
MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Duff & Phelps Corporation first quarter 2009 conference call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Jake Silverman. Please go ahead, sir.

Jacob Silverman, Chief Financial Officer

Good morning, and welcome to the conference call to discuss Duff & Phelps' financial results for the first quarter of 2009. I'm Jake Silverman, CFO of Duff & Phelps.

Before we begin, I'd like to point out to all of you that this call may include forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934 and the Private Securities Litigation Reform Act of 1995. Additionally, these statements involve known and unknown risks, uncertainties and other factors that may cause actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Therefore, you should not place undue reliance on these forward-looking statements. Please see risk factors in our Form 10-K and in other documents we file with the SEC for a complete description of the material risks we face. We do not undertake any obligation to publicly update or review any forward-looking statement whether as a result of new information, future developments or otherwise.

And now, I'd like to turn the call over to Noah.

Noah Gottdiener, Chief Executive Officer and Chairman

Thanks, Jake. It's a pleasure for me to speak with you this morning to report our first quarter earnings for 2009. The quarter demonstrated to me that the investments we've made building our counter and non-cyclical businesses over the last three years have paid off. These businesses have nearly offset declines in certain of our investment banking and other M&A-related businesses, as we hoped they would in a major economic dislocation.

I will take you through my perspective on each of these businesses, but the bottom line here is that our counter and non-cyclical businesses are well positioned to grow for many years to come, while our M&A-related businesses in our estimation are at or near a trough.

Let me take you through the highlights of each of our businesses, starting with the counter and non-cyclical ones, which are showing real strength in this environment. First, let's discuss our global restructuring business, which nearly doubled in revenue compared to last year. We've seen a notable increase in the number of opportunities and engagements won, as the restructuring cycle takes hold.

Here in the U.S., we've won a number of significant creditor and debtor side assignments in recent months, and the pace and size of new business continues to be strong. Overseas, our Paris restructuring team continues to capitalize on the emerging distressed market in Europe. Overall, we believe that the restructuring and distressed arena is going to be fertile ground for the next two to three years and we have an established global franchise in this arena.

Next, let's move on to our dispute consulting practice, where we've made considerable investments over the past year. Our dispute business increased 70% over the corresponding prior-year quarter. We are establishing ourselves as one of the leaders in providing valuation-oriented consulting

services in high-profile litigations and disputes. We expect this to be fertile ground in this environment and for quite a while into the future.

As we mentioned on our last call, we have been engaged to serve as financial advisor to the examiner in the Lehman Brothers bankruptcy, further bolstering our position in the marketplace and providing a meaningful additional revenue stream going forward. Most importantly, however, this assignment demonstrates that the highest-profile constituencies in today's environment are turning to Duff & Phelps for critical services relating to valuation and independent financial advice, whether in the context of a dispute or otherwise.

Our Portfolio Valuation business continues its significant growth. We are the clear market leader to private equity and hedge funds as their independent valuation provider, and we believe the market is growing at a rapid clip. Furthermore, the next significant opportunity in this arena is the pension fund market with trillions under management. We are just gearing up here.

Related to the Portfolio Valuation opportunity is our Financial Engineering practice, which grew 25%. We have assembled a unique team of experts focused on valuation of complex instruments, such as CDOs, CDSs, mortgage-backed securities and other derivatives. Our growing roster includes thought-leading professionals from the investment banking and consulting industries, as well as the academic and independent valuation world.

There has been a lot of discussion in the press and otherwise about the need for independent valuation advice in connection with government-related programs, whether it's TARP, TALF, Public Private Investment Partnerships among many others. The issues here, all have fundamental underpinnings in complex valuation, which is an area of strength for our firm. Our first entry into this space was our work for the Congressional Oversight Panel of the TARP. We believe that our capabilities to add value in these important programs are unparalleled and we hope to play a meaningful role.

The ongoing discussion about fair value, whether it's in connection with FAS 157 or otherwise, bodes well for our business. Constituents across the board, companies, investors, governments, regulators should increasingly need an independent objective, high-quality advisor with respect to these complex issues. This is now truer than ever given the recent FASB pronouncement regarding managements' ability to use increased judgment in fair value accounting.

Finally, our tax business grew 22% versus last year. We've created a great property tax advisory practice, which is the foundation of our tax business. It is generally not connected to the M&A cycle and, in fact, could have counter-cyclical characteristics, as companies seek to save tax dollars in a declining real estate market. This is a business that can generate outsized returns in the form of contingency fees, as well as a steady stream of recurring compliance and advisory work.

