Hill International, Inc.
Form 10-Q
November 14, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period

from to

Commission File Number: 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0953973**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Commerce Square **2005 Market Street, 17th Floor** **Philadelphia, PA**	**19103**
(Address of principal executive offices)	(Zip Code)

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

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 x No o

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 (§229.405 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 x No o

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller Reporting Company o

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

There were 51,767,114 shares of the Registrant s Common Stock outstanding at November 1, 2016.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by the fact that they do not relate strictly to historical or current facts. Forward-looking statements often include words such as anticipates, estimates, expects, projects, intends, plans, believes and words and terms of similar substance in connection with discussio future operating or financial performance.

The Company s forward-looking statements are based on management s current expectations and assumptions regarding the Company s business and performance, the economy and other future conditions and forecasts of future events, circumstances and results. As with any projection or forecast, forward-looking statements are inherently susceptible to uncertainty and changes in circumstances. The Company s actual results may vary materially from those expressed or implied in its forward-looking statements.

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

- The risks set forth in Item 1A, Risk Factors, of our most recent Annual Report on Form 10-K;
- 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 businesses, financial position or results of operations include:

- Unexpected further delays in collections from clients located in the Middle East;

- Special risks of 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 of 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 of 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 assume no obligation to update or revise any forward-looking statements.

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HILL INTERNATIONAL, INC. AND SUBDISIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	September 30, 2016 (unaudited)	December 31, 2015
Assets		
Cash and cash equivalents	$ **21,219**	$ 24,089
Cash - restricted	**3,710**	4,435
Accounts receivable, less allowance for doubtful accounts of $72,262 and $63,748	**229,892**	243,417
Accounts receivable - affiliate	**10,870**	5,205
Prepaid expenses and other current assets	**11,507**	10,299
Income taxes receivable	**5,035**	4,146
Total current assets	**282,233**	291,591
Property and equipment, net	**22,307**	23,751
Cash - restricted, net of current portion	**1,175**	259
Retainage receivable	**17,221**	2,638
Acquired intangibles, net	**11,560**	14,659
Goodwill	**75,899**	74,893
Investments	**4,738**	8,386
Deferred income tax assets	**19,274**	19,724
Other assets	**5,136**	6,662
Total assets	$ **439,543**	$ 442,563
Liabilities and Stockholders Equity		
Current maturities of notes payable	$ **7,316**	$ 4,357
Accounts payable and accrued expenses	**105,825**	112,457
Income taxes payable	**5,287**	9,064
Deferred revenue	**8,697**	11,310
Other current liabilities	**9,665**	5,860
Total current liabilities	**136,790**	143,048
Notes payable, net of current maturities	**146,639**	140,626
Retainage payable	**870**	1,929
Deferred income taxes	**16,472**	16,341
Deferred revenue	**15,254**	11,919
Other liabilities	**11,084**	10,661
Total liabilities	**327,109**	324,524
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $.0001 par value; 1,000 shares authorized, none issued		
Common stock, $.0001 par value; 100,000 shares authorized, 58,726 shares and 58,335 shares issued at September 30, 2016 and December 31, 2015, respectively	**6**	6

Additional paid-in capital		**189,049**		188,869
Retained earnings (deficit)		**(2,721)**		1,205
Accumulated other comprehensive loss		**(46,662)**		(46,866)
		139,672		143,214
Less treasury stock of 6,959 shares and 6,743 shares at September 30, 2016 and December 31, 2015, at cost		**(29,974)**		(29,245)
Hill International, Inc. share of equity		**109,698**		113,969
Noncontrolling interests		**2,736**		4,070
Total equity		**112,434**		118,039
Total liabilities and stockholders equity	**$**	**439,543**	$	442,563

See accompanying notes to consolidated financial statements.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Consulting fee revenue	**$ 147,993**	$ 158,579	**$ 457,912**	$ 469,458
Reimbursable expenses	**19,960**	20,356	**61,851**	61,393
Total revenue	**167,953**	178,935	**519,763**	530,851
Cost of services	**81,241**	89,345	**265,052**	268,174
Reimbursable expenses	**19,960**	20,356	**61,851**	61,393
Total direct expenses	**101,201**	109,701	**326,903**	329,567
Gross profit	**66,752**	69,234	**192,860**	201,284
Selling, general and administrative expenses	**67,247**	57,527	**179,614**	173,101
Share of loss of equity method affiliates	**12**	14	**28**	231
Operating profit	**(507)**	11,693	**13,218**	27,952
Interest expense and related financing fees, net	**3,368**	4,147	**10,103**	11,252
(Loss) earnings before income tax expense	**(3,875)**	7,546	**3,115**	16,700
Income tax expense	**2,880**	4,210	**6,939**	7,980
Net (loss) earnings	**(6,755)**	3,336	**(3,824)**	8,720
Less: net earnings noncontrolling interests	**111**	388	**102**	675
Net (loss) earnings attributable to Hill International	**$ (6,866)**	**$** 2,948	**$ (3,926)**	**$** 8,045
Basic (loss) earnings per common share - Hill International, Inc.	**$ (0.13)**	**$** 0.06	**$ (0.08)**	**$** 0.16
Basic weighted average common shares outstanding	**51,753**	51,119	**51,704**	50,661
Diluted (loss) earnings per common share - Hill International, Inc.	**$ (0.13)**	**$** 0.06	**$ (0.08)**	**$** 0.16
Diluted weighted average common shares outstanding	**51,753**	51,803	**51,704**	51,274

