

Hill International, Inc.
Form 10-K/A
May 08, 2018
[Table of Contents](#)

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K/A

Amendment No. 2

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

For the fiscal year ended December 31, 2016

Commission file number 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware

State or other jurisdiction of
incorporation or organization

**One Commerce Square
2005 Market Street, 17th Floor
Philadelphia, PA**
(Address of principal executive offices)

20-0953973
(I.R.S. Employer
Identification No.)

19103
(Zip Code)

Edgar Filing: Hill International, Inc. - Form 10-K/A

Registrant's telephone number, including area code: (215) 309-7700

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Exchange Act: **None**

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

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

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

Indicate by a check mark whether the registrant has submitted electronically and posted on its corporate website, 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 No

Indicate by a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer
Non-Accelerated Filer

Accelerated Filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: Hill International, Inc. - Form 10-K/A

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2016 was approximately \$171,669,000. As of March 31, 2018, there were 52,960,817 shares of the Registrant's Common Stock outstanding.

Documents Incorporated by Reference

Portions of the Hill International, Inc. Form 10K/A (Amendment No. 1) for the year ended December 31, 2016 filed on May 1, 2017, are incorporated by reference into Part III of this Form 10-K/A (Amendment No. 2).

Table of Contents

Explanatory Note

As previously disclosed in the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on September 21, 2017, the Board of Directors (the "Board") of Hill International, Inc. ("Hill" or the "Company"), upon the recommendation of the Audit Committee of the Board, determined that the Company's previously issued financial statements for each of the years ended December 31, 2016, 2015 and 2014 and each of the quarters ended March 31, June 30, and September 30, 2016 and 2015 included in the Company's Annual Report on Form 10-K filed with the SEC on March 31, 2017, as amended by the Company's Form 10-K/A (Amendment No. 1) file with the SEC on May 1, 2017 (as amended, the "Original Form 10-K") and each of the Quarterly Report on Form 10-Q for such periods as well as the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, could no longer be relied upon. As a result, the Company is filing this Amendment No. 2 on Form 10-K/A (this "Amendment") to restate and amend the Company's Original Form 10-K.

The Board's decision to restate its financial statements stems from the Company's review of the accounting for the May 2017 sale of the Construction Claims Group and the related impact on other comprehensive income (loss), including foreign currency translation adjustments related to intercompany balances. The Company determined that it had not previously accounted for foreign currency gains/losses on intercompany balances and other transactions in accordance with U.S. generally accepted accounting principles ("US GAAP"). The Company has since then expanded its review of its accounting practices and has identified additional transactions not accounted for in accordance with US GAAP.

This Amendment reflects the correction of the following errors identified subsequent to the filing of the Original Form 10-K:

- A. The Company determined that it had not previously accounted for certain foreign currency gains/losses on intercompany balances and transactions in accordance with US GAAP. The Company improperly accounted for the foreign currency effect of certain transactions as if they were long-term investments by including the foreign currency effect in accumulated other comprehensive income instead of properly recording the effect as operating expenses as required under Accounting Standard Codification (ASC) 830 Foreign Currency Matters.
- B. The Company identified departures from US GAAP under ASC 605-35 Construction-Type and Production-Type Contracts in its historical accounting for revenue recognition on nine long-term customer contracts with fee constraints (e.g., fixed fee, lump sum, maximum contract value). The Company enters into agreements for construction management and consulting services with customers, and the guidance of ASC 605-35 states that contracts for construction consulting services, such as under agency contracts or construction management agreements, fall within the scope of the standard and should follow either Percentage of Completion or Completed Contract methods of accounting. Historically, the Company had not consistently applied the percentage of completion method of revenue recognition.
- C. The Company discovered that it had not properly performed the required impairment testing of amortizable intangible assets in accordance with US GAAP in that an asset that was no longer in use as of July 2013 was not identified and impaired. In addition, an improper useful life was used for some of the Company's internally developed software assets resulting in an improper amount of amortization expense being recorded in previous periods.
- D. The Company discovered that the amounts of liabilities pertaining to the obligation for end of service benefits in six foreign countries were improperly accounted for under the guidance in ASC 715 Compensation Retirement

Benefits .

E. The Company determined the accrual for uncertain tax benefits taken with respect to income tax matters in Libya had been improperly released during 2013 and 2014 prior to the expiration of the statute of limitations on the Libyan tax authority's right to audit the related tax years.

F. The Company identified other transactions that had been recorded to incorrect accounts and/or in improper amounts.

G. Some of the corrections noted above impacted earnings (loss) before taxes which, in turn, required a calculation of the tax impact.

Table of Contents

The following sections in the Original Form 10-K have been revised in this Amendment to reflect the restatement:

- Part I - Item - 1. Business.
- Part I - Item - 1A. Risk Factors.
- Part II - Item - 6. Selected Financial Data.
- Part II - Item - 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
- Part II - Item - 8. Financial Statements and Supplementary Data.
- Part II - Item - 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
- Part II - Item - 9A. Controls and Procedures.

This Amendment does not reflect adjustments for events occurring after March 31, 2017 the date of the filing of the Original Form 10-K, except to the extent they are otherwise required to be included and discussed herein and did not substantively modify or update the disclosures herein other than as required to reflect the adjustments described above. See Item 7 for updated liquidity matters. See Note 2 to the accompanying consolidated financial statements, set forth in Item 8 of this Amendment, for additional information.

Item 9A (Controls and Procedures) to this Amendment discloses additional material weaknesses in the Company's internal controls associated with the restatement, as well as management's restated conclusion that the Company's internal controls over management reporting was not effective as of December 31, 2016. As disclosed therein, management is currently developing and implementing the changes needed in the Company's internal control over financial reporting to remediate these material weaknesses.

We are also filing currently dated certifications from our Interim Chief Executive Officer and Interim Chief Financial Officer as Exhibits 31.1, 31.2, 32.1 and 32.2 to this Amendment.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Form 10-K/A (Amendment No. 2)

PART I.

<u>Item 1.</u>	<u>Business</u>	7
<u>Item 1A.</u>	<u>Risk Factors</u>	13
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	21
<u>Item 2.</u>	<u>Properties</u>	21
<u>Item 3.</u>	<u>Legal Proceedings</u>	21
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	22

Part II.

<u>Item 5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23
<u>Item 6.</u>	<u>Selected Financial Data</u>	25
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	46
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	105
<u>Item 9A.</u>	<u>Controls and Procedures</u>	106
<u>Item 9B.</u>	<u>Other Information</u>	111

Part III.

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	112
<u>Item 11.</u>	<u>Executive Compensation</u>	112
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	112
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	113
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	114

Part IV.

Table of Contents

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and it is our intent that any such statements be protected by the safe harbor created thereby. Except for historical information, the matters set forth herein including, but not limited to, any projections of revenues, earnings, earnings before interest, taxes, depreciation and amortization (EBITDA), margin, profit improvement, cost savings or other financial items; any statements of belief, any statements concerning our plans, strategies and objectives for future operations; and any statements regarding future economic conditions or performance, are forward-looking statements.

These forward-looking statements are based on our current expectations, estimates and assumptions and are subject to certain risks and uncertainties. Although we believe that the expectations, estimates and assumptions reflected in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements.

Those forward-looking statements may concern, among other things:

- The markets for our services;
- Projections of revenues and earnings, anticipated contractual obligations, funding requirements or other financial items;
- Statements concerning our plans, strategies and objectives for future operations; and
- Statements regarding future economic conditions or performance.

Important factors that could cause our actual results to differ materially from estimates or projections contained in our forward-looking statements include:

- The risks set forth in Item 1A, Risk Factors, herein;
- Unfavorable global economic conditions may adversely impact our business;
- Our backlog may not be fully realized as revenue;

- We may incur difficulties in implementing the Profit Improvement Plan;
- Our expenses may be higher than anticipated;
- Modifications and termination of client contracts;
- Control and operational issues pertaining to business activities that we conduct pursuant to joint ventures with other parties;
- Difficulties we may incur in implementing our acquisition strategy;
- The need to retain and recruit key technical and management personnel; and
- Unexpected adjustments and cancellations related to our backlog.

Other factors that may affect our business, financial position or results of operations include:

- Unexpected delays in collections from clients, particularly those located in the Middle East;
- Special risks related to our ability to obtain debt financing or otherwise raise capital to meet required working capital needs and to support potential future acquisition activities;
- Special risks related to international operations, including uncertain political and economic environments, acts of terrorism or war, potential incompatibilities with foreign joint venture partners, foreign currency fluctuations, civil disturbances and labor issues; and
- Special risks related to contracts with governmental entities, including the failure of applicable governing authorities to take necessary actions to secure or maintain funding for particular projects with us, the unilateral termination of contracts by the government and reimbursement obligations to the government for funds previously received.

We do not intend, and undertake no obligation, to update any forward-looking statement. In accordance with the Reform Act, Item 1A of this Report entitled "Risk Factors" contains cautionary statements that accompany those forward-looking statements. You should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and from historical trends. Those

Table of Contents

cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Amendment, in our other filings with the SEC or in materials incorporated therein by reference.

Table of Contents

Item 1. Business.

General

Hill International, Inc., with approximately 3,000 professionals in more than 50 offices worldwide, provides program management, project management, construction management and other consulting services primarily to the buildings, transportation, environmental, energy and industrial markets. According to *Engineering News-Record* magazine, Hill was recently ranked as the eighth largest construction management firm in the United States. The terms Hill, the Company, we, us and our refer to Hill International, Inc.

We compete for business based on a variety of factors such as technical capability, global resources, price, reputation and past experience, including client requirements for substantial experience in similar projects. We have developed significant long-standing relationships, which bring us repeat business and would be very difficult to replicate. We believe we have an excellent reputation for attracting and retaining professionals. In addition, we believe there are high barriers to entry for new competitors especially in the project management market.

Our Strategy

Our strategy emphasizes the following key elements:

- *Increase Revenues from Our Existing Clients.* We have long-standing relationships with a number of public and private sector entities. Meeting our clients' diverse needs in managing construction risk and generating repeat business from our clients to expand our project base is one of our key growth strategies. We accomplish this objective by providing a broad range of project management consulting services in a wide range of geographic areas that support our clients during every phase of a project, from concept through completion. We believe that nurturing our existing client relationships expands our project base through repeat business.
- *Capitalize Upon the Continued Spend in the Markets We Serve.* We believe that the demand for project management services will grow with increasing construction and infrastructure spending in the markets we serve. We believe that our reputation and experience combined with our broad platform of service offerings will enable us to capitalize on increases in demand for our services. In addition, we strategically open new offices to expand into new geographic areas and we aggressively hire individuals with significant contacts to accelerate growth of these new offices and to strengthen our presence in existing markets.
- *Strengthen Professional Resources.* Our biggest asset is the people that work for Hill. We intend to continue spending significant time recruiting and retaining the best and the brightest to improve our competitive

position. Our independent status has attracted top project management talent with varied industry experience. We believe maintaining and bolstering our team will enable us to continue to grow our business.

Recent events

- *Control Our Costs and Expenses.* The Company commenced a Profit Improvement Plan (PIP) in May 2017 following the sale of the Construction Claims Group. The Company initially identified gross, annualized pre-tax savings ranging from \$27 million to \$38 million. As a result of the reductions implemented to date, the partial year gross savings through December 31, 2017 is approximately \$8 million, with expected annual gross savings of approximately \$32 million in 2018 increasing to approximately \$38 million in 2019 and beyond. The Company continues to seek additional cost savings opportunities and expects to substantially complete the PIP during the second quarter of 2018.

Reporting Segments

On December 20, 2016, we entered into a Stock Purchase Agreement to sell our Construction Claims Group, which is reported herein as discontinued operations. This transaction will permit us to strengthen our balance sheet and better

Table of Contents

focus on our Project Management business. See Note 3 to our consolidated financial statements for a description of the transaction.

Our Project Management Group provides fee-based or agency construction management services to our clients, leveraging our construction expertise to identify potential trouble, difficulties and sources of delay on a construction project before they develop into costly problems. Our experienced professionals are capable of managing all phases of the construction process from concept through completion, including cost and budget controls, scheduling, estimating, expediting, inspection, contract administration and management of contractors, subcontractors and suppliers.

Our clients are typically billed a negotiated multiple of the actual direct cost of each professional assigned to a project and we are reimbursed for our out-of-pocket expenses. We believe our fee-based consulting has significant advantages over traditional general contractors. Specifically, because we do not assume project completion risk, our fee-based model eliminates many of the risks typically associated with providing at risk construction services.

Global Business

We operate worldwide and currently have over 50 offices in over 25 countries. The following table sets forth the amount and percentage of our revenues by geographic region for each of the past three fiscal years (dollars in thousands):

Revenue by Geographic Region (As restated)

	2016		2015		2014				
United States/Canada	\$	204,035	39.5%	\$	187,399	34.4%	\$	147,743	30.2%
Latin America		18,775	3.6%		26,350	4.8%		36,742	7.5%
Europe		41,062	8.0%		42,635	7.8%		37,013	7.6%
Middle East		213,613	41.4%		248,193	45.6%		231,505	47.3%
Africa		24,037	4.7%		23,935	4.4%		21,656	4.4%
Asia/Pacific		14,490	2.8%		16,248	3.0%		14,689	3.0%
Total	\$	516,012	100.0%	\$	544,760	100.0%	\$	489,348	100.0%

Grow Organically and Through Selective Acquisitions

Over the years, our business has expanded through organic growth and the acquisition of a number of project management businesses. Over the past 18 years, we have completed 14 acquisitions of project management businesses.

We believe that our industry includes a number of small regional companies in a highly fragmented market. We believe that we have significant experience and expertise in identifying, negotiating, completing and integrating acquisitions and view the acquisition of these smaller

Edgar Filing: Hill International, Inc. - Form 10-K/A

competitors as a key part of our growth strategy. Through our acquisitions, we gained entry into Spain, Mexico, Poland, Brazil and Turkey and expanded our presence in the United States. These transactions have enabled us to strengthen our geographic diversity and compete more effectively.

Clients

Our clients consist primarily of the United States and other national governments, state and local governments, and the private sector. The following table sets forth our breakdown of revenue attributable to these categories of clients for each of the past three fiscal years (dollars in thousands):

Revenue By Client Type (As restated)

	2016		2015		2014				
U.S. federal government	\$	12,050	2.3%	\$	10,737	2.0%	\$	12,495	2.6%
U.S. state, regional and local governments		155,976	30.2%		139,086	25.5%		108,087	22.1%
Foreign governments		170,567	33.1%		209,468	38.5%		208,397	42.6%
Private sector		177,419	34.4%		185,469	34.0%		160,369	32.7%
Total	\$	516,012	100.0%	\$	544,760	100.0%	\$	489,348	100.0%

Table of Contents

The following table sets forth the percentage of our revenue contributed by each of our five largest clients for the years ended December 31, 2016, 2015 and 2014:

	For the Years Ended December 31,		
	2016	2015 (As restated)	2014
Largest client	9%	8%	13%
2nd largest client	5%	5%	4%
3rd largest client	5%	6%	3%
4th largest client	4%	4%	3%
5th largest client	4%	3%	3%
Top 5 largest clients	27%	26%	26%

Business Development

The process for acquiring business from each of our categories of clients is principally the same, by participating in a competitive request-for-proposal (RFP) process, with the primary difference among clients being that the process for public sector clients is significantly more formal and complex than for private sector clients as a result of government procurement rules and regulations that govern the public-sector process.

Although a significant factor in our business development consists of our standing in our industry, including existing relationships and reputation based on performance on completed projects, our marketing department undertakes a variety of activities in order to expand our exposure to potential new clients. These activities include media relations, advertising, promotions, market sector initiatives and maintaining our website and related web marketing. Media relations include placing articles that feature us and our personnel in trade publications and other media outlets. Our promotions include arranging speaking engagements for our personnel, participation in trade shows and other promotional activities. Market sector initiatives are designed to broaden our exposure to specific sectors of the construction industry, such as, for example, participating in or organizing industry seminars.