We've also been able to selectively add additional specialty practices to round out the overall tax platform. While some of these specialties are more transactional in nature, and therefore, impacted in today's environment, overall, the tax business is helping to provide an important counter-cyclical hedge and fits nicely into our overall strategy. In summary, the counter and non-cyclical businesses that I just described grew over 50% versus last year on a combined basis, demonstrating the benefit of our balanced portfolio.

Now let's move on to our M&A-related businesses. As we all know, the past several months have been the slowest period for M&A activity in recent memory. We believe, however, that with some of the recently announced deals, we are seeing that M&A activity, particularly from strategic players, is beginning to increase.

Let's jump in by business. First is our Valuation Advisory practice, which includes FAS 141 purchase price allocations, FAS 142 goodwill impairment, fixed asset and real estate valuations,

tax-related valuations and general valuation work. This is the firm's largest business and it has experienced year-over-year declines as a result of the M&A environment.

These declines have been tempered due to the pickup in demand for FAS 142 goodwill impairment services. When you look at it more closely, less than half of our Valuation Advisory revenue was actually related to FAS 141 work in the first quarter, demonstrating the resilience and resourcefulness of our team in generating other sources of revenue.

These results include a big piece of our international business, which has been somewhat soft as well, reflective of the global slowdown in M&A. The point here is, in a very slow M&A quarter globally, perhaps the slowest in decades, we were able to fight the headwinds effectively and are well positioned for a recovery. Our Due Diligence and M&A Advisory businesses, both generally focused on the middle market, have also been impacted more noticeably in the first quarter, with similar declines year-over-year. In M&A, we recognized only one success fee in the quarter.

One positive indicator is our estimated M&A backlog, which, while still small is about double what it was at the beginning of the year. We think this could lead to a more robust second half for our M&A Advisory business, with a similar trend possible for Due Diligence. The real silver lining about the current environment is the ability to see great talent and be very selective. We've made some recent strategic hires and have a very exciting pipeline of future recruiting opportunities.

Rounding out the M&A-related part of the D&P portfolio is our Transaction Opinions practice. In 2008, we were the leading independent provider of fairness opinions for domestic transactions and number three overall, domestically, behind Goldman Sachs and JPMorgan according to Thomson Reuters. This speaks to our growing brand awareness and credibility in corporate boardrooms and among high-profile constituents. This is a core franchise for Duff & Phelps, with high operating leverage in a recovery.

When you look at our M&A-related businesses in total, they declined about 25% versus last year. With the overlay of 50% plus growth in our counter- and non-cyclical businesses, however, this will add to an overall revenue result for Duff & Phelps just 4% lower than last year. The bottom line here is the continuing growth of our counter- and non-cyclical businesses, combined with the fact that our M&A businesses are at or near their trough. I am pleased with how well we are positioned for the long term. As the credit markets and the broader economy begin to recover, I can see a period where all of our businesses are performing well concurrently. The primary reason that our counter-cyclical businesses will continue to grow even through an economic recovery is that the fallout from this crisis will continue for many years to come.

In addition, our firm is seeing potential assignments of a size and importance, such as the Lehman assignment, that have not been opportunities for us in the past. As a result, while there may be near-term headwinds in this type of economy, I remain excited about our long-term prospects and opportunities to invest and grow the business.

With regard to 2009, I believe we will be able to achieve modest topline growth with our revenues weighted toward the back half of the year. My perspective is based on the assumption that our M&A businesses are at or near a trough and will soon begin to grow, while our counter- and non-cyclical businesses will continue their positive trends. This view, of course, does not incorporate any acquisitions. On that subject, we are seeing and exploring some great opportunities to acquire businesses in a number of sectors. We have been and will continue to be very disciplined on valuation and the use of our balance sheet.

To best position us to take advantage of these opportunities, for those who have not seen our press release, we've announced our intention to complete a follow-on stock offering for Duff & Phelps. Due to securities law restrictions, we are limited to talk about the offering in further detail in this

venue, and refer you to the S-3 shelf registration statement for additional information. As such, we are unable to answer any questions about the offering at this time.

With that, I'd like Jake to discuss our financial results in greater detail. Jake?

Jacob Silverman, Chief Financial Officer

Thanks, Noah. Today I'll discuss both company-wide financial results and then provide additional details on segment-specific performance. In addition to GAAP metrics, I will discuss non-GAAP measures of our financial results, including adjusted EBITDA and adjusted pro forma net income. We believe these non-GAAP measures, when viewed alongside the GAAP figures we have already provided in our earnings release and will disclose in our 10-Q, provide a meaningful means of evaluating our company's performance.

