

Hill International, Inc.
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to

Commission File Number: 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)
303 Lippincott Centre,
Marlton, NJ
(Address of principal executive offices)
20-0953973
(I.R.S. Employer
Identification No.)
08053
(Zip Code)
Registrant's telephone number, including area code: (856) 810-6200

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 (§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 No

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

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

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

There were 38,578,409 shares of the Registrant's Common Stock outstanding at May 1, 2012.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****HILL INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except share and per share data)**

	March 31, 2012 (unaudited)	December 31, 2011
Assets		
Cash and cash equivalents	\$ 24,698	\$ 17,924
Cash restricted	2,324	1,480
Accounts receivable, less allowance for doubtful accounts of \$8,982 and \$9,181	196,824	197,906
Accounts receivable affiliate	1,794	1,830
Prepaid expenses and other current assets	8,573	8,289
Income taxes receivable	2,707	1,688
Deferred income tax assets	1,763	2,716
Total current assets	238,683	231,833
Property and equipment, net	12,565	13,110
Cash restricted, net of current portion	5,763	6,281
Retainage receivable	3,217	4,434
Acquired intangibles, net	29,384	30,937
Goodwill	84,841	82,941
Investments	9,311	12,620
Deferred income tax assets	18,824	18,186
Other assets	6,399	7,170
Total assets	\$ 408,987	\$ 407,512
Liabilities and Stockholders Equity		
Due to bank	\$	\$ 1,299
Current maturities of notes payable	86,560	6,025
Accounts payable and accrued expenses	75,623	76,747
Income taxes payable	2,160	4,071
Deferred revenue	21,615	15,503
Deferred income taxes	340	337
Other current liabilities	5,742	4,818
Total current liabilities	192,040	108,800
Notes payable, net of current maturities	11,548	87,435
Retainage payable	3,484	5,512
Deferred income taxes	15,469	15,224
Deferred revenue	5,975	6,604
Other liabilities	11,460	11,543
Total liabilities	239,976	235,118

Commitments and contingencies

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Stockholders' equity:			
Preferred stock, \$0.0001 par value; 1,000,000 shares authorized, none issued			
Common stock, \$0.0001 par value; 75,000,000 shares authorized, 45,004,944 shares and 44,937,054 shares issued at March 31, 2012 and December 31, 2011, respectively			
	4		4
Additional paid-in capital	127,895		127,168
Retained earnings	66,890		73,626
Accumulated other comprehensive loss	(16,972)		(18,896)
	177,817		181,902
Less treasury stock of 6,433,651 shares, at cost	(27,766)		(27,766)
Hill International, Inc. share of equity	150,051		154,136
Noncontrolling interests	18,960		18,258
Total equity	169,011		172,394
Total liabilities and stockholders' equity	\$ 408,987	\$	407,512

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)****(Unaudited)**

	Three months ended March 31,	
	2012	2011
Consulting fee revenue	\$ 99,197	\$ 94,272
Reimbursable expenses	16,616	28,738
Total revenue	115,813	123,010
Cost of services	58,462	55,343
Reimbursable expenses	16,616	28,738
Total direct expenses	75,078	84,081
Gross profit	40,735	38,929
Selling, general and administrative expenses	43,472	44,226
Equity in earnings of affiliates		(4)
Operating loss	(2,737)	(5,293)
Interest expense and related financing fees, net	4,841	994
Loss before income taxes	(7,578)	(6,287)
Income tax benefit	(1,041)	(909)
Consolidated net loss	(6,537)	(5,378)
Less: net earnings noncontrolling interests	199	218
Net loss attributable to Hill International, Inc.	\$ (6,736)	\$ (5,596)
Basic loss per common share Hill International, Inc.	\$ (0.17)	\$ (0.15)
Basic weighted average common shares outstanding	38,526	38,276
Diluted loss per common share Hill International, Inc.	\$ (0.17)	\$ (0.15)
Diluted weighted average common shares outstanding	38,526	38,276

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 March 31,	
	2012	2011
Consolidated net loss	\$ (6,537)	\$ (5,378)
Foreign currency translation adjustment, net of tax	2,355	3,891
Other, net	72	199
Comprehensive loss	(4,110)	(1,288)
Comprehensive earnings attributable to noncontrolling interest	702	947
Comprehensive loss attributable to Hill International, Inc.	\$ (4,812)	\$ (2,235)

See accompanying notes to consolidated financial statements.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	Three months ended March 31,	
	2012	2011
Cash flows from operating activities:		
Consolidated net loss	\$ (6,537)	\$ (5,378)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,305	3,102
Equity in earnings of affiliates		(4)
Provision for bad debts	215	446
Deferred tax provision	397	640
Stock based compensation	634	617
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable	5,727	2,960
Accounts receivable affiliate	36	394
Prepaid expenses and other current assets	(87)	(2,375)
Income taxes receivable	(941)	2
Retainage receivable	1,217	(249)
Other assets	736	(296)
Accounts payable and accrued expenses	(2,650)	4,837
Income taxes payable	(2,179)	(3,262)
Deferred revenue	4,962	(556)
Other current liabilities	909	787
Retainage payable	(2,031)	(29)
Other liabilities	(209)	(2,124)
 Net cash provided by (used in) operating activities	 3,504	 (488)
Cash flows from investing activities:		
Purchase of business, net of cash acquired		(13,881)
Distributions from affiliate		273
Sale of investment	3,149	
Payments for purchase of property and equipment	(361)	(1,805)
Purchase of additional interest in subsidiary		(1,609)
 Net cash provided by (used in) investing activities	 2,788	 (17,022)
Cash flows from financing activities:		
Due to bank	(1,299)	(1,515)
Payments on notes payable	(605)	(4)
Net borrowings on revolving loans	4,036	8,934
Proceeds from stock issued under employee stock purchase plan	24	16
Proceeds from exercise of stock options	2	10
 Net cash provided by financing activities	 2,158	 7,441
 Effect of exchange rate changes on cash	 (1,676)	 (2,642)

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Net increase (decrease) in cash and cash equivalents	6,774	(12,711)
Cash and cash equivalents beginning of period	17,924	39,406
Cash and cash equivalents end of period	\$ 24,698	\$ 26,695

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 headquartered in Marlton, New Jersey that provides project management and construction claims services to clients 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.

Recent regional civil unrest and global economic conditions, including disruption of financial markets, has adversely affected the Company s business and results of operations, primarily by limiting its access to credit and disrupting its clients businesses. The reduction in financial institutions willingness or ability to lend has increased the cost of capital and reduced the availability of credit. In addition, continuation or worsening of general market conditions in the United States or other national economies important to its businesses may adversely affect its clients level of spending, ability to obtain financing, and ability to make timely payments to the Company for its services, which could require the Company to increase its allowance for doubtful accounts, negatively impact days sales outstanding and further adversely affect the Company s results of operations.

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, 2011. 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.

Table of Contents**Note 3 Accounts Receivable**

The components of accounts receivable are as follows:

<i>(in thousands)</i>	March 31, 2012	December 31, 2011
Billed	\$ 171,842	\$ 181,505
Retainage, current portion	4,795	3,960
Unbilled	29,169	21,622
	205,806	207,087
Allowance for doubtful accounts	(8,982)	(9,181)
	\$ 196,824	\$ 197,906

At March 31, 2012, the accounts receivable related to the work performed prior to March 2011 under contracts in Libya amounted to \$59,838,000. Due to the current political and economic uncertainty in Libya, the Company is unable to determine the effect this situation will have on our ability to collect this receivable. Management believes that the amount due will be collected, however, if future events preclude the Company's ability to do so, there could be a significant adverse impact on its results of operations and liquidity.

