

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended March 31, 2017

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
(State or other jurisdiction of
incorporation or organization)

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

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

19103
(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 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	<input type="radio"/>	Accelerated Filer	<input checked="" type="radio"/>
Non-Accelerated Filer	<input type="radio"/>	Smaller Reporting Company	<input type="radio"/>
		Emerging Growth Company	<input type="radio"/>

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

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 52,960,817 shares of the Registrant's Common Stock outstanding at March 31, 2018.

Table of Contents

Explanatory Note

As previously disclosed in the Company's Current Report on the Form 8-K filed with the Securities and Exchange Commission (the SEC) on September 21, 2017, the Board of Directors (the Board) of Hill International, Inc. (Hill or the Company), upon the recommendation of the Audit Committee of the Board, determined that the Company's previously issued financial statements for each of the years ended December 31, 2016, 2015 and 2014 and each of the quarters ended March 31, June 30, and September 30, 2016 and 2015 included in the Company's Annual Reports on Form 10-K filed with the SEC on March 31, 2017, as amended by the Company's Form 10-K/A (Amendment No. 1) filed with the SEC on May 1, 2017 (as amended, the Original Form 10-K) and each of the Quarterly Reports on Form 10-Q for such periods as well as the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the Original Form 10-Q), could no longer be relied upon. The Company filed its 10-K/A Amendment No. 2 (the Amended 10-K) that restated and amend the Company's Original Form 10-K on May 8, 2018. As a result, the Company is filing this Amendment No. 1 on Form 10-Q/A (this Amendment) to restate and amend the Company's Original Form 10-Q.

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

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

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

Benefits .

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

F. During the restatement process, the Company identified other transactions that had been recorded to incorrect accounts and/or in improper amounts.

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

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

- Part I - Item - 1. Financial Statements.
 - Part I - Item - 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
 - Part I - Item - 3. Quantitative and Qualitative Disclosures About Market Risk.
 - Part I - Item - 4. Controls and Procedures.
 - Part II - Item 1A. Risk Factors.
-

Table of Contents

This Amendment does not reflect adjustments for events occurring after the filing of the Original Form 10-Q except to the extent they are otherwise required to be included and discussed herein and did not substantively modify or update the disclosures herein other than as required to reflect the adjustments described above. See Note 2 to the accompanying consolidated financial statements, set forth in Item 1 of this Amendment, for details of the restatement and its impact on the consolidated financial statements.

See Item 9A Controls and Procedures to the Company's Amended Form 10-K filed on May 8, 2018 that discloses additional material weaknesses in the Company's internal controls associated with the restatement, as well as management's restated conclusion that the Company's internal controls over financial reporting were not effective as of December 31, 2016. As disclosed therein, management is currently developing and implementing the changes needed in the Company's internal control over financial reporting to remediate these material weaknesses. These changes are still in process.

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Form 10-Q/A (Amendment No. 1)

<u>PART I</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements</u>	7
	<u>Consolidated Balance Sheets at March 31, 2017 (unaudited) and December 31, 2016</u>	7
	<u>Consolidated Statements of Operations for the three months ended March 31, 2017 and 2016 (unaudited)</u>	8
	<u>Consolidated Statements of Comprehensive (Loss) Earnings for the three months ended March 31, 2017 and 2016 (unaudited)</u>	9
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2017 and 2016 (unaudited)</u>	10
	<u>Notes to Consolidated Financial Statements</u>	11
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	44
<u>Item 4.</u>	<u>Controls and Procedures</u>	44
<u>PART II</u>	<u>OTHER INFORMATION</u>	46
<u>Item 1.</u>	<u>Legal Proceedings</u>	46
<u>Item 1A.</u>	<u>Risk Factors</u>	46
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	46
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	46
<u>Item 5.</u>	<u>Other Information</u>	46
<u>Item 6.</u>	<u>Exhibits</u>	46
<u>Signatures</u>		

Table of Contents

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The risks set forth in Item 1A, Risk Factors, in our most recent Annual Report on Form 10K/A;
- Unfavorable global economic conditions may adversely impact our business;
- Our backlog may not be fully realized as revenue;

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

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

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

Table of Contents

cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Form 10-Q/A, in our other filings with the SEC or in materials incorporated therein by reference.