See accompanying notes to consolidated financial statements.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)

(Unaudited)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net (loss) earnings	**$ (6,755)**	$ 3,336	**$ (3,824)**	$ 8,720
Foreign currency translation adjustment, net of tax	**(1,638)**	(8,630)	**(1,257)**	(15,910)
Other, net	**79**	(78)	**135**	(213)
Comprehensive loss	**(8,314)**	(5,372)	**(4,946)**	(7,403)
Comprehensive earnings (loss) attributable to noncontrolling interests	**132**	(2,992)	**(1,223)**	(6,728)
Comprehensive loss attributable to Hill International, Inc.	**$ (8,446)**	$ (2,380)	**$ (3,723)**	$ (675)

See accompanying notes to consolidated financial statements.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net (loss) earnings	**$ (3,824)**	$ 8,720
Adjustments to reconcile net earnings to net cash used in operating activities:		
Depreciation and amortization	**7,705**	8,286
Provision for bad debts	**11,879**	2,540
Amortization of deferred loan fees	**1,334**	1,333
Deferred tax expense (benefit)	**663**	(1,585)
Share based compensation	**1,838**	2,360
Changes in operating assets and liabilities, net:		
Restricted cash	**(69)**	10,658
Accounts receivable	**2,652**	(57,690)
Accounts receivable - affiliate	**(5,665)**	(2,830)
Prepaid expenses and other current assets	**(1,001)**	(4,556)
Income taxes receivable	**(756)**	25
Retainage receivable	**(14,583)**	150
Other assets	**5,191**	1,009
Accounts payable and accrued expenses	**(8,582)**	15,194
Income taxes payable	**(3,951)**	1,455
Deferred revenue	**124**	589
Other current liabilities	**2,639**	7,398
Retainage payable	**(1,308)**	474
Other liabilities	**385**	2,878
Net cash used in operating activities	**(5,329)**	(3,592)
Cash flows from investing activities:		
Purchase of business, net of cash acquired		(4,384)
Payments for purchase of property and equipment	**(2,584)**	(11,447)
Net cash used in investing activities	**(2,584)**	(15,831)
Cash flows from financing activities:		
Payments on term loans	**(900)**	(900)
Net borrowings on revolving loans	**8,950**	15,152
Proceeds from Philadelphia Industrial Development Corporation loan		750
Payments on Philadelphia Industrial Development Corporation loan	**(41)**	(27)
Deferred acquisition price payments	**(1,531)**	
Dividends paid to noncontrolling interest	**(111)**	(130)
Proceeds from stock issued under employee stock purchase plan	**65**	57
Proceeds from exercise of stock options	**220**	137
Net cash provided by financing activities	**6,652**	15,039
Effect of exchange rate changes on cash	**(1,609)**	(1,839)
Net decrease in cash and cash equivalents	**(2,870)**	(6,223)
Cash and cash equivalents beginning of period	**24,089**	30,124
Cash and cash equivalents end of period	**$ 21,219**	$ 23,901

See accompanying notes to consolidated financial statements.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - The Company

Hill International, Inc. (Hill or the Company) is a professional services firm that provides program management, project management, construction management, construction claims and other consulting services primarily to the buildings, transportation, environmental, energy and industrial markets worldwide. Hill s clients include the U.S. federal government, U.S. state and local governments, foreign governments and the private sector. The Company is organized into two key operating divisions: the Project Management Group and the Construction Claims Group.

Note 2 Basis of Presentation

The accompanying unaudited interim consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2015. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (GAAP) for complete financial statements. In the opinion of management, these statements include all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial statements. The consolidated financial statements include the accounts of Hill and its wholly- and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The interim operating results are not necessarily indicative of the results for a full year.