Note 4 Intangible Assets

The following table summarizes the Company's acquired intangible assets:

<i>(in thousands)</i>	March 31, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$ 34,892	\$ 11,243	\$ 34,040	\$ 9,942
Acquired contract rights	9,288	5,482	13,096	8,244
Trade names	2,792	863	3,378	1,391
Total	\$ 46,972	\$ 17,588	\$ 50,514	\$ 19,577
Intangible assets, net	\$ 29,384		\$ 30,937	

Amortization expense related to intangible assets totaled \$2,194,000 and \$1,961,000 for the three-months ended March 31, 2012 and 2011, respectively. The following table presents the estimated amortization expense based on our present intangible assets for the next five years:

Year ending December 31,	Estimated amortization expense <i>(in thousands)</i>
2012 (remaining 9 months)	\$ 5,637
2013	5,071
2014	3,969
2015	3,629

Table of Contents**Note 5 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, 2011 and noted no impairment for either of its reporting units. In the future, the Company will continue to perform the annual test during its fiscal third quarter unless events or circumstances indicate an impairment may have occurred before that time.

The following table summarizes the changes in the Company's carrying value of goodwill during 2012 (in thousands):

	Project Management	Construction Claims	Total
Balance, December 31, 2011	\$ 56,896	\$ 26,045	\$ 82,941
Translation adjustments	1,342	558	1,900
Balance, March 31, 2012	\$ 58,238	\$ 26,603	\$ 84,841

Note 6 Accounts Payable and Accrued Expenses

Below are the components of accounts payable and accrued expenses:

<i>(in thousands)</i>	March 31, 2012	December 31, 2011
Accounts payable	\$ 17,720	\$ 25,541
Accrued payroll	27,236	24,431
Accrued subcontractor fees	7,560	2,647
Accrued agency fees	15,438	15,336
Accrued legal and professional fees	2,656	2,887
Other accrued expenses	5,013	5,905
	\$ 75,623	\$ 76,747

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Note 7 Notes Payable

Outstanding debt obligations are as follows:

	March 31, 2012	December 31, 2011
	<i>(in thousands)</i>	
Revolving credit loan payable. The weighted average interest rate of all borrowings was 7.00% and 6.75% at March 31, 2012 and December 31, 2011, respectively. (For more information, see below.)	\$ 80,000	\$ 77,000
Revolving credit loan payable to Barclays Bank PLC up to £500,000 (approximately \$801,000 and \$776,000 at March 31, 2012 and December 31, 2011, respectively), with interest at 2.00% plus the Bank of England rate of 0.50% (or 2.50%) at both March 31, 2012 and December 31, 2011, respectively, collateralized by cross guarantees of all United Kingdom companies. Aggregate of all debt owing to the bank will be, at all times, covered by a minimum of three times the aggregate value of the UK accounts receivable less than 90 days old and excluding the amounts receivable from any associate or subsidiary company. The loan has an indeterminate term and is subject to annual review by the bank.	149	
Unsecured credit facility with the Caja Badajoz in Spain for 1,500,000 (approximately \$2,001,000 and \$1,944,000 at March 31, 2012 and December 31, 2011, respectively) of which 385,000 (approximately \$514,000) was outstanding at March 31, 2012. The interest rate at March 31, 2012 is the three-month EURIBOR rate of 1.42% plus 3.00% (or 4.42%). The interest rate at December 31, 2011 was the three-month EURIBOR rate of 1.94% plus 3.00% (or 4.94%).	514	
Revolving credit facilities with a consortium of banks in Spain providing for total borrowings of up to 4,870,000 (approximately \$6,498,000 and \$6,311,000 at March 31, 2012 and December 31, 2011, respectively). The stated interest rate is 6.50%. (For more information, see below.)	4,653	4,301
Credit facility with the National Bank of Abu Dhabi providing for total borrowings of up to AED11,500,000 (approximately \$3,131,000 at both March 31, 2012 and December 31, 2011, respectively), collateralized by certain overseas receivables. The interest rate is the three-month Emirates InterBank Offer Rate of 1.52% and 1.51% at March 31, 2012 and December 31, 2011, respectively plus 3.00%, (or 4.52% and 4.51% at March 31, 2012 and December 31, 2011, respectively) but no less than 5.50%. The amount outstanding on this facility was AED9,670,000 and AED8,301,000 at March 31, 2012 and December 31, 2011, respectively. This facility is being renewed on a month-to-month basis. (For more information, see below.)	2,634	2,260
Payments due for the Engineering S.A. acquisition.	9,633	9,236
Other notes payable	525	663
	98,108	93,460
Less current maturities	86,560	6,025
Notes payable, net of current maturities	\$ 11,548	\$ 87,435

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The Company maintains a credit facility pursuant to the terms of a credit agreement (the "Credit Agreement") dated as of June 30, 2009 among the Company and Bank of America, N.A., Capital One, N.A., The PrivateBank and Trust Company and PNC Bank N.A. (the "Lenders") with Bank of America, N.A. acting as Agent.

During 2011, the Company was in violation of certain of the financial covenants and subsequently entered into a series of waivers, forbearance agreements and amendments to the Credit Agreement, most recently on March 6, 2012. In connection with the amendment dated March 6, 2012, the Company incurred fees amounting to approximately \$2,075,000 which were charged to interest expense and related financing fees, net in the quarter ended March 31, 2012.

The Credit Agreement, as amended, provides for borrowings of up to \$100,000,000 with a letter of credit sub-facility of up to \$35,000,000 (the "Aggregate Commitments"). Obligations under the Credit Agreement are collateralized by all of the Company's assets, including, without limitation, accounts receivable, equipment, securities, financial assets and the proceeds of the foregoing, as well as by a pledge of 65% of the outstanding capital stock of its wholly owned subsidiary, Hill International N.V. Additionally, the Credit Agreement prohibits the Company from making new investments or acquisitions, limits the amount of cash the Company may accumulate, prohibits the payment of dividends and requires the Company to take certain actions, including providing additional monthly reporting to the Lenders. Borrowings outstanding under the Credit Agreement will bear interest at a fluctuating rate per annum equal to the sum of (a) the highest of (i) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50%, (ii) the Bank of America prime rate or (iii) the Eurodollar Rate plus 1.00%, plus (b) an Applicable Rate which may vary between 0.75% and 4.75% depending on the Company's consolidated leverage ratio at the time of the borrowing. Also, no Lender may issue a Letter of Credit with an expiration date after March 31, 2014 without the approval by all Lenders, and the total amount available to be drawn under all Letters of Credit expiring after March 31, 2013 is limited to \$27,500,000 without approval by all Lenders.

Among other things, the Company is required to comply with the following financial covenants:

(a) the consolidated leverage ratio for (i) each period ending June 30, 2012, September 30, 2012 and December 31, 2012 will not be greater than 7.00 to 1.00; (ii) the period ending March 31, 2013 will not be greater than 4.25 to 1.00; (iii) the period ending June 30, 2013 will not be greater than 4.00 to 1.00; (iv) the period ending September 30, 2013 will not be greater than 3.75 to 1.00; and (v) the periods ending on or after December 31, 2013 will not be greater than 3.50 to 1.00;

(b) the consolidated fixed charge coverage ratio for (i) the two quarters ending March 31, 2012 and the three quarters ending June 30, 2012 will not be less than 1.00 to 1.00 and (ii) for the periods ending on or after September 30, 2012 will not be less than 1.25 to 1.00; and

(c) the consolidated funded indebtedness ratio will not be less than 0.65 to 1.00.