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

	March 31, 2017 (As restated) (unaudited)	December 31, 2016 (As restated)
Assets		
Cash and cash equivalents	\$ 20,413	\$ 25,637
Cash - restricted	3,544	4,312
Accounts receivable, less allowance for doubtful accounts of \$68,302 and \$71,082	167,289	164,844
Accounts receivable - affiliates	7,335	5,712
Prepaid expenses and other current assets	7,799	7,751
Income taxes receivable	2,900	3,554
Current assets held for sale	53,351	54,651
Total current assets	262,631	266,461
Property and equipment, net	15,715	16,389
Cash - restricted, net of current portion	327	313
Retainage receivable	17,775	17,225
Acquired intangibles, net	5,474	6,006
Goodwill	51,467	50,665
Investments	4,421	3,501
Deferred income tax assets	3,176	3,200
Other assets	4,009	4,224
Non-current assets held for sale	32,924	32,091
Total assets	\$ 397,919	\$ 400,075
Liabilities and Stockholders' Equity		
Current maturities of notes payable and long-term debt	\$ 4,492	\$ 1,983
Accounts payable and accrued expenses	87,993	85,680
Income taxes payable	4,622	4,874
Current portion of deferred revenue	5,094	12,943
Other current liabilities	8,592	8,157
Current liabilities held for sale	24,199	25,888
Total current liabilities	134,992	139,525
Notes payable and long-term debt, net of current maturities	150,808	142,120
Retainage payable	1,000	961
Deferred income taxes	629	560
Deferred revenue	19,612	22,804
Other liabilities	13,341	12,666
Non-current liabilities held for sale	4,400	5,087
Total liabilities	324,782	323,723
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued		
	6	6

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

Common stock, \$0.0001 par value; 100,000 shares authorized, 58,848 shares and 58,835 shares issued at March 31, 2017 and December 31, 2016, respectively

Additional paid-in capital	190,863	190,353
Accumulated deficit	(83,703)	(81,349)
Accumulated other comprehensive loss	(6,168)	(4,611)
	100,998	104,399
Less treasury stock of 6,977 shares at March 31, 2017 and December 31, 2016, respectively	(30,041)	(30,041)
Hill International, Inc. share of equity	70,957	74,358
Noncontrolling interests	2,180	1,994
Total equity	73,137	76,352
Total liabilities and stockholders' equity	\$ 397,919	\$ 400,075

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,	
	2017	2016
	(As restated)	(As restated)
Revenues	116,120	136,899
Direct expenses	78,509	93,301
Gross profit	37,611	43,598
Selling, general and administrative expenses	33,463	37,793
Share of loss (profit) of equity method affiliates	34	(15)
Operating profit	4,114	5,820
Interest and related financing fees, net	749	628
Earnings before income taxes	3,365	5,192
Income tax expense	1,349	456
Earnings from continuing operations	2,016	4,736
Loss from discontinued operations	(4,251)	(1,243)
Net (loss) earnings	(2,235)	3,493
Less: net earnings (loss) - noncontrolling interests	119	(11)
Net (loss) earnings attributable to Hill International, Inc.	\$ (2,354)	\$ 3,504
Basic earnings per common share from continuing operations	0.04	0.09
Basic loss per common share from discontinued operations	(0.09)	(0.02)
Basic (loss) earnings per common share - Hill International, Inc.	\$ (0.05)	\$ 0.07
Basic weighted average common shares outstanding	51,860	51,631
Diluted earnings per common share from continuing operations	0.04	0.09
Diluted loss per common share from discontinued operations	(0.09)	(0.02)
Diluted (loss) earnings per common share - Hill International, Inc.	\$ (0.05)	\$ 0.07
Diluted weighted average common shares outstanding	51,860	51,722

See accompanying notes to consolidated financial statements.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) EARNINGS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2017	2016
	(As restated)	(As restated)
Net (loss) earnings	\$ (2,235)	\$ 3,493
Foreign currency translation adjustment, net of tax	(1,558)	(3)
Other, net		34
Comprehensive (loss) earnings	(3,793)	3,524
Comprehensive earnings (loss) attributable to noncontrolling interests	119	(11)
Comprehensive (loss) earnings attributable to Hill International, Inc.	\$ (3,912)	\$ 3,535