Note 3 Liquidity

The amount of consulting fee revenue (CFR) attributable to operations in the Middle East and Africa has grown from approximately 32% in 2011 to approximately 49% of total consolidated CFR during the first nine months of 2016. There has been significant political upheaval and civil unrest in these regions during this period. The Company continues to experience a slowdown in its collections from its clients in the Middle East primarily due to the recent drop in oil prices. This has put a considerable strain on the Company s liquidity. As a result, the Company has had to rely heavily on debt and equity transactions to fund its operations. See Note 4 for a further discussion of issues related to our liquidity.

Note 4 Accounts Receivable

The components of accounts receivable are as follows (in thousands):

	September 30, 2016	December 31, 2015
Billed	**$ 256,840**	$ 267,592
Retainage, current portion	**9,763**	13,660
Unbilled	**35,551**	25,913
	302,154	307,165
Allowance for doubtful accounts	**(72,262)**	(63,748)
	$ 229,892	$ 243,417

Included in billed and unbilled accounts receivable are $14,926,000 and $4,827,000, respectively, related to change orders, claims and disputes at September 30, 2016.

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In 2012, the Company commenced operations on the Muscat International Airport (the Oman Airport) project with the Ministry of Transportation and Communications (the MOTC) in Oman. The original contract term expired in November 2014. In October 2014, the Company applied for a twelve-month extension of time amendment (the first extension) which was subsequently approved in March 2016 and the Company continued to work on the Oman Airport project. The Company began to experience some delays in payment during the second quarter of 2015 when 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 (the second extension) and has since commenced additional work, which management expects to last approximately 18 months. When the MOTC resumed payments in 2016, the Company received approximately $15,000,000 in March, approximately $1,800,000 in April, approximately $14,100,000 in June, approximately $3,200,000 in October and approximately $7,900,000 in November. At September 30, 2016, accounts receivable from Oman totaled approximately $29,500,000. After receipt of the October and November payments, approximately $7,900,000 was past due based on contractual terms.

In addition, there is approximately $16,100,000 included in non-current Retainage Receivable in the consolidated balance sheet at September 30, 2016. Of that amount, approximately $8,000,000 relates to retention and approximately $8,100,000 relates to a Defect and Liability Period (DLP). Retention represents five percent of each monthly invoice which is retained by MOTC. Fifty percent of the retention will be released one year from the commencement of the DLP and the balance will be release upon the issuance of final Completion Certificates. DLP represents the period by which the contractor must address any defect issues. This period commences upon the issuance of a Taking Over Certificate (by MOTC) to contractors for up to a period of 24 months and then final certificate closing the project.

The delays in payments from MOTC and other foreign governments have had a negative impact on the Company s liquidity, financial covenants, financial position and results of operations.

Note 5 Intangible Assets

The following table summarizes the Company s acquired intangible assets (in thousands):

	September 30, 2016		**December 31, 2015**	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Client relationships	**$ 34,116**	**$ 24,147**	$ 34,891	22,668
Acquired contract rights	**2,278**	**2,011**	12,256	11,287
Trade names	**2,774**	**1,450**	2,704	1,237
Total	**$ 39,168**	**$ 27,608**	$ 49,851	$ 35,192
Intangible assets, net	**$ 11,560**		$ 14,659	

Amortization expense related to intangible assets was as follows (in thousands):

Three Months Ended September 30,		**Nine Months Ended September 30,**	
2016	**2015**	**2016**	**2015**
$ 1,013	$ 1,578	**$ 3,450**	$ 4,609

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The following table presents the estimated amortization expense based on our present intangible assets for the next five years (in thousands):

Year Ending December 31,		Estimated Amortization Expense
2016 (remaining 3 months)	$	903
2017		3,144
2018		2,051
2019		1,782
2020		1,286

Note 6 Goodwill

The Company performs its annual goodwill impairment testing, by reporting unit, in the third quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. 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 for the businesses, the useful life over which cash flows will occur, and determination of the Company s weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company performed its annual impairment test effective July 1, 2016. Based on a preliminary valuation, the fair value of the Project Management unit and the Construction Claims unit significantly exceeded their carrying values.

The following table summarizes the changes in the Company s carrying value of goodwill during 2016 (in thousands):

		Project Management		Construction Claims		Total Goodwill
Balance, December 31, 2015	$	49,739	$	25,154	$	74,893
Additions						
Translation adjustments		**2,578**		**(1,572)**		1,006
Balance, September 30, 2016	**$**	**52,317**	**$**	**23,582**	**$**	**75,899**

Note 7 Accounts Payable and Accrued Expenses

Below are the components of accounts payable and accrued expenses (in thousands):

		September 30, 2016		December 31, 2015
Accounts payable	**$**	**36,884**	$	44,200
Accrued payroll		**48,379**		50,724
Accrued subcontractor fees		**7,831**		5,905