Doing business with governments is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We believe that the ability to understand these requirements and to successfully conduct business with government agencies is a barrier to entry for smaller, less experienced competitors. Most government contracts, including those with foreign governments, are subject to termination by the government, to government audits and to continued appropriations. For the year ended December 31, 2016, revenue from U.S. and foreign government contracts represented approximately 65.6% of our total revenue.

We are required from time to time to obtain various permits, licenses and approvals in order to conduct our business in many of the jurisdictions where we operate. Our business of providing project management services is not subject to significant regulation by state, federal or foreign governments.

Table of Contents

Contracts

The price provisions of our customer contracts can be grouped into three broad categories: cost-plus, time and materials, and fixed-price. Cost-plus contracts provide for reimbursement of our costs and overhead plus a predetermined fee. Under some cost-plus contracts, our fee may be based partially on quality, schedule and other performance factors. We also enter into contracts whereby we bill our clients monthly at hourly billing rates. The hourly billing rates are determined by contract terms. For governmental clients, the hourly rates are generally calculated as salary costs plus overhead costs plus a negotiated profit percentage. For commercial clients, the hourly rate can be taken from a standard fee schedule by staff classification or it can be at a discount from this schedule. In some cases, primarily for foreign work, a monthly rate is negotiated rather than an hourly rate. This monthly rate is a build-up of staffing costs plus overhead and profit. We account for these contracts on a time-and-materials method, recognizing revenue as costs are incurred. Fixed-price contracts are accounted for using the percentage-of-completion method, wherein revenue is recognized as costs are incurred.

Backlog

We believe a strong indicator of our future performance is our backlog of uncompleted projects under contract or awarded. Our backlog represents management's estimate of the amount of contracts and awards in hand that we expect to result in future revenue. Our backlog is evaluated by management on a project-by-project basis and is reported for each period shown based upon the binding nature of the underlying contract, commitment or letter of intent, and other factors, including the economic, financial and regulatory viability of the project and the likelihood of the contract being extended, renewed or cancelled.

Our backlog is important to us in anticipating and planning for our operational needs. Backlog is not a measure defined in U.S. generally accepted accounting principles, and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog.

At December 31, 2016, our backlog, as restated (See Note 2 item B), was \$841,253,000, compared to approximately \$812,598,000 at December 31, 2015. Our net bookings during December 31, 2016 of \$544,667,000, which equates to a book-to-bill ratio of 105.6% compared to our goal of at least 110%. While this is short of our expectations, it is consistent with the slowdown of project activity in the Middle East due to the economic impact caused by the drop in oil prices and political upheaval and civil unrest in certain parts of the region. This will continue to be a major area of focus for 2017. We estimate that approximately \$338,121,000, or 40.2% of the backlog at December 31, 2016, will be recognized during our 2017 fiscal year.

Although backlog reflects business that we consider to be firm, cancellations or scope adjustments may occur. Further, substantially all of our contracts with our clients may be terminated at will, in which case the client would only be obligated to us for services provided through the termination date. Historically, the impact of terminations and modifications on our realization of revenue from our backlog has not been significant, however, in December 2016, the Company had two contracts, one in the Middle East and one in Africa, cancelled. As a result, approximately \$73,000,000 was excluded from our backlog at December 31, 2016. Furthermore, reductions of our backlog as a result of contract terminations and modifications may be offset by additions to the backlog.

We adjust backlog to reflect project cancellations, deferrals and revisions in scope and cost (both upward and downward) known at the reporting date. Future contract modifications or cancellations, however, may increase or reduce backlog and future revenue. The following tables show our backlog by geographic region (dollars in thousands):

Table of Contents

	Total Backlog (As restated)		12-Month Backlog (As restated)		
As of December 31, 2016:					
United States/Canada	\$	459,000	54.6%	141,000	41.7%
Latin America		10,000	1.2	8,000	2.4
Europe		38,225	4.5	26,091	7.7
Middle East		284,028	33.7	133,030	39.4
Africa		42,000	5.0	22,000	6.5
Asia/Pacific		8,000	1.0	8,000	2.3
Total	\$	841,253	100.0%	338,121	100.0%

	(As restated)		(As restated)		
As of December 31, 2015:					
United States/Canada	\$	372,000	45.8%	112,000	32.7%
Latin America		23,000	2.8	16,000	4.7
Europe		43,832	5.4	24,929	7.3
Middle East		305,766	37.6	157,429	46.0
Africa		52,000	6.4	23,000	6.7
Asia/Pacific		16,000	2.0	9,000	2.6
Total	\$	812,598	100.0%	342,358	100.0%

Competition

The project management industry is highly competitive. We compete for contracts, primarily on the basis of technical capability, with numerous entities, including other pure construction management companies, design or engineering firms, general contractors, management consulting firms and other entities. Compared to us, many of these competitors are larger, well-established companies that have broader geographic scope and greater financial and other resources. During 2016, some of our largest project management competitors included: AECOM, ARCADIS N.V., Jacobs Engineering Group, Inc., WSP Parsons Brinckerhoff, Inc., Parsons Corp. and Turner Construction Co.

Insurance

We maintain insurance covering general and professional liability, involving bodily injury and property damage. We have historically enjoyed a favorable loss ratio in all lines of insurance and our management considers our present limits of liability, deductibles and reserves to be adequate. We endeavor to reduce or eliminate risk through the use of quality assurance/control, risk management, workplace safety and similar methods to eliminate or reduce the risk of losses on a project. Although our actual rates have decreased, we have experienced and expect to continue to experience increases in the dollar amount of our insurance premiums because of the increase in our revenue.

Management

We are led by an experienced management team with significant experience in the construction industry. Additional information about our executive officers follows.

Table of Contents*Executive Officers*

Name	Age	Position
Paul Evans	50	Interim Chief Executive Officer
Raouf S. Ghali	56	President and Chief Operating Officer
Michael V. Griffin	64	Regional President, Americas
William H. Dengler, Jr.	51	Executive Vice President and General Counsel
Marco A. Martinez	52	Senior Vice President and Interim Chief Financial Officer
Abdo E. Kardous	58	Regional President, Middle East

PAUL EVANS has been our Interim Chief Executive Officer since May 2017. Previously, he was a member of our Board of Directors from August 2016 until he assumed his current role. Over the course of his 25-year-plus career, Mr. Evans has held several leadership positions including Vice President, Chief Financial Officer and Treasurer of MYR Group; Chief Executive Officer of Conex Energy Corporation; Treasurer and Corporate Officer of Northwestern Energy; Vice President Structured Finance, Valuation and Treasury Operations at Duke Energy North America; and Executive Director Project Finance at NRG Energy. Mr. Evans is also a veteran of the U.S. Army. He holds a BBA from Stephen F. Austin State University and a Masters in international management from Thunderbird School of Global Management.

RAOUF S. GHALI has been our President and a member of our Board of Directors since August 2016 and our Chief Operating Officer since January 2015. Prior to that, he was President of our Project Management Group (International) from January 2005 to January 2015, Senior Vice President in charge of project management operations in Europe, North Africa and the Middle East from 2001 to 2004, and Vice President from 1993 to 2001. Prior to joining us, he worked for Walt Disney Imagineering from 1988 to 1993. Mr. Ghali earned both a B.S. in business administration and economics and an M.S. in business organizational management from the University of LaVerne.

MICHAEL V. GRIFFIN has been Hill's Regional President, Americas since September 2017. Mr. Griffin started his career with Hill in 1981. Prior to joining us, Mr. Griffin worked for the City of Philadelphia in the Department of Public Property. He has more than 40 years of construction industry experience and has managed or overseen the delivery of a wide variety of technically complex facilities and projects. He has proven expertise in the planning, design and construction of major building, transportation and heavy civil construction projects. He earned both a B.S. and a M.S. in civil engineering from Villanova University, and a MBA in finance from La Salle University. He is a registered Professional Engineer in Pennsylvania, New Jersey, New York and Maryland.

WILLIAM H. DENGLER, JR. has been our Executive Vice President and General Counsel since August 2016. Mr. Dengler was previously Senior Vice President from 2007 to 2016, Vice President and General Counsel from 2002 to 2007, and Corporate Counsel from 2001 to 2002. Mr. Dengler also serves as corporate secretary to Hill and its subsidiaries. Prior to joining Hill, Mr. Dengler served as Assistant Counsel to former New Jersey Governors Donald DiFrancesco and Christine Todd Whitman from 1999 to 2001. Mr. Dengler earned his B.A. in political science from McDaniel College and his J.D. from Rutgers University School of Law at Camden. He is licensed to practice law in

New Jersey, as well as before the U.S. Court of Appeals for the Third Circuit and the U.S. Supreme Court.

MARCO A. MARTINEZ has been our Senior Vice President and Interim Chief Financial Officer since November 2017. Mr. Martinez has over 27 years of financial and operational leadership experience including serving as Senior Vice President and Chief Financial Officer of Pernix Group and Vice President and Chief Financial Officer and Treasurer, Vice President of Contract Performance of MYR Group. Mr. Martinez earned both a BBA in public accounting and a M.S. in finance from Loyola University, Chicago.

ABDO E. KARDOUS assumed the post of Regional President, Middle East in April 2018. Abdo joined Hill in 1997 as part of the Grand Mosque team, was promoted to Vice President in our Dubai office, and then named SVP Middle East. He was key to establishing Hill's presence across the Gulf Cooperation Council before serving as Hill's Senior Vice President and Managing Director for the Asia/Pacific Region. Abdo is a member of both the Chartered Institute of Building (CIOB) and Association for Project Management (API), and has recently served on the Advisory Board of the Chicago based Council of Tall Buildings and Urban Habitat (CTBUH). He holds a B.S., Magna Cum Laude, in Civil Engineering, from the University of Maryland and an M.S. in Civil Engineering from the University of California, Berkeley. Abdo brings more than 30 years of experience to the Middle East region, with expertise in the design, procurement, construction, and delivery of multi-billion-dollar projects in the residential, hospitality, energy,

Table of Contents

infrastructure, and marine sectors, among others. He was also named Hill International's Project Manager of the Year in 2001.

Employees

At February 28, 2018, we had 2,965 professionals. Of these professionals, 2,847 worked in our Project Management Group and 118 worked in our Corporate office. Our personnel included 2,525 full-time employees, 114 part-time employees and 326 independent external contractors. We are not a party to any collective bargaining agreements and we have not experienced any strikes or work stoppages. We consider our relationship with our employees to be satisfactory.

Access to Company Information

We electronically file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports with the United States Securities and Exchange Commission (the SEC). The public may read and copy any of the reports that are filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at (800) SEC-0330. The SEC maintains an Internet site at www.sec.gov that contains periodic reports, proxy statements, information statements and other information regarding issuers that file electronically.

We make available, free of charge, through our website or by responding to requests addressed to our Legal Department, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports filed by us with the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act, as amended. These reports are available as soon as practicable after such material is filed with or furnished to the SEC. Our primary website is www.hillintl.com. We post the charters for our audit, compensation and governance and nominating committees, corporate governance principles and code of ethics in the Investors section of our website. The information contained on our website, or on other websites linked to our website, is not part of this document.

Item 1A. Risk Factors.

Our business involves a number of risks, some of which are beyond our control. The risks and uncertainties described below could individually or collectively have a material adverse effect on our business, financial condition, results of operations and cash flows. While these are not the only risks and uncertainties we face, we believe that the more significant risks and uncertainties are as follows:

Risks Affecting the Business

Acts of terrorism, political, governmental and social upheaval and threats of armed conflicts in or around various areas in which we operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of

contracts or the loss of personnel.

Acts of terrorism, political, governmental and social upheaval and threats of armed conflicts in or around various areas in which we operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts or the loss of personnel, and may affect timing and collectability of our accounts receivable. Such events may cause further disruption to financial and commercial markets and may generate greater political and economic instability in some of the geographic areas in which we operate. In addition, any possible reprisals as a consequence of the wars and ongoing military action in the Middle East and Africa, such as acts of terrorism in the United States or elsewhere, could have a material adverse effect on our business, results of operations and financial position.

If our clients delay in paying or fail to pay amounts owed to us, it could have a material adverse effect on our liquidity, results of operations and financial condition.

Accounts receivable represent the largest asset on our balance sheet. While we take steps to evaluate and manage the credit risks relating to our clients, economic downturns or other events can adversely affect the markets we serve and our clients ability to pay, which could reduce our ability to collect all amounts due from clients. In addition, political unrest in

Table of Contents

countries in which we operate and the effect of the decline of oil prices have impacted and may in the future impact our collections on accounts receivable. If our clients delay in paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, results of operations, and financial condition.

Our business is sensitive to oil and gas prices, and fluctuations in oil and gas prices may negatively affect our business.

Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control. Revenue derived from our operations in major oil and gas producing countries in the Middle East and Africa is approximately 46.1% of our 2016 revenue. Significant drops in oil or gas prices have led, and could lead to further slowdowns, in construction in these regions, which has had and could continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

Unfavorable global economic conditions could adversely affect our business, liquidity and financial results.

The markets that we serve are cyclical and subject to fluctuation based on general global economic conditions and other factors. Unfavorable global economic conditions, including disruption of financial markets in the United States, Europe, Brazil and elsewhere, could adversely affect our business and results of operations, primarily by limiting our access to credit and disrupting our clients' businesses. The reduction in financial institutions' willingness or ability to lend has increased the cost of capital and reduced the availability of credit. Although we currently believe that the financial institutions with which we do business will be able to fulfill their commitments to us, there is no assurance that those institutions will be able or willing to continue to do so, which could have a material adverse impact on our business. The current European debt crisis and the Brazil economic crisis may cause the value of European and Brazilian currencies, including the Euro, British pound sterling and Brazilian real, to deteriorate, thus reducing the purchasing power of European and Brazilian clients and reducing the translated amounts of U.S. dollar revenues. For the year ended December 31, 2016, 8.0% and 2.7% of our revenue was attributable to European and Brazilian clients, respectively. In addition, any negative change in general market conditions in the United States, Europe or other national economies important to our businesses may adversely affect our clients' level of spending, ability to obtain financing, and ability to make timely payments to us for our services, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding, results of operations and liquidity.

We may be unable to win new contract awards if we cannot provide clients with letters of credit, bonds or other forms of guarantees.

In certain international regions, primarily the Middle East, it is industry practice for clients to require letters of credit, bonds, bank guarantees or other forms of guarantees. These letters of credit, bonds or guarantees indemnify our clients if we fail to perform our obligations under our contracts. We currently have relationships with various domestic and international banking institutions to assist us in providing clients with letters of credit or guarantees. In the event there are limitations in worldwide banking capacity, we may find it difficult to find sufficient bonding capacity to meet our future bonding needs. Failure to provide credit enhancements on terms required by a client may result in our inability to compete or win a project.

International operations and doing business with foreign governments expose us to legal, political, operational and economic risks in different countries and currency exchange rate fluctuations could adversely affect our financial results.

Our international operations contributed 60.5%, 65.6% and 69.8% to our revenue for the years ended December 31, 2016, 2015 and 2014, respectively. There are risks inherent in doing business internationally, including:

- Lack of developed legal systems to enforce contractual rights;
- Foreign governments may assert sovereign or other immunity if we seek to assert our contractual rights thus depriving us of any ability to seek redress against them;
- Greater difficulties in managing and staffing foreign operations;
- Differences in employment laws and practices which could expose us to liabilities for payroll taxes, pensions and other expenses;

Table of Contents

- Inadequate or failed internal controls, processes, people, and systems associated with foreign operations;
- Increased logistical complexity;
- Increased selling, general and administrative expenses associated with managing a larger and more global business;
- Greater risk of uncollectible accounts and longer collection cycles;
- Currency exchange rate fluctuations;
- Restrictions on the transfer of cash from certain foreign countries;
- Imposition of governmental controls;
- Political and economic instability;
- Changes in U.S. and other national government policies affecting the markets for our services and our ability to do business with certain foreign governments or their political leaders;
- Conflict between U.S. and non-U.S. law;
- Changes in regulatory practices, tariffs and taxes;
- Less established bankruptcy and insolvency procedures;
- Potential non-compliance with a wide variety of non-U.S. laws and regulations; and
- General economic, political and civil conditions in these foreign markets.