For the quarter, revenues were 89.3 million, compared to 93.2 million in the corresponding prior-year quarter. Adjusted EBITDA for the quarter was 15.2 million or 17% of revenue, compared to 18.8 million or 20.2% of revenue in the corresponding prior-year quarter.

Included in our results is a severance expense of nearly \$1 million, as a result of a head count reduction action in late Q1 and early Q2 to address certain areas of over-capacity. This reduction impacted approximately 50 client service professionals, particularly in our M&A-related businesses.

Overall SG&A expense, excluding equity compensation associated with Legacy Units and IPO Options, was basically flat versus last year on a dollar basis. With regard to expenses generally, we are very focused on maintaining discipline here in terms of direct costs and SG&A. We are committed to working towards our previously stated long-term objective of 19 to 20% adjusted EBITDA margins, although this year we could be slightly below the bottom end of that range.

As I said in the past, there can be quarterly fluctuations in adjusted EBITDA margin, and we do not necessarily look at any one quarter as indicative of full-year results. Adjusted pro forma net income per share was \$0.20 for our first quarter, compared to \$0.27 in the corresponding prior-year period.

Let me describe what adjusted EBITDA and adjusted pro forma net income are. Adjusted EBITDA represents earnings before interest, taxes, depreciation and amortization and non-controlling interest, as well as the following items: other income, acquisition retention expenses, equity-based compensation associated with the Legacy Units of Duff & Phelps acquisitions and the grant of options made at the time of our IPO.

Adjusted pro forma net income represents adjusted EBITDA less depreciation and amortization, interest income and expense, other income and pro forma assumed corporate income tax. Adjusted pro forma net income per share consists of adjusted pro forma net income divided by the weighted average number of the company's Class A and Class B shares outstanding for the applicable period, giving effects to the dilutive impact, if any, of stock options and restricted stock awards.

I'll now briefly talk about segment performance and our balance sheet. Noah described our overall performance based on how our businesses are categorized based on cyclical versus counter and non-cyclical characteristics. I'm going to talk about performance based on our three reporting segments, each of which provides cyclical, non-cyclical and counter-cyclical services. Also, as a reminder, starting in Q1, we are reporting a new third segment, Corporate Finance Consulting, which can include our Portfolio Valuation, Financial Engineering, Strategic Value Advisory and Due Diligence services.

Let's start with Financial Advisory, which represents approximately 68% of total revenues for the quarter. During the quarter, Financial Advisory revenue decreased 0.9% to 60.9 million, compared

to 61.4 million in the corresponding prior-year period. As Noah described earlier, revenues from our counter and non-cyclical businesses, such as tax and dispute, increased over the corresponding prior-year quarter, largely offsetting the decrease in revenues from Valuation Advisory, our largest business unit, which has a greater M&A correlation.

For the quarter, Financial Advisory utilization was 67.1%, equal to utilization in the corresponding prior-year quarter. Rate per hour decreased to \$306 compared to \$321 in the corresponding prior-year quarter. We do not view this as a trend. The quarterly fluctuation in rate was driven to a large extent by deferred write-ups on certain key assignments, which should hit in Q2, as well as a 20% bankruptcy court-mandated hold-back with respect to the Lehman advisory assignment, which impacts our current period realized rate until the hold-back is released.

In our new Corporate Finance Consulting reporting segment, which represents approximately 16% of total revenue for the quarter, we saw overall revenue growth of 17.7% versus last year. This practice includes our Portfolio Valuation practice, Financial Engineering and Strategic Value Advisory services, which grew at a combined rate of over 60%, more than offsetting the decline in our M&A-related Due Diligence business, which declined 65%. We continue to benefit from new and ongoing Portfolio Valuation assignments for private equity funds, hedge fund clients and other investment vehicles.

Over the past several months, we've seen a strong level of interest from corporate clients with respect to their investment portfolios, and we continue to penetrate the financial institutions market. It's important to note that our Portfolio Valuation business is not tied to existing M&A transactions, but rather to existing portfolios that our clients hold. We remain the clear market leader here and are proactively pursuing immediate opportunities for clients in need of independent portfolio valuation services.

I'd note that our Portfolio Valuation businesses leverages resources from other parts of the firm, which is part of our strategy, particularly valuation advisory. Accordingly, the reported revenue for Portfolio Valuation is actually lower than the overall value of portfolio valuation assignments. Inclusive of the amount outsourced to other parts of the firm, the total value of the Portfolio Valuation product for the quarter was actually about 10.6 million versus 7.6 million in the first quarter of 2008.

