
MANAGEMENT DISCUSSION SECTION

Operator: Please standby. We are about to begin. Good day everyone and welcome to today's Duff & Phelps Third Quarter 2009 Earnings Call. Today's call is being recorded. For opening remarks and introductions, I would like to turn the call over to Marty Dauer, Chief Marketing Officer. Please go ahead, sir.

Marty Dauer, Managing Director, Chief Marketing and Communications Officer

Good afternoon and welcome to Duff & Phelps' conference call to discuss financial results for the third quarter of 2009. I'm Marty Dauer, Chief Marketing and Investor Relations Officer. With me today are Noah Gottdiener, Chief Executive Officer; Gerry Creagh, President; and Jacob Silverman, Chief Financial Officer.

Before we begin, I'd like to point out to all of you that today – 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 Securities and Exchange Commission 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 our CEO, Noah Gottdiener.

Noah Gottdiener, Chief Executive Officer and Chairman

Thanks, Marty. It's a pleasure for me to speak with you this afternoon and report our financial results for the third quarter of 2009. The quarter demonstrated once again that our strategy to build a balanced portfolio comprised of counter and non-cyclical businesses is paying off. These businesses have helped to meaningfully offset declines in our M&A related businesses, which have experienced ongoing pressure due to the dislocation in the broader M&A arena. These businesses have helped to generate sequential quarterly growth as we start to enter what we believe is a period of broader recovery.

Let me 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 into the future. At the same time we are starting to see more signs of life in the M&A market, and as we described last quarter, we've taken advantage of the recent M&A downturn to make a number of strategic investments in our investment banking practice, enhancing our position for a broader M&A recovery in the future.

Let's discuss the highlights of each of our businesses for the quarter, starting with the counter and non-cyclical ones, which continue to grow in this environment. These businesses represented nearly 60% of our revenue for the quarter. First, let's talk about our global restructuring business, which more than doubled in revenue compared to last year.

Our professionals continue to win business in this very active market. Here in the U.S., we've won a number of significant creditor and debtor side assignments in recent months. We continue to

believe that the restructuring in distressed arena is going to be fertile ground for at least the next two to three years, and we believe we are well positioned given our strong global franchise in this market.

Next, let's move on to our Dispute Consulting Practice, which increased about 50% compared to last year. We've established ourselves as one of the leaders in providing valuation-oriented consulting services in high-profile litigations and disputes. We have carefully grown our practice and expanded into related areas such as intellectual property, eDiscovery, and forensics. All of which are bearing fruit.

Looking forward, we believe that during the coming 12 to 24 months, we could see an increase in the market for litigation services in our core areas of expertise as companies and regulators loosen their budgets.

We continue to be very involved with the Lehman examiner assignment, which has been a significant revenue source for us, but just as importantly, this assignment has given us unique insights into one of the most complex bankruptcies in history. While we expect this engagement to wind down early next year, we believe we are well positioned to leverage our experience and intellectual property for future wins of this nature.

Our Portfolio Valuation, Financial Engineering and Strategic Value Advisory services continue to experience strong significant growth year-over-year, growing over 30% in the aggregate. We are the clear market leader in providing independent valuation services to private equity and hedge funds.

Furthermore, we continue to look at the limited partner and pension fund market as a potentially fruitful opportunity as these players look to the adoption of new fair value accounting standards in the future.

During the quarter we continued to work for the Directorate General for Competition of the European Commission as an advisor on valuation issues and assisted the Commission in the assessment of asset relief measures submitted by the European Union Member States in the context of state aid procedures. We also assisted the Commission in the refinement and development of valuation principles and processes and will provide training to Commission officials on topics of relevance for these areas. This is a marquee engagement for us and further solidifies our global position in valuation thought leadership.

Finally, let's comment on our tax business, which grew almost 20% over last year and about 25% sequentially, resulting in our strongest quarter ever for this business. Our Property Tax Advisory practice is the foundation of our tax business. It is generally not connected to the M&A cycle and in fact could have countercyclical characteristics, as companies seek to save tax dollars in a declining real estate market.

