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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark one)

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

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .

Commission file number 001-32147

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

Delaware (State or Other Jurisdiction of Incorporation or Organization)	51-0500737 (I.R.S. Employer Identification No.)
300 Park Avenue New York, New York (Address of Principal Executive Offices)	10022 (ZIP Code)

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

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

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

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

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

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

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

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AVAILABLE INFORMATION

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

Part I. Financial Information
Item 1. Financial Statements
Greenhill & Co., Inc. and Subsidiaries
Condensed Consolidated Statements of Financial Condition
(in thousands except share and per share data)

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

Treasury stock, at cost, par value $0.01 per share; 11,184,712 and 10,844,600 shares as of September 30, 2015 and December 31, 2014, respectively		
Stockholders' equity	275,613	255,548
Noncontrolling interests	694	694
Total equity	276,307	256,242
Total liabilities and equity	$403,525	$337,650

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 1 — Organization

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

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

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

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

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

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

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

Note 2 — Summary of Significant Accounting Policies

Basis of Financial Information

These condensed consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (U.S. GAAP), which require management to make estimates and assumptions regarding future events that affect the amounts reported in our financial statements and these footnotes, including investment valuations, compensation accruals and other matters. Management believes that the estimates used in preparing its condensed consolidated financial statements are reasonable and prudent. Actual results could differ materially from those estimates.

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

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

Report on Form 10-K and subsequent Forms 8-K filed with the SEC. The condensed consolidated financial information as of December 31, 2014 has been derived from audited consolidated financial statements not included herein. The results of operations for interim periods are not necessarily indicative of results for the entire year.

Revenue Recognition

Advisory Revenues

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

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

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

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

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

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

Investment Revenues

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

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

Cash and Cash Equivalents

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

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

Advisory Fees Receivables

Receivables are stated net of an allowance for doubtful accounts. The estimate for the allowance for doubtful accounts is derived by the Company by utilizing past client transaction history and an assessment of the client's creditworthiness. The Company did not record a bad debt expense for the three month period ended September 30, 2015. For the nine month period ended

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

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

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

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

Investments

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

Goodwill

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

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

Restricted Stock Units

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

Earnings per Share

The Company calculates basic earnings per share (“EPS”) by dividing net income allocated to common stockholders by the sum of (i) the weighted average number of shares outstanding for the period and (ii) the weighted average number of shares deemed issuable due to the vesting of restricted stock units for accounting purposes. See "Note 9 — Equity". The Company calculates diluted EPS by dividing net income allocated to common stockholders by the sum of (i) basic shares per above and (ii) the dilutive effect of the common stock deliverable pursuant to restricted stock units for which future service is required. Under the treasury method, the number of shares issuable upon the vesting of restricted stock units included in the calculation of diluted EPS is the excess, if any, of the number of shares expected to be issued, less the number of shares that could be purchased by the Company with the proceeds to be received upon settlement at the average market closing price during the reporting period. See "Note 10— Earnings per Share".

Provision for Taxes

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

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

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

Foreign Currency Translation

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

Financial Instruments and Fair Value

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

Basis of Fair Value Measurement

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

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

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

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

Fair Value of Other Financial Instruments

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

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Noncontrolling Interests

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

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

Property and Equipment

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

Aircraft – 7 years

Equipment – 5 years

Furniture and fixtures – 7 years

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

Accounting Developments

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

Note 3 — Acquisition

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

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

The Acquisition has been accounted for using the purchase method of accounting and the results of operations for Greenhill Cogent have been included in the condensed consolidated statements of income from the date of acquisition. The Company incurred $1.2 million of transaction costs related to the Acquisition which have been included as a component of professional fees in the condensed consolidated statement of income for the period ended September 30, 2015.

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

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

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

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

The total purchase includes an escrow amount of $8.9 million, which is held by a third party agent, and may be used to cover potential post-closing obligations of the sellers prior to the first anniversary of the closing.

Under the terms of the purchase, the purchase price is subject to a post-closing adjustment based upon Cogent's net working capital, as defined, as of March 31, 2015. Included in accrued expense in the condensed consolidated statement of financial condition as of September 30, 2015 is an amount due to sellers of approximately $0.6 million.

The Acquisition will be treated as an asset purchase for tax purposes. Similar to the purchase accounting method used for book purposes, the excess of the purchase price paid over the fair value of the net assets acquired will be recorded as goodwill for tax purposes. The amount of goodwill recorded for tax purposes will be determined based on the consideration paid at closing and will be amortized for tax purposes ratably over a fifteen year period. If the Earnout is achieved, the additional consideration paid will also be treated as goodwill for tax purposes and will be amortized ratably over the remainder of the fifteen year period. For book purposes, the tax benefit realized from the amortization of goodwill will be recorded as a deferred tax liability.

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

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

Acquisition as if it had occurred on January 1, 2014. The pro forma amounts include Cogent's actual results for the three and nine months ended September 30, 2014. See "Note 9 — Equity" and "Note 10 — Earnings per Share". The unaudited pro forma results of operations do not purport to represent what the Company's results of operations would actually have been had the Acquisition occurred on January 1, 2015, or to project the Company's results of operations for any future period. Actual future results may vary considerably based on a variety of factors beyond the Company's control.

	For the Three Months Ended September 30,	
	2015	2014
	(in millions, except per share amounts) (unaudited)	
	(actual)	(pro forma)
Revenues	$50.7	$101.1
Income before taxes	1.1	32.6
Net income allocated to common stockholders	0.7	21.1
Diluted earnings per share	$0.02	$0.69

	For the Nine Months Ended September 30,	
	2015	2014
	(in millions, except per share amounts) (unaudited)	
	(pro forma)	(pro forma)
Revenues	$196.3	