Now, I'd like to turn to our Investment Banking segment, which represents approximately 15.4% of revenue for the quarter. In the first quarter, revenues decreased 28.7% to 13.8 million compared to 19.3 million in the corresponding prior-year quarter. Our Global Restructuring business is showing meaningful growth this quarter versus last year, and we continue to see strength in this practice area. We believe we are at the beginning of a cycle and expect this pace to continue throughout 2009 and beyond.

Noah provided a context regarding the overall M&A and restructuring environment. We feel that we have a diverse portfolio of services in this segment that has helped shelter us on a relative basis from the broader volatility in the market.

Let's turn to our balance sheet. Our balance sheet is strong. At March 31, 2009, we had \$49 million of cash and \$43 million of total debt on our balance sheet or just over half a turn of debt to trailing 12 months adjusted EBITDA. It's important to note that this cash balance is after our payment of bonuses with respect to 2008, which occurred towards the end of the first quarter. Generally, all other things being equal, we expect to see our cash balance increase throughout the remainder of a given year after bonuses are paid.

With regard to share count, we have a two-class share structure, with Class A shares primarily owned by public investor Shinsei and employee recipients of restricted stock awards, and Class B shares owned by the original members of Duff & Phelps acquisitions, the entity which owns our

operating business, which are exchangeable into Class A shares. As of today, the total number of Class A shares outstanding is approximately 15.9 million. The total number of Class B shares outstanding is approximately 20.9 million. Thus, on a fully exchanged basis, we have a total of approximately 36.8 million shares outstanding.

In light of the strength of our balance sheet and overall liquidity, as well as our overall outlook on the business, it is our present intent to institute a modest quarterly dividend of \$0.05 per share to holders of record of our Class A and B shares of common stock as soon as practical assuming the repayment of our credit facility.

We believe that the dividend is consistent with our overriding focus on maximizing shareholder value. Furthermore, we believe that given our cash flow characteristics, we will be able to pay this modest dividend, while also pursuing investment and acquisition opportunities to grow the business and create further value over the long term.

With that, I'll turn it back over to Noah.

Noah Gottdiener, Chief Executive Officer and Chairman

Thanks, Jake. Operator, I'd like to now open the floor up to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. And we'll go first to Daniel Harris with Goldman Sachs.

<Q – Daniel Harris>: Good morning, guys. How are you?

<A – Noah Gottdiener>: Good, Dan.

<Q – Daniel Harris>: So I was wondering if you could just flesh out a little bit more on the advisory side opportunities to continue to advise both U.S. and potentially foreign governments on the various plans that they've put in place on a valuation basis, like you've done with the TARP, or potentially other things that are going on internationally. And how that – how you can sort of think about the size of that opportunity going forward?

<A – Noah Gottdiener>: That's a great question. I guess it's difficult to get our hands around the size of the opportunity. What I can say is that we're talking about literally asset securities that have trillions of dollars worth of notional value that are potentially being moved around through various government programs, whether it be TALF, which is intended to jumpstart the securitization market, or this Public Private Investment Partnership program, which is intended to move toxic assets off the banks' balance sheets, or other progress that are being envisioned both in the U.S. and overseas.

We believe that there are opportunities that are beginning to percolate still in the early stages to work for various government entities, again, both the U.S. government, the U.K., the EU, and the different regulatory bodies. And what I can say is we're well positioned both from the perspective that we have deep skills now that we've invested in this area on valuing complex securities and we're an independent party. So we don't have the complex of being an asset manager, holding these assets on our balance sheet, and that puts us in a very unique position. So I couldn't be more excited about the opportunities that we see on the horizon here, and it's an area that we're definitely going to continue to invest in.

<Q – Daniel Harris>: Okay. That's great. Next, on the M&A environment that you're seeing, can you sort of compare what you're seeing in the small and mid-cap space to what we may be seeing in the larger sector overall? I think traditionally you guys have had a much bigger focus on some of these smaller firms and portfolio companies. And looking back historically, it doesn't look as if M&A is quite as vulnerable in the small sector versus what you see in terms of large deals. And I was wondering, as you look at your backlog through the rest of the year, how you think about that both in terms of the small and mid-sized companies, but also, I guess, getting your general view on the overall state of the financing private equity and larger M&A markets?