The Credit Agreement, as amended, requires that 100% of the first \$25,000,000 of proceeds from the sale of our equity interests plus 50% of all of these proceeds in excess of \$50,000,000 plus 50% of the Net Libya Receivable (as defined in the Second Amendment) plus 50% of any payments or distributions to us from HillStone shall be applied to reduce the Aggregate Commitments, but not below \$60,000,000. By March 31, 2013, the Aggregate Commitments must be no greater than \$75,000,000. The Company paid an amendment fee equal to 0.15% of the Aggregate Commitments on March 6, 2012 and must pay a subsequent amendment fee equal to 1.0% of the Aggregate Commitments on April 15, 2013 and a deferred fee (the "Deferred Fee") equal to 2.0% of the total amounts outstanding (borrowings plus letters of credit). The Deferred Fee will accrue from March 6, 2012 and is payable on the earlier to occur of (x) the date the Aggregate Commitments are reduced to \$75,000,000, (y) the date of the occurrence of an event of default (other than the Designated Defaults) and (z) the maturity date.

As of March 31, 2012, the Company was in violation of financial covenants (b) and (c) above. Accordingly, the Company has classified all borrowings under the Credit Agreement as current in the consolidated balance sheet at March 31, 2012. The Company is in discussions with the Lenders regarding the Credit Facility.

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As of March 31, 2012, the Company had \$16,518,000 in outstanding letters of credit. Due to conditions of the Credit Agreement, as amended, total remaining availability at March 31, 2012 was \$3,482,000.

The Company's subsidiary, Gerens Hill, maintains a revolving credit facility with 12 banks (the Financing Entities) in Spain providing for total borrowings with interest at 6.50% of up to 4,870,000 (approximately \$6,498,000 and \$6,311,000 at March 31, 2012 and December 31, 2011, respectively), of which 3,488,000 (approximately \$4,653,000) and 3,319,000 (approximately \$4,301,000) were utilized at March 31, 2012 and December 31, 2011, respectively. The total amount being financed (Credit Contracts) by each Financing Entity is between 353,000 (approximately \$471,000) and 689,000 (approximately \$919,000). The facility expires on December 17, 2016. The maximum available amount will be reduced to 75.0% at December 31, 2014 and 50.0% at December 31, 2015. To guarantee Gerens Hill's obligations resulting from the Credit Contracts, Gerens Hill provided a guarantee in favor of each 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 Participações 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 credit facility with the National Bank of Abu Dhabi also allows for up to AED150,000,000 (approximately \$40,838,000 at both March 31, 2012 and December 31, 2011) in Letters of Guarantee of which AED122,110,000 and AED132,133,000 (approximately \$33,245,000 and \$35,973,000, respectively) were utilized at March 31, 2012 and December 31, 2011, respectively.

The Company also maintains a revolving credit loan payable with a European bank up to 1,000,000 (approximately \$1,334,000 and \$1,296,000 at March 31, 2012 and December 31, 2011, respectively), with interest rates at 0.99% and 1.48% plus Egnatia Bank's prime rate of 5.00% (or 5.99%) at March 31, 2012 and 5.00% (or 6.48%) at December 31, 2011, collateralized by certain assets of the Company. The facility also allows for letters of guarantee up to 4,500,000 (approximately \$6,004,000 and \$5,832,000 at March 31, 2012 and December 31, 2011, respectively), of which 869,000 (approximately \$1,159,000) and 1,270,000 (approximately \$1,645,000) had been utilized at March 31, 2012 and December 31, 2011, respectively. The facility expiration date has been extended to May 31, 2012. The Company expects that the facility expiration date will be further extended to April 30, 2013 and is awaiting final approval from the bank.

Engineering S.A. maintains three revolving credit lines with two banks in Brazil for 1,700,000, 200,000 and 1,000,000 Brazilian Reais (approximately \$930,000, \$109,000 and \$547,000, respectively, at March 31, 2012), with monthly interest rates of 2.87%, 5.30% and 2.75%, respectively. There were no borrowings outstanding on any of these facilities at March 31, 2012 which are renewed automatically every three months.

In connection with the acquisition of Engineering S.A., the Company incurred indebtedness to the sellers amounting to 17,200,000 Brazilian Reais (approximately \$10,376,000 at the date of acquisition) and has discounted that amount using an interest rate of 4.72%, the weighted average interest rate at that time. The discounted amounts at March 31, 2012 and December 31, 2012 were \$9,633,000 and \$9,236,000, respectively.

Note 8 Supplemental Cash Flow Information

The following table provides additional cash flow information:

<i>(in thousands)</i>	Three months ended March 31,	
	2012	2011
Interest and related financing fees paid	\$ 4,679	\$ 712
Income taxes paid	\$ 1,374	\$ 1,043

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Note 9 Equity in Earnings of Affiliates

Equity in earnings of affiliates reflects the Company's ownership of 50.0% of the members' equity of Hill TMG.

Hill TMG was a joint venture formed in May 2008 between Talaat Moustafa Group Holding Co. (TMG) and Hill. Hill TMG was managing the construction of several of TMG's largest developments in Egypt and elsewhere in the Middle East.

At March 31, 2012 and December 31, 2011, the Company reported receivables totaling \$1,394,000 and \$1,679,000, respectively, for work performed by the Company as a subcontractor to Hill TMG. Such amounts are payable in accordance with the subcontract agreement between the Company and Hill TMG.

Revenue from Hill TMG pursuant to such subcontract agreement for the three-month periods ended March 31, 2012 and 2011 was \$0 and \$79,000, respectively.

Note 10 Loss per Share

Basic loss per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted loss per common share incorporates the incremental shares issuable upon the assumed exercise of stock options, if dilutive. Stock options were excluded from the calculation of diluted loss per common share because their effect was antidilutive for both of the three-month periods ended March 31, 2012 and 2011. The total number of such shares excluded from diluted loss per common share was 3,943,290 shares and 2,396,944 shares for the three-month periods ended March 31, 2012 and 2011, respectively.

Note 11 Share-Based Compensation

At March 31, 2012, the Company had 4,623,741 options outstanding with a weighted average exercise price of \$5.29. During the three-month period ended March 31, 2012, the Company granted 880,200 options which vest over a four-year period, have a weighted average exercise price of \$5.47 and a weighted-average contractual life of 5.00 years. The aggregate fair value of the options was \$2,350,000 calculated using the Black-Scholes valuation model. The weighted average assumptions used to calculate fair value were: expected life 3.75 years; volatility 78.4% and risk-free interest rate 0.85%. During the three-month period ended March 31, 2012, options for 1,000 shares with a weighted average exercise price of \$2.45 were exercised, options for 17,000 shares with a weighted average exercise price of \$4.99 were forfeited and options for 60,000 shares with a weighted average exercise price of \$8.14 lapsed.

During the three-month period ended March 31, 2012, the Company issued 60,000 shares of restricted common stock to certain of its officers under the Company's 2007 Restricted Stock Grant Plan.

During the three-month period ended March 31, 2012, employees purchased 6,890 common shares, for an aggregate purchase price of \$28,000, 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 \$634,000 and \$617,000 for the three-month periods ended March 31, 2012 and 2011, respectively.