Any of these and other factors could have a material adverse effect on our business, results of operations, financial condition or cash flows.

We operate in many different jurisdictions and we could be adversely affected by any violations of the U.S. Foreign Corrupt Practices Act or similar worldwide and local anti-corruption laws.

The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar worldwide and local anti-corruption laws in other jurisdictions, generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. The policies also are applicable to agents through which we do business in certain non-U.S. jurisdictions. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from improper or criminal acts committed by our employees or agents. Our continued expansion outside the U.S., including in developing countries, could increase the risk of such violations in the future. Violations of these laws, or allegations of such violations, could disrupt our business, subject us

to fines, penalties and restrictions and otherwise result in a material adverse effect on our results of operations or financial condition. All of our acquired businesses are subject to our internal policies. However, because our internal policies are more restrictive than some local laws or customs where we operate, we may be at an increased risk for violations while we train our new employees to comply with our internal policies and procedures.

Our business sometimes requires our employees to travel to and work in high security risk countries, which may result in employee injury, repatriation costs or other unforeseen costs.

Many of our employees often travel to and work in high security risk countries around the world that are undergoing or that may undergo political, social and economic upheavals resulting in war, civil unrest, criminal activity or acts of terrorism. For example, we have had and expect to continue to have significant projects in the Middle East and Africa, including in Afghanistan, Iraq, Libya, Egypt, Saudi Arabia, Qatar and Oman. As a result, we may be subject to costs related to employee injury, repatriation or other unforeseen circumstances. Further, circumstances in these countries could make it difficult or impossible to attract and retain qualified employees, which could have a material adverse effect on our operations.

Table of Contents

We depend on government contracts for a significant portion of our revenue. Our inability to win profitable government contracts could harm our operations and adversely affect our net earnings.

In 2016, U.S. federal government contracts and U.S. state, regional and local government contracts contributed approximately 2.3% and 30.2%, respectively, to our revenue, and foreign government contracts contributed approximately 33.1% to our revenue. Our inability to win profitable government contracts could harm our operations and adversely affect our net earnings. Government contracts are typically awarded through a heavily regulated procurement process. Some government contracts are awarded to multiple competitors, causing increases in overall competition and pricing pressure. In turn, the competition and pricing pressure may require us to make sustained post-award efforts to reduce costs under these contracts. If we are not successful in reducing the amount of costs, our profitability on these contracts may be negatively impacted. In addition, some of our federal government contracts require U.S. government security clearances. If we or certain of our personnel were to lose these security clearances, our ability to continue performance of these contracts or to win new contracts requiring such clearances may be negatively impacted.

We depend on long-term government contracts, many of which are funded on an annual basis. If appropriations are not made in subsequent years of a multiple-year contract, we will not realize all of our potential revenue and profit from that project.

During the years ended December 31, 2016, 2015 and 2014, approximately 65.6%, 66.0% and 67.2%, respectively, of our revenue was derived from contracts with federal, state, regional, local and foreign governments.

Most government contracts are subject to the continuing availability of legislative appropriation. Legislatures typically appropriate funds for a given program on a year-by-year basis, even though contract performance may take more than one year. As a result, at the beginning of a program, the related contract is only partially funded, and additional funding is normally committed only as appropriations are made in each subsequent fiscal year. These appropriations and the timing of payment of appropriated amounts may be influenced by, among other things, the state of the economy, budgetary and other political issues affecting the particular government and its appropriations process, competing priorities for appropriation, the timing and amount of tax receipts and the overall level of government expenditures. If appropriations are not made in subsequent years on government contracts, then we will not realize all of our potential revenue and profit from those contracts.

We depend on contracts that may be terminated by our clients on short notice, which may adversely impact our ability to recognize all of our potential revenue and profit from the projects.

Substantially all of our contracts are subject to termination by the client either at its convenience or upon our default. If one of our clients terminates a contract at its convenience, then we typically are able to recover only costs incurred or committed, settlement expenses and profit on work completed prior to termination, which could prevent us from recognizing all of our potential revenue and profit from that contract. If one of our clients terminates the contract due to our default, we could be liable for excess costs incurred by the client in re-procuring services from another source, as well as other costs.

Our contracts with governmental agencies are subject to audit, which could result in adjustments to reimbursable contract costs or, if we are charged with wrongdoing, possible temporary or permanent suspension from participating in government programs.

Our books and records are subject to audit by the various governmental agencies we serve and by their representatives. These audits can result in adjustments to reimbursable contract costs and allocated overhead. In addition, if as a result of an audit, we or one of our subsidiaries is charged with wrongdoing or the government agency determines that we or one of our subsidiaries is otherwise no longer eligible for federal contracts, then we or, as applicable, that subsidiary, could be temporarily suspended or, in the event of convictions or civil judgments, could be prohibited from bidding on and receiving future government contracts for a period of time. Furthermore, as a U.S. government contractor, we are subject to increased risk of investigations, criminal prosecution, civil fraud, whistleblower lawsuits and other legal actions and liabilities, the results of which could have a material adverse effect on our operations.

Table of Contents

We submit change orders to our clients for work we perform beyond the scope of some of our contracts. If our clients do not approve these change orders, our net earnings could be adversely impacted.

We submit change orders under some of our contracts, typically for payment for work performed beyond the initial contractual requirements. The clients may not approve or may contest these change orders and we cannot assure you that these claims will be approved in whole, in part or at all. If these claims are not approved, our net earnings could be adversely impacted.

Because our backlog of uncompleted projects under contract or awarded is subject to unexpected adjustments and cancellations, including the amount, if any, of future appropriations by the applicable contracting governmental agency, it may not be indicative of our future revenue and profits.

At December 31, 2016, our backlog of uncompleted projects under contract or awarded was approximately \$841 million. The inability to obtain financing or governmental approvals, changes in economic or market conditions or other unforeseen events, such as terrorist acts or natural disasters, could lead to us not realizing any revenue under some or all of these contracts. We cannot assure you that the backlog attributed to any of our uncompleted projects under contract will be realized as revenue or, if realized, will result in profits.

Many projects may remain in our backlog for an extended period of time because of the size or long-term nature of the contract. In addition, from time to time projects are scaled back or cancelled. These types of backlog reductions adversely affect the revenue and profit that we ultimately receive. Included in our backlog is the maximum amount of all indefinite delivery/indefinite quantity (ID/IQ), or task order, contracts, or a lesser amount if we do not reasonably expect to be issued task orders for the maximum amount of such contracts. A significant amount of our backlog is derived from ID/IQ contracts and we cannot provide any assurance that we will in fact be awarded the maximum amount of such contracts.

Our dependence on subcontractors, partners and specialists could adversely affect our business.

We rely on third-party subcontractors as well as third-party strategic partners and specialists to complete our projects. To the extent that we cannot engage such subcontractors, partners or specialists or cannot engage them on a competitive basis, our ability to complete a project in a timely fashion or at a profit may be impaired. If we are unable to engage appropriate strategic partners or specialists in some instances, we could lose the ability to win some contracts. In addition, if a subcontractor or specialist is unable to deliver its services according to the negotiated terms for any reason, including the deterioration of its financial condition or over-commitment of its resources, we may be required to purchase the services from another source at a higher price. This may reduce the profit to be realized or result in a loss on a project for which the services were needed.

If our partners fail to perform their contractual obligations on a project, we could be exposed to legal liability, loss of reputation or reduced profits.

Edgar Filing: Hill International, Inc. - Form 10-K/A

We sometimes enter into joint venture agreements and other contractual arrangements with outside partners to jointly bid on and execute a particular project. The success of these joint projects depends on the satisfactory performance of the contractual obligations of both our partners and us. If any of our partners fails to satisfactorily perform its contractual obligations, we may be required to make additional investments and provide additional services to complete the project. If we are unable to adequately address our partner's performance issues, then our client could terminate the joint project, exposing us to legal liability, loss of reputation or reduced profits.

The project management business is highly competitive and if we fail to compete effectively, we may miss new business opportunities or lose existing clients and our revenues may decline.

The project management industry is highly competitive. We compete for contracts, primarily based on technical capability, with numerous entities, including other pure construction management companies, design or engineering firms, general contractors, management consulting firms and other entities. Compared to us, many of these competitors are larger, well-established companies that have broader geographic scope and greater financial and other resources. If we cannot compete effectively with our competitors, or if the costs of competing, including the costs of retaining and hiring professionals, become too expensive, our revenue growth and financial results may differ materially from our expectations.

Table of Contents

We have acquired and may continue to acquire businesses as strategic opportunities arise and may be unable to realize the anticipated benefits of those acquisitions, or if we are unable to take advantage of strategic acquisition situations, our ability to expand our business may be slowed or curtailed.

Over the past 18 years, we have acquired 14 companies related to the Project Management business and our strategy is to continue to expand and diversify our operations with additional acquisitions as strategic opportunities arise. If the competition for acquisitions increases, or if the cost of acquiring businesses or assets becomes too expensive, the number of suitable acquisition opportunities may decline, the cost of making an acquisition may increase or we may be forced to agree to less advantageous acquisition terms for the companies that we are able to acquire. Alternatively, at the time an acquisition opportunity presents itself, internal and external pressures (including, but not limited to, borrowing capacity under our credit facilities or the availability of alternative financing), may cause us to be unable to pursue or complete an acquisition. Our ability to grow our business, particularly through acquisitions, may depend on our ability to raise capital by selling equity or debt securities or obtaining additional debt financing. There can be no assurance that we will be able to obtain financing when we need it or on terms acceptable to us.

In addition, managing the growth of our operations will require us to continually increase and improve our operational, financial and human resources management and our internal systems and controls. If we are unable to manage growth effectively or to successfully integrate acquisitions or if we are unable to grow organically, that could have a material adverse effect on our business.

Systems and information technology interruption and breaches in data security could adversely impact our ability to operate and our operating results.

As a global company, we are heavily reliant on computer, information and communications technology and related systems in order to properly operate. From time to time, we experience system interruptions and delays. In the event we are unable to regularly deploy software and hardware, effectively upgrade our systems and network infrastructure and take other steps to improve the efficiency and effectiveness of our systems, the operation of such systems could be interrupted or delayed, or our data security could be breached. In addition, our computer and communications systems and operations could be damaged or interrupted by natural disasters, power loss, telecommunications failures, acts of war or terrorism, acts of God, computer viruses, physical or electronic security breaches. Any of these or other events could cause system interruptions, delays and loss of critical data including private data. While we have taken steps to address these concerns by implementing sophisticated network security, training and internal control measures, there can be no assurance that a system failure or loss or data security breach will not materially adversely affect our business, financial condition and operating results.

Risks Related to Ownership of Our Common Stock

We have identified material weaknesses in our internal control over financial reporting and determined that our disclosure controls and procedures were not effective which could, if not remediated, result in additional material misstatements in our financial statements.

Edgar Filing: Hill International, Inc. - Form 10-K/A

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over our financial reporting, as defined in Rules 13a-15(e) and 13a-15(f), respectively, under the Securities Exchange Act of 1934, as amended. As disclosed in Item 9A of this Amendment, management has identified several material weaknesses in our internal control over financial reporting and has determined that our disclosure controls and procedures were not effective. A material weakness is defined as a deficiency, or combination of significant deficiencies, in internal control over financial reporting, such that there is a more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that the Company did not maintain effective disclosure controls and procedures and internal control over financial reporting as of December 31, 2016.

Table of Contents

We have developed and have begun to implement a remediation plan designed to address these material weaknesses in internal control over financial reporting and ineffective disclosure controls and procedures. If our remedial measures are insufficient, or if additional material weaknesses or significant deficiencies in our internal controls are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to restate our financial results, which could materially and adversely affect our business and results of operations or financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the weaknesses or deficiencies, subject us to fines, penalties or judgments, harm our reputation or otherwise cause a decline in investor confidence.

We have restated our prior consolidated financial statements, which may lead to additional risks and uncertainties, including loss of investor confidence and negative impacts on our stock price.

As discussed in the Explanatory Note and Note 2 to our consolidated financial statements included in Item 8 of this Amendment, we have restated certain financial information. As a result of this restatement, we have incurred and will continue to incur additional costs, including costs for consulting, accounting and legal fees in connection with or related to the restatement and the remediation of our ineffective disclosure controls and procedures and material weaknesses in internal control over financial reporting. In addition, the attention of our management has been diverted by these efforts. We could be subject to stockholder, governmental or other actions in connection with the restatement. Any such proceedings will, regardless of the outcome, consume a significant amount of management's time and attention and may result in additional legal, accounting, insurance and other costs. If we do not prevail in any such proceedings, we could be required to pay substantial damages or settlement costs. In addition, the restatement and related matters could impair our reputation or could cause our counterparties to lose confidence in us. Each of these occurrences could have a material adverse effect on our business, results of operations, financial condition and stock price.

Future sales of our common and preferred stock may depress the price of our common stock.

As of March 31, 2018, there were 52,960,817 shares of our common stock outstanding. An additional 6,627,473 shares of our common stock may be issued upon the exercise of options held by employees, management and directors. We also have the authority to issue up to 1,000,000 shares of preferred stock upon terms that are determined by our Board of Directors and additional options to purchase 2,077,459 shares of our common stock without stockholder approval. Future issuances or sales of our common stock could have an adverse effect on the market price of our common stock.

Because we have no current plans to pay cash dividends on our common stock, you may not receive any return on investment unless you sell your common stock for a price greater than that which you paid for it.

We may retain future earnings, if any, for future operations, expansion and debt repayment and have no current plans to pay any cash dividends. Any decision to declare and pay dividends in the future will be made at the discretion of our Board of Directors and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our Board of Directors may deem relevant. In addition, our ability to pay dividends is limited by covenants of our Secured Credit Facilities and may be limited by future indebtedness incurred by our subsidiaries or us. As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than that which you paid for it.

Table of Contents

We are able to issue shares of preferred stock with greater rights than our common stock.

Our Board of Directors is authorized to issue one or more series of preferred stock from time to time without any action on the part of our stockholders. Our Board of Directors also has the power, without stockholder approval, to set the terms of any such series of preferred stock that may be issued, including voting rights, dividend rights and preferences over our common stock with respect to dividends and other terms. If we issue preferred stock in the future that has a preference over our common stock with respect to the payment of dividends or other terms, or if we issue preferred stock with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

Provisions in our organizational documents and Delaware law could discourage potential acquisition proposals, could delay or prevent a change in control of the Company that our stockholders may consider favorable and could adversely affect the market value of our common stock.

Provisions in our organizational documents and Delaware law could discourage potential acquisition proposals, could delay or prevent a change in control of the Company that our stockholders may consider favorable and could adversely affect the market value of our common stock. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- Our Board of Directors is expressly authorized to make, alter or repeal our bylaws;
- Our Board of Directors is divided into three classes of service with staggered three-year terms. This means that only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms;
- Our Board of Directors is authorized to issue preferred stock without stockholder approval;
- Only our Board of Directors, our Chairman of the Board, our Chief Executive Officer or the holders of not less than 25% of our outstanding common stock and entitled to vote may call a special meeting of stockholders;
- Our bylaws require advance notice for stockholder proposals and director nominations;
- Our bylaws limit the removal of directors and the filling of director vacancies; and
- We will indemnify officers and directors against losses that may incur in connection with investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

These provisions may make it more difficult for stockholders to take specific corporate actions and could have the effect of delaying or preventing a change in control of the Company.