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,	
	2017	2016
	(As restated)	(As restated)
Cash flows from operating activities:		
Net (loss) earnings	\$ (2,235)	\$ 3,493
Loss from discontinued operations	4,251	1,243
(Loss) earnings from continuing operations	2,016	4,736
Adjustments to reconcile net (loss) earnings to net cash (used in):		
Depreciation and amortization	1,595	1,906
Provision for bad debts	(526)	1,271
Amortization of deferred loan fees	444	444
Deferred tax benefit	452	4,387
Stock based compensation	461	668
Unrealized foreign exchange losses (gains) on intercompany balances	(1,813)	206
Changes in operating assets and liabilities:		
Restricted cash	736	397
Accounts receivable	(2,617)	(9,161)
Accounts receivable - affiliate	(1,615)	(4,262)
Prepaid expenses and other current assets	(287)	330
Income taxes receivable	1,366	(281)
Retainage receivable	(310)	(281)
Other assets	(2,037)	9,796
Accounts payable and accrued expenses	2,150	(5,933)
Income taxes payable	(328)	(4,637)
Deferred revenue	(10,010)	726
Other current liabilities	156	2,538
Retainage payable	39	266
Other liabilities	185	508
Net cash (used in) provided by continuing operations	(9,943)	3,624
Net cash used in discontinued operations	(6,146)	(2,781)
Net cash (used in) provided by in operating activities	(16,089)	843
Cash flows from investing activities:		
Purchases of business	(123)	(58)
Payments for purchase of property and equipment	(372)	(392)
Net cash used in investing activities of continuing operations	(495)	(450)
Net cash provided by investing activities of discontinued operations		44
Net cash used in investing activities	(495)	(406)
Cash flows from financing activities:		
Payments on term loans	(314)	(348)
Net borrowings on revolving loans	10,990	819
Proceeds from stock issued under employee stock purchase plan	49	10
Proceeds from exercise of stock options		86

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

Net cash provided by financing activities		10,725		567
Effect of exchange rate changes on cash		635		(4,058)
Net decrease in cash and cash equivalents		(5,224)		(3,054)
Cash and cash equivalents	beginning of period	25,637		24,089
Cash and cash equivalents	end of period	\$ 20,413	\$	21,035

See accompanying notes to consolidated financial statements.

Table of Contents

HILL INTERNATIONAL, INC.AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 The Company

Hill International, Inc. (Hill or the Company) is a professional services firm that provides program management, project management, construction management 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.

Note 2 Restatement and Revision of Previously Reported Consolidated Financial Statements

As previously disclosed on Form 8-K filed on September 21, 2017, the Board of Directors (the Board) of Hill International, Inc. (the Company), upon the recommendation of the Audit Committee of the Board, determined that the Company s previously issued financial statements for each of the years ended December 31, 2016, 2015 and 2014 and the quarters ended March 31, June 30, and September 30, 2015 and 2016 included in the Company s Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q for such periods and the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (collectively, the Non-Reliance Periods) can no longer be relied upon. The nature of the restatement matters and adjustments along with the impact on the Company s previously issued financial statements for each of the years ended December 31, 2016, 2015 and 2014 and the quarters ended March 31, June 30, and September 30, 2015 and 2016 included in the Company s Annual Reports on Form 10-K are disclosed on Form 10K/A (Amendment No. 2), which was filed with the SEC on filed May 4, 2018. This Note 2 to the consolidated financial statements discloses the nature of the restatement matters and adjustments and shows the impact of the restatement as of and for the three months ended March 31, 2017 and 2016.

The following errors were identified as part of the restatement:

A. In connection with the accounting for the May 2017 sale of its Construction Claims Group, the Company determined that it had not previously accounted for certain foreign currency gains/losses on intercompany balances and transactions in accordance with accounting principles generally accepted in the United States (US GAAP). The Company improperly accounted for the foreign currency effect of certain transactions as if they were long-term investments by including the foreign currency effect in accumulated other comprehensive income instead of properly recording the effect as operating expenses as required under Accounting Standard Codification (ASC) 830 Foreign Currency Matters. The correction of the error resulted in a reduction to retained earnings of \$46,601,000 and a reduction to accumulated other comprehensive loss of \$46,601,000 at March 31, 2017, and selling, general and administrative (SG&A) expenses decreased \$1,813,000 and increased \$206,000 for the three months ended March 31, 2017 and 2016, respectively.

