the loan facility.

Subsequent Events

On February 21, 2008, we completed the offering of units in GHL Acquisition Corp., a blank check company sponsored by us. In the offering, GHL Acquisition Corp. sold 40,000,000 units for an aggregate purchase price of $400,000,000. We bought 9,775,000 units (of which up to 1,275,000 units are subject to forfeiture if the underwriters' overallotment option in respect of the offering is not exercised in full) and warrants to purchase 8,000,000 shares of common stock of GHL Acquisition Corp. for an aggregate purchase price of $8,025,000. Following the completion of the offering, we own approximately 17.5% of the outstanding common stock of GHL Acquisition Corp.

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 GCP, GSAVP, GCP Europe and other merchant banking funds and similar vehicles.

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

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With regard to our principal investments (including our portion of any profit overrides earned on such investments), we face exposure to changes in the estimated fair value of the companies in which we and our merchant banking funds invest, which historically has been volatile. Significant changes in the public equity markets may have a material effect on our results of operations. Volatility in the general equity markets would impact our operations primarily because of changes in the fair value of our merchant banking or principal investments that are publicly traded securities. We have analyzed our potential exposure to general equity market risk by performing sensitivity analyses on those investments held by us and in our merchant banking funds which consist of publicly traded securities. This analysis showed that if we assume that at December 31, 2007, the market prices of all public securities were 10% lower, the impact on our operations would be a decrease in revenues of $2.6 million. We meet on a quarterly basis to determine the fair value of the investments held in our merchant banking portfolio and to discuss the risks associated with those investments. The respective Investment Committees manage the risks associated with the merchant banking portfolios by closely monitoring and managing the types of investments made as well as the monetization and realization of existing investments.

In addition, the reported amounts of our revenues may be affected by movements in the rate of exchange between the euro, pound sterling and Canadian dollar (in which 48% of our revenues for the year ended December 31, 2007 were denominated) and the dollar, in which our financial statements are denominated. We do not currently hedge against movements in these exchange rates. We analyzed our potential exposure to a decline in exchange rates by performing a sensitivity analysis on our net income. Because of the decline in value of the dollar relative to the pound sterling and euro in 2007, our earnings in 2007 were higher than they would have been had the value of the dollar relative to those other currencies remained constant. However, we do not believe we face any material risk in respect of exchange rate movements.

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.

Basis of Financial Information

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

The consolidated financial statements of the firm include all consolidated accounts and Greenhill & Co., Inc. and all other entities in which we have a controlling interest, including Greenhill & Co. International LLP, and Greenhill & Co. Europe LLP and Greenhill Capital Partners Europe LLP, after eliminations of all significant inter-company accounts and transactions. In accordance with FIN 46-R, the firm consolidates the general partner of our merchant banking funds in which we have a majority of the economic interest. The general partner accounts for its investment in its 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 partner records its proportionate share 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 partner's investment in merchant banking funds represents an estimation of fair value. The firm does not consolidate the merchant banking funds since the firm, through its general partner and limited partner interests, does not have a majority of the economic interest in such funds and under EITF No. 04-5, ‘‘Accounting for an Investment in a Limited Partnership When the Investor Is the Sole General Partner and the Limited Partners Have Certain Rights’’ (‘‘EITF 04-5’’), is subject to removal by a simple majority of unaffiliated third-party investors.

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Revenue Recognition

Financial Advisory Fees

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

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

Merchant Banking Fund Management Revenues

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

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

We recognize revenue on investments in merchant banking funds based on our allocable share of realized and unrealized gains (or losses) reported by such funds. Investments held by merchant banking funds are recorded at estimated fair value. Investments in privately held companies are initially carried at cost as an approximation of fair value and generally adjusted after being held by the fund for one year to the estimated fair value as determined by the general partner of the fund after giving consideration to the cost of the security, the pricing of other sales of securities by the portfolio company, the price of securities of other companies comparable to the portfolio company, purchase multiples paid in other comparable third-party transactions, the original purchase price multiple, market conditions, liquidity, operating results and other qualitative and quantitative factors. Discounts are generally applied to the funds' privately held investments to reflect the lack of liquidity and other transfer restrictions. Investments in publicly traded securities are valued using quoted market prices discounted for any legal or contractual restrictions on sale. Because of the inherent uncertainty of valuations as well as the discounts applied, the estimated fair values of investment in privately held companies may differ significantly from the values that would have been used had a ready market for the securities existed. The values at which our investments are carried on our books are adjusted to fair value at the end of each quarter and the volatility in general economic conditions, stock markets and commodity prices may result in significant changes in the fair value of the investments.

We recognize merchant banking profit overrides when certain financial returns are achieved over the life of the fund. Profit overrides are generally calculated as a percentage of the profits over a specified threshold earned by such funds on investments managed on behalf of unaffiliated investors for GCP I and principally all investors except the firm for GCP II, GCP Europe and GSAVP. The profit overrides earned by the firm are recognized on an accrual basis throughout the year in accordance with Method 2 of EITF D-96, ''Accounting for Management Fees Based on A Formula'' (''D-96''). In accordance with Method 2 of D-96 the firm 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 pay back a portion of the overrides to the limited partners of the funds in the event a minimum performance level is not achieved by the fund as a whole. We would be required to establish a reserve for potential clawbacks if we were to determine that the likelihood of a clawback is probable and the amount of the clawback can be reasonably estimated. As of December 31, 2007, we have not reserved for any clawback obligations under applicable fund agreements.