Edgar Filing: Hill International, Inc. - Form 10-K/A

In addition, Section 203 of the Delaware General Corporation Law imposes certain restrictions on mergers and other business combinations between the Company and any holder of 15% or more of our outstanding common stock. This provision is applicable to Hill and may have an anti-takeover effect that may delay, defer or prevent a tender offer or takeover attempt that a stockholder might consider in the stockholder's best interest. In general, Section 203 could delay for three years and impose conditions upon business combinations between an interested shareholder and Hill, unless prior approval by our Board of Directors is given. The term business combination is defined broadly to include mergers, asset sales and other transactions resulting in financial benefit to a stockholder. An interested shareholder, in general, would be a person who, together with affiliates and associates, owns or within three years did own, 15% or more of a corporation's voting stock.

A small group of stockholders owns a large quantity of our common stock, thereby potentially exerting significant influence over the Company.

As of December 31, 2016, Irvin E. Richter, David L. Richter and other members of the Richter family beneficially owned approximately 20.5% of our common stock. This concentration of ownership could significantly influence matters requiring stockholder approval and could delay, deter or prevent a change in control of the Company or other business combinations that might otherwise be beneficial to our other stockholders. Accordingly, this concentration of ownership may impact the market price of our common stock. In addition, the interest of our significant stockholders may not always coincide with the interest of the Company's other stockholders. In deciding how to vote on such matters, they may be influenced by interests that conflict with our other stockholders.

Table of Contents

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our executive and certain operating offices are currently located at One Commerce Square, 2005 Market Street, 17th Floor, Philadelphia, Pennsylvania 19103. We lease all of our office space and do not own any real property. The telephone number at our executive office is (215) 309-7700. In addition to our executive offices, we have approximately 50 operating leases for office facilities throughout the world. Due to acquisition and growth we may have more than one operating lease in the cities in which we are located. Additional space may be required as our business expands geographically, but we believe we will be able to obtain suitable space as needed.

Our principal worldwide office locations and the geographic regions in which we reflect their operations are:

United States/Canada

Baltimore, MD
Boston, MA
Cleveland, OH
Columbus, OH
Houston, TX
Irvine, CA
Irving, TX
Jacksonville, FL
Miami, FL
New York, NY
Ontario, CA
Orlando, FL
Philadelphia, PA (Headquarters)
Phoenix, AZ
Pittsburgh, PA
San Francisco, CA
Seattle, WA
Spokane, WA
Toledo, OH
Woodbridge, NJ
Washington, DC

Europe

Amsterdam, Netherlands
Athens, Greece
Bucharest, Romania
Dusseldorf, Germany
Frankfurt, Germany
Istanbul, Turkey
Lisbon, Portugal
London, UK
Madrid, Spain
Pristina, Kosovo
Warsaw, Poland
Wroclaw, Poland

Latin America

Bogota, Colombia
Mexico City, Mexico
Sao Paulo, Brazil

Middle East

Abu Dhabi, UAE
Doha, Qatar
Dubai, UAE
Jeddah, Saudi Arabia
Manama, Bahrain
Muscat, Oman
Riyadh, Saudi Arabia

Africa

Algiers, Algeria
Cairo, Egypt
Casablanca, Morocco

Asia/Pacific

Astana City, Kazakhstan
Gurgaon, India
Hong Kong, China
Singapore

Item 3. Legal Proceedings.

General Litigation

In 2013, M.A. Angeliades, Inc. (Plaintiff) filed a complaint with the Supreme Court of New York against the Company and the New York City Department of Design and Construction (DDC) regarding payment of approximately \$8,771,000 for work performed as a subcontractor to the Company plus interest and other costs. On October 5, 2015, pursuant to a settlement agreement, Hill paid Plaintiff approximately \$2,596,000, including interest amounting to \$1,056,000, of which \$448,000 had been previously accrued and \$608,000 was charged to expense for the year ended December 31, 2015. The Plaintiff resolved its remaining issues regarding change orders and compensation for delay with DDC. On January 16, 2016, Plaintiff filed a Motion to amend its complaint against the Company claiming that the

Table of Contents

amounts paid by the Company do not reconcile with the amounts Plaintiff believes the Company received from DDC despite DDC's records reflecting the same amount as the Company's. The Plaintiff's motion was granted and the parties are currently engaged in mediation and discovery.

Knowles Limited (Knowles), a subsidiary of the Company is a party to an arbitration proceeding instituted on July 8, 2014 in which Knowles claimed that it was entitled to payment for services rendered to Celtic Bioenergy Limited (Celtic). The arbitrator decided in favor of Knowles. The arbitrator's award was appealed by Celtic to the U.K. High Court of Justice, Queen's Bench Division, Technology and Construction Court (Court). On March 16, 2017, the Court (1) determined that certain relevant facts had been deliberately withheld from the arbitrator by an employee of Knowles and (2) remitted the challenged parts of the arbitrator's award back to the arbitrator to consider the award in possession of the full facts.

From time to time, the Company is a defendant or plaintiff in various legal actions which arise in the normal course of business. As such, the Company is required to assess the likelihood of any adverse outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of the provision required for these commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each matter. The provision may change in the future due to new developments or changes in circumstances. Changes in the provision could increase or decrease the Company's earnings in the period the changes are made. It is the opinion of management, after consultation with legal counsel, that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

Table of Contents**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***Market Information*

Our common stock is traded on the New York Stock Exchange (NYSE) under the trading symbol HIL. The following table includes the range of high and low trading prices for our common stock as reported on the NYSE for the periods presented.

		High	Price Range	Low
2016				
Fourth Quarter	\$	4.62	\$	1.95
Third Quarter		4.64		3.96
Second Quarter		4.68		3.20
First Quarter		4.07		2.62
2015				
Fourth Quarter	\$	4.02	\$	3.11
Third Quarter		5.38		3.20
Second Quarter		5.50		3.49
First Quarter		4.38		3.26

Stockholders

As of December 31, 2016, there were 90 holders of record of our common stock. However, a single record stockholder account may represent multiple beneficial owners, including owners of shares in street name accounts. We believe there are approximately 5,000 beneficial owners of our common stock.

Dividends

We have not paid any dividends on our common stock. The payment of dividends in the future will be contingent upon our earnings, if any, capital requirements and general financial condition of our business. Our Secured Credit Facilities currently limit the payment of dividends.

Securities Authorized for Issuance under Equity Compensation Plans

The table setting forth this information is included in Part III Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Table of Contents

Recent Sales of Unregistered Securities

None.

Performance Graph

The performance graph and table below compare the cumulative total return of our common stock for the period from December 31, 2011 to December 31, 2016 with the comparable cumulative total returns of the Russell 2000 Index (of which the Company is a component stock) and a peer group which consists of the following ten companies: AECOM (ACM), CDI Corp. (CDI), Fluor Corporation (FLR), Granite Construction Incorporated (GVA), Jacobs Engineering Group Inc. (JEC), KBR, Inc. (KBR), NV5 Global, Inc. (NVEE), TRC Companies Inc. (TRR), Tutor Perini Corporation (TPC), and Tetra Tech, Inc. (TTEK). For 2016, we changed our peer group to consist of only construction companies. In prior years, the peer group consisted of a blend of construction companies and consulting companies.

	2011	2012	2013	2014	2015	2016
Hill International, Inc.	\$ 100.00	\$ 71.21	\$ 76.85	\$ 74.71	\$ 75.49	\$ 84.63
Russell 2000 Index	100.00	116.35	161.52	169.42	161.95	196.45
Peer Group	100.00	114.46	149.81	116.27	105.39	132.04
Old Peer Group	100.00	112.30	150.15	116.81	106.25	134.70

Table of Contents**Item 6. Selected Financial Data.**

The following is selected financial data from our audited consolidated financial statements for each of the last five years. This data should be read in conjunction with our consolidated financial statements (and related notes) appearing in Item 8 of this report and with Item 7,

Management's Discussion and Analysis of Financial Condition and Results of Operations. On December 20, 2016, we entered into a definitive Stock Purchase Agreement to sell our Construction Claims Group, which is reported as discontinued operations for each year presented. See Note 3 to our consolidated financial statements for additional information. The data presented below is in thousands, except for (loss) earnings per share data.

	2016	2015	Years Ended December 31, 2014 (As restated)		2013	2012
Income Statement Data:						
Revenue	\$ 516,012	\$ 544,760	\$ 489,348	\$ 452,602	\$ 372,250	
Direct expenses	358,943	373,544	322,733	303,918	252,641	
Gross profit	157,069	171,216	166,615	148,684	119,609	
Selling, general and administrative expenses	170,682	172,649	146,265	125,672	177,833	
Share of loss of equity method affiliates	37	237				
Operating (loss) profit	(13,650)	(1,670)	20,350	23,012	(58,224)	
Interest and related financing fees, net	2,355	3,611	3,099	4,522	7,446	
(Loss) earnings before income taxes	(16,005)	(5,281)	17,251	18,490	(65,670)	
Income tax expense	5,955	5,833	9,997	6,650	11,631	
(Loss) earnings from continuing operations	(21,960)	(11,114)	7,254	11,840	(77,301)	
Loss from discontinued operations	(11,776)	(2,564)	(18,627)	(9,512)	(2,578)	
Net (loss) earnings	(33,736)	(13,678)	(11,373)	2,328	(79,879)	
Less: net earnings - noncontrolling interests	76	823	1,304	2,271	1,872	
Net (loss) earnings attributable to Hill International, Inc.	\$ (33,812)	\$ (14,501)	\$ (12,677)	\$ 57	\$ (81,751)	
Basic (loss) earnings per common share from continuing operations	\$ (0.43)	\$ (0.24)	\$ 0.13	\$ 0.24	\$ (2.06)	
Basic loss per common share from discontinued operations	(0.22)	(0.05)	(0.42)	(0.24)	(0.07)	
Basic (loss) earnings per common share - Hill International, Inc.	\$ (0.65)	\$ (0.29)	\$ (0.29)	\$	\$ (2.13)	
Basic weighted average common shares outstanding	51,724	50,874	44,370	39,098	38,500	
Diluted (loss) earnings per common share from continuing operations	\$ (0.43)	\$ (0.24)	\$ 0.13	\$ 0.24	\$ (2.06)	
Diluted loss per common share from discontinued operations	(0.22)	(0.05)	(0.42)	(0.24)	(0.07)	
Diluted (loss) earnings per common share - Hill International, Inc.	\$ (0.65)	\$ (0.29)	\$ (0.29)	\$	\$ (2.13)	

Edgar Filing: Hill International, Inc. - Form 10-K/A

Diluted weighted average common shares outstanding	51,724	50,874	44,370	39,098	38,500
---	--------	--------	--------	--------	--------

Table of Contents

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(As restated)				
Discontinued Operations Data					
(1):					
Revenue	\$ 169,252	\$ 168,029	\$ 153,839	\$ 124,164	\$ 108,531
Operating profit	3,970	10,753	9,842	10,399	8,095
Interest and related financing fees, net	11,271	11,053	27,386	18,343	10,704
Loss before income taxes	(7,301)	(300)	(17,544)	(7,944)	(2,609)
Loss from discontinued operations	(11,776)	(2,564)	(18,627)	(9,512)	(2,578)

(1) See Note 3 to our consolidated financial statements for further information regarding this statement.

	As of December 31,				
	2016	2015	2014	2013	2012
	(As restated)	(As restated)	(As restated)	(As restated)	(As restated)
Selected Balance Sheet Data:					
Cash and cash equivalents	\$ 25,637	\$ 24,089	\$ 30,124	\$ 30,381	\$ 16,716
Accounts receivable, net	164,844	187,721	146,035	128,241	109,440
Current assets held for sale	54,651	60,092	53,393	51,071	45,557
Current assets	266,461	295,723	257,294	238,298	194,582
Assets held for sale	32,091	36,199	37,649	37,817	38,172
Total assets	400,075	426,455	396,072	375,747	346,434
Current liabilities held for sale	25,888	27,350	28,779	22,258	17,550
Current liabilities	139,525	144,596	139,968	139,788	138,388
Liabilities held for sale	5,087	6,730	3,787	3,579	3,077
Total debt	144,103	144,983	121,524	131,235	106,704
Stockholders' equity:					
Hill International, Inc. share of equity	\$ 74,358	\$ 101,577	\$ 106,710	\$ 80,751	\$ 78,688
Noncontrolling interests	1,994	2,360	9,944	12,894	13,557
Total equity	\$ 76,352	\$ 103,937	\$ 116,654	\$ 93,645	\$ 92,245

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.***Overview*

As discussed in the Explanatory Note to this Amendment and Note 2, Restatement and Revision of Previously Issued Consolidated Financial Statements, in the Company's consolidated financial statements included in Item 8 to this Amendment, we are restating the consolidated financial statements of the Company for the years ended December 31, 2016, 2015 and 2014. The amended discussion and analysis as it pertains to the restated periods presented below provides information to assist in understanding our financial condition and results of operations, and should be read in conjunction with the Company's selected consolidated financial data included in Item 6 and the Company's consolidated financial statements included in Item 8.

On December 20, 2016, we entered into a definitive Stock Purchase Agreement to sell our Construction Claims Group, which is reported herein as discontinued operations. This transaction will permit us to better focus on our Project Management business. See Note 3 to our consolidated financial statements for a description of the transaction.

The amount of revenue attributable to operations in the Middle East and Africa has grown to approximately 46.1% of total consolidated revenue in 2016. There has been significant political upheaval and civil unrest in certain parts of this region, most notably in Libya and Iraq where we previously had substantial operations. In 2012, we reserved a \$59,937,000 receivable from the Libyan Organization for Development of Administrative Centres (ODAC). Subsequently, we have received payments totaling approximately \$9,511,000, but this situation with ODAC put a considerable strain on our liquidity. In 2016, we established reserves of \$5,100,000 against accounts receivable from various projects in Iraq. As a result, we have had to rely heavily on debt and equity transactions to fund our operations.

The Company has seen a delay in collections from our clients in the Middle East, primarily Oman. In 2012, we commenced operations on the Muscat International Airport (the Oman Airport) project with the Ministry of Transport and Communications (MOTC) in Oman. The original contract term was to expire in November 2014. In October 2014, we applied for a twelve-month extension of time amendment (first extension), which was subsequently approved in March 2016, and we continued to work on the Oman Airport projects. The Company began to experience delays in payments during the second quarter of 2015 when the MOTC commenced its formal review and certification of the Company's invoices. In December 2015, the Company began discussions with the MOTC on a second extension of time amendment (second extension) and has since commenced additional work. When MOTC resumed payments in 2016, the Company received approximately \$42,000,000 during the year. At December 31, 2016, accounts receivable from Oman totaled approximately \$27,132,000 and approximately \$16,500,000 was past due based on contractual terms. We acknowledge that this client is slow to pay, however we believe the MOTC intends to meet its obligations to us, as Oman is a wealthy, stable and solvent country. In connection with the work performed there, our consolidated financial statements for the years ended December 31, 2016, 2015 and 2014 reflected the following (in thousands):

	2016	2015 (As restated)	2014
Revenue	\$ 40,088	\$ 49,939	\$ 62,749
Accounts receivable, net	\$ 27,132(1)	\$ 28,711	\$ 11,571
Collections received during the year	\$ 42,000	\$ 29,958	\$ 53,277

- (1) We received payments of approximately \$6,153,000 against this receivable in the first quarter of 2017.

Going forward, we will continue to closely monitor this receivable as well as any other receivables where collections are not received in a timely manner. This may result in increases in the allowance for doubtful accounts which may have a significant negative impact on our financial position and results of operations.