Accrued agency fees		**2,285**		6,564
Accrued legal and professional fees		**5,336**		1,186
Other accrued expenses		**5,110**		3,878
	$	**105,825**	$	112,457

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Note 8 Notes Payable and Long-Term Debt

Outstanding debt obligations are as follows (in thousands):

	September 30, 2016		December 31, 2015	
Term Loan Facility	**$**	**112,890**	$	112,906
U.S. Revolving Credit Facility		**22,500**		17,500
International Revolving Credit Facility		**11,836**		10,715
Borrowings under revolving credit facilities with a consortium of banks in Spain		**3,062**		3,013
Borrowing under revolving credit facility with the National Bank of Abu Dhabi		**2,998**		
Borrowing from Philadelphia Industrial Development Corporation		**669**		710
Other notes payable				139
		153,955		144,983
Less current maturities		**7,316**		4,357
Notes payable and long-term debt, net of current maturities	**$**	**146,639**	$	140,626

The Company and its subsidiary Hill International N.V. (the Subsidiary) are parties to a credit agreement with Société Générale (the Agent), TD Bank, N.A. and HSBC Bank USA, N.A. (collectively, the U.S. Lenders) consisting of a term loan facility of $120,000,000 (the Term Loan Facility) and a $30,000,000 U.S. dollar-denominated facility available to the Company (the U.S. Revolver, together with the Term Loan Facility, the U.S. Credit Facilities) and a credit agreement with the Agent (the International Lender) providing a 11,765,000 ($15,000,000 at closing and $13,199,000 at September 30, 2016) credit facility which is available to the Subsidiary (the International Revolver and together with the U.S. Revolver, the Revolving Credit Facilities and, together with the U.S. Credit Facilities, the Secured Credit Facilities). The U.S. Revolver and the International Revolver include sub-limits for letters of credit amounting to $25,000,000 and $10,000,000, respectively.

The Secured Credit Facilities contain customary default provisions, representations and warranties, and affirmative and negative covenants, and require the Company to comply with certain financial and reporting covenants. The financial covenants consist of a Consolidated Net Leverage Ratio and an Excess Account Concentration requirement.

The Consolidated Net Leverage Ratio is the ratio of (a) consolidated total debt (minus cash of up to $10,000,000 held in the aggregate) to consolidated earnings before interest, taxes, depreciation, amortization, share-based compensation and other non-cash charges, including bad debt expense, for the trailing twelve months. In the event of a default, the U.S. Lenders and the International Lender may increase the interest rates by 2.0%. At September 30, 2016, the Company s Consolidated Net Leverage Ratio was 3.19 to 1.00 which exceeded the 2.75 to 1.00 limit imposed by the Secured Credit Facilities and constituted a default.

The Excess Account Concentration covenant permits the U. S. Lenders and the International Lender to increase the interest rates by 2.0% if, as of the last day of any fiscal quarter, either (a) the total of accounts receivable from all clients within any country not listed as a Permitted Country as defined in the Secured Credit Facilities (other than the United Arab Emirates) that are more than 120 days old (relative to the invoice date) constitute more than 10% of the total outstanding accounts receivable or (b) the total of accounts receivable from all clients located in the United Arab Emirates that are more than 120 days old (relative to the invoice date) constitute more than 14% of the total outstanding accounts receivable. The interest rate would be reset as soon as the accounts receivable over 120 days decline below the 10% or 14% levels. At September 30, 2016, the accounts receivable from Oman exceeded the limit described above, however, due to a payment received on October 6, 2016, the accounts receivable declined below the established limit.

In anticipation of the event of default upon delivery of the quarterly compliance certificate, the Company requested a waiver from the Agent. On November 1, 2016, the Company obtained the waiver of the Excess Account Concentration covenant violation, the Consolidated Net Leverage Ratio default and the contractual 2% increase in the interest rate. In connection with the waiver, the Company incurred a consent fee amounting to approximately $168,000 which will be charged to interest expense in the fourth quarter of 2016.

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The U.S. Credit Facilities are guaranteed by certain U.S. subsidiaries of the Company, and the International Revolver is guaranteed by the Company and certain of the Company s U.S. and non-U.S. subsidiaries.

Term Loan Facility

The interest rate on the Term Loan Facility will be, at the Company s option, either:

- the London Inter-Bank Offered Rate (LIBOR) for the relevant interest period plus 6.75% per annum, provided that such LIBOR shall not be lower than 1.00% per annum; or

- the Base Rate (as described below) plus 5.75% per annum.