Note 12 Stockholders' Equity

On November 10, 2008, the Board of Directors approved a stock repurchase program whereby the Company could purchase shares of its common stock up to a total purchase price of \$20,000,000. On August 4, 2009, the Board of Directors amended the stock repurchase program to increase the authorized amount to \$40,000,000. On March 7, 2011, the Board of Directors approved an increase in the Stock Repurchase Program to \$60,000,000 and extended the program to December 31, 2012. Through March 31, 2012, the Company has purchased 5,834,369 shares of its common stock under this program for an aggregate purchase price of \$24,438,000, or

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\$4.19 per share. Under the terms of its Credit Agreement (see Note 7), the Company is prohibited from making any further repurchases of its common stock without the written consent of the Lenders.

The following table summarizes the changes in stockholders' equity during the three months ended March 31, 2012:

	Total	Hill International, Inc. stockholders	Noncontrolling interests
Stockholders' equity, December 31, 2011	\$ 172,394	\$ 154,136	\$ 18,258
Net (loss) earnings	(6,537)	(6,736)	199
Other comprehensive loss	2,427	1,924	503
Comprehensive (loss) earnings	(4,110)	(4,812)	702
Additional paid in capital	727	727	
Stockholders' equity, March 31, 2012	\$ 169,011	\$ 150,051	\$ 18,960

Note 13 Income Taxes

During the three-month periods ended March 31, 2012 and 2011, there was no change in the reserve for uncertain tax positions. The reserves for uncertain tax positions amounted to \$5,386,000 and \$6,289,000 at March 31, 2012 and 2011, respectively, and are included in Other Liabilities in the consolidated balance sheets.

The Company's policy is to record income tax related interest and penalties in income tax expense. At March 31, 2012, potential interest and penalties related to uncertain tax positions amounting to \$100,000 was included in the balance above.

The effective tax rates for the three-month periods ended March 31, 2012 and 2011 were 13.7% and 14.5%, respectively. For both periods, the tax rates are low because a substantial portion of the Company's profit comes from foreign operations which are taxed at lower rates, if at all, and because of the financial reporting requirements related to noncontrolling interest in pass-through entities that requires the income tax expense on the pass-through entity's pretax income attributable to the noncontrolling interest be excluded from consolidated income tax expense.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion of 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. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, with the exception of foreign net operating losses. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

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, North 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

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management, project management oversight, troubled project turnaround, staff augmentation, estimating and cost management, project labor agreement consulting and management consulting services.

The Construction Claims business segment provides such services as claims preparation, analysis and review, litigation support, cost/damages assessment, delay/disruption analysis, contract review and adjudication, risk assessment, lender advisory and expert witness testimony 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 disclosures for the Company's reportable segments (in thousands):

Consulting Fee Revenue (CFR)

	Three months ended March 31, 2012		2011	
Project Management	\$ 73,141	73.7%	\$ 69,848	74.1%
Construction Claims	26,056	26.3	24,424	25.9
Total	\$ 99,197	100.0%	\$ 94,272	100.0%

Total Revenue:

	Three months ended March 31, 2012		2011	
Project Management	\$ 89,038	76.9%	\$ 97,924	79.6%
Construction Claims	26,775	23.1	25,086	20.4
Total	\$ 115,813	100.0%	\$ 123,010	100.0%

Operating Profit (Loss):

	Three months ended March 31, 2012		2011	
Project Management before equity in earnings of affiliates	\$ 3,555		\$ 2,753	
Equity in earnings of affiliates				4
Total Project Management	3,555		2,757	
Construction Claims	1,180		(735)	
Corporate Expenses	(7,472)		(7,315)	
Total	\$ (2,737)		\$ (5,293)	

Depreciation and Amortization Expense:

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	Three months ended March 31,	
	2012	2011
Project Management	\$ 2,459	\$ 2,220
Construction Claims	801	830
Subtotal segments	3,260	3,050
Corporate	45	52
Total	\$ 3,305	\$ 3,102

Table of Contents*Consulting Fee Revenue by Geographic Region:*

	Three months ended March 31,			
	2012		2011	
U.S./Canada	\$ 28,535	28.8%	\$ 27,852	29.5%
Latin America	13,532	13.6	4,090	4.4
Europe	21,598	21.8	21,812	23.1
Middle East	28,999	29.2	25,761	27.3
North Africa	2,595	2.6	10,463	11.1
Asia/Pacific	3,938	4.0	4,294	4.6
Total	\$ 99,197	100.0%	\$ 94,272	100.0%
U.S.	\$ 27,663	27.9%	\$ 27,203	28.9%
Non-U.S.	71,534	72.1	67,069	71.1
Total	\$ 99,197	100.0%	\$ 94,272	100.0%

Total Revenue by Geographic Region:

	Three months ended March 31,			
	2012		2011	
U.S./Canada	\$ 42,165	36.4%	\$ 54,292	44.1%
Latin America	13,639	11.8	4,099	3.3
Europe	23,272	20.1	22,935	18.6
Middle East	29,834	25.7	26,224	21.3
North Africa	2,973	2.6	10,928	8.9
Asia/Pacific	3,930	3.4	4,532	3.8
Total	\$ 115,813	100.0%	\$ 123,010	100.0%
U.S.	\$ 41,280	35.6%	\$ 53,643	43.6%
Non-U.S.	74,533	64.4	69,367	56.4
Total	\$ 115,813	100.0%	\$ 123,010	100.0%

Table of Contents*Consulting Fee Revenue By Client Type:*

	Three months ended March 31,			
	2012		2011	
U.S. federal government	\$ 2,958	3.0%	\$ 3,334	3.5%
U.S. state, local and regional government	14,952	15.1	14,156	15.0
Foreign government	21,194	21.4	25,118	26.6
Private sector	60,093	60.5	51,664	54.9
Total	\$ 99,197	100.0%	\$ 94,272	100.0%

Total Revenue By Client Type:

	Three months ended March 31,			
	2012		2011	
U.S. federal government	\$ 3,560	3.1%	\$ 3,823	3.1%
U.S. state, local and regional government	19,981	17.3	40,749	33.1
Foreign government	22,931	19.8	26,628	21.6
Private sector	69,341	59.8	51,810	42.2
Total	\$ 115,813	100.0%	\$ 123,010	100.0%

Property, Plant and Equipment, Net by Geographic Location:

	March 31, 2012	December 31, 2011
U.S./Canada	\$ 5,411	\$ 6,070
Latin America	1,748	1,804
Europe	2,260	2,088
Middle East	2,387	2,371
North Africa	261	284
Asia/Pacific	498	493
Total	\$ 12,565	\$ 13,110
U.S.	\$ 5,403	\$ 6,061
Non-U.S.	7,162	7,049
Total	\$ 12,565	\$ 13,110

Note 15 Concentrations

The Company had no clients that accounted for 10% or more of total revenue for the three-month period ended March 31, 2012 and one client that accounted for 18% of total revenue for the three-month period ended March 31, 2011.

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The Company had no clients that accounted for 10% or more of consulting fee revenue in the three-month periods ended March 31, 2012 and 2011.

One client, located in Libya, accounted for 28% of accounts receivable at both March 31, 2012 and December 31, 2011.

The Company has numerous contracts with U.S. federal government agencies that collectively accounted for 3% of total revenue during each of the three-month periods ended March 31, 2012 and 2011.