Table of Contents**2016 Business Overview****Consolidated Results***(In thousands)*

	Years Ended December 31,		Change	
	2016	2015	\$	%
	(As restated)			
Income Statement Data:				
Revenue	\$ 516,012	\$ 544,760	\$ (28,748)	(5.3)%
Direct expenses	358,943	373,544	(14,601)	(3.9)
Gross profit	157,069	171,216	(14,147)	(8.3)
Selling, general and administrative expenses	170,682	172,649	(1,967)	(1.1)
Share of loss of equity method affiliates	37	237	(200)	
Operating loss	(13,650)	(1,670)	(11,980)	(717.4)
Interest and related financing fees, net	2,355	3,611	(1,256)	(34.8)
Loss before income taxes	(16,005)	(5,281)	(10,724)	(203.1)
Income tax expense	5,955	5,833	122	2.1
Loss from continuing operations	(21,960)	(11,114)	(10,846)	(97.6)
Loss from discontinued operations	(11,776)	(2,564)	(9,212)	(359.3)
Net loss	(33,736)	(13,678)	(20,058)	(146.6)
Less: net earnings - noncontrolling interests	76	823	(747)	(90.8)
Net loss attributable to Hill International, Inc.	\$ (33,812)	\$ (14,501)	\$ (19,311)	(133.2)%

Revenue decreased \$28,748,000, or 5.3%, to \$516,012,000 in 2016. The primary decrease in revenue occurred in the Middle East as economic conditions caused a decrease in project activity and a decrease in Oman as a major project began to wind down.

Direct expenses decreased \$14,601,000, or 3.9%, to \$358,943,000 in 2016 primarily due to decreases in the Middle East partially offset by increases in the United States.

Gross profit decreased \$14,147,000, or 8.3%, to \$157,069,000 in 2016 due to lower margins, in both dollars and percentages, primarily in the Middle East.

Selling, general and administrative (SG&A) expenses decreased (\$1,967,000), or -1.1%, primarily due to a decrease in unapplied and indirect labor cost in Saudi Arabia, Brazil and Spain offset by increased costs in Africa and Asia Pacific.

Operating loss was (\$13,650,000) in 2016 compared to an operating loss of (\$1,670,000) in 2015. The increase in operating loss was primarily due to the decrease in revenue and the increase in bad debt expense in the Middle East, partially offset by increases in operating profit in the

United States, Latin America and Europe.

Income tax expense was \$5,955,000 for 2016 compared to \$5,833,000 for 2015. The increase in expense results from increased pretax profits from foreign operations, the mix of tax rates in those jurisdictions and no offsetting tax benefits arising from the Company's U.S. net operating losses which management believes the Company will not be able to utilize.

Net loss attributable to Hill was (\$33,812,000) in 2016 compared to net loss of (14,501,000) in 2015. Diluted loss per common share was (\$0.65) in 2016 based upon 51,724,000 diluted common shares outstanding compared to net loss per diluted common share of (\$0.29) in 2015 based upon 50,874,000 diluted common shares outstanding. Diluted loss per common share from continuing operations in 2016 was (\$0.43) compared to diluted loss per share from continuing operations in 2015 of (\$0.24).

Despite the drop in global oil prices and its negative impact on the construction industry, particularly in the Middle East, we remain optimistic about maintaining our current growth strategy to pursue new business development opportunities, continue to take advantage of organic growth opportunities, continue to pursue selective acquisitions and strengthen our

Table of Contents

professional resources. In addition, in the latter part of 2016, we initiated a review of our corporate and operational overhead cost structure. The areas that will be most affected will be overhead personnel and related benefits and expenses. We believe these efforts combined with the sale of the Construction Claims Group and deleveraging of our balance sheet should significantly improve profitability and shareholder value.

Critical Accounting Policies and Estimates

Our consolidated financial statements contained in this Annual Report on Form 10-K/A were prepared in accordance with U.S. generally accepted accounting principles. While there are a number of accounting policies, methods and estimates that affect the consolidated financial statements as described in Note 5 to the consolidated financial statements, areas that are particularly significant are discussed below. We believe our assumptions are reasonable and appropriate, however actual results may be materially different than estimated.

Revenue Recognition

We generate revenue primarily from providing professional services to our clients under various types of contracts. We evaluate contractual arrangements to determine how to recognize revenue. Below is a description of the basic types of contracts from which we may earn revenue:

Time and Materials Contracts

The majority of our contracts are for work where we bill the client monthly at hourly billing rates. The hourly billing rates are determined by contract terms. For governmental clients, the hourly rates are generally calculated as either (i) a negotiated multiplier of our direct labor costs or (ii) as direct labor costs plus overhead costs plus a negotiated profit percentage. For commercial clients, the hourly rates are generally taken from a standard fee schedule by staff classification or they can be at a negotiated discount from this schedule. In some cases, primarily for foreign work, a fixed monthly staff rate is negotiated rather than an hourly rate. This monthly rate is determined based upon a buildup of direct labor costs plus overhead and profit. We account for these contracts on a time-and-materials method, recognizing revenue as costs are incurred. Some of our time-and-materials contracts are subject to maximum contract values, and accordingly, revenue under these contracts is recognized under the percentage-of-completion method where costs incurred to date are compared to total projected costs at contract completion.

Cost Plus Contracts

Under cost plus contracts, we charge our clients for our costs, including both direct and indirect costs, plus a fixed fee or rate. We generally recognize revenue based on the labor and non-labor costs we incur, plus the portion of the fixed fee or rate we have earned to date. Included in the total contract value for cost-plus fee arrangements is the portion of the fee for which receipt is determined to be probable.

Fixed-Price Contracts

Under fixed-price contracts, our clients pay us an agreed amount negotiated in advance for a specified scope of work. We recognize revenue on fixed-price contracts using the percentage-of-completion method where direct costs incurred to date are compared to total projected direct costs at contract completion. Prior to completion, our recognized profit margins on any fixed-price contract depend on the accuracy of our estimates and will increase to the extent that our actual costs are below the original estimated amounts. Conversely, if our costs exceed these estimates, our profit margins will decrease, and we may realize a loss on a project.

For all contract types noted above, change orders are included in total estimated contract revenue when it is probable that the change order will result in an addition to contract value and when the change order can be estimated. Management evaluates when a change order is probable based upon its experience in negotiating change orders, the customer's written approval of such changes or separate documentation of change order costs that are identifiable. Additional contract revenue related to claims is included in total estimated contract revenue when the amount can be reliably estimated, which is typically evidenced by a contract or other evidence providing a legal basis for the claim.

Table of Contents

If estimated total costs on any contract indicate a loss, we charge the entire estimated loss to operations in the period when the loss becomes evident and the amount of loss can be reasonably estimated. Such losses could occur at any time and the effects may be material.

Allowance for Doubtful Accounts

We make ongoing estimates relating to the collectability of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our clients to make required payments. Estimates used in determining accounts receivable allowances are based on our evaluation of specific client accounts and contracts involved and the financial condition of our clients. The factors we consider in our evaluations include, but are not limited to, client type (U.S. federal and other national governments, state and local governments or private sector), historical contract performance, historical collection and delinquency trends, client credit worthiness, and general economic and political conditions. At December 31, 2016 and 2015, the allowance for doubtful accounts was \$71,081,700 and \$60,535,000, respectively.

Goodwill and Acquired Intangible Assets

Goodwill is tested annually for impairment in our third fiscal quarter or more frequently if events or circumstances indicate that there may be impairment. We have determined that, with the pending sale of our Construction Claims Group, we now operate one reporting unit, the Project Management unit. We made that determination based on the similarity of the services provided, the methodologies in delivering our services and the similarity of the client base. To determine the fair value of our reporting unit, we use the market approach and the income approach, weighting the results of each approach.

Under the market approach, we determine fair value using the public company method and the quoted price method. We utilized a control premium of 30% to arrive at the preliminary fair value, and we applied a weighting of 20% to the preliminary fair value determined by using the public company method. The quoted price method is based upon the market value of the transactions of minority interests in the publicly-traded shares of the Company. We utilized a control premium of 30% to arrive at the preliminary fair value, and we applied a weighting of 50% to the preliminary fair value determined using the quoted price method.

Our calculation under the income approach utilizes our internal forecasts. In the income approach (that is, the discounted cash flow method), the projected cash flows reflect the cash flows subsequent to the sale of the reporting unit pursuant to the guidance in ASC 350 and ASC 820. Consistent with applicable literature, we include in projected cash flows any expected improvements in cash flows or other changes that, in our view, a market participant would consider and be willing to pay for (but we exclude any buyer- or entity-specific synergies). The projections are developed by us and are based upon cash flows that maximize reporting unit value by taking into account improvements that controlling-interest holders can make, but minority interest holders cannot make. These improvements include: increasing revenues, reducing operating costs, or reducing non-operating costs. The owners of the enterprise may also increase enterprise value by reducing risk; for example, by diversifying the business, improving access to capital, increasing the certainty of cash flows, or optimizing the capital structure.

We considered the factors listed above when developing the cash flows to support the income approach. Recognizing that due to elements of control incorporated into our reporting unit's forecast, we applied no control premium to our conclusion of value indicated by the discounted cash flows. In determining fair value, we applied a weighting of 30% to the preliminary fair value determined using the income approach.

With regard to weighting the conclusions rendered by the approaches utilized, we believe that the quoted price method provides the most reliable indication of value (that is, a Level 1 input); therefore, we placed the greatest emphasis upon this method assigning a 50% weighting. We also determined that the value using the discounted cash flow method (to which we assigned a 30% weighting) provided a more reliable indication of value than the public company method (to which we assigned a 20% weighting) with the relative levels of reliability contributing to the weighting accorded to each approach.

Table of Contents

Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth, the period over which cash flows will occur, and determination of the weighted average cost of capital, among other things. Based on the valuation as of July 1, 2016, the fair value of the Project Management unit substantially exceeded its carrying value. Changes in these estimates and assumptions could materially affect our determination of fair value and/or goodwill impairment. Changes in future market conditions, our business strategy, or other factors could impact upon the future value of our Project Management operations, which could result in future impairment charges.

At the time of the annual impairment test, the Construction Claims unit was still part of our continuing operations. Based on the valuation as of July 1, 2016, which utilized the same processes noted above, the fair value of the Construction Claims unit substantially exceeded its carrying value.

We amortize acquired intangible assets over their estimated useful lives and review the long-lived assets for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Determining whether impairment has occurred typically requires various estimates and assumptions, including determining which cash flows are directly related to the potentially impaired asset, the useful life over which cash flows will occur, their amount and the asset's residual value, if any. In turn, measurement of an impairment loss requires a determination of fair value, which is based on the best information available. We use internal discounted cash flow estimates, quoted market prices when available and independent appraisals, as appropriate, to determine fair value. We derive the required cash flow estimates from our historical experience and our internal business plans and apply an appropriate discount rate.

Income Taxes

We make judgments and interpretations based on enacted tax laws, published tax guidance, as well as estimates of future earnings. These judgments and interpretations affect the provision for income taxes, deferred tax assets and liabilities and the valuation allowance. We evaluate the deferred tax assets to determine on the basis of objective factors whether the net assets will be realized through future years' taxable income. In the event that actual results differ from these estimates and assessments, additional valuation allowances may be required.

We will recognize a tax benefit in the financial statements for an uncertain tax position only if management's assessment is that the position is more likely than not (i.e., a likelihood greater than 50 percent) to be allowed by the tax jurisdiction based solely on the technical merits of the position. The term "tax position" refers to a position in a previously filed tax return or a position expected to be taken in a future tax return that is reflected in measuring current or deferred income tax assets and liabilities for interim or annual periods.

Stock Options

We recognize compensation expense for all stock-based awards. These awards have included awards of common stock, deferred stock units and stock options. While fair value may be readily determinable for awards of stock and deferred stock units, market quotes are not available for long-term, nontransferable stock options because these instruments are not traded. We currently use the Black-Scholes option pricing model to estimate the fair value of options. Option valuation models require the input of highly subjective assumptions, including but not limited to stock

price volatility, expected life and stock option exercise behavior.

Contingencies

Estimates are inherent in the assessment of our exposure to insurance claims that fall below policy deductibles and to litigation and other legal claims and contingencies, as well as in determining our liabilities for incurred but not reported insurance claims. Significant judgments by us and reliance on third-party experts are utilized in determining probable and/or reasonably estimable amounts to be recorded or disclosed in our financial statements. The results of any changes in accounting estimates are reflected in the financial statements of the period in which the changes are determined. We do not believe that material changes to these estimates are reasonably likely to occur.

Table of Contents**Results of Operations**

**Year Ended December 31, 2016 Compared to
Year Ended December 31, 2015**

Revenues (dollars in thousands)

	2016		2015		Change	
	(As restated)		(As restated)			
United States/Canada	\$ 204,035	39.5%	\$ 187,399	34.4%	\$ 16,636	8.9%
Latin America	18,775	3.6	26,350	4.8	(7,575)	(28.7)
Europe	41,062	8.0	42,635	7.8	(1,573)	(3.7)
Middle East	213,613	41.4	248,193	45.6	(34,580)	(13.9)
Africa	24,037	4.7	23,935	4.4	102	0.4
Asia/Pacific	14,490	2.8	16,248	3.0	(1,758)	(10.8)
Total	\$ 516,012	100.0%	\$ 544,760	100.0%	(28,748)	(5.3)%

The primary decrease in revenue occurred in the Middle East with decreases of \$14,419,000 in the United Arab Emirates and \$6,687,000 in Saudi Arabia as economic conditions caused a decrease in funding for projects and a decrease of \$7,713,000 in Oman resulting from the wind-down of a major project. The increase in revenues in the United States occurred throughout all regions. In Latin America, the decrease was primarily in Brazil where revenues decreased by \$6,774,000 as the economic conditions in the region continue to reduce available work. In Europe, decreases in Romania, Azerbaijan and Luxembourg were partially offset by increases in Turkey, Greece, Serbia, Portugal and Poland. In Africa, revenues were up slightly where increases in Algeria and Morocco were partially offset by a decrease in Egypt. The decrease in Asia/Pacific occurred primarily in Afghanistan and was partially offset by an increase in India.

Direct expenses (dollars in thousands)

	2016		2015		Change	
	(As restated)		(As restated)			
		% of Revenue		% of Revenue		
United States/Canada	\$ 143,571	39.9%	\$ 132,037	35.3%	\$ 11,534	8.7%
Latin America	11,471	3.2	15,276	4.1	(3,805)	(24.9)
Europe	27,597	7.7	28,971	7.8	(1,374)	(4.7)
Middle East	153,534	42.8	171,377	45.9	(17,843)	(10.4)
Africa	15,267	4.3	16,766	4.5	(1,499)	(8.9)
Asia/Pacific	7,503	2.1	9,117	2.4	(1,614)	(17.7)
Total	\$ 358,943	100.0%	\$ 373,544	100.0%	(14,601)	(3.9)%

Edgar Filing: Hill International, Inc. - Form 10-K/A

Direct expenses consist of labor expenses for time charged directly to contracts, certain reimbursable expenses consisting of amounts paid to subcontractors and other third parties, and travel and other job-related expenses. The decrease in direct expenses was primarily due to decreases in the Middle East, Latin America and Europe direct labor due to lower revenues and a decrease in subcontractor costs in Afghanistan, partially offset by increased subcontractor costs and direct labor in the United States supporting increased revenues.

Table of Contents**Gross Profit (dollars in thousands)**

	2016 (As restated)			2015 (As restated)			Change	
		% of Revenue			% of Revenue			
United States/Canada	\$ 60,464	38.4%	29.6%	\$ 55,362	32.2%	29.5%	\$ 5,102	9.2%
Latin America	7,304	4.7	38.9	11,074	6.5	42.0	(3,770)	(34.0)
Europe	13,465	8.6	32.8	13,664	8.0	32.0	(199)	(1.5)
Middle East	60,079	38.3	28.1	76,816	44.9	31.0	(16,737)	(21.8)
Africa	8,770	5.6	36.5	7,169	4.2	30.0	1,601	22.3
Asia/Pacific	6,987	4.4	48.2	7,131	4.2	43.9	(144)	(2.0)
Total	\$ 157,069	100.0%	30.4%	\$ 171,216	100.0%	31.4%	\$ (14,147)	(8.3)%

The decrease in gross profit included decreases in the Middle East and Latin America due to the decreases in revenues partially offset by increases in the United States. The overall gross profit percentage decreased slightly due to lower margins primarily in the United Arab Emirates, Qatar and Mexico.