This is a business that can generate meaningful contingency fees, as well as a steady stream of recurring compliance and advisory work. Our results in Q3 are a great example of this. We've also been able to add additional specialty practices to round out the overall tax platform. In particular, our Business Incentives practice, which assists clients in tapping into local state and federal government support, is seeing signs of strength as our professionals begin to work with clients in the energy industry, who are seeking economic stimulus funds available from the U.S. federal government.

In summary, the counter and non-cyclical businesses that I just described grew about 44% over 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 quarters have constituted one of

the slowest periods for M&A activity in recent memory. This has put downward pressure on M&A related businesses during Q3.

First, 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, primarily as a result of the M&A environment.

That said, we believe we are maintaining share and that we are well positioned in this area as the broader M&A markets recover. Furthermore, the estimated dollar value of new engagements that we won for FAS 141 increased sequentially in Q3 and in Q2, a potential leading indicator for an uptick here.

Our due diligence and M&A Advisory businesses, both generally focused on the middle market, have also been affected in the third quarter, with both experiencing year-over-year declines. In M&A, we recognized two meaningful success fees in the quarter. As we said in prior discussions however, our estimated M&A backlog has grown meaningfully since the beginning of the year and we think that this could lead to a more robust 2010 for our M&A Advisory business.

I'd also note that to-date in Q4 we have already closed four M&A transactions with aggregate success fees of approximately \$4 million with the fifth scheduled to close in the next few days. Pitch activity appears to be picking up and we are also seeing significant interest from private equity firms in a number of our sell side mandates, which could be leading indicators of positive times ahead.

And as we previously mentioned we have added a number of additional managing directors in our M&A business who are starting to ramp up in their roles. These new team members along with our existing investment banking team helped to position Duff & Phelps for growth as broader M&A deal activity increases.

Rounding out the M&A related part of the D&P portfolio is our Transaction Opinions practice. No question that the third quarter was slow for this business in a very slow overall M&A environment. But the important theme is that this continues to be 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 a third over last year. With the overlay of 44% growth in our counter and non-cyclical businesses however, this led to overall revenue result for Duff & Phelps just 3.2% lower than last year. Perhaps more relevant in today's environment, our overall business grew sequentially for Q3 at 3.5% and in particular our Investment Banking segment grew about 6% sequentially.

Given the external pressures, I am pleased with how well positioned we are for the long-term with a debt-free cash-rich balance sheet. As the M&A markets and the broader economy begin to recover, I can see a period when all of our businesses are performing well concurrently, including the time when M&A and restructuring are simultaneously strong.

The primary reason that our countercyclical businesses will continue to grow even through an economic recovery is that the fallout from this crisis should continue for at least the next two to three years.

In this context, we are always looking for ways to grow the business strategically. We are seeing and exploring a number of interesting opportunities to acquire businesses and lift out groups of talent in a number of sectors and geographies.

That said, we have been and we'll continue to be disciplined on valuation and the use of our balance sheet. We are near the end of our strategic planning and budgeting process for 2010, and

we're excited about the prospects for our business going forward. Our plan is being developed on the basis of the early stages of a broader M&A recovery as well as opportunities to invest as a result of the strength of our balance sheet.

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

Jacob Silverman, Chief Financial Officer

Thanks, Noah. Let me apologize in advance as I'm recovering from a cold here. 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've 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 93.2 million, compared to 96.3 million in the corresponding prior year quarter and 90.1 million in Q2 of 2009. For the first nine months of the year, revenues were 272.6 million versus 287.3 million in the corresponding prior year period.

Adjusted EBITDA for the quarter was 16.5 million or 17.7% of revenues, compared to 15.8 million or 16.4% of revenues in the corresponding prior year quarter. For the first nine months of the year, adjusted EBITDA was 48.5 million or 17.8 % of revenue, compared to 52.9 million or 18.4% for the corresponding prior year period.