The Base Rate is a per annum rate equal to the highest of (A) the prime rate, (B) the federal funds effective rate plus 0.50%, or (C) the LIBOR for an interest period of one month plus 1.0% per annum. Upon a default, the applicable rate of interest under the Secured Credit Facilities may increase by 2.0%. The LIBOR on the Term Loan Facilities (including when determining the Base Rate) shall in no event be less than 1.0% per annum.

At September 30, 2016, the interest rate on the Term Loan was 7.75%.

The Company has the right to prepay the Term Loan Facility in full or in part at any time without premium or penalty. The Company is required to make mandatory prepayments of the Term Loan Facility, without premium or penalty, (i) with net proceeds of any issuance or incurrence of indebtedness (other than that permitted under the Term Loan Facility) by the Company, (ii) with net proceeds from certain asset sales outside the ordinary course of business, and (iii) with 50% of the excess cash flow (as defined in the agreement) for each fiscal year of the Borrowers (which percentage would be reduced to 25% if the Consolidated Net Leverage Ratio is equal to or less than 2.25 to 1.00 or reduced to 0% if the Consolidated Net Leverage Ratio is equal to or less than 1.50 to 1.00).

The Term Loan Facility is generally secured by a first-priority security interest in substantially all assets of the Company and certain of the Company s U.S. subsidiaries other than accounts receivable, cash proceeds thereof and certain bank accounts, as to which the Term Loan Facility is secured by a second-priority security interest.

The Term Loan Facility has a term of six years, requires repayment of 0.25% of the original principal amount on a quarterly basis through September 30, 2020, the maturity date. Any amounts repaid on the Term Loan Facility will not be available to be re-borrowed.

The Company incurred fees and expenses related to the Term Loan Facility aggregating $7,066,000 which have been deferred. The deferred fees are being amortized on a straight-line basis, which approximates the effective interest method, to interest and related financing fees, net over a six-year period which ends on September 30, 2020. Unamortized balances of $4,710,000 and $5,594,000 are included as an offset against the Term Loan balances in the consolidated balance sheets at September 30, 2016 and December 31, 2015, respectively.

Revolving Credit Facilities

The interest rate on borrowings under the U.S. Revolver will be, at the Company s option from time to time, either the LIBOR for the relevant interest period plus 3.75% per annum or the Base Rate plus 2.75% per annum. At September 30, 2016, the interest rate was 6.25%.

The interest rate on borrowings under the International Revolver will be the European Inter-Bank Offered Rate (EURIBOR) for the relevant interest period (or at a substitute rate to be determined to the extent EURIBOR is not available) plus 4.00% per annum. At September 30, 2016, the interest rate was 3.63%.

The Company will pay a commitment fee calculated at 0.50% annually on the average daily unused portion of the U.S. Revolver, and the Subsidiary will pay a commitment fee calculated at 0.75% annually on the average daily unused portion of the International Revolver.

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The ability to borrow under each of the U.S. Revolver and the International Revolver is subject to a borrowing base, calculated using a formula based upon approximately 85% of receivables that meet or satisfy certain criteria (Eligible Receivables) and that are subject to a perfected security interest held by either the U.S. Lenders or the International Lender, plus, in the case of the International Revolver only, 10% of Eligible Receivables that are not subject to a perfected security interest held by the International Lender, subject to certain exceptions and restrictions.

The Company or the Subsidiary, as applicable, will be required to make mandatory prepayments under their respective Revolving Credit Facilities to the extent that the aggregate outstanding amount thereunder exceeds the then-applicable borrowing base, which payments will be made without penalty or premium. At September 30, 2016, the domestic borrowing base was $30,000,000 and the international borrowing base was 11,765,000 (approximately $13,199,000 at September 30, 2016).

Generally, the obligations of the Company under the U.S. Revolver are secured by a first-priority security interest in the above-referenced accounts receivable, cash proceeds and bank accounts of the Company and certain of the Company s U.S. subsidiaries, and a second-priority security interest in substantially all other assets of the Company and such subsidiaries. The obligations of the Subsidiary under the International Revolver would generally be secured by a first-priority security interest in substantially all accounts receivable, cash proceeds thereof and certain bank accounts of the Subsidiary and certain of the Company s non-U.S. subsidiaries, and a second-priority security interest in substantially all other assets of the Company and certain of the Company s U.S. and non-U.S. subsidiaries.

The Revolving Credit Facilities have a term of five years and require payment of interest only during the term. Under the Revolving Credit Facilities, outstanding loans may be repaid in whole or in part at any time, without premium or penalty, subject to certain customary limitations, and will be available to be re-borrowed from time to time through expiration on September 30, 2019.