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Note 16 Commitments and Contingencies

General Litigation

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.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We make forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We use forward-looking words such as may, expect, anticipate, contemplate, believe, estimate, intend, and continue or similar words. You should read statements that contain these words carefully because they discuss future expectations, contain projections of future results of operations or financial condition or state other forward-looking information. However, there may be events in the future that we are not able to predict accurately or over which we have no control. Examples of risks, uncertainties and events that may cause actual results to differ materially from the expectations described by us in such forward-looking statements include those described in Part I, Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission on March 12, 2012 (the 2011 Annual Report). You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. All forward-looking statements included herein attributable to us are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except to the extent required by applicable laws and regulations, we undertake no obligations to update these forward-looking statements.

References to the Company, we, us, and our refer to Hill International, Inc. and its subsidiaries.

We provide project management and construction claims services to clients worldwide, but primarily in the U.S./Canada, Latin America, Europe, the Middle East, North Africa and Asia/Pacific. Our clients include the United States and other national governments and their agencies, state and local governments and their agencies, and the private sector. Hill is organized into two key operating segments: the Project Management Group and the Construction Claims Group.

We are one of the leading firms in the world in both the project management and construction claims consulting businesses. We are a global company with approximately 3,200 employees operating from 110 offices in more than 30 countries.

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, estimating and cost management, project labor agreement consulting and management consulting services.

The Construction Claims business segment provides such services as claims preparation, analysis and review, litigation support, cost/damages assessment, delay/disruption analysis, contract review and adjudication, risk assessment, lender advisory and expert witness testimony services to clients worldwide.

HillStone International, LLC (HillStone) is a strategic technologies distribution and construction project development company. As a majority-owned subsidiary of the Company, HillStone intends to develop private and public ventures for the implementation of affordable, durable and environmentally sound housing technologies in regions of the world where housing solutions are a high priority of various governmental and private interests. HillStone has not been shown separately within our financial statements as it does not have any revenues to date. Its costs, which are not material, have been included within the Corporate segment. However, for purposes of this report, we have shown the backlog attributable to HillStone as a separate line item within the backlog table on page 29.

We derive our revenues from fees for professional services. As a service company we are labor intensive rather than capital intensive. Our revenue is driven by our ability to attract and retain qualified and productive employees, identify business opportunities, secure new and renew existing client contracts, provide outstanding services to our clients and execute projects successfully. Our income from operations is derived from our ability to generate revenue and collect cash under our contracts in excess of direct labor and other direct costs of executing the projects, subcontractors and other reimbursable costs and selling, general and administrative costs.

In addition, we believe there are high barriers to entry for new competitors, especially in the project management market. We compete for business based on reputation and past experience, including client requirements for substantial similar project and claims work. We have developed significant long-standing relationships which bring us repeat business and

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would be very difficult to replicate. We have an excellent reputation for developing and rewarding employees, which allows us to attract and retain superior professionals.

Recent regional civil unrest and global economic conditions, including disruption of financial markets, has adversely affected 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. In addition, continuation or worsening of general market conditions in the United States 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 and adversely affect our results of operations.

Critical Accounting Policies

The Company's interim financial statements were prepared in accordance with United States generally accepted accounting principles, which require management to make subjective decisions, assessments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the judgment increases, such judgments become even more subjective. While management believes its assumptions are reasonable and appropriate, actual results may be materially different than estimated. The critical accounting estimates and assumptions have not materially changed from those identified in the Company's 2011 Annual Report.

We operate through two segments: the Project Management Group and the Construction Claims Group. Reimbursable expenses are reflected in equal amounts in both total revenue and total direct expenses. Because these revenues/costs are subject to significant fluctuation from year to year, we measure the performance of many of our key operating metrics as a percentage of consulting fee revenue (CFR), as we believe that this is a better and more consistent measure of operating performance than total revenue.

Table of Contents**Three Months Ended March 31, 2012 Compared to****Three Months Ended March 31, 2011****Results of Operations****Consulting Fee Revenue (CFR)**

<i>(in thousands)</i>	Three months ended March 31,				Change	
	2012		2011			
Project Management	\$ 73,141	73.7%	\$ 69,848	74.1%	\$ 3,293	4.7%
Construction Claims	26,056	26.3	24,424	25.9	1,632	6.7
Total	\$ 99,197	100.0%	\$ 94,272	100.0%	\$ 4,925	5.2%

Hill's CFR increased \$4,925,000 to \$99,197,000 in the first quarter of 2012 from \$94,272,000 in the first quarter of 2011. This was comprised of an increase of 8.2% from the acquisition of Engineering, S.A. in Brazil partially offset by an organic decrease of 3.0% primarily due to the decrease in Libya.

During the first quarter of 2012, Hill's project management CFR increase of 4.7% included an increase of 11.0% due to the acquisition of Engineering S.A., partially offset by an organic decrease of 6.3% primarily in Libya and the UAE. The increase in project management CFR consisted of a \$2,926,000 increase in foreign projects and an increase of \$367,000 in domestic projects. The increase in foreign project management CFR was primarily due to an increase of \$8,489,000 in Brazil, where Engineering S.A. was acquired at the end of February 2011 and an increase of \$3,953,000 due to new work in Saudi Arabia. These increases were partially offset by a decrease of \$7,951,000 in Libya where work stopped in February 2011 due to political unrest. The increase in domestic project management CFR was due to an increase in our Mid-Atlantic region partially offset by a decrease in our Washington D.C. region.

During the first quarter of 2012, Hill's construction claims CFR increase of 6.7% was all organic and primarily resulted from increases in the United Kingdom and the United States.

Reimbursable Expenses

<i>(in thousands)</i>	Three months ended March 31,				Change	
	2012		2011			
Project Management	\$ 15,896	95.7%	\$ 28,076	97.7%	\$ (12,180)	(43.4)%
Construction Claims	720	4.3	662	2.3	58	8.8
Total	\$ 16,616	100.0%	\$ 28,738	100.0%	\$ (12,122)	(42.2)%

Reimbursable expenses consist of amounts paid to subcontractors and other third parties and travel and other job-related expenses that are contractually reimbursable from clients. These items are reflected as separate line items in both our revenue and cost of services captions in our consolidated statements of earnings. The decrease in project management reimbursable expenses was due primarily to decreased use of subcontractors of \$11,199,000 in our Northeast region.

Table of Contents**Cost of Services**

	Three months ended March 31,						Change		
	2012		2011						
		% of CFR		% of CFR					
<i>(in thousands)</i>									
Project Management	\$ 46,649	79.8%	63.8%	\$ 43,611	78.8%	62.4%	\$ 3,038	7.0%	
Construction Claims	11,813	20.2	45.3	11,732	21.2	48.0	81	0.7	
Total	\$ 58,462	100.0%	58.9%	\$ 55,343	100.0%	58.7%	\$ 3,119	5.6%	

Cost of services consists of labor expenses for time charged directly to contracts and non-reimbursable job related travel and out-of-pocket expenses. The increase in project management cost of services is primarily due to increases in Brazil, Saudi Arabia and our Western region in support of the increased revenue in those areas, partially offset by a decrease in Libya.

The increase in the cost of services for construction claims was due primarily to increases in direct costs in the United States and the United Kingdom partially offset by decreases in the Middle East and Australia.

Gross Profit

	Three months ended March 31,						Change		
	2012		2011						
		% of CFR		% of CFR					
<i>(in thousands)</i>									
Project Management	\$ 26,492	65.0%	36.2%	\$ 26,237	67.4%	37.6%	\$ 255	1.0%	
Construction Claims	14,243	35.0	54.7	12,692	32.6	52.0	1,551	12.2	
Total	\$ 40,735	100.0%	41.1%	\$ 38,929	100.0%	41.3%	\$ 1,806	4.6%	

The increase in project management gross profit included an increase of \$251,000 from international operations including increases of \$3,870,000 from Brazil and \$683,000 from the Middle East, primarily Saudi Arabia, partially offset by decreases of \$3,463,000 from Libya and \$560,000 from the United Kingdom.