I note that our Q3 expenses include a level of investment in our M&A business, which represented approximately \$1 million or about \$0.02 per share of expense for the quarter. We're excited about realizing the return on this investment as the M&A market enters a recovery phase.

Overall SG&A expense, excluding equity compensation associated with legacy units and IPO options decreased over last year. With regard to expenses generally, we continue to be very focused on maintaining discipline here in terms of the direct cost and SG&A. We are committed to working back towards our previously stated long-term objective of 19 to 20% adjusted EBITDA margins, although this year we could be below the bottom end of that range.

As I've said in the past, there can be quarterly fluctuations in adjusted EBITDA margin, and we do not necessary look at any one quarter as indicative of full year results or longer-term trends.

Adjusted pro forma net income per share was \$0.22 for our third quarter, compared to \$0.22 in the corresponding prior year quarter as well. Year-to-date adjusted pro forma net income per share was \$0.64 for the first nine months of the year, compared to \$0.76 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, which includes loss on our early extinguishment of debt, taxes, depreciation and amortization and non-controlling interest, as well as the following items: Other income, acquisition retention expenses, equity-based compensation associated with Legacy Units of Duff & Phelps' acquisitions, and 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, excluding a non-recurring charge from the repayment and termination of our previous credit facility, 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, excluding restricted stock awards, and giving effect to the dilutive impact, if any, of restricted stock awards and stock options.

I'll now talk briefly about segment performance in our balance sheet. Noah described our overall performance based on how our businesses are categorized by cyclical versus countercyclical characteristics. I'm going to talk about performance based on our three reporting segments, each of which provides cyclical, non-cyclical and countercyclical services.

Let's start with Financial Advisory, which represents approximately 62% of total revenues for the quarter. During the quarter, Financial Advisory revenues decreased 11.4% to 57.6 million, compared to 65 million in the corresponding prior year period. For the first nine months of the year, Financial Advisory revenues decreased 8.1% to 176.4 million, compared to 191.9 million in the corresponding prior year period.

As Noah described earlier, revenues from our counter and non-cyclical businesses, such as dispute and tax services increased over the corresponding prior year quarter, partially 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 62.4%, compared to utilization of 62.7% in the corresponding prior year quarter. Rate-per-hour increased to \$336, compared to \$334 in the corresponding prior-year quarter. Revenue per professional was \$90,000 compared to \$93,000 last year. Year-to-date, Financial Advisory utilization was 64%, compared to utilization of 63.2% in the corresponding prior year period.

Rate-per-hour decreased \$322 year-to-date compared to \$341 in the corresponding prior year period. Revenue per professional was 264,000 compared to 282,000 in the corresponding prior year period.

As we have previously discussed due to evolving mix of our businesses to include more value-added contingent fees, utilization rate-per-hour have taken on somewhat less relevance.

In our Corporate Finance Consulting reporting segment, which represents approximately 19% of total revenue for the quarter, we saw overall revenue increased by 14.7% to 17.4 million versus 15.2 million last year. For the first nine months of the year, CFC revenues increased 9.3% to 47 million from 43 million in the corresponding prior year period.

This segment includes our Portfolio Valuation practice, Financial Engineering and Strategic Value Advisory services, which grew at a combined rate of about 32%, partially offsetting the decline in our M&A related Due Diligence business, which is also in the segment, which declined about 38%. We continue to benefit from new and ongoing Portfolio Valuation assignments for private equity funds, hedge fund clients and other investment vehicles.

I'd note that our Portfolio Valuation business leverages resources from other parts of the firm, 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 executed by other parts of the firm, the total value of the Portfolio Valuation product for the quarter was actually about \$10 million versus \$7 million in the third quarter of 2008.