The Company incurred fees and expenses related to the Revolving Credit Facilities aggregating $3,000,000 which has been deferred. The deferred fees are being amortized on a straight-line basis, which approximates the effective interest method, to interest expense and related financing fees, net over a five-year period which ends on September 30, 2019. Unamortized balances of $1,800,000 and $2,250,000 are included in other assets in the consolidated balance sheet at September 30, 2016 and December 31, 2015, respectively.

At September 30, 2016 the Company had $5,006,000 of outstanding letters of credit under the U.S. Revolver. Due to the default, the Company was precluded from utilizing any of the $2,494,000 of available borrowing capacity under the U.S. Revolver until the waiver was received on November 1, 2016, at which time the entire amount was available to be borrowed without violating the Consolidated Net Leverage Ratio.

At September 30, 2016, the Company had $1,008,000 of outstanding letters of credit and $1,218,000 of available borrowing capacity under the International Revolver and its other foreign credit agreements (See Other Debt Arrangements below for more information).

Other Debt Arrangements

In connection with the move of its corporate headquarters to Philadelphia, Pennsylvania, the Company received a loan from the Philadelphia Industrial Development Corporation in the amount of $750,000 which bears interest at 2.75%, is repayable in 144 equal monthly installments of $6,121 and matures on May 1, 2027.

The Company s subsidiary, Hill International (Spain) S.A. (Hill Spain), maintains a revolving credit facility with six banks (the Financing Entities) in Spain which initially provided for total borrowings of up to 5,640,000 with interest at 6.50% on outstanding borrowings. At December 31, 2015, total availability under this facility was reduced to 50.0% of the initial limit. At September 30, 2016, the total facility was approximately 2,670,000 (approximately $2,996,000) and borrowings outstanding were 2,669,000 (approximately $2,995,000). The amount being financed (Credit Contracts) by each Financing Entity is between 189,000 (approximately $213,000) and 769,000 (approximately $863,000). To guarantee Hill Spain s obligations resulting from the Credit Contracts, Hill Spain provided a guarantee in favor of each

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one of the Financing Entities, which, additionally, and solely in the case of unremedied failure to make payment, and at the request of each of the Financing Entities, shall grant a first ranking pledge over a given percentage of corporate shares of Hill International Brasil Participacoes Ltda. for the principal, interest, fees, expenses or any other amount owed by virtue of the Credit Contracts, coinciding with the percentage of credit of each Financing Entity with respect to the total outstanding borrowings under this facility. The facility expires on December 17, 2016 at which time the Company expects to pay off and terminate the facility.

Hill Spain also maintains an Instituto de Credito Oficial (ICO) loan with Bankia Bank in Spain for 60,000 (approximately $67,000) at September 30, 2016. The availability is reduced by 15,000 on a quarterly basis. At September 30, 2016, total borrowings outstanding were 60,000 (approximately $67,000). The interest rate at September 30, 2016 was 6.50%. The ICO loan expires on August 10, 2017.

The Company maintains a credit facility with the National Bank of Abu Dhabi which provides for total borrowings of up to AED 11,500,000 (approximately $3,131,000 at September 30, 2016) collateralized by certain overseas receivables. Borrowings outstanding were AED 11,012,000 (approximately $2,998,000 at September 30, 2016). The interest rate is the one-month Emirate Interbank Offered Rate plus 3.00% (which would be 4.41% at September 30, 2016) but, in any event, no less than 5.50%. This facility also allows for Letters of Guarantee of up to AED 200,000,000 (approximately $54,452,000 at September 30, 2016) of which AED 135,080,000 (approximately $36,777,000) was outstanding at September 30, 2016. The credit facility is subject to periodic review by the bank.

Engineering S.A. maintains four unsecured revolving credit facilities with two banks in Brazil aggregating 2,380,000 Brazilian Reais (BRL) (approximately $730,000 at September 30, 2016), with a weighted average interest rate of 5.09% per month at September 30, 2016. There were no borrowings outstanding on any of these facilities which are renewed automatically every three months.

The Company also maintains 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 September 30, 2016, the maximum U.S. dollar equivalent of the commitments was $89,237,000 of which $40,362,000 is outstanding.

Note 9 Supplemental Cash Flow Information

The following table provides additional cash flow information (in thousands):

	Nine Months Ended September 30,	
	2016	**2015**
Interest and related financing fees paid	**$ 8,915**	$ 9,067
Income taxes paid	**$ 9,435**	$ 4,242
Increase in other current liabilities and decrease in additional paid-in capital related to ESA Put Options	**$ 2,670**	
	$	$ (4,374)

Reduction of noncontrolling interest in connection with acquisition of an additional interest in Engineering S.A.				
Increase in property and equipment from a tenant improvement allowance related to the relocation of the corporate headquarters	**$**		$	3,894
Increase in additional paid in capital from issuance of shares of common stock related to purchase of CPI	**$**		$	530
Increase in additional paid in capital from issuance of shares of common stock through cashless exercise of stock options	**$**	**729**	$	361