B. The Company identified departures from US GAAP under ASC 605-35 Construction-Type and Production-Type Contracts in its historical accounting for revenue recognition on nine long-term customer contracts with fee constraints (e.g., fixed fee, lump sum, maximum contract value). The Company enters into agreements for construction management and consulting services with customers, and the guidance of ASC 605-35-15-3D states that contracts for construction consulting services, such as under agency contracts or construction management agreements, fall within the scope of the standard and should follow either Percentage of Completion or Completed Contract methods of accounting. Historically, the Company had not consistently applied the percentage of completion method of revenue recognition. The correction to properly apply U.S. GAAP to the identified contracts resulted in an increase of \$3,130,000 and \$2,581,000 in revenues for the three months ended March 31, 2017 and 2016, respectively; an increase of \$821,000 in accounts receivable, an increase in accumulated other comprehensive loss of \$1,000

Table of Contents

and an increase in deferred revenues of \$7,513,000 at March 31, 2017.

C. The Company discovered that it had not properly performed the required impairment testing of amortizable intangible assets in accordance with US GAAP in that certain assets no longer in use were not identified and impaired. In addition, an improper useful life was used for some of the Company's internally developed software assets resulting in an improper amount of amortization expense being recorded in previous periods. The net effect of correcting these errors resulted in a \$458,000 decrease in property plant and equipment, a \$722,000 decrease in acquired intangibles, an increase of \$567,000 in assets held for sale and a \$213,000 decrease in accumulated other comprehensive loss at March 31, 2017; a \$565,000 increase in earnings from discontinued operations for the three months ended March 31, 2017; and increases of \$29,000 and \$28,000 to SG&A expense for the three months ended March 31, 2017 and 2016, respectively.

D. The Company discovered that the amounts of liabilities pertaining to the obligation for end of service benefits in certain foreign countries were improperly accounted for under the guidance in ASC 715 Compensation Retirement Benefits. The net effect of the corrections of these errors resulted in a \$349,000 decrease in other liabilities at March 31, 2017; and a \$458,000 increase in liabilities held for sale at March 31, 2017.

E. The Company determined the accrual for uncertain tax benefits taken with respect to income tax matters in Libya had been improperly released during 2013 and 2014 prior to the expiration of the statute of limitations on the Libyan tax authority's right to audit the related tax years. The correction of these errors resulted in an increase of \$4,408,000 in other liabilities at March 31, 2017; and a decrease of \$695,000 in accumulated other comprehensive loss at March 31, 2017.

F. The Company identified other transactions that had been recorded to incorrect accounts and/or in improper amounts. The net corrections of these transactions resulted in a \$5,421,000 increase and \$52,000 decrease in revenues for the three months ended March 31, 2017 and 2016, respectively; a \$5,305,000 increase in direct expenses for the three months ended March 31, 2017; an increase of \$473,000 and a decrease of \$839,000 in SG&A expenses for the three months ended March 31, 2017 and 2016, respectively; a \$1,057,000 decrease and a \$390,000 increase in net loss from discontinued operations for the three months ended March 31, 2017 and 2016, respectively; an increase of \$36,000 in investments at March 31, 2017; a \$755,000 increase in assets held for sale at March 31, 2017; a \$1,243,000 increase in accounts payable and accrued expenses at March 31, 2017; a \$77,000 increase in other current liabilities at March 31, 2017; a decrease in current liabilities held for sale of \$1,915,000 at March 31, 2017; a \$984,000 decrease in other liabilities at March 31, 2017; an increase in liabilities held for sale of \$1,738,000 at March 31, 2017; an increase of \$329,000 in additional paid in capital at March 31, 2017; a decrease of \$563,000 to accumulated other comprehensive loss at March 31, 2017; an increase in noncontrolling interest of \$36,000 at March 31, 2017; and an increase of \$58,000 and a decrease of \$15,000 in net earnings-noncontrolling interest for the three months ended March 31, 2017 and 2016, respectively. In conjunction with the sale of the construction claims group in 2016, interest expense of \$552,000 and \$415,000 for the three months ended March 31, 2017 and 2016, respectively, was reclassified from discontinued operations to continuing operations. In addition, the adjustment to forfeitures resulted

in a \$422,000 increase in retained earnings at March 31, 2017; a \$422,000 decrease in additional paid in capital at March 31, 2017; and a \$91,000 decrease in selling, general and administrative expenses for the three months ended March 31, 2017.