I'd also like to mention that Financial Engineering benefited from engagement source from Portfolio Valuation as well and it also benefited from the engagement for the Lehman examiner assignment.

Now I would like to turn to our Investment Banking segment, which represents approximately 19% of revenues for the quarter. In the third quarter, revenues increased 12.9% to 18.2 million compared to 16.1 million in the corresponding prior year quarter. For the first nine months of 2009, revenues decreased 6.2% to 49.1 million, compared to 52.3 million in the corresponding prior year period. Of note, sequentially revenues increased about 5.8% versus Q2 of 2009 for the segment.

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

Our balance sheet continues to be strong. At September 30, 2009, we had 84.2 million of cash and are debt free. Bottom line is that we are very well capitalized with ample liquidity and flexibility to invest in the business.

With regard to share count, we have a two-class share structure with Class A shares primarily owned by public investors 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 24 million. The total number of Class B shares outstanding is approximately 16.2 million. Thus, on a fully exchanged basis, we have a total of approximately 40.2 million shares outstanding. Pursuant to our exchange agreement, the first exchange of new Class A units for public company shares is scheduled to take place on November 16. Exchange notices, which were required to be submitted by October 15, totaled approximately 3 million units, representing units from current and former employees. Neither Lovell Minnick, nor Vestar, our two original private equity sponsors, elected to exchange unit this quarter.

Finally, in light of the strength of our balance sheet and overall liquidity, as well as our overall outlook on the business, I'm pleased to announced that our Board of Directors has declared a third quarterly dividend of \$0.05 per share payable on December 4 to shareholders of record on November 24.

With that, Noah and I now available to take questions and I'll ask the Operator to open the line. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions]. And our first question will come from Tim McHugh with William Blair & Company.

<Q – Tim McHugh>: Yes. Noah, I just wanted to follow up to start with on your comments about the FAS 141 business. I was a little unclear with what you meant there. Are you saying the level of work in the third quarter was higher than the second quarter, or as you exited the quarter the level of work was higher? Just a little more color on what you're seeing for that type of project?

<A – Noah Gottdiener>: Yes, just to clarify that, Tim, what I'm saying is that the dollar value of new engagements should effectively be a proxy for backlog as we move in the right direction from Q1 to Q2 to Q3. Is that clear?

<Q – Tim McHugh>: Yes, that's helpful. And then another question I had was on the – both the restructuring and the tax divisions, were there any kind of large unusual incentive fees or success fees? I know they are a natural part of the business somewhat but as we look forward to the next couple of quarters, should we not view the recent run rate as kind of sustainable for any reason?

<A – Noah Gottdiener>: They were success fees in each of those businesses. I think it's the nature of each of those businesses to have contingency fees. I can't really comment on the run rate. We don't really comment on a quarter-by-quarter basis. But we are pleased with the direction of each of those businesses and how the franchises are building, and we feel very good about the future prospects for each of those businesses in this environment.

<Q – Tim McHugh>: Okay. And then lastly, on – you mentioned kind of an improving backlog, if you will, for the FAS 141 and the new engagements that have closed for the M&A business here in Q4 already.

<A – Noah Gottdiener>: Yeah.

<Q – Tim McHugh>: I know the Fairness Opinion has a relatively short backlog on the velocity side, but are you seeing similar positive signs as it relates to the future for that business or is it too tough to see?

<A – Noah Gottdiener>: I think it's a little tough to see. That's a business that frankly turns on a dime, and I'll just repeat what I said earlier that we feel very good about our franchise and where we're positioned, and that business will benefit meaningfully by an uptick in M&A activity.

<Q – Tim McHugh>: Is it fair to say though you haven't seen a pickup in that business like you have in the M&A Advisory already in the Q4?

<A – Noah Gottdiener>: No, I wouldn't say a material pickup yet, but again, we feel good about the positioning and that's about all I can say at this point.

<Q – Tim McHugh>: Okay. Thank you.

<A – Noah Gottdiener>: Thank you.