<A – Noah Gottdiener>: Well, look, what I can tell you is with regard to our M&A Advisory practice, which is the business – which is our business that is focused primarily on sell-side assignments or smaller, middle market companies. Our backlog has – again, although not big and it's not a huge piece of our business, a small piece of our overall business, our backlog has definitely improved considerably today relative to where it was at the end of the year, which directionally we take as a very positive sign.

We're seeing more strategic buyers even in the middle market space, a space that had been dominated by private equity buyers, and we're seeing some renewed activity now by private equity buyers who are prepared to write full equity checks for companies and will put off refinancing that equity to a later point. So a bit more confidence about being able to write big checks, when credit may not be fully available, and furthermore, we think we're seeing credit loosening up to some degree. Again, I would say this is more directional than we're not seeing quantum leads, but the direction is a positive one.

<Q – Daniel Harris>: Okay. And then just lastly from me, as you look out – I think some of your commentary was around acquisitions, and you'll have a – you anticipate this is for your balance sheet. What areas do you think you want to focus on to build out in terms of people, with team lift-outs or full acquisitions, whether that's geographic or product related over the next 12 to 18 months? Thanks.

<A – Noah Gottdiener>: Yeah. I would say we're seeing some terrific opportunities across all three of our segments, both to intensify our presence in certain businesses, as well as in some cases some geographic extensions. So we're seeing some really great opportunities, both with small companies to buy at good prices, and great talent to pick up in terms of lift-outs. And without getting too specific, I've already mentioned that I'm very excited about the Financial Engineering sector, that's one area that you may see us focus in with regard to acquisitions.

Operator: And next we'll go to Tim McHugh with William Blair & Company.

<Q – Tim McHugh>: Yes. First, you mentioned the pension accounting opportunity, are you getting revenue from that yet, and can you comment just first on that and then what's the outlook for that in terms of when that might start benefiting you and how significant it could be?

<A – Noah Gottdiener>: Yeah. On the pension world and their need to move to fair value accounting, there will be a need mostly in 2010 for pension funds to account for their assets on using FAS 157 and other implications with regard to consolidating into their parent companies that will create work for us. I would say that the amount of revenues we're getting from that opportunity is small, if anything, at the moment, very small, the potential is very large. As pension funds manage literally trillions of dollars of assets; it's potentially a huge wave – next wave for us, for our Portfolio Valuation business, and we think we're as well positioned as anyone else there for that wave.

<Q – Tim McHugh>: Okay, that's great. The next question would be on the Due Diligence practice area within the Corporate Finance segment that you broke out. That's a newer practice area that we're seeing kind of broken out. Can you – and it was down significantly year-over-year. I'm assuming, can you talk about – should we think of that practice being correlated with M&A activity, and what are the demand trends there?

<A – Noah Gottdiener>: Yeah, listen, I would say that the Due Diligence practice, where we provide accounting, tax due diligence, primarily to private equity firms and strategic buyers on the buy – generally on the buy side. The dynamics of that business closely parallel our middle market M&A Advisory business. Although it'd be – our M&A business is generally on the sell side and our Due Diligence is generally on the buy side. But a similar, they're both attacking a similar marketplace, and they probably will move in tandem and in fact those two businesses have been helping each other and working together nicely. And, so as we see the M&A Advisory business pick up, we'll see that same dynamic taking place for the Due Diligence business. I would view, Tim, both of those businesses moving in tandem and driven by similar dynamics.

<A – Jacob Silverman>: Does that answer your question?

<Q – Tim McHugh>: Yes. Yeah. That's helpful. And, then lastly -

<A – Jacob Silverman>: Tim, did we lose you?

<A – Noah Gottdiener>: Yeah. He dropped off the line.

<A – Jacob Silverman>: I – operator I assume Tim will rejoin us, but maybe in the meantime -

Operator: Okay.

<A – Jacob Silverman>: ... we'll take another question and come back to Tim.

Operator: Next we'll go to David Trone with Fox-Pitt, Kelton.

<Q – David Trone>: Good morning. I had a question for you, for the banks that have taken TARP. There is a – basically a need to address the warrants in that process, and according to my understanding there needs to be an independent valuation of those warrants that drives the settlement between the bank and the government. Is that something you guys are involved with?

<A – Noah Gottdiener>: Well, let me say this, I can't speak to specific situations. And as you know, the repayment of TARP money is in its very early stage here, but that is clearly an area that we'd want to participate in and are pursuing.

<Q – David Trone>: Okay, great. And I think you touched on it, but the cuts of about 50 client services folks, was that – when was that in the quarter? And I know you've talked about hiring, but will there be more of that type of folks that are maybe not in – maybe more in the cyclical side, pro-cyclical side, there'd be more head count reductions?