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Note 10 Earnings per Share

Basic earnings per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share incorporates the incremental shares issuable upon the assumed exercise of stock options using the treasury stock method, if dilutive. Options to purchase 6,480,000 shares and 6,478,000 shares were excluded from the calculation of diluted earnings per common share for the three and nine months ended September 30, 2016, respectively, because they were antidilutive. Dilutive stock options increased the average common shares outstanding by approximately 684,000 shares for the three months ended September 30, 2015 and by approximately 613,000 shares for the nine months ended September 30, 2015. Options to purchase 3,208,000 shares and 3,773,000 shares were excluded from the calculation of diluted earnings per common share for the three and nine months ended September 30, 2015 because they were antidilutive.

Note 11 Share-Based Compensation

At September 30, 2016, the Company had approximately 6,932,000 options outstanding with a weighted average exercise price of $4.10. During the nine months ended September 30, 2016, the Company granted 765,000 options which vest over a five-year period and 10,101 options which vested immediately. The options have a weighted-average exercise price of $4.30 and a weighted average contractual life of 6.97 years. The aggregate fair value of the options was $1,075,000 calculated using the Black-Scholes valuation model. The weighted average assumptions used to calculate fair value were: expected life 4.97 years; volatility 57.4% and risk-free interest rate 1.24%. During the first nine months of 2016, options for approximately 369,000 shares with a weighted average exercise price of $2.62 were exercised, options for approximately 1,104,000 shares with a weighted average exercise price of $6.86 lapsed and options for 82,000 shares with a weighted average exercise price of $4.24 were forfeited.

During the nine months ended September 30, 2016, employees purchased approximately 19,000 common shares, for an aggregate purchase price of $65,000, pursuant to the Company s 2008 Employee Stock Purchase Plan.

The Company recognized share-based compensation expense in selling, general and administrative expenses in the consolidated statement of operations totaling $581,000 and $899,000 for the three months ended September 30, 2016 and 2015, respectively, and $1,838,000 and $2,360,000 for the nine months ended September 30, 2016 and 2015, respectively.

Note 12 Stockholders Equity

The following table summarizes the changes in stockholders equity during the nine months ended September 30, 2016 (in thousands):

	Hill International,	Noncontrolling

		Total		Inc. Stockholders		Interests
Stockholders equity, December 31, 2015	$	118,039	$	113,969	$	4,070
Net (loss) earnings		**(3,824)**		**(3,926)**		**102**
Other comprehensive (loss)		**(1,122)**		**203**		**(1,325)**
Comprehensive earnings (loss)		**(4,946)**		**(3,723)**		**(1,223)**
Additional paid in capital		**2,851**		**2,851**		
Cashless exercise of stock options		**(729)**		**(729)**		
Adjustment related to ESA Put Options		**(2,670)**		**(2,670)**		
Dividends paid to noncontrolling interest		**(111)**				**(111)**
Stockholders equity, September 30, 2016	**$**	**112,434**	**$**	**109,698**	**$**	**2,736**

During March 2016, certain officers exercised an aggregate of 297,489 options with an exercise price of $2.45 through the Company on a cashless basis. The Company withheld 215,158 shares as payment for the options and placed those shares in treasury. The officers received a total of 112,331 shares from this transaction.

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During the nine months ended September 30, 2016, the Company received $220,000 in cash from the exercise of stock options.

Note 13 Income Taxes

The effective tax rates for the three months ended September 30, 2016 and 2015 were (74.3)% and 55.8%, respectively, and 222.8% and 47.8% for the nine months ended September 30, 2016 and 2015, respectively. The Company s effective tax rate represents the Company s estimated tax rate for the year based on projected income and mix of income among the various foreign tax jurisdictions, adjusted for discrete transactions occurring during the period. There was no change in the reserve for uncertain tax positions for the three months ended September 30, 2016 and 2015. For the nine months ended September 30, 2016 and 2015, the Company recognized an income tax (benefit) expense related to an increase in the reserve for uncertain tax positions amounting to $(14,000) and $245,000, respectively. In addition, the Company recognized an income tax expense (benefit) resulting from adjustments to agree the prior year s book amounts to the actual amounts per the tax returns totaling $0 and ($37,000) for the three months ended September 30, 2016 and 2015, respectively, and $535,000 and ($37,000) for the nine months ended September 30, 2016 and 2015, respectively. The Company s effective tax rate in both years is higher than it otherwise would be primarily as a result of not recording an income tax benefit related to the U.S. net operating loss and various foreign withholding taxes.