Selling, General and Administrative (SG&A) Expenses (dollars in thousands)

	2016 (As restated)			2015 (As restated)			Change	
		% of Revenue			% of Revenue			
United States/Canada	\$ 42,722	25.1%	20.9%	\$ 41,062	23.7%	21.9%	\$ 1,660	4.0%
Latin America	5,602	3.3	29.8	13,458	7.8	51.1	(7,856)	(58.4)
Europe	21,750	12.7	53.0	28,844	16.7	67.7	(7,094)	(24.6)
Middle East	44,087	25.8	20.6	40,509	23.5	16.3	3,578	8.8
Africa	15,853	9.3	66.0	6,305	3.7	26.3	9,548	151.4
Asia/Pacific	5,853	3.4	40.4	4,476	2.6	27.5	1,377	30.8
Corporate Expenses	34,815	20.4	6.7	37,995	22.0	7.0	(3,180)	(8.4)
Total	\$ 170,682	100%	33.1%	\$ 172,649	100%	31.7%	\$ (1,967)	(1.1)%

The decrease in selling, general and administrative expenses was primarily due to the following:

- A net decrease of \$4,661,000 in unapplied and indirect labor primarily due to reductions in staff in Saudi Arabia, Brazil and Spain during 2015 and early 2016, a net decrease in foreign currency transaction losses of \$1,867,000, a net decrease in amortization expense of \$1,309,000, and a net decrease to Corporate selling, general and administrative expenses of \$3,180,000; offset in part by
- A net increase of \$8,193,000 in bad debt expense for certain accounts receivable within primarily the Middle East and Asia Pacific regions.

Operating Profit (Loss) (dollars in thousands)

	2016 (As restated)		2015 (As restated)		Change	
		% of Revenue		% of Revenue		
United States/Canada	\$ 17,742	8.7%	\$ 14,300	7.6%	\$ 3,442	24.1%
Latin America	1,702	9.1	(2,384)	(9.0)	4,086	(171.4)
Europe	(8,285)	(20.2)	(15,180)	(35.6)	6,895	(45.4)
Middle East	15,992	7.5	36,307	14.6	(20,315)	(56.0)
Africa	(7,083)	(29.5)	864	3.6	(7,947)	(919.8)
Asia/Pacific	1,097	7.6	2,418	14.9	(1,321)	(54.6)
Corporate	(34,815)		(37,995)		3,180	
Total	\$ (13,650)	(2.6)%	\$ (1,670)	(0.3)%	\$ (11,980)	717.4%

Table of Contents

The decrease in operating profit was primarily due to the decrease in revenues, the increase in bad debt expense in the Middle East and the decrease in gross profit in Africa, partially offset by increases in Europe due to a reduction in direct expenses and in the United States related to higher revenues. Corporate expenses decreased by \$3,180,000, and represented 6.7% of total revenue in 2016 compared to 7.0% of total revenue in 2015.

Interest and related financing fees, net

Net interest and related financing fees decreased \$1,256,000 to \$2,355,000 in 2016 as compared with \$3,611,000 in 2015. The decrease was primarily due to interest of \$1,056,000 paid to a subcontractor as a result of a legal settlement in 2015.

Income Taxes

In 2016, income tax expense was \$5,955,000 compared to \$5,833,000 in 2015. The effective income tax expense rates for 2016 and 2015 were (37.2%) and (110.5%), respectively. The increase in expense in 2016 compared to 2015 results from the mix of income and tax rates in various foreign jurisdictions. The difference in the Company's 2016 effective tax rate compared to the 2015 rate is primarily related to a significant decrease in the Company's foreign pretax earnings of approximately \$18,000,000, primarily related to the Middle East operations without a significant related income tax benefit. In addition, the Company recognized an income tax expense of \$689,000 in 2016 resulting from adjustments to agree the 2015 book amount to the actual amounts reported on the tax returns in foreign jurisdictions. In both years, the Company's effective tax rate is significantly higher than the U.S. federal statutory rate primarily as a result of the inability to record an income tax benefit related to the U.S. net operating loss and increases caused by various foreign withholding taxes.

In 2015, several items materially affected the Company's effective tax rate. An income tax benefit of \$205,000 resulted from adjustments to agree the 2014 book amount to the actual amounts reported on the tax returns in foreign jurisdictions. The benefit was offset by increased foreign withholding taxes.

Net Loss Attributable to Hill

Net loss attributable to Hill International, Inc. for 2016 was \$33,812,000, or \$0.65 per diluted common share based on 51,724,000 diluted common shares outstanding, as compared to net loss for 2015 of 14,501,000, or \$0.29 per diluted common share based upon 50,874,000 diluted common shares outstanding. Net loss from continuing operations for 2016 was \$21,960,000, or \$0.43 per diluted share, compared to net loss from continuing operations of \$11,114,000, or \$0.24 per diluted share, in 2015.

Table of Contents

**Year Ended December 31, 2015 Compared to
Year Ended December 31, 2014**

Revenue (dollars in thousands)

	2015 (As restated)		2014 (As restated)		Change	
United States/Canada	\$ 187,399	34.4%	\$ 147,743	30.2%	\$ 39,656	26.8%
Latin America	26,350	4.8	36,742	7.5	(10,392)	(28.3)
Europe	42,635	7.8	37,013	7.6	5,622	15.2
Middle East	248,193	45.6	231,505	47.3	16,688	7.2
Africa	23,935	4.4	21,656	4.4	2,279	10.5
Asia/Pacific	16,248	3.0	14,689	3.0	1,559	10.6
Total	\$ 544,760	100.0%	\$ 489,348	100.0%	\$ 55,412	11.3%

The primary increases in revenues occurred in the Middle East and the United States. In the Middle East, there was an increase of \$37,512,000 in the United Arab Emirates and \$3,894,000 in Saudi Arabia where several new projects started partially offset by decreases of \$13,912,000 in Iraq due to the cessation of projects caused by the political turmoil and \$12,676,000 in Oman where a major project continued at a lower volume. The increase of \$39,656,000 in revenues in the United States occurred throughout all regions led by the Northeast region increase of \$18,953,000. In Latin America, the decrease of \$10,392,000 was primarily in Brazil where revenues decreased by \$8,914,000 as the economic conditions continue to cause reduced work. In Europe, there were increases of \$5,182,000 in Kazakhstan and \$3,692,000 in Turkey due to the acquisition of IMS Proje Yonetimi ve Dansmanlik A.S. (IMS) in April 2015. This was partially offset by decreases in Spain and Latvia. In Africa, revenues were up with increases in Egypt and Algeria partially offset by a decrease in Morocco. The increase in Asia/Pacific occurred primarily in India partially offset by decreases in Afghanistan and China.

Direct expenses (dollars in thousands)

	2015 (As restated)			2014 (As restated)			Change	
		% of Revenue			% of Revenue			
United States/Canada	\$ 132,037	35.3%	70.5%	\$ 101,639	31.5%	68.8%	\$ 30,398	29.9%
Latin America	15,276	4.1	58.0	22,390	6.9	60.9	(7,114)	(31.8)
Europe	28,971	7.8	68.0	24,495	7.6	66.2	4,476	18.3
Middle East	171,377	45.9	69.0	152,375	47.2	65.8	19,002	12.5
Africa	16,766	4.5	70.0	14,554	4.5	67.2	2,212	15.2
Asia/Pacific	9,117	2.4	56.1	7,280	2.3	49.6	1,837	25.2
Total	\$ 373,544	100.0%	68.6%	\$ 322,733	100.0%	66.0%	\$ 50,811	15.7%

Direct expenses consist of labor expenses for time charged directly to contracts, certain reimbursable expenses consisting of amounts paid to subcontractors and other third parties, and travel and other job-related expenses. The increase in direct expenses were primarily due to increases in direct labor in the Middle East, Europe and the United States due to higher revenues and increased use of subcontractors throughout the United States, primarily in our Northeast and Mid-Atlantic regions. These increases were partially offset by lower direct labor costs in Latin

America due to decreased revenues.

Table of Contents**Gross Profit (dollars in thousands)**

	2015 (As restated)			2014 (As restated)			Change	
			% of Revenue			% of Revenue		
United States/Canada	\$ 55,362	32.3%	29.5%	\$ 46,104	27.7%	31.2%	\$ 9,258	20.1%
Latin America	11,074	6.5	42.0	14,352	8.6	39.1	(3,278)	(22.8)
Europe	13,664	8.0	32.0	12,518	7.5	33.8	1,146	9.2
Middle East	76,816	44.9	31.0	79,130	47.5	34.2	(2,314)	(2.9)
Africa	7,169	4.2	30.0	7,102	4.3	32.8	67	0.9
Asia/Pacific	7,131	4.1	43.9	7,409	4.4	50.4	(278)	(3.8)
Total	\$ 171,216	100.0%	31.4%	\$ 166,615	100.0%	34.0%	\$ 4,601	2.8%

The increase in gross profit included increases in the United States and Europe due to higher revenues partially offset by decreases in Latin America and the Middle East. The overall gross profit percentage declined to 31.4% in 2015 compared to 34.0% in 2014 due to decreases in all regions other than Latin America.

Selling, General and Administrative (SG&A) Expenses (dollars in thousands)

	2015 (As restated)			2014 (As restated)			Change	
			% of Revenue			% of Revenue		
United States/Canada	\$ 41,062	23.8%	21.9%	\$ 38,862	26.6%	26.3%	\$ 2,200	5.7%
Latin America	13,458	7.8	51.1	12,851	8.8	35.0	607	4.7
Europe	28,844	16.7	67.7	24,352	16.6	65.8	4,492	18.4
Middle East	40,509	23.5	16.3	34,245	23.4	14.8	6,264	18.3
Africa	6,305	3.6	26.3	1,198	0.8	5.5	5,107	426.3
Asia/Pacific	4,476	2.6	27.5	4,912	3.4	33.4	(436)	(8.9)
Corporate Expenses	37,995	22.0	7.0	29,845	20.4	6.1	8,150	27.3
	\$ 172,649	100%	31.7%	\$ 146,265	100%	29.9%	\$ 26,384	18.0%

The increase in selling, general and administrative expenses was primarily due to the following:

- An increase of \$11,915,000 in bad debt expense for increased reserves for uncollectibility for certain accounts receivable in the Middle East;
- An increase in foreign currency transaction losses of \$8,110,000;
- An increase in legal fees of \$2,259,000 primarily related to the proxy contest; and

Edgar Filing: Hill International, Inc. - Form 10-K/A

- An increase of \$3,973,000 in unapplied and indirect labor due primarily to increases in staffing in the Middle East in support of increased revenues.

Operating Profit (Loss) (dollars in thousands)

	2015 (As restated)		2014 (As restated)		Change	
		% of Revenue		% of Revenue		
United States/Canada	\$ 14,300	7.6%	\$ 7,242	4.9%	\$ 7,058	97.5%
Latin America	(2,384)	(9.0)	1,501	4.1	(3,885)	(258.8)
Europe	(15,180)	(35.6)	(11,834)	(32.0)	(3,346)	28.3
Middle East	36,307	14.6	44,885	19.4	(8,578)	(19.1)
Africa	864	3.6	5,904	27.3	(5,040)	(85.4)
Asia Pacific	2,418	14.9	2,497	17.0	(79)	(3.2)
Corporate	(37,995)		(29,845)		(8,150)	27.3
Total	\$ (1,670)	(0.3)%	\$ 20,350	4.2%	\$ (22,020)	(108.2)%

Table of Contents

The decrease in operating profit was primarily due to the following:

- An increase of \$11,915,000 in bad debt expense for increased reserves for uncollectibility for certain accounts receivable in the Middle East;
- An increase in foreign currency transaction losses of \$8,110,000;
- An increase in legal fees of \$2,259,000 primarily related to the proxy contest; and
- An increase of \$3,973,000 in unapplied and indirect labor due primarily to increases in staffing in the Middle East in support of increased revenues; offset in part by
- An increase in overall gross profit of \$4,601,000 driven primarily by improved profitability in the United States.

Corporate expenses represented 7.0% of revenues in 2015 compared to 6.1% of revenues in 2014.

Interest and related financing fees, net

Interest and related financing fees increased \$512,000 to \$3,611,000 in 2015 as compared with \$3,099,000 in 2014, primarily due to additional borrowings to support our operations in the Middle East.

Income Taxes

In 2015, the income tax expense was \$5,833,000 compared to an income tax expense of \$9,997,000 in 2014. The effective income tax expense rates for 2015 and 2014 were (110.5%) and 58.0%, respectively. The decrease in income tax expense results from the mix of income tax rates in the Company's foreign jurisdictions. The difference in the Company's 2015 effective tax rate compared to the 2014 rate is also primarily related to the mix of income and tax rates in the Company's foreign jurisdictions. In both years, the Company's effective tax rate is significantly higher than it otherwise would be primarily as a result of not being able to record an income tax benefit related to the U.S. net operating loss plus increases caused by various foreign withholding taxes.

In 2015, several items materially affected the Company's effective tax rate. An income tax benefit of \$205,000 resulted from adjustments to agree the 2014 book amount to the actual amounts reported on the tax returns in foreign jurisdictions. This benefit was offset by increased foreign withholding taxes.

Edgar Filing: Hill International, Inc. - Form 10-K/A

In 2014, several items materially affected the Company's effective tax rate. An income tax expense of \$1,050,000 resulted from adjustments to agree the 2013 book amount to the actual amounts reported on the tax returns in foreign jurisdictions.

Net Earnings (Loss) Attributable to Hill

Net loss attributable to Hill International, Inc. for 2015 was \$14,501,000, or \$0.29 per diluted common share based on 50,874,000 diluted common shares outstanding, compared to net loss in 2014 of \$12,677,000, or \$0.29 per diluted common share based upon 44,370,000 diluted common shares outstanding. Net loss from continuing operations for 2015 was \$11,114,000, or \$0.24 per diluted share, compared to net earnings from continuing operations of \$7,254,000, or \$0.13 per diluted share, in 2014.

Non-GAAP Financial Measures

EBITDA, a non-GAAP performance measure used by management, is defined as net earnings plus interest expense, income tax expense and depreciation and amortization, as shown in the table below. EBITDA does not purport to be an alternative to net earnings as a measure of financial and operating performance or ability to generate cash flows from operations that are available for taxes and capital expenditures. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly-titled measures of other companies. We use, and we believe investors benefit from the presentation of, EBITDA in evaluating our operating performance because it provides us and our investors with an additional tool to compare our operating performance on a consistent basis by removing the

Table of Contents

impact of certain items that management believes do not directly reflect our core operations. We believe that EBITDA is useful to investors and other external users of our financial statements in evaluating our operating performance because EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest expense, taxes, and depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired.

Using EBITDA as a performance measure has material limitations as compared to net earnings, or other financial measures as defined under U.S. GAAP as it excludes certain recurring items which may be meaningful to investors. EBITDA excludes interest expense; however, as we have borrowed money in order to finance transactions and operations, interest expense is an element of our cost structure and can affect our ability to generate revenue and returns for our stockholders. Further, EBITDA excludes depreciation and amortization; however, as we use capital and intangible assets to generate revenues, depreciation and amortization are a necessary element of our costs and ability to generate revenue. Finally, EBITDA excludes income taxes; however, as we are organized as a corporation, the payment of taxes is a necessary element of our operations. As a result of these exclusions from EBITDA, any measure that excludes interest expense, depreciation and amortization and income taxes has material limitations as compared to net earnings. When using EBITDA as a performance measure, management compensates for these limitations by comparing EBITDA and net earnings in each period, to allow for the comparison of the performance of the underlying core operations with the overall performance of the Company on a full-cost, after-tax basis. Using both EBITDA and net earnings to evaluate the business allows management and investors to (a) assess our relative performance against our competitors and (b) monitor our capacity to generate returns for our stockholders.