<A – Noah Gottdiener>: I'll turn it over to Jake in just a second to answer part of the question, but let me just say that we made those reductions in the quarter, and we at the moment have no, no further plans to make large-scale reductions of that sort. Having said that, we're always looking at balancing our capacity, but have no further plans along those lines.

<A – Jacob Silverman>: Dave, in terms of timing, it really occurred toward the very end of the first quarter, and that's – and that – approximately \$1 million of severance that we took was in Q1.

<Q – David Trone>: Okay, great. And then one last question. In any new hiring, not counting acquisitions, would the MD to non-MD mix be roughly the same as your current mix? Or is there any reason to believe it would be different?

<A – Noah Gottdiener>: I don't think that there is any reason to believe it would be different, but our leverage models vary considerably from business to business that we're in. So, to the extent we're emphasizing one business over another, that could have some impact, but I wouldn't see a meaningful change in those ratios.

<Q – David Trone>: Okay. And actually I lied, let me ask one more question. On your rate per hour in the Financial Advisory, could you just repeat that? You were talking about deferred write-ups, and I got – I got kind of caught behind in writing.

<A – Noah Gottdiener>: Okay. I'll let Jake go through it again.

<A – Jacob Silverman>: Sure. Our quarterly rate per hour can fluctuate quarter-to-quarter, year-over-year and sequentially. And what I said was that there were some write-ups on jobs that are based on rates and hours, where we actually worked on the jobs, but weren't able for various revenue recognition reasons to take the write-up in the first quarter, where we should be able to take some of those write-ups in Q2. The other piece is the Lehman engagement, which really just started towards the middle of Q1, has a court-mandated hold-back of about 20% of billings. And that also impacts our rate per hour in the quarter.

<Q – David Trone>: Great. Okay. Thank you very much.

<A – Jacob Silverman>: Okay, good.

Operator: And next we will take our follow-up from Tim McHugh with William Blair & Company.

<Q – Timothy McHugh>: Yes, that last question was actually what I was going to ask. Can you just quantify in any way what the deferral might be as we – that got moved from Q1 to Q2?

<A – Jacob Silverman>: Tim, I can – to a certain extent that it's based on – as it relates to the items that impacted rate per hour, it was in the low-single digit, millions of dollars. And again, listen, there is always going to be some deferral quarter into the next quarter. That's just the nature of our business. Across the broader firm, there is always going to be an M&A fee here and there that we think will hit in Q1, that will slip into – into the subsequent quarter, and there was one of those this quarter, which wasn't reflected in Q1. But overall, there is probably slightly more of those types of deferrals this quarter than we've seen in the past.

<Q – Timothy McHugh>: Okay, great. That's helpful. And then one more if I could actually. You mentioned in the Valuation Advisory piece that I believe you said less than half of the revenue this quarter was related to M&A activity. Historically, if we looked two to three years ago, how much of the revenue in that segment was from M&A? Was it 90% back when M&A was strong?

<A – Noah Gottdiener>: We'd have to go do the analysis. My guess would be it's -- was probably over two-thirds, but that's strictly a guess.

<A – Jacob Silverman>: And it changes quarter-to-quarter obviously, depending on the cycle, Tim, as your question points out.

<Q – Timothy McHugh>: Okay. Thank you.

Operator: And next we'll go to David Gold with Sidoti.

<Q – David Gold>: Hi, good morning. Just to touch a follow-up on the bill rate question. So, essentially, there -- tough for us to tell I guess without having the hard numbers. But given the decline there, can you sort of give a sense for how much of it was really the deferral versus the competitive landscape and what's happening out there on the competitor front, with presumably a little harder maybe for some competitors to find some work? Are they bringing down rates? I guess that's the question.

<A – Noah Gottdiener>: Let me start off with the competitive environment. Obviously, it is a tough competitive environment. And there are situations where people compete on price, and we've had to, in some cases, provide sharper pricing. But I would say, generally, we don't compete on price. We've walked away from business where we found that our competitors have gone too far down. And for the most part, I would say we've been pretty good at holding our price, and in a more normalized environment, we would continue to – just to – hope for modest rate increases as we move forward. As far as quantifying, how much of the drop in rate has resulted in deferral -

<A – Jacob Silverman>: With regard to the items that I mentioned it was about \$10 of that decrease, order of magnitude. And the residual few dollar decline is a combination of any number of factors, but part of it is the general environment, part of it could be mix-driven and so forth.