Table of Contents

G. Some of the corrections noted above impacted earnings (loss) before taxes which, in turn, required a calculation of the tax impact. The net impact was a \$1,129,000 increase in deferred income tax assets at March 31, 2017; a decrease of \$1,751,000 to assets held for sale at March 31, 2017; an increase in income tax payable of \$858,000 at March 31, 2017; an increase in current liabilities held for sale of \$208,000 at March 31, 2017; an increase in deferred income taxes of \$10,000 at March 31, 2017; liabilities held for sale decreased \$1,647,000 at March 31, 2017; retained earnings increased \$235,000 at March 31, 2017; accumulated other comprehensive loss increased \$286,000 at March 31 2017; and income tax expense increased \$695,000 and \$290,000 for the three months ended March 31, 2017 and 2016, respectively.

Table of Contents

Consolidated Balance Sheet
March 31, 2017

	As Previously Reported	Adjustment	As Restated	Reference
Assets				
Cash and cash equivalents	\$ 20,413	\$	\$ 20,413	
Cash - restricted	3,544		3,544	
Accounts receivable, less allowance for doubtful accounts of \$68,302	166,468	821	167,289	B
Accounts receivable - affiliates	7,335		7,335	
Prepaid expenses and other current assets	7,799		7,799	
Income taxes receivable	2,900		2,900	
Current assets held for sale	53,351		53,351	
Total current assets	261,810	821	262,631	
Property and equipment, net	16,173	(458)	15,715	C
Cash - restricted, net of current portion	327		327	
Retainage receivable	17,775		17,775	
Acquired intangibles, net	6,196	(722)	5,474	C
Goodwill	51,467		51,467	
Investments	4,385	36	4,421	F
Deferred income tax assets	2,047	1,129	3,176	G
Other assets	4,009		4,009	
Assets held for sale	33,353	(429)	32,924	C, F, G
Total assets	\$ 397,542	\$ 377	\$ 397,919	
Liabilities and Stockholders Equity				
Due to banks	\$	\$	\$	
Current maturities of notes payable and long-term debt	4,492		4,492	
Accounts payable and accrued expenses	86,750	1,243	87,993	F
Income taxes payable	3,764	858	4,622	G
Current portion of deferred revenue	5,094		5,094	
Other current liabilities	8,515	77	8,592	F
Current liabilities held for sale	25,906	(1,707)	24,199	F, G
Total current liabilities	134,521	471	134,992	
Notes payable and long-term debt, net of current maturities	150,808		150,808	
Retainage payable	1,000		1,000	
Deferred income taxes	619	10	629	G
Deferred revenue	12,099	7,513	19,612	B
Other liabilities	10,266	3,075	13,341	D, E, F
Liabilities held for sale	3,851	549	4,400	D, F, G
Total liabilities	313,164	11,618	324,782	
Commitments and contingencies				
Stockholders equity:				
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued				
Common stock, \$0.0001 par value; 100,000 shares authorized, 58,848 shares issued at March 31, 2017	6		6	
Additional paid-in capital	190,956	(93)	190,863	F
Retained earnings (deficit)	(24,734)	(58,969)	(83,703)	A, B, C, D, E, F, G
Accumulated other comprehensive loss	(53,953)	47,785	(6,168)	A, C, E, F, G
	112,275	(11,277)	100,998	

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

Less treasury stock of 6,977 shares at December 31, 2016	(30,041)			(30,041)
Hill International, Inc. share of equity	82,234	(11,277)		70,957
Noncontrolling interests	2,144	36		2,180 F
Total equity	84,378	(11,241)		73,137
Total liabilities and stockholders' equity	\$ 397,542	\$ 377	\$	397,919