A reconciliation of EBITDA to the most directly comparable GAAP measure follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
		(As restated)	
Net (loss) earnings from continuing operations	\$ (21,960)	\$ (11,114)	\$ 7,254
Interest	2,355	3,611	3,099
Income taxes	5,955	5,833	9,997
Depreciation and amortization	7,265	7,940	6,951
EBITDA	\$ (6,385)	\$ 6,270	\$ 27,301

Liquidity and Capital Resources

At December 31, 2016, our primary sources of liquidity consisted of \$25,637,000 of cash and cash equivalents, of which \$25,187,000 was on deposit in foreign locations, and \$13,176,000 of available borrowing capacity under our various credit facilities. At December 31, 2016, we were in default of our Consolidated Net Leverage Ratio and Excess Account Concentration covenant. On March 27, 2017, we received a waiver of the default from the Agent. See Note 12 to our consolidated financial statements for a description of our credit facilities and term loan. We believe that we have sufficient liquidity to support the reasonably anticipated cash needs of our operations over the next twelve months. However, significant unforeseen events, such as termination or cancellation of major contracts or further delays in receivable collections, could adversely affect our liquidity and results of operations. As a result of our not filing the Quarterly Report on Form 10-Q for the period ended June 30, 2017 within the time frame required by our lenders, we were not in compliance with the requirements of our Revolving Credit Facilities. We received a waiver regarding our non-compliance with such requirements, which also established new dates to file delinquent periodic reports. We are

in discussions with our lenders regarding a waiver and extension of the required filing period. If market opportunities exist, we may choose to undertake financing actions to further enhance our liquidity, which could include borrowing additional funds under our credit agreements, obtaining new bank debt, raising funds through capital market transactions, or other strategic initiatives. See [Sources of Additional Capital](#) for further information.

The amount of revenue attributable to operations in the Middle East and Africa has grown to approximately 46.1% of total consolidated revenue in 2016. We have recently experienced a slowdown in collections from our clients in the Middle East primarily due to the drop in oil prices. This has put a considerable strain on our liquidity. As a result, we have had to rely heavily on debt and equity transactions to fund our operations and we may continue our reliance on debt and equity transactions for our liquidity needs over the next 18 months.

Table of Contents

In 2012, we commenced operations on the Oman Airport project with the Ministry of Transport and Communications (MOTC). The original contract term was to expire in November 2014. In October 2014, we applied for a twelve-month extension of time amendment (first extension), which was subsequently approved in March 2016, and we continued to work on the Oman Airport project. We began to experience delays in payments during the second quarter of 2015 when the MOTC commenced its formal review and certification of our invoices. In December 2015, we began discussions with the MOTC on a second extension of time amendment (second extension) and have since commenced additional work, which we expect to last through approximately June 2018. When the MOTC resumed payments in 2016, we received approximately \$42,000,000 during the year and approximately \$6,153,000 during the first quarter of 2017. At December 31, 2016, accounts receivable from Oman totaled approximately \$27,132,000. Approximately \$16,500,000 was past due based on contractual terms. Although the MOTC has not made timely payments under the contractual terms of the first extension and second extension amendments, we have received full payment under the first extension and believe that the same will hold true for the second extension, as there is no evidence to the contrary. There are multiple indicators that we will receive payment as Oman is a wealthy, stable and solvent country which recently raised funds in the capital markets to help finance its budget, and the MOTC has certified the past due invoices and indicated that it is committed to paying its obligations to us.

Sources of Additional Capital

At December 31, 2016, we had \$13,176,000 of available borrowing capacity under our various credit agreements.

We also have relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At December 31, 2016, we had approximately \$44,702,000 of availability under these arrangements.

We cannot provide any assurance that any other sources of financing will be available, or if available, that the financing will be on terms acceptable to us.

Additional Capital Requirements

Our subsidiary, Hill International (Spain), S.A. (Hill Spain), owns an indirect 91% interest in Engineering S.A. (ESA), a firm located in Brazil, and now known as Hill International do Brasil, S.A. ESA 's shareholders entered into an agreement whereby the minority shareholders have a right to compel (ESA Put Option) Hill Spain to purchase any or all of their shares during the period from February 28, 2014 to February 28, 2021. Hill Spain also has the right to compel (ESA Call Option) the minority shareholders to sell any or all of their shares during the same time period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA 's most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed. On June 17, 2016, the three remaining minority shareholders exercised their ESA Put Option claiming a value of BRL 8,656,000 (approximately \$2,649,000 at June 30, 2016). The Company accrued the liability, which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2016.

Edgar Filing: Hill International, Inc. - Form 10-K/A

Hill Spain entered into a new credit agreement with three new banks. The total new facility is for 2,770,000 (approximately \$2,915,000) at December 31, 2016. The facility was fully utilized at December 31, 2016. Interest rates at December 31, 2016 were between 1.85% and 3.50%. The loans have varying expiration dates between 36 and 60 months.

In connection with the acquisition of IMS on April 15, 2015, the Company had accrued approximately TRY 1,700,000 for a potential earn out which would be payable if earnings before interest, income taxes, depreciation and amortization for the twelve month period subsequent to the closing date (EBITDA) exceeded TRY 3,500,000. A lesser amount would

Table of Contents

have been payable if EBITDA was between TRY 3,200,000 and TRY 3,500,000. IMS' s EBITDA through the one-year anniversary of the acquisition date was not sufficient to earn any of the Additional Purchase Price and the liability was eliminated by a credit of approximately \$673,000 to selling, general and administrative expenses for the year ended December 31, 2016.

Cash Flow Activity During the Year Ended December 31, 2016

For the year ended December 31, 2016, our cash and cash equivalents increased by \$1,548,000 to \$25,637,000. This compares to a net decrease in cash and cash equivalents of \$6,035,000 during the prior year. Cash provided by operations was \$8,898,000, cash used in investing activities was \$4,050,000 and cash used in financing activities was \$2,608,000. We also experienced a decrease in cash of \$692,000 from the effect of foreign currency exchange rate fluctuations.

Operating Activities

Our operations provided \$8,898,000 of cash of in 2016. This compares to cash provided of \$536,000 in 2015 and cash provided of \$5,829,000 in 2014. We had a loss from continuing operations of \$21,960,000 and \$11,114,000 in 2016 and 2015, respectively and earnings from continuing operations of \$7,254,000 in 2014. Depreciation and amortization was \$7,265,000 in 2016 compared to \$7,940,000 in 2015 and \$6,951,000 in 2014; the decrease in this category in 2016 versus 2015 is due to the full amortization of the shorter-lived intangible assets of companies which we acquired over the last several years; the increase in 2015 over 2014 is due to significant additions to property and equipment related to our move to Philadelphia in 2015. We had a net deferred tax asset of \$2,640,000 in 2016 primarily due to several temporary differences in foreign jurisdictions.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and letters of credit at December 31, 2016 and 2015 were \$4,312,000 and \$4,435,000, respectively. The decrease between years is due to a reduction in the collateral requirements that we were able to achieve with certain foreign lenders.

Average days sales outstanding (DSO) at December 31, 2016 was 125 days compared to 104 days at December 31, 2015. DSO is a measure of our ability to collect our accounts receivable and is calculated by dividing the net period-end accounts receivable balance (including billed and unbilled A/R, joint venture A/R, WIP and current retainage receivable) by average total daily revenue (i.e., total revenue for the quarter divided by 90 days). Generally, the age of our receivables is adversely affected by the timing of payments from our clients in Europe and Africa, which have historically been slower than payments from clients in other geographic regions of the Company' s operations. The increase in DSO in 2016 from 2015 was due to a slowing of collections from our clients in the Middle East, particularly Oman.

Although we continually monitor our accounts receivable, we manage our operating cash flows by managing the working capital accounts in total, rather than by individual elements. The primary elements of our working capital are accounts receivable, prepaid and other current assets, accounts payable and deferred revenue. Accounts receivable consist of billing to our clients for our consulting fees and other job-related costs. Prepaid expenses and other current assets consist of prepayments for various selling, general and administrative costs, such as insurance, rent, maintenance, etc. Accounts payable consist of obligations to third parties relating primarily to costs incurred for specific engagements, including pass-through costs such as subcontractor costs. Deferred revenue consists of payments received from clients in advance of work performed.

From year to year, the components of our working capital accounts may reflect significant changes. The changes are due primarily to the timing of cash receipts and payments with our working capital accounts combined with increases in our receivables and payables relative to the increase in our overall business, as well as our acquisition activity. In 2016 and 2015, payments to our vendors were drawn out due to a slowdown in our receipts against accounts receivable primarily in the Middle East and particularly Oman.

Table of Contents

Investing Activities

Net cash used in investing activities was \$4,050,000 for the purchase of leasehold improvements, computers, office equipment and furniture and fixtures. Of this amount, \$1,800,000 was used to implement a database system for our Human Resources department.

Financing Activities

Net cash used in financing activities was \$2,608,000. We made payments in the amount of \$109,000 in borrowings under various credit facilities. We paid \$1,390,000 against the 2014 Term Loan Facility and \$55,000 against the Philadelphia Industrial Development Corp. loan. We paid \$1,531,000 of holdback purchase price to the former owners of IMS. We also received \$351,000 from the exercise of stock options and purchases under our Employee Stock Purchase Plan. We paid \$111,000 as dividends to noncontrolling interests.

New Accounting Pronouncements

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 5 to the consolidated financial statements in Item 8 hereof.

Quarterly Fluctuations

Our operating results vary from period to period as a result of the timing of projects and assignments. We do not believe that our business is seasonal.

Inflation

Although we are subject to fluctuations in the local currencies of the countries in which we operate, we do not believe that inflation will have a significant effect on our results of operations or our financial position.

Table of Contents**Off-Balance Sheet Arrangements**

The following chart provides information with respect to off-balance sheet arrangements including those arrangements attributable to discontinued operations (in thousands).

	Total (1)		2017		2018-2019		2020-2021		2022 and later	
Performance bonds (2)	\$	53,237	\$	28,875	\$	7,085	\$	17,277	\$	
Advance payment bonds (2)		39,580		29,496				10,084		
Bid bonds (3)		7,114		6,566		548				
Other		927		800						127
Letters of credit (4)		4,519		2,912		447		1,160		
	\$	105,377	\$	68,649	\$	8,080	\$	28,521	\$	127

(1) At December 31, 2016, the Company had provided cash collateral amounting to \$4,312,000 for certain of these items. That collateral is reflected in restricted cash on the consolidated balance sheet. See Note 17 to our consolidated financial statements for further information regarding these arrangements.

(2) Represents guarantee of service performance bonds issued through international banks required under certain international contracts.

(3) Represents bid bonds issued through international banks as part of the bidding process for new work to demonstrate our financial strength.

(4) Represents letters of credit issued through a domestic bank in support for certain performance, advance payments and bid bonds.

Contractual Obligations

The following chart provides information with respect to contractual obligations including those obligations attributable to discontinued operations (in thousands).

	Total		2017		2018-2019		2020-2021		2022 and later	
Long-term debt obligations	\$	144,103		1,983		31,408		110,354		358
Interest expense on notes payable (1)		46,848		12,793		24,372		9,655		28
Operating lease obligations (2)		36,720		7,607		11,239		6,911		10,963
	\$	227,671	\$	22,383	\$	67,019	\$	126,920	\$	11,349

- (1) Estimated using the interest rates in effect at December 31, 2016.
- (2) Represents future minimum rental commitments under non-cancelable leases. The Company expects to fund these commitments with existing cash and cash flow from operations.

Subsequent Events

Sale of Construction Claims Group

On May 5, 2017, the Company closed the sale of its Construction Claims Group to two purchasers controlled by funds managed by Bridgepoint Development Capital for a total purchase price of \$140,000,000 in cash less: (1) an estimated working capital adjustment at closing amounting to approximately \$8,449,000; and (2) approximately \$2,187,000 of assumed indebtedness. In addition, the Company was required to provide a \$3,750,000 letter of credit into escrow in order to secure certain of the Company's indemnification obligations for 12 months following closing. The funds provided by the sale of the Construction Claims Group and the cash received upon the draw down under the amended Revolving Credit Facilities (described below) were used as follows: (a) \$117,000,000 to pay off the Term Loan Facility; (b) \$25,000,000 to pay down the U.S. Revolver; (c) approximately \$8,793,000 to pay down the International Revolver; and (d) approximately \$1,214,000 to pay accrued interest and certain bank fees. The Company and the purchasers of the Construction Claims Group were unable to agree upon a final net working capital amount. Thus, pursuant to the terms of their agreement, they are participating in a dispute resolution process by which independent accounting experts will determine the final net working capital.

Financing Transactions

Simultaneously with the closing of the sale, the Company terminated its Term Loan Facility, amended its U.S. Revolver to reduce the amount available to the Company from \$30,000,000 to \$25,000,000, amended its International Revolver to reduce the amount available to the Company from \$15,000,000 to \$10,000,000, and drew approximately \$25,191,000 in cash and approximately \$9,193,000 in letters of credit against the new Revolving Credit Facilities. Deferred fees incurred with establishing the Secured Credit Facilities amounting to approximately \$5,622,000 will be charged to discontinued operations in the quarter ending June 30, 2017.

The U.S. Revolver and the International Revolver each have a term of five years from the closing and provide for letter of credit sub-limits in amounts of \$20,000,000 and \$8,000,000, respectively. The maximum Consolidated Net Leverage Ratio will be increased from the prior credit facilities to 3.00 for all test dates and will not decline. The definition of Consolidated Net Leverage Ratio was amended to (i) remove the cap on the amount of permitted cash netting and (ii) permit netting of unrestricted cash and cash equivalents. The Company incurred fees totaling \$1,625,000 which will be deferred and amortized to interest expense over the five year term of the facilities. As of the date of closing, the new facilities are substantially drawn. We intend to pursue additional borrowing options to improve our liquidity.

Table of Contents

Resignation of Chief Executive Officer

Effective as of May 3, 2017, David L. Richter, the Company's Chief Executive Officer and a member of the Company's Board of Directors, tendered his resignation from all positions with the Company. In connection with his resignation, Mr. Richter and the Company entered into a Separation Agreement and General Release of Claims (the Agreement). Under the Agreement, the Company agreed to (1) pay severance to Mr. Richter in the amount of \$3,300,000, of which \$1,100,000 was paid on May 9, 2017 and the remaining \$2,200,000 will be paid in equal semi-monthly installments over the next two years; (2) pay unused vacation amounting to approximately \$256,000; (3) accelerate the vesting of 1,000,000 options granted to Mr. Richter under the Company's 2006 Employee Stock Option Plan for the purchase of shares of the Company's common stock; the total vested options available to Mr. Richter are 2,100,000 with a remaining unrecognized compensation expense of \$1,630,000; (4) pay COBRA premiums for a period 18 months; (5) reimburse Mr. Richter for the costs of operating one of his personal vehicles through September 1, 2017; and (6) terminate the lease of his other personal vehicle, purchase the vehicle and transfer title to Mr. Richter. The total cost of the benefits, including employment taxes, under the Agreement is estimated to be approximately \$5,100,000 which will be charged to earnings from continuing operations in the second quarter of 2017.