<A – Noah Gottdiener>: So – but we don't – we don't – to repeat, we do not see that as a trend.

<A – Jacob Silverman>: And just to be clear, that \$10 impact is the combination of a couple of notable deferrals, as well as that Lehman hold-back that I had mentioned.

<Q – David Gold>: Got you. And one other one, maybe tough to say from where we sit in the year, but essentially given the talent that you've seen out there, can you comment a little bit on hiring plans or, I guess, even loosely, do we think that we end – that we come to year-end ex an acquisition with higher head count than we have today?

<A – Noah Gottdiener>: Well listen, we're obviously going to be careful about our overall head count. But, number one, we continue to hire on campus, you should know that, obviously, at a much lower level than we have in a different part of the cycle. And we're still hiring very actively in certain of our businesses that are quite robust, particularly dispute consulting, financial engineering, and restructuring, are real focuses. And even with regard to businesses that are slower, like our M&A Advisory business where we're seeing some extraordinary talent at pricing that we couldn't have envisioned in the past, we're taking advantage of those opportunities to pick up some great talent and position ourselves for a recovery in certain of those businesses.

<Q – David Gold>: Yeah, got you. Thank you both.

Operator: And next we'll go to Andrew Fones with UBS.

<Q – Andrew Fones>: Yes, thank you. I had a couple of follow-ups to prior questions. To start with, just on the head count question, I think you said that the cut came late in Q1, should I assume that the quarter-end head count is a good base to use or were there – did any of the cuts – should I consider any of the cuts that occurred to come on top of that head count?

<A – Jacob Silverman>: I think the quarter-end head count for Q1 represents the majority of the action. There might be a few further that just because of extensions of termination dates and so forth that are reflected or will be in the mix in Q2. But the majority is reflected in Q1.

<Q – Andrew Fones>: Okay. Thank you. And then second just in terms of the deferral, you mentioned in addition to the Lehman Brothers there was a couple of other notable deferrals. Is it usual to get deferrals from time to time? I'm just trying to understand whether this was an unusually high level of deferrals in the period?

<A – Jacob Silverman>: As I said, every quarter there is some level of deferral for the reasons that I described across the firm, whether it's in our Investment Banking business or Financial Advisory business. This quarter there were a couple more notable items that we wanted to bring to people's attention.

<Q – Andrew Fones>: Okay. And the margin impact, just looking at the kind of the margins, if I add Corporate Finance and Financial Advisory together, looks like you saw sequentially an increase in revenue, but a decline in EBITDA. So should I assume that there was – there's quite a high impact from the deferral – that that deferral really is all margin or all EBITDA? Is the cost -- will it already been expensed?

<A – Jacob Silverman>: That is certainly an important driver, Andrew. I think that's a reasonable view. And I mean, those deferred revenues would have generated incrementally, basically, our overall target gross margin to the bottom line without a lot of incremental SG&A expense.

<Q – Andrew Fones>: Okay, thanks. And then just finally I had a question for Noah, and I apologize if I'm asking you to consult the crystal ball a little too closely here, but given your comments about the potential for a second-half recovery in M&A, given the fact that we've seen some stabilization here in the market, rather rally in the equity markets, credit spreads have come in noticeably, would you say that the current environment, if we see just a stabilization here, should yield that second-half recovery in M&A or would you need any further recovery from here to get that? Thanks.

<A – Noah Gottdiener>: Well, we can get into parsing words, I don't want to go there. I guess what I would say is, directionally we feel good about what's happening in the market, and we're seeing indications in our own, for example, in our own M&A backlog that activity is increasing. And that in itself, by the way, should produce for example in our M&A business, based on our current

backlog should produce a higher second half than first half. I don't know how – I don't want to get too far into the crystal ball, because it is hard to see, but I'm pleased with the direction that things are going and how our business is responding.

<Q – Andrew Fones>: And the cuts you've made in terms of head count and mindful of the fact that you could see a pickup when you feel you have sufficient capacity? And -

<A – Noah Gottdiener>: Yes.

<Q – Andrew Fones>: Okay.

<A – Noah Gottdiener>: Yes.

Operator: [Operator Instructions]. And we'll go next to Sam Hoffman with Lincoln Square.

<Q – Samuel Hoffman>: Hi, good morning. I had a couple of follow-up questions. On the growth in the Corporate Finance Consulting and Tax Services, which I guess are some of your non-cyclical businesses, it seemed that the revenue kind of plateaued in the first quarter. In Corporate Finance Consulting it was about the average of the last few quarters, and in Tax Services it was actually slightly down. And, so can you comment as to whether those two businesses are seasonal, and that's why the first quarter was relatively light, or have we plateaued at a new level?