Restricted Stock Units

In accordance with the fair value method prescribed by FASB Statement No. 123(R), ‘‘Share-Based Payment’’, which is a revision of FASB Statement No. 123, ‘‘Accounting for Stock-Based Compensation’’ (‘‘SFAS 123(R)’’), restricted stock units with future service requirements

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are recorded as compensation expense and generally are amortized over a five-year service period following the date of grant. Compensation expense is determined at the date of grant. As the firm expenses the awards, the restricted stock units recognized are recorded within stockholders' equity. The firm records dividend equivalents in stockholders' equity on outstanding restricted stock units that are expected to vest.

Provision for Taxes

The firm accounts for taxes in accordance with FASB Statement No. 109, ''Accounting for Income Taxes''(''SFAS 109''), 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.

Effective on January 1, 2007, the firm adopted FASB Interpretation No. 48, ''Accounting for Uncertainty in Income Taxes, an interpretation of FASB No. 109'' (''FIN 48''), which prescribes a single, comprehensive model for how a firm should recognize, measure, present and disclose in its financial statements uncertain tax positions that the firm has taken or expects to take on its 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 as prescribed by FIN 48. 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 that includes the enactment date. The firm's deferred tax liabilities are presented as a component of taxes payable on the consolidated statements of financial condition. Management applies the ''more-likely-than-not criteria'' included in FIN 48 (as further discussed below) when determining tax benefits and the establishment of the valuation allowance. The implementation of FIN 48 did not result in any current adjustment or any cumulative effect and therefore, no adjustment was recorded to retained earnings upon adoption.

Accounting Developments

In September 2006, FASB Statement No. 157 ''Fair Value Measurements'' (''SFAS 157'') on fair value measurement was issued. The standard provides guidance for using fair value to measure assets and liabilities. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard also responds to investors' requests for expanded information about the extent to which firms measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 does not change existing guidance as to whether or not an instrument is carried at fair value.

The provisions of SFAS 157 are effective for fiscal years beginning after November 15, 2007. The firm has evaluated the implications, including the additional disclosure requirements, of SFAS 157, and its potential impact to the consolidated financial statements. The firm has determined that the adoption of SFAS 157 will not have a material impact, on its financial condition, results of operations and cash flows.

In February 2007, FASB Statement No. 159, ''Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115'' (''SFAS 159'') was issued. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective as of the beginning of an entity's first fiscal year that begins November 15, 2007. The firm does not plan to elect the fair value measurement option for financial instruments or other items upon adoption, as such the adoption of SFAS 159 will not have any impact on the firm’s financial condition, results of operations and cash flows.

In June 2007 the EITF reached consensus on Issue No. 06-11, ‘‘Accounting for Income Tax Benefits of Dividends on Share-Based Payment Award.’’ (‘‘EITF 06-11’’). EITF 06-11 requires that the tax benefit related to the dividend equivalents paid on restricted stock units, which are expected to vest, be recorded as an increase to additional paid-in capital. EITF 06-11 is to be applied prospectively

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for tax benefits on dividends declared in fiscal years beginning after December 15, 2007. The firm is currently evaluating the potential impact of adopting EITF 06-11 on its financial condition, results of operations and cash flows.

In December 2007, FASB Statement No. 160, ''Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51'' (''SFAS 160'') was issued. SFAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. The effective date for SFAS 160 is for annual periods beginning on or after December 15, 2008. Early adoption and retroactive application of SFAS 160 to fiscal years preceding the effective date are not permitted. The firm is currently evaluating the potential impact of adopting SFAS 160 on its financial condition, results of operations and cash flows.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We do not believe we face any material interest rate risk, foreign currency exchange risk, equity price risk or other market risk. See ''Item 7. Market Risk'' above for a discussion of market risks.

Item 8. Financial Statements and Supplementary Data

The financial statements required by this item are listed in ''Item 15. Exhibits and Financial Statement Schedules''.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Based upon their evaluation of the firm's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15 as of the end of the year covered by this 2007 Form 10-K, the firm's Co-Chief Executive Officers and Chief Financial Officer have concluded that such controls and procedures are effective. There were no significant changes in the firm's internal controls or in other factors that could significantly affect such internal controls subsequent to the date of their evaluation.

Management's report on the firm's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act), and the related report of our independent public accounting firm, are included on pages F-2 – F-4 of this report.

In addition, on May 16, 2007 our Chief Executive Officer certified to the New York Stock Exchange (''NYSE'') that he was not aware of any violation by the firm of the NYSE's corporate governance listing standards. We have filed as an exhibit to this Form 10-K the certifications of our Co-Chief Executive Officers and 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).

Item 9B. Other Information

None.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Information regarding members of the Board of Directors will be presented in Greenhill's definitive proxy statement for its 2008 annual meeting of stockholders, which will be held on April 30, 2008, and is incorporated herein by reference. Information regarding our executive officers is included in Part I of this Form 10-K under the caption ''Executive Officers.''