Appointment of Interim Chief Executive Officer

Effective as of the date of Mr. Richter's resignation, Paul J. Evans, a member of the Board, commenced serving as the Interim Chief Executive Officer of the Company and is expected to serve in such capacity until a successor for Mr. Richter is appointed. On May 10, 2017, the Board, upon recommendation of the Compensation Committee, approved the following compensation terms for Mr. Evans: (1) A monthly base salary in the amount of \$60,000; (2) A target incentive award at the rate of \$50,000 per month of service (including any partial month), which will be paid to Mr. Evans upon completion of his service as Interim Chief Executive Officer and only upon the achievement of targets set by the Board based upon the following: (a) One third (1/3) based on the retention of key employees of the Company as measured on the last day of Mr. Evans' service as Interim Chief Executive Officer. (b) One third (1/3) based on achieving a forecasted liquidity metric. (c) One third (1/3) based on achieving a cost savings annual run rate, excluding any one-time items. (3) A monthly grant of Company stock valued at \$80,000 per month during Mr. Evans' term of service as Interim Chief Executive Officer. At the end of each month during such period, Mr. Evans will be entitled to \$80,000 worth of Company stock based on the closing price of the Company's common stock on the last trading day of the month. The aggregate number of shares earned by Mr. Evans will be delivered on the last day of Mr. Evans' service as Interim Chief Executive Officer. (4) Mr. Evans shall receive a monthly living expense before tax allowance of \$5,000 while serving as Interim Chief Executive Officer. (5) Mr. Evans shall be entitled to all benefits of employment provided to other employees of the Company in executive positions. (6) Mr. Evans shall not be entitled to receive compensation for serving on the Board of Directors of the Company while serving as the Interim Chief Executive Officer.

Resignation of Chief Financial Officer

On November 10, 2017, John Fanelli, III, Executive Vice President and Chief Financial Officer notified the Company of his decision to retire and resign, effective immediately. Mr. Fanelli's retirement and resignation were not due to any disagreement with the Company. The Company and Mr. Fanelli entered into a Separation Agreement and General Release of Claims, dated November 10, 2017 (the Separation Agreement). Among other matters, the Separation Agreement provides as follows: (1) Mr. Fanelli agreed to provide transition services to the Company for up to 10 hours per week through February 9, 2018 (the Separation Date) at a rate of \$233.56 per hour. (2) Mr. Fanelli will receive a lump sum, less applicable withholdings and deductions, of (i) \$232,500 within 30 days from the date of the Agreement and (ii) \$232,500 within 30 days following the Separation Date. The total amount of such payments is equal to the severance amount to which Mr. Fanelli would have been entitled under the Company's 2016 Executive Retention Plan in the event of a termination without cause or change in control of the Company. (3) Mr. Fanelli will receive approximately \$66,000 related to accrued vacation. (4) In exchange for the above benefits, Mr. Fanelli executed a release of claims in favor of the Company and its affiliates (such release to become effective upon expiration of the applicable revocation

Edgar Filing: Hill International, Inc. - Form 10-K/A

period). Pursuant to the Separation Agreement, Mr. Fanelli agrees to not compete with or the Company or solicit the Company's customers or employees for a period of two years following the Separation Date. The Company will be entitled to injunctive relief for any breach of an obligation under the Separation Agreement by Mr. Fanelli.

Appointment of Interim Chief Financial Officer

The Company has commenced a search for a successor to Mr. Fanelli as Chief Financial Officer. Effective as of the date of Mr. Fanelli's resignation, Marco A. Martinez commenced serving as the Interim Chief Financial Officer of the Company and is expected to serve in such capacity until a successor for Mr. Fanelli is appointed. Mr. Martinez will receive an annual salary of \$420,000.

Table of Contents

Finalization of ESA purchase

In connection with the ESA purchase, the three remaining minority shareholders exercised their ESA Put Option on June 17, 2016 claiming a value of BRL 8,656,000 (approximately \$2,659,000) at December 31, 2016. The company accrued the liability which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2016. The transaction was finalized November 2017 and February 2018. The shareholders agreed to a reduced total payment of BRL 6,084,000 (approximately \$1,873,000). The Company made an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2017 of BRL 4,475,000 (approximately \$1,365,000) and on March 31, 2018 of BRL 3,146,000 (approximately \$953,000) to record the final transaction amounts.

Resignation of Regional President (Middle East) and Appointment of Successor

On April 19, 2018, Abdo E. Kardous, formerly Hill's Senior Vice President and Managing Director for the Asia/Pacific Region, assumed the post of Regional President for the Middle East. Kardous replaced Mohammed Al Rais, who resigned his position with the Company as of April 19, 2018.

Tax Cuts and Jobs Act

On December 22, 2017, The Tax Cuts and Jobs Act of 2017 (Tax Act) was signed into law. The Tax Act will reduce the Company's statutory U.S. federal corporate tax rate from 35% to 21% for the Company's fiscal year beginning January 1, 2018. The Tax Act requires companies to pay a one-time transition tax on accumulated earnings of foreign subsidiaries, creates new taxes on certain foreign sourced earnings and eliminates or reduces certain deductions and credits. As of the time of this filing, the Company has not completed its evaluation of the effects of enactment of the Tax Act. Because a change in tax law is accounted for in the period of enactment, the effect of the Act will be recorded in the fourth quarter of 2017.

Performance Guarantee

On or about February 8, 2018, the Company received notice from National Bank of Abu Dhabi (NBAD) that Public Authority of Housing Welfare of Kuwait submitted a claim for payment on a Performance Guarantee issued by the Company for approximately \$7,927,000 for a project located in Kuwait. NBAD subsequently issued, on behalf of Company, payment on or about February 15, 2018. The Company is taking legal action to recover the full Performance Guarantee amount.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to certain market risks primarily related to foreign currency exchange rates and interest rates.

Foreign Exchange Rates

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the U.S., which are denominated, primarily in Euros, U.A.E. dirhams, Qatari riyal, Omani rial, Saudi riyal, Brazilian real, Polish zloty as well as other currencies. We do not comprehensively hedge our exposure to currency rate changes; however, we limit exposure to foreign currency fluctuations in most of our contracts through provisions that require client payments to be in currencies corresponding to the currency in which costs are incurred. We currently do not hedge foreign currency cash

Table of Contents

flows for contract work performed, although we may do so in the future. The functional currency of our significant foreign operations is the respective local currency.

Interest Rates

All of our borrowings under our revolving credit facilities bear interest at variable rates. If market interest rates had changed by 100 basis points, interest expense and our cash flows would have changed by \$308,000 each.

Table of Contents

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Hill International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Hill International, Inc. and Subsidiaries (the Company) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. In connection with our audits of the consolidated financial statements, we have also audited financial statement schedule Schedule II Valuation and Qualifying Accounts for each of the years in the three-year period ended December 31, 2016. The financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hill International, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

As discussed in Note 2 to the consolidated financial statements, the consolidated financial statements and the related financial statement schedule for each of the years in the three-year period ended December 31, 2016 have been restated to correct for errors in accounting for foreign currency gains/losses on intercompany balances, revenue recognition on certain long-term contracts, and for the impact of other unrelated correcting adjustments for each of the years in the three-year period ended December 31, 2016.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hill International, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 31, 2017, except as to the Additional Material Weaknesses Identified in Re-evaluation included in Management's Annual Report on Internal Control Over Financial Reporting (as restated), which is as of May 8, 2018, expressed an adverse opinion on the Company's internal control over financial reporting as of December 31, 2016.

/s/ EisnerAmper LLP

EISNERAMPER LLP

Iselin, New Jersey

March 31, 2017, except as to the restatement discussed in Note 2 and its related effects to the consolidated financial statements, which is as of May 8, 2018

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Hill International, Inc. and Subsidiaries

We have audited Hill International, Inc. and Subsidiaries (the Company) internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses for controls that were ineffective or not implemented have been identified and were included in management's original assessment on March 31, 2017: (i) controls relating to estimating the potential loss on the Company's accounts receivable, (ii) controls for the accounting closing process, accounting estimates and non-routine transactions, and (iii) controls to timely identify non-compliance or the misapplication of local employment related tax regulations. Subsequently, management identified additional material weaknesses included in their revised assessment on May 8, 2018 as follows: (i) controls over the financial reporting process due to insufficient knowledgeable personnel, (ii) controls over the accounting for foreign currency translation and transactions, (iii) controls over the preparation and review of the statement of cash flows, (iv) controls over the accounting for revenue recognition for certain long-term contracts, and

Edgar Filing: Hill International, Inc. - Form 10-K/A

(v) controls over the accounting for income taxes. These material weaknesses were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the December 31, 2016 financial statements, and this report does not affect our report dated March 31, 2017, except as to the restatement discussed in Note 2 and its related effects to the consolidated financial statements, which is as of May 8, 2018, on those financial statements.

Table of Contents

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Hill International, Inc. and Subsidiaries did not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in the 2013 *Internal Control - Integrated Framework* issued by COSO.

Management's restated assessment includes subsequent remedial actions, planned future remedial actions, and changes in internal controls regarding the material weaknesses identified. We have not examined or performed procedures around these actions, planned actions or changes, and therefore the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the effectiveness of the Company's actions, planned actions or changes in internal controls.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hill International, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 31, 2017, except as to the restatement discussed in Note 2 and its related effects to the consolidated financial statements, which is as of May 8, 2018, expressed an unqualified opinion thereon.

/s/ EisnerAmper LLP

EISNERAMPER LLP

Iselin, New Jersey

March 31, 2017, except for the Additional Material Weaknesses Identified in Re-evaluation included in Management's Annual Report on Internal Control Over Financial Reporting (as restated), which is as of May 8, 2018

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

	December 31,	
	2016 (As restated)	2015 (As restated)
Assets		
Cash and cash equivalents	\$ 25,637	\$ 24,089
Cash - restricted	4,312	4,435
Accounts receivable, less allowance for doubtful accounts of \$71,082 and \$60,535	164,844	187,721
Accounts receivable - affiliates	5,712	9,169
Prepaid expenses and other current assets	7,751	7,030
Income taxes receivable	3,554	3,187
Current assets held for sale	54,651	60,092
Total current assets	266,461	295,723
Property and equipment, net	16,389	18,822
Cash - restricted, net of current portion	313	259
Retainage receivable	17,225	2,638
Acquired intangibles, net	6,006	8,878
Goodwill	50,665	49,739
Investments	3,501	4,936
Deferred income tax assets	3,200	3,084
Other assets	4,224	6,177
Assets held for sale	32,091	36,199
Total assets	\$ 400,075	\$ 426,455
Liabilities and Stockholders Equity		
Current maturities of notes payable and long-term debt	1,983	4,357
Accounts payable and accrued expenses	85,680	91,034
Income taxes payable	4,874	8,980
Current portion of deferred revenue	12,943	9,866
Other current liabilities	8,157	3,009
Current liabilities held for sale	25,888	27,350
Total current liabilities	139,525	144,596
Notes payable and long-term debt, net of current maturities	142,120	140,626
Retainage payable	961	1,929
Deferred income tax liabilities	560	1,032
Deferred revenue	22,804	15,857
Other liabilities	12,666	11,748
Liabilities held for sale	5,087	6,730
Total liabilities	323,723	322,518
Commitments and contingencies		
Stockholders equity:		
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued		
Common stock, \$0.0001 par value; 100,000 shares authorized, 58,835 shares and 58,335 shares issued at December 31, 2016 and 2015, respectively	6	6
Additional paid-in capital	190,353	189,198
Accumulated deficit	(81,349)	(47,793)
Accumulated other comprehensive loss	(4,611)	(10,589)
	104,399	130,822

Edgar Filing: Hill International, Inc. - Form 10-K/A

Less treasury stock of 6,977 shares and 6,743 shares at December 31, 2016 and December 31, 2015, respectively	(30,041)	(29,245)
Hill International, Inc. share of equity	74,358	101,577
Noncontrolling interests	1,994	2,360
Total equity	76,352	103,937
Total liabilities and stockholders' equity	\$ 400,075	\$ 426,455

See accompanying notes to consolidated financial statements.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share data)**

	Years Ended December 31,		
	2016	2015	2014
	(As restated)	(As restated)	(As restated)
Revenue	\$ 516,012	\$ 544,760	\$ 489,348
Direct expenses	358,943	373,544	322,733
Gross profit	157,069	171,216	166,615
Selling, general and administrative expenses	170,682	172,649	146,265
Share of loss of equity method affiliates	37	237	
Operating (loss) profit	(13,650)	(1,670)	20,350
Interest and related financing fees, net	2,355	3,611	3,099
(Loss) earnings before income taxes	(16,005)	(5,281)	17,251
Income tax expense	5,955	5,833	9,997
(Loss) earnings from continuing operations	(21,960)	(11,114)	7,254
Loss from discontinued operations	(11,776)	(2,564)	(18,627)
Net loss	(33,736)	(13,678)	(11,373)
Less: net earnings - noncontrolling interests	76	823	1,304
Net loss attributable to Hill International, Inc.	\$ (33,812)	\$ (14,501)	\$ (12,677)
Basic (loss) earnings per common share from continuing operations	\$ (0.43)	\$ (0.24)	\$ 0.13
Basic (loss) per common share from discontinued operations	(0.22)	(0.05)	(0.42)
Basic (loss) earnings per common share - Hill International, Inc.	\$ (0.65)	\$ (0.29)	\$ (0.29)
Basic weighted average common shares outstanding	51,724	50,874	44,370
Diluted (loss) earnings per common share from continuing operations	\$ (0.43)	\$ (0.24)	\$ 0.13
Diluted (loss) per common share from discontinued operations	(0.22)	(0.05)	(0.42)
Diluted (loss) earnings per common share - Hill International, Inc.	\$ (0.65)	\$ (0.29)	\$ (0.29)
Diluted weighted average common shares outstanding	51,724	50,874	44,370

See accompanying notes to consolidated financial statements.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

	2016 (As restated)	Years Ended December 31, 2015 (As restated)	2014 (As restated)
Net loss	\$ (33,736)	\$ (13,678)	\$ (11,373)
Foreign currency translation adjustments	5,062	(2,202)	(5,394)
Other, net of tax	585	(226)	122
Comprehensive loss	(28,089)	(16,106)	(16,645)
Comprehensive income attributable to noncontrolling interests	(255)	(2,628)	(128)
Comprehensive loss attributable to Hill International, Inc.	\$ (27,834)	\$ (13,478)	\$ (16,517)

See accompanying notes to consolidated financial statements.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Years Ended December 31, 2016, 2015, and 2014

(In thousands)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive (Loss)	Treasury Stock Shares	Treasury Stock Amount	Hill Share of Stockholders Equity	Non- controlling Interests	Total Stockholders Equity
Balance - December 31, 2013 (As restated)	46,598	\$ 5	\$ 136,899	\$ (20,615)	\$ (7,772)	6,434	\$ (27,766)	\$ 80,751	\$ 12,894	\$ 93,645
Net (loss) earnings (As restated)				(12,677)				(12,677)	1,304	(11,373)
Other comprehensive loss (As restated)					(3,840)			(3,840)	(1,432)	(5,272)
Sale of common stock	9,547	1	38,041					38,042		38,042
Stock issued to Board of Directors	27		175					175		175
Stock-based compensation expense			3,327					3,327		3,327
Cancelation of restricted stock	(2)		(8)					(8)		(8)
Stock issued under employee stock purchase plan	55		197					197		197
Exercise of stock options	324		1,032					1,032		1,032
Cashless exercise of stock options	200		538			112	(538)			
Stock issued for acquisition of CPI	171		618					618		618
Dividends paid to noncontrolling interests									(173)	(173)
Acquisition of additional interest in subsidiary			(907)					(907)	(2,649)	(3,556)
Balance - December 31, 2014 (As restated)	56,920	6	179,912	(33,292)	(11,612)	6,546	(28,304)	106,710	9,944	116,654
Net (loss) earnings (As restated)				(14,501)				(14,501)	823	(13,678)
Other comprehensive loss (As restated)					1,023			1,023	(3,451)	(2,428)
Stock issued to Board of Directors	25		115					115		115
Stock-based compensation expense			2,983					2,983		2,983
Stock issued under employee stock purchase plan	43		126					126		126
Exercise of stock options	189		468					468		468
Cashless exercise of stock options	85		361			67	(361)			
	148		530					530		530

Edgar Filing: Hill International, Inc. - Form 10-K/A

Stock issued for acquisition of CPI		
Dividends paid to noncontrolling interests	(253)	(253)
Acquisition of additional interest in subsid		