The increase in construction claims gross profit of \$1,551,000 was driven by increases of \$1,537,000 from the United Kingdom and \$428,000 from the Middle East partially offset by a decrease of \$400,000 from Asia/Pacific where some large assignments were concluded.

Selling, General and Administrative (SG&A) Expenses

	Three months ended March 31,				Change	
	2012		2011			
		% of CFR		% of CFR		
<i>(in thousands)</i>						
SG&A Expenses	\$ 43,472	43.8%	\$ 44,226	46.9%	\$ (754)	(1.7)%

The decrease in SG&A of \$754,000 included net organic decreases of \$3,563,000 offset by an increase of \$2,809,000 from Engineering S.A. which was acquired in February 2011.

The significant components of the change in SG&A are as follows:

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A decrease in unapplied and indirect labor expense of \$51,000 including decreases of \$795,000 in U.S. project management and \$767,000 in Europe project management partially offset by an increase of \$1,263,000 in Brazil.

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A decrease of \$441,000 in administrative travel costs primarily due to cost cutting efforts in reducing non-essential travel.

A decrease of \$346,000 in rent expense due to the closure of a Northern New Jersey office in early 2011 offset by a temporary overlapping of rental costs in the United Kingdom during an office relocation during the first quarter of 2011.

A decrease of \$231,000 in bad debt expense due primarily to a reduction in reserves accrued in the first quarter of 2011 for Washington D.C. and the United Kingdom construction claims group.

An increase of \$233,000 in amortization expense due to an increase of \$589,000 for Engineering S.A. partially offset by a decrease of \$243,000 for Euromost (Poland) and \$101,000 for TRS Consultants (Northern California).

Operating Profit (Loss):

	Three months ended March 31,				Change	
	2012	% of CFR	2011	% of CFR		
<i>(in thousands)</i>						
Project Management before equity in earnings of affiliates	\$ 3,555	4.9%	\$ 2,753	3.9%	\$ 802	29.1%
Equity in earnings of affiliates			4		(4)	(100.0)
Total Project Management	3,555	4.9	2,757	3.9	798	28.9
Construction Claims	1,180	4.5	(735)	(3.0)	1,915	(260.5)
Corporate	(7,472)		(7,315)		(157)	2.1
Total	\$ (2,737)	(2.8)%	\$ (5,293)	(5.6)%	\$ 2,556	(48.3)%

Operating loss improved by \$2,556,000 during the first quarter of 2012 compared to the first quarter of 2011. This was due primarily to an increase in the Construction Claims operating profit of \$1,915,000 and an increase in Project Management operating profit of \$798,000.

The increase in Project Management operating profit included increases of \$1,249,000 in Brazil, \$1,151,000 in the U.S., \$874,000 in the Middle East, primarily Saudi Arabia, and \$375,000 in Asia/Pacific. These increases were partially offset by a decrease of \$3,171,000 in Libya.

The increase in operating profit for the Construction Claims group was primarily due to an increase of \$2,586,000 in the United Kingdom and \$220,000 in the Americas partially offset by a decrease of \$1,165,000 in Australia.

Corporate costs were held to an increase of \$157,000 over the prior year with increases in accounting fees, due primarily to first quarter work on the Brazil audit, and increases in Information Technology related costs including licenses, maintenance and depreciation.

Interest Expense and Related Financing Fees, net

This item increased \$3,847,000 to \$4,841,000 in the three-month period ended March 31, 2012 as compared with \$994,000 in three-month period ended March 31, 2011, primarily due to higher levels of debt outstanding and higher interest rates, including the forbearance agreement fees, amended Credit Agreement fees and related legal and advisory fees amounting to \$2,075,000.

Income Taxes

For the three-month periods ended March 31, 2012 and 2011 we recognized net tax benefits of \$1,041,000 and \$909,000, respectively. The tax benefits were related to the pre-tax loss generated in those quarters.

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The effective income tax rates for the three-month periods ended March 31, 2012 and 2011 were 13.7% and 14.5%, respectively. The Company's effective income tax rate continues to remain low since a substantial portion of its profit comes from foreign operations which are taxed at lower rates, if at all, and because of the financial reporting requirements related to noncontrolling interest in pass-through entities that requires the income tax expense on the pass-through entity's pretax income attributable to the noncontrolling interest holders be excluded from consolidated income tax expense.

Net Loss

The net loss attributable to Hill International, Inc. for the quarter ended March 31, 2012 was (\$6,736,000) or (\$0.17) per diluted common share based upon 38,526,000 diluted common shares outstanding, as compared to a net loss for the first quarter ended March 31, 2011 of (\$5,596,000) or (\$0.15) per diluted common share based upon 38,276,000 diluted common shares outstanding.

Liquidity and Capital Resources

We have historically funded our business activities with cash flow from operations and borrowings under various credit facilities.

Credit Facilities

The Company maintains a credit facility pursuant to the terms of a credit agreement (the "Credit Agreement") dated as of June 30, 2009 among the Company and Bank of America, N.A., Capital One, N.A., The PrivateBank and Trust Company and PNC Bank N.A. (the "Lenders") with Bank of America, N.A. acting as Agent.

During 2011, the Company was in violation of certain of the financial covenants and subsequently entered into a series of waivers, forbearance agreements and amendments to the Credit Agreement, most recently on March 6, 2012. In connection with the amendment dated March 6, 2012, the Company incurred fees amounting to approximately \$2,075,000 which were charged to expense in the quarter ended March 31, 2012.

The Credit Agreement, as amended, provides for borrowings of up to \$100,000,000 with a letter of credit sub-facility of up to \$35,000,000 (the "Aggregate Commitments"). Obligations under the Credit Agreement are collateralized by all of the Company's assets, including, without limitation, accounts receivable, equipment, securities, financial assets and the proceeds of the foregoing, as well as by a pledge of 65% of the outstanding capital stock of its wholly owned subsidiary, Hill International N.V. Additionally, the Credit Agreement prohibits the Company from making new investments or acquisitions, limits the amount of cash the Company may accumulate, prohibits the payment of dividends and requires the Company to take certain actions, including providing additional monthly reporting to the Lenders. Borrowings outstanding under the Credit Agreement will bear interest at a fluctuating rate per annum equal to the sum of (a) the highest of (i) the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50%, (ii) the Bank of America prime rate or (iii) the Eurodollar Rate plus 1.00%, plus (b) an Applicable Rate which may vary between 0.75% and 4.75% depending on the Company's consolidated leverage ratio at the time of the borrowing. Also, no Lender may issue a Letter of Credit with an expiration date after March 31, 2014 without the approval by all Lenders, and the total amount available to be drawn under all Letters of Credit expiring after March 31, 2013 is limited to \$27,500,000 without approval by all Lenders.

Among other things, the Company is required to comply with the following financial covenants:

(a) the consolidated leverage ratio for (i) each period ending June 30, 2012, September 30, 2012 and December 31, 2012 will not be greater than 7.00 to 1.00; (ii) the period ending March 31, 2013 will not be greater than 4.25 to 1.00; (iii) the period ending June 30, 2013 will not be greater than 4.00 to 1.00; (iv) the period ending September 30, 2013 will not be greater than 3.75 to 1.00; and (v) the periods ending on or after December 31, 2013 will not be greater than 3.50 to 1.00;

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(b) the consolidated fixed charge coverage ratio for (i) the two quarters ending March 31, 2012 and the three quarters ending June 30, 2012 will not be less than 1.00 to 1.00 and (ii) for the periods ending on or after September 30, 2012 will not be less than 1.25 to 1.00; and

(c) the consolidated funded indebtedness ratio will not be less than 0.65 to 1.00.