Table of Contents**Consolidated Statement of Operations**
Three months ended March 31, 2017

	As Previously Reported	Adjustment	As Restated	Reference
Revenues	107,569	8,551	116,120	B, F
Direct expenses	73,204	5,305	78,509	F
Gross Profit	34,365	3,246	37,611	
Selling, general and administrative expenses	34,865	(1,402)	33,463	A, C, F
Share of loss of equity method affiliates	34		34	
Operating profit	(534)	4,648	4,114	
Interest and related financing fees, net	197	552	749	F
(Loss)earnings before income taxes	(731)	4,096	3,365	
Income tax expense	654	695	1,349	G
Loss from continuing operations	(1,385)	3,401	2,016	
Loss from discontinued operations	(5,665)	1,414	(4,251)	C, F, G
Net (loss) earnings	(7,050)	4,815	(2,235)	
Less: net earnings - noncontrolling interest	61	58	119	F
Net Loss attributable to Hill International, Inc.	\$ (7,111)	\$ 4,757	\$ (2,354)	
Basic (loss)earnings per common share from continuing operations	\$ (0.03)	\$ 0.07	\$ 0.04	
Basic loss per common share from discontinued operations	(0.11)	0.02	(0.09)	
Basic loss per common share - Hill International, Inc.	\$ (0.14)	\$ 0.09	\$ (0.05)	
Basic weighted average common shares outstanding	51,860		51,860	
Diluted loss per common share from continuing operations	\$ (0.03)	\$ 0.07	\$ 0.04	
Diluted loss per common share from discontinued operations	(0.11)	0.02	(0.09)	
Diluted loss per common share - Hill International, Inc.	\$ (0.14)	\$ 0.09	\$ (0.05)	
Basic weighted average common shares outstanding	51,860		51,860	

Table of Contents

Consolidated Statement of Operations
Three months ended March 31, 2016

	As Previously Reported	Adjustment	As Restated	Reference
Revenues	134,370	2,529	136,899	B, F
Direct expenses	93,301		93,301	
Gross Profit	41,069	2,529	43,598	
Selling, general and administrative expenses	38,398	(605)	37,793	A, C, F
Share of loss of equity method affiliates	(15)		(15)	
Operating profit	2,686	3,134	5,820	
Interest and related financing fees, net	213	415	628	F
(Loss)earnings before income taxes	2,473	2,719	5,192	
Income tax expense	166	290	456	G
Loss from continuing operations	2,307	2,429	4,736	
Loss from discontinued operations	(853)	(390)	(1,243)	F
Net (loss) earnings	1,454	2,039	3,493	
Less: net earnings - noncontrolling interest	4	(15)	(11)	F
Net Loss attributable to Hill International, Inc.	\$ 1,450	\$ 2,054	\$ 3,504	
Basic loss per common share from continuing operations	\$ 0.04	\$ 0.05	\$ 0.09	
Basic loss per common share from discontinued operations	(0.01)	(0.01)	(0.02)	
Basic loss per common share - Hill International, Inc.	\$ 0.03	\$ 0.04	\$ 0.07	
Basic weighted average common shares outstanding	51,631		51,631	
Diluted loss per common share from continuing operations	\$ 0.04	\$ 0.05	\$ 0.09	
Diluted loss per common share from discontinued operations	(0.01)	(0.01)	(0.02)	
Diluted loss per common share - Hill International, Inc.	\$ 0.03	\$ 0.04	\$ 0.07	
Basic weighted average common shares outstanding	51,722		51,722	

Consolidated Statement of Comprehensive Loss
Three months ended March 31, 2017

	As Previously Reported	Adjustment	As Restated	Reference
Net earnings	\$ (7,050)	4,815	\$ (2,235)	A, B, C, F
Foreign currency translation adjustment, net	440	(1,998)	(1,558)	A, B, C, E, F, G
Other, net				
Comprehensive loss	(6,610)	2,817	(3,793)	
Comprehensive loss attributable to noncontrolling interest	128	(9)	119	
Comprehensive loss attributable to Hill International, Inc.	\$ (6,738)	2,826	\$ (3,912)	