The components of earnings (loss) before income taxes and the related income tax expense by United States and foreign jurisdictions were as follows (in thousands):

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	U.S.	**Foreign**	**Total**	**U.S.**	**Foreign**	**Total**
Earnings (loss) before income taxes	**$ (7,316)**	**$ 3,441**	**$ (3,875)**	$ (2,541)	$ 10,087	$ 7,546
Income tax expense, net	**$**	**$ 2,880**	**$ 2,880**	$	$ 4,210	$ 4,210

	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	U.S.	**Foreign**	**Total**	**U.S.**	**Foreign**	**Total**
Earnings (loss) before income taxes	**$ (20,805)**	**$ 23,920**	**$ 3,115**	$ (22,529)	$ 39,229	$ 16,700
Income tax expense, net	**$**	**$ 6,939**	**$ 6,939**	$	$ 7,980	$ 7,980

The reserve for uncertain tax positions amounted to $ 939,000 and $1,220,000 at September 30, 2016 and December 31, 2015, respectively, and is included in Other liabilities in the consolidated balance sheets at those dates.

The Company s policy is to record income tax related interest and penalties in income tax expense. At both September 30, 2016 and December 31, 2015, potential interest and penalties related to uncertain tax positions amounted to $500,000 and was included in the balance above.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Management evaluates the need for valuation allowances on the deferred tax assets according to the provisions of ASC740, *Income Taxes*. They consider both positive and negative evidence. In making this determination, management assesses all of the evidence available at the time including recent earnings, internally-prepared income projections, and historical financial performance.

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Note 14 Business Segment Information

The Company s business segments reflect how executive management makes resource decisions and assesses its performance. The Company bases these decisions on the type of services provided (Project Management and Construction Claims) and secondarily by their geography (U.S./Canada, Latin America, Europe, the Middle East, Africa and Asia/Pacific).

The Project Management business segment provides extensive construction and project management services to construction owners worldwide. Such services include program management, project management, construction management, project management oversight, troubled project turnaround, staff augmentation, project labor agreement consulting, commissioning, estimating and cost management, labor compliance and facilities management services.

The Construction Claims business segment provides such services as claims consulting, management consulting, litigation support, expert witness testimony, cost/damages assessment, delay/disruption analysis, adjudication, lender advisory, risk management, forensic accounting, fraud investigation, Project Neutral and international arbitration services to clients worldwide.

The Company evaluates the performance of its segments primarily on operating profit before corporate overhead allocations and income taxes.

The following tables reflect the required disclosures for the Company s reportable segments (in thousands):

Consulting Fee Revenue (CFR)

		2016			2015	
Project Management	**$**	**106,868**	**72.2%**	$	116,541	73.5%
Construction Claims		**41,125**	**27.8**		42,038	26.5
Total	**$**	**147,993**	**100.0%**	$	158,579	100.0%

Total Revenue

	Three Months Ended September 30,					
		2016			**2015**	
Project Management	**$**	**125,872**	**74.9%**	$	135,539	75.7%
Construction Claims		**42,081**	**25.1**		43,396	24.3
Total	**$**	**167,953**	**100.0%**	$	178,935	100.0%

Operating Profit (Loss) by Geographic Region:

	Three Months Ended September 30,	
	2016	2015
U.S./Canada	**$ 6,546**	$ 5,939
Latin America	**(238)**	531
Europe	**13**	2,105
Middle East	**4,165**	11,935
Africa	**1,023**	(398)
Asia/Pacific	**(1,466)**	(105)
Corporate	**(10,550)**	(8,314)
Total	**$ (507)**	$ 11,693
U.S	**$ 6,297**	$ 5,686
Non - U.S.	**3,746**	14,321
Corporate	**(10,550)**	(8,314)
Total	**$ (507)**	$ 11,693

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Depreciation and Amortization Expense:

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
Project Management	$	**1,646**	$	1,924
Construction Claims		**705**		787
Subtotal segments		**2,351**		2,711
Corporate		**154**		152
Total	$	**2,505**	$	2,863

Consulting Fee Revenue by Geographic Region:

	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
U.S./Canada	$	**42,756**	**28.9%**	$	38,569	24.3%
Latin America		**5,832**	**3.9**		8,347	5.3
Europe		**20,953**	**14.2**		23,476	14.8
Middle East		**62,609**	**42.3**		72,441	45.7
Africa		**7,201**	**4.9**		7,225	4.5
Asia/Pacific		**8,642**	**5.8**		8,521	5.4
Total	$	**147,993**	**100.0%**	$	158,579	100.0%
U.S.	$	**42,000**	**28.4%**	$	37,854	23.9%
Non-U.S.		**105,993**	**71.6**		120,725	76.1
Total						