The Credit Agreement, as amended, requires that 100% of the first \$25,000,000 of proceeds from the sale of any equity interests plus 50% of any of these proceeds in excess of \$50,000,000 plus 50% of the Net Libya Receivable (as defined in the Second Amendment) plus 50% of any payments or distributions to us from HillStone shall be applied to reduce the Aggregate Commitments, but not below \$60,000,000. By March 31, 2013, the Aggregate Commitments must be no greater than \$75,000,000. The Company paid an amendment fee equal to 0.15% of the Aggregate Commitments on March 6, 2012 and must pay a subsequent amendment fee equal to 1.0% of the Aggregate Commitments on April 15, 2013 and a deferred fee (the Deferred Fee) equal to 2.0% of the total amounts outstanding (borrowings plus letters of credit). The Deferred Fee will accrue from March 6, 2012 and is payable on the earlier to occur of (x) the date the Aggregate Commitments are reduced to \$75,000,000, (y) the date of the occurrence of an event of default (other than the Designated Defaults) and (z) the maturity date.

As of March 31, 2012, the Company was in violation of financial covenants (b) and (c) above. Accordingly, we have classified all borrowings under the Credit Agreement as current in the consolidated balance sheet at March 31, 2012. We are in discussions with the Lenders regarding the Credit Facility.

As of March 31, 2012, the Company had \$16,518,000 in outstanding letters of credit. Due to conditions of the Credit Agreement, as amended, total remaining availability at March 31, 2012 was \$3,482,000.

We currently have eight additional credit facilities with international financial institutions as follows:

A credit facility with a bank in the Middle East for 11,500,000 AED (approximately \$3,131,000 at March 31, 2012) collateralized by certain overseas receivables. The interest rate on that facility is the three-month Emirates InterBank Offer Rate (EIBOR), which at March 31, 2012 was 1.52%, plus 3.00%, (or 4.52%) but no less than 5.50%. At March 31, 2012, outstanding borrowings under this facility totaled 9,670,000 AED (approximately \$2,634,000). The facility also allows for up to 150,000,000 AED (approximately \$40,838,000 at March 31, 2012) in Letters of Guarantee of which 122,110,000 AED (approximately \$33,245,000) was utilized March 31, 2012. This facility expired on August 27, 2010 and is being renewed on a month to month basis.

A revolving credit loan payable with a European bank up to 1,000,000 (approximately \$1,334,000 at March 31, 2012), with interest rates at 0.99% plus Egnatia Bank's prime rate of 5.00% (or 5.99%) at March 31, 2012, collateralized by certain of our assets. There were no borrowings under this facility at March 31, 2012. The facility also allows for letters of guarantee up to 4,500,000 (approximately \$6,004,000) of which 869,000 (approximately \$1,159,000) was utilized at March 31, 2012. The facility expiration date has been extended to May 31, 2012. The Company expects that the facility expiration date will be further extended to April 30, 2013 and is awaiting final approval from the bank.

An unsecured credit facility with a bank in Spain for 1,500,000 (approximately \$2,001,000 at March 31, 2012). The interest rate on this facility is the three-month EURIBOR rate (which at March 31, 2012) was 1.42% plus 3.00%, or 4.42% but no less than 5.00%. At March 31, 2012 outstanding borrowings under this facility which expires on December 23, 2013 were 385,000 (approximately \$514,000).

A revolving credit loan payable to Barclays Bank PLC up to £500,000 (approximately \$801,000 at March 31, 2012) with interest at 2.00% plus the Bank of England rate of 0.50% (or 2.50%) collateralized by cross guarantees of all United Kingdom companies. Aggregate of all debt owing to the bank will be, at all times, covered by a minimum of three times the aggregate value of the UK accounts receivable less than 90 days old and excluding the amounts receivable from any associate or subsidiary company. The loan has an indeterminate term and is subject to annual review by the bank.

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A revolving credit facility with 12 banks (the Financing Entities) in Spain providing for total borrowings of up to 4,870,000 (approximately \$6,498,000) with interest at 6.50% of which 3,488,000 (approximately \$4,653,000) was utilized at March 31, 2012. The total amount being financed (Credit Contracts) by each Financing Entity is between 353,000 (approximately \$471,000) and 689,000 (approximately \$919,000). The facility expires on December 17, 2016. The maximum available amount will be reduced to 75.0% at December 31, 2014 and 50.0% at December 31, 2015. The facility expires on December 17, 2016. To guarantee the obligations of Gerens resulting from the Credit Contracts, Gerens took out a guarantee in favor of each one of the Financing Entities, which, additionally, and solely in the case of an 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 Participações 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 Company also maintains three revolving credit lines with two banks in Brazil for 1,700,000, 200,000 and 1,000,000 Brazilian Reais each (approximately \$930,000, \$109,000 and \$547,000, respectively) with monthly interest rates of 2.87%, 5.30% and 2.75%, respectively. There were no borrowings outstanding on any of these facilities at March 31, 2012 which are renewed automatically every three months.

Uncertainties With Respect to Operations in Libya

We currently have open contracts in Libya. Due to the recent political unrest which commenced in February 2011, we suspended our operations in, and demobilized substantially all of our personnel from Libya. We are unable to predict when, or if, the work will resume in Libya where we reopened our office in November 2011. At March 31, 2012, the accounts receivable related to the work performed under contracts in Libya was \$59,838,000. We are unable to determine the effect this unrest will have on the collectability of the accounts receivable. We believe that the amount due will be collected, however, if we are unable to do so, there could be a significant adverse impact on our results of operations and liquidity.

Additional Capital Requirements

Acquisitions

On February 28, 2011, our subsidiary, Gerens Hill International, S.A. (Gerens Hill) acquired an indirect 60% interest in Engineering S.A., a firm located in Brazil, for cash amounting to 22,200,000 Brazilian Reais (BR) (approximately \$11,757,000). A minimum additional payment was made on April 30, 2012 in the amount of BR6,624,000 (approximately \$3,508,000). A minimum additional payment is due on April 30, 2013 in the amount of BR7,400,000 (approximately \$3,919,000). Under certain circumstances, we may be required to pay BR5,000,000 (approximately \$2,064,000) in addition to the minimum payments.

In December 2011 and January 2012, we received three letters expressing written intention to exercise their put option pursuant to the Investment and Shareholders Agreement dated February 15, 2008 among Gerens Hill, us and the other parties thereto. Upon consummation of the transaction, we will acquire an additional interest of 6.13% of Gerens Hill which will require the payment of 1,758,000 (approximately \$2,343,000). Following the acquisition of such interests, the Company will indirectly own 75.48% of Gerens Hill.

Operations

We experience lags between receipt of fees from our clients and payment of our costs. In order to continue our growth, and in light of the cash obligations described above, we have a credit agreement that allows for total amounts outstanding (that is, the sum of borrowings plus outstanding letters of credit) amounting to \$100,000,000 with a consortium of banks led by Bank of America. At March 31, 2012, availability under the Credit Agreement was \$3,482,000.

Commencing in the first quarter of 2012, we have reexamined our cost structure at every level of the Company and we are in the process of cutting a total of nearly \$20 million in annual overhead costs. The areas affected are personnel and related benefits, professional fees, advertising, and travel and entertainment. We believe that effort combined with the positive revenue and sales trends we have seen so far this year should return us to profitability by the third quarter.