Operator: And we'll move on to Sam Hoffman with Lincoln Square Capital.

<Q>: Just two quick questions. The \$1 million investment that you made in the M&A business, was that a one-time investment or is that recurring?

<A – Noah Gottdiener>: Well, listen, it's an investment in bringing on some people to the extent in the future we see opportunities to lift out groups of people or bring in people. There may be costs associated with that, so it's very hard to predict, but we want to point out that we did make a specific investment during the quarter, and it did have a cost, so we wanted to provide some clarity around the cost of that investment and that's what we did in that disclosure.

<Q>: Okay. So it's a one-time related to that group of people and that particular...

<A – Noah Gottdiener>: That would be correct, Sam.

<Q>: Okay. And then the other question is, you mentioned the 3 million share overhang, which begins on November 16. And so do you have any plans to manage that in any way?

<A – Noah Gottdiener>: Well, look, we have noted that there are 3 million shares that have given notice to exchange. And also, just want to underscore again that the private equity firms did not exchange or did not give notice to exchange. And it's hard for me to say whether any particular individual who owns any of those exchanging shares will or will not sell his stock and that's about all I can say at this point.

<Q>: Is there any reason why someone would not elect to convert the shares because doesn't it give them flexibility to sell it at whatever point they'd want to sell it?

<A – Noah Gottdiener>: Well, I think there is an economic decision that needs to be made by a holder of the LLC units. The exchange itself triggers a capital gain for the holder...

<Q>: Okay, terrific. Thank you.

<A – Noah Gottdiener>: Okay. Yeah.

Operator: [Operator Instructions]. We'll go now to David Gold with Sidoti.

<Q – David Gold>: Hey, good afternoon. Just a couple of questions for you, one, There was a comment in there, I think, Noah, you made as to a pick up or a foreseeable pick up from a litigation type business over the next 12 months and some other things with that. Can you give a little more color there as to what those signs are, what you are seeing exactly?

<A – Gerard Creagh>: Hi, this is Gerry. We – what we did about a year ago was, we acquired two firms. We broadened our capabilities and, as a result, we are much better positioned in the marketplace. That was what led us to win the Lehman assignment. We are seeing more opportunities in the past year than we would have in prior periods. So I just think that we're just much better positioned than we were in the past. We have a broader, more developed group that specializes in valuation issues as they relate to litigation.

<A – Noah Gottdiener>: I think that our – anecdotally, we're seeing that our, the lawyers that we deal with that their clients seem to be more interested in moving ahead with litigation situations. So a lot of it is anecdotal, but it's our feel on the pulse of that marketplace.

<Q – David Gold>: Okay, it's fair. And then just one other – looks like we're still doing a little bit of pruning in certain practices or some shifts in head count here and there, but curious as we're starting to feel maybe a little better about things, what the outlook is; A) to the extent there are practices that you are still adding, can you give some sense there, and then – for where you are still adding head count? And then; B) would you expect as we come towards the end of the year for head count to be up from here?

<A – Noah Gottdiener>: Well, listen, we're always over the longer term looking to add head count, particularly in the businesses that are real growth businesses for us. So we are actively looking at our tax business, our restructuring business, our dispute business, certain parts of our corporate finance segment. So we are always – we are definitely looking to advance our head count. As far as our head count at the end of the year, I'm not sure that there'll be a material increase in that number by the end of the year.

<A – Gerard Creagh>: And as you can see from our utilization, we are not looking to materially grow head count right now. We think we have enough capacity to deal with an uptick in the market with the people that we have.

<Q – David Gold>: Perfect. Thank you both.

Operator: [Operator Instructions]. We have no other questions at this time. Mr. Gottdiener, I'll turn the conference back to you for closing remarks.

Noah Gottdiener, Chief Executive Officer and Chairman

Thank you all. We look forward to speaking to you in the future.

Operator: Thank you. And that does conclude our conference and thank you for joining us.

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