<A – Jacob Silverman>: Sam, let's start first with Corporate Finance Consulting. There are a lot of different – sort of two specific trends going on in that overall segment. As Noah described, pieces of our business are growing rapidly, driven by our Financial Engineering and Portfolio Valuation business. But so, that is certainly a growth driver within this segment, but counteracting that as we described is the decline in Due Diligence, which was a big piece in Q1 of last year, and as we thought that has gone down. So there are things going in both directions, which is part of the overall story here.

<A – Noah Gottdiener>: Yeah. Again, I would always caution you to be a little careful looking at – there is always some lumpiness, for example, in Tax Services. Our property tax business will fluctuate from quarter-to-quarter depending on contingencies that closed in that quarter or slip into the next quarter. But, we're not – in my view we're not plateauing and those are businesses that will continue their – their growth curve.

<Q – Samuel Hoffman>: Okay. My second question is, your equity-based compensation in the quarter declined significantly from I think 6.5 million last year to only 3.3 million this year. And, can you just give some basic guidance on how that number is calculated and how we should expect to think about that going forward?

<A – Jacob Silverman>: Sure. Again, the overall equity-based comp is a combination of three basic components. Two of which, we add back for purposes of calculating adjusted EBITDA and adjusted pro forma net income. And those two as you described in the past relate to – what we call Legacy Units and IPO Options, which were equity awards that we made in connection with our acquisitions prior to our IPO, as well as a one-time option grant that we made at the time of our IPO. And those awards have a runoff schedule, and I think what you're seeing, Same, for the most part in terms of that quarterly fluctuation, is the just ongoing result of that runoff, which should be largely done by 2011, with the IPO Options may be extending a little bit further.

So there'll be a continuing decline there. The third component, which is really the one that we're most focused on, as it relates to our ongoing profitability, are the restricted stock awards that we grant to employees as part of their ongoing compensation, and that will continue. And on the dollar basis, that will actually most likely grow, and it's an important part of our overall compensation philosophy. So you have those two – those two trends. One, which is growing, which is the RSAs

most likely; and the other two, which are declining, which really are the runoffs of those legacy equity awards.

<Q – Samuel Hoffman>: Okay. And my last question is, you had the margin of 17% in the quarter, your long-term target was 19 to 20%, and I think you've said that you try to achieve that every year. Is that still an objective for this year as a whole, or the remainder of the year as a whole, or is it just too tough this year?

<A – Jacob Silverman>: Well, I guess all I would say Sam, is what I said in the prepared remarks, which is that, we are very focused on maintaining our discipline with regard to overall expenses. And we're committed to the long-term objective of 19 to 20%, and we've been there in the past. But what I've said specifically was, with respect to this year, is that we could be slightly below the bottom end of that range.

<Q – Samuel Hoffman>: Okay. Actually I had one other small question. Noah, you had mentioned that in normal times, you would aim to achieve modest price increases. I was thinking longer term, last year you had very significant rate increases per hour. I think it was at least 5%. Is that what you would call modest or it's more kind of an inflation type of increase for the longer term?

<A – Noah Gottdiener>: No, I think those order of magnitude increases is what we would contemplate over the long term, but we'll have to wait and see where inflation goes. If inflation picks up, then we'll reassess.

<Q – Samuel Hoffman>: Terrific. Thanks.

Operator: And next we'll go to Joel Jeffrey with KBW.

<Q – Joel Jeffrey>: Good morning. Just a quick -

<A – Noah Gottdiener>: Good morning, Joel.

<Q – Joel Jeffrey>: ... modeling question, and I apologize if I missed this earlier. But what was the utilization rate and the rate per hour for the Financial Advisory and Corporate Financial Consulting in the fourth quarter of '08?

<A – Jacob Silverman>: For Q4 of '08 – we haven't yet broken out our CFC utilization rate for Q4 '08, Joel. So, at this point, we don't have that disclosure.

<Q – Joel Jeffrey>: Okay, great. Thanks.

Operator: And now with no more questions in the queue, I'd like to turn it back over to Mr. Gottdiener for any additional or closing remarks.

Noah Gottdiener, Chief Executive Officer and Chairman

Thank you all very much. Well, I'm sure we'll be speaking soon. Thank you.

Operator: This concludes today's conference. We thank you for your participation.

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