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Sources of Additional Capital

At March 31, 2012, our cash and cash equivalents amounted to approximately \$24,698,000 of which \$1,024,000 is on deposit in the U.S. and \$23,674,000 is on deposit in foreign locations.

On July 27, 2011, we filed a Form S-3 with the U.S. Securities and Exchange Commission (the SEC) to register 20,000,000 shares of our common stock for sale at various times in the future. The proceeds, if any, will be used for working capital and general corporate purposes, subject to the restrictions of our amended Credit Agreement. We cannot predict the amount of proceeds from those future sales or whether there will be a market for our common stock at the time of any such offering or offerings to the public.

On July 27, 2011, we filed a Form S-4 with the SEC to register 8,000,000 shares of our common stock for use in future acquisitions. We cannot predict whether such shares will be accepted by any potential sellers. Under the current terms of our Credit Agreement, as amended, we are precluded from making any acquisitions without the written consent of the Lenders.

We are pursuing other sources of financing, but 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.

Cash Flow Activity During the Three Months Ended March 31, 2012

For the three months ended March 31, 2012, our cash and cash equivalents increased by \$6,774,000 to \$24,698,000. Cash provided by operations was \$3,504,000, cash provided by investing activities was \$2,788,000 and cash provided by financing activities was \$2,158,000. We also experienced a decrease in cash of \$1,676,000 from the effect of foreign currency exchange rate fluctuations.

Operating Activities

Cash provided by operations is attributable to consolidated net loss of \$6,537,000 for the period adjusted by non-cash items included in net loss and working capital changes such as:

Non-cash items:

Depreciation and amortization of \$3,305,000;

Bad debt expense of \$215,000;

Deferred taxes of \$397,000; and

Stock based compensation expense of \$634,000.

Working capital changes which increased cash included the following:

A decrease in accounts receivable of \$5,727,000 offset by unfavorable foreign currency translation adjustments of approximately \$4,324,000;

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A decrease in retainage receivable of \$1,217,000 due to retainage payments received from various projects in New York;

A decrease in other assets amounting to \$736,000;

An increase in deferred revenue of \$4,962,000 due to a large advance payment from a project in Afghanistan; and

An increase in other current liabilities of \$909,000.

Working capital changes which decreased cash included the following:

A decrease in accounts payable and accrued expenses of \$2,650,000 due to the timing of payments for various selling, general and administrative cost, subcontractors offset by a foreign currency translation adjustment of approximately \$1,516,000; and

A decrease in income taxes payable of \$2,179,000 due primarily to the tax effect of net loss for the period.

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Investing Activities

We received \$3,149,000 from the sale, at book value, of an investment held by our subsidiary, Gerens Hill. We spent \$361,000 to purchase computers, office equipment, furniture and fixtures.

Financing Activities

We received \$4,036,000 in net borrowings under our credit facilities. We made payments on notes payable amounting to \$605,000. Due to bank decreased \$1,299,000 due to the timing of funding of payments made to the banks. We received proceeds amounting to \$26,000 from the exercise of stock options and purchases under our 2006 Employee Stock Purchase Plan.

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.

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 consulting fees. Project management 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. Construction claims backlog is based largely on management's estimates of future revenue based on known construction claims assignments and historical results for new work. Because a significant number of construction claims may be awarded and completed within the same period, our actual construction claims revenue has historically exceeded backlog by a significant amount.

Our backlog is important to us in anticipating and planning for our operational needs. Backlog is not a measure defined in 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.

Our backlog was approximately \$2,292,000,000 at March 31, 2012 compared to \$2,295,000,000 at December 31, 2011. At March 31, 2012, backlog attributable to work in Libya amounted to approximately \$44,000,000. We estimate that \$321,000,000 or 14.0% of the backlog at March 31, 2012 will be recognized during the twelve months subsequent to March 31, 2012.

HillStone International, LLC (HillStone) is a strategic technologies distribution and construction project development company. As a majority-owned subsidiary of the Company, HillStone attempts to develop private and public ventures for the implementation of affordable, durable and environmentally sound housing technologies in regions of the world where housing solutions are a high priority of various governmental and private interests. HillStone has not been shown separately within our consolidated financial statements as it does not have any revenues to date. Its costs, which are not material, have been included within the Corporate segment. However, for purposes of this report, we have shown the backlog attributable to HillStone as a separate line item within the backlog table below. Approximately \$1,300,000,000 of our backlog is related to a contract entered into by HillStone to supply building structural systems to TRAC Development Group (TRAC) in connection with a major housing development in Iraq and \$200,000,000 is related to a contract we entered into to provide project management and construction management services to TRAC in connection with the development. The contracts are expected to commence in late 2012, although no assurances can be given that this will be the case.

The schedule below includes backlog under two categories: (1) contracts for which work authorizations have been or are expected to be received on a time and material basis, fixed-price basis and not-to-exceed projects that are well defined and

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(2) contracts awarded to the Company where some or all of the work has not yet been authorized. As of March 31, 2012, approximately \$633,000,000, or 27.6%, of our backlog was in category 1 and approximately \$1,659,000,000 or 72.4%, of our backlog was in category 2. We do not track whether the contracts and awards included in our backlog are fully funded, incrementally funded, or unfunded.

Included in category 2 of 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 task orders to be issued for the maximum amount of such contracts. Also included in category 2 of our backlog is the amount of anticipated revenues in option years beyond the base term of our contracts if we reasonably expect our clients to exercise such option years. 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 revenues from our backlog has not been significant, however, there can be no assurance that such changes will not be significant in the future. 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.

	Total Backlog		12-Month Backlog	
<i>(Dollars in thousands)</i>				
As of March 31, 2012:				
Project Management	\$ 953,000	41.6%	\$ 272,000	84.7%
Construction Claims	39,000	1.7%	39,000	12.2%
HillStone International	1,300,000	56.7%	10,000	3.1%
	\$ 2,292,000	100.0%	\$ 321,000	100.0%
As of December 31, 2011				
Project Management	\$ 953,000	41.5%	\$ 280,000	84.3%
Construction Claims	42,000	1.8%	42,000	12.7%
HillStone International	1,300,000	56.7%	10,000	3.0%
	\$ 2,295,000	100.0%	\$ 332,000	100.0

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Refer to the Company's 2011 Annual Report for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in the Company's 2011 Annual Report.

Item 4. Controls and Procedures

The management of the Company, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of March 31, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and

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reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. During the quarter ended March 31, 2012, there were no changes in our internal control over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. However, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

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Part II Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There has been no material changes pertaining to risk factors discussed in the Company's 2011 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Funds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

- 31.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Irvin E. Richter, Chief Executive Officer of Hill International, Inc., pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of John Fanelli III, Chief Financial Officer of Hill International, Inc., pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.PRE XBRL Taxonomy Presentation Linkbase Document.
- 101.CAL XBRL Taxonomy Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Label Linkbase Document.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Hill International, Inc.

Dated: May 10, 2012

By: /s/ Irvin E. Richter

Irvin E. Richter

Chairman and Chief Executive Officer

(Principal Executive Officer)

Dated: May 10, 2012

By: /s/ John Fanelli III

John Fanelli III

Senior Vice President and

Chief Financial Officer

(Principal Financial Officer)

Dated: May 10, 2012

By: /s/ Ronald F. Emma

Ronald F. Emma

Senior Vice President and

Chief Accounting Officer

(Principal Accounting Officer)