Table of Contents

	Consolidated Statement of Comprehensive Income				
	Three months ended March 31, 2016				
	As Previously Reported	Adjustment	As Restated	Reference	
Net earnings	\$ 1,454	2,039	\$ 3,493		A, B, C, F, G
Foreign currency translation adjustment, net	434	(437)	(3)		A, B, C, E, F, G
Other, net	34		34		
Comprehensive loss	1,922	1,602	3,524		
Comprehensive loss attributable to noncontrolling interest	(752)	741	(11)		A
Comprehensive loss attributable to Hill International, Inc.	\$ 2,674	861	\$ 3,535		

In addition to the items noted above as part of the Restatement, the Company identified departures from US GAAP in its historical preparation and presentation of its statement of cash flows. The Company did not report its cash flows in the reporting currency equivalent of foreign currency using the exchange rates in effect at the time of the cash flows, or an appropriate average rate to approximate the rates in effect at the time of the cash flows. The impact of properly preparing a cash flow statement in each functional currency, translating the cash flow statement using the appropriate rate in effect at the time of a transaction, or substantially equivalent average rate for the period, and consolidation of the individual functional currency cash flows, as prescribed by the guidance in ASC 230, is depicted in the table below. The adjustments noted in the cash flow statements that follow are both a result of items A through G explained above, as well as the foreign currency effect from cash flow statements prepared in functional currency and appropriately translated.

Table of Contents

	Consolidated Statement of Cash Flows Three Months Ended March 31, 2017		
	As Previously Reported	Adjustment	As restated
Cash flows from operating activities:			
Net (loss) earnings	\$ (7,050)	4,815	\$ (2,235)
Loss from discontinued operations	5,665	(1,414)	4,251
(Loss) earnings from continuing operations	(1,385)	3,401	2,016
Adjustments to reconcile net (loss) earnings to net cash (used in):			
Depreciation and amortization	1,566	29	1,595
Provision for bad debts	(526)		(526)
Amortization of deferred loan fees	444		444
Deferred tax benefit	93	359	452
Stock based compensation	552	(91)	461
Unrealized foreign exchange losses (gains) on intercompany balances		(1,813)	(1,813)
Changes in operating assets and liabilities:			
Restricted cash	812	(76)	736
Accounts receivable	(1,308)	(1,309)	(2,617)
Accounts receivable - affiliate	(1,621)	6	(1,615)
Prepaid expenses and other current assets	61	(348)	(287)
Income taxes receivable	732	634	1,366
Retainage receivable	(550)	240	(310)
Other assets	(337)	(1,700)	(2,037)
Accounts payable and accrued expenses	1,544	606	2,150
Income taxes payable	(1,129)	801	(328)
Deferred revenue	(8,721)	(1,289)	(10,010)
Other current liabilities	257	(101)	156
Retainage payable	38	1	39
Other liabilities	513	(328)	185
Net cash used in continuing operations	(8,965)	(978)	(9,943)
Net cash (used in) provided by discontinued operations	(6,554)	408	(6,146)
Net cash used in operating activities	(15,519)	(570)	(16,089)
Cash flows from investing activities:			
Purchase of businesses, net of cash aquired		(123)	(123)
Payments for purchase of property and equipment	(241)	(131)	(372)
Net cash used in investing activities of continuing operations	(241)	(254)	(495)
Net cash used in investing activities of discontinued operations	(458)	458	
Net cash used in investing activities	(699)	204	(495)
Cash flows from financing activities:			
Payments on term loans	(314)		(314)
Net borrowings on revolving loans	10,997	(7)	10,990
Proceeds from stock issued under employee stock purchase plan	49		49
Net cash provided by financing activities	10,732	(7)	10,725
Effect of exchange rate changes on cash	262	373	635
Net decrease in cash and cash equivalents	(5,224)		(5,224)
Cash and cash equivalents beginning of period	25,637		25,637
Cash and cash equivalents end of period	\$ 20,413		\$ 20,413

Table of Contents

	Consolidated Statement of Cash Flows Three Months Ended March 31, 2016		
	As Previously Reported	Adjustment	As restated
Cash flows from operating activities:			
Net (loss) earnings	\$ 1,454	2,039	\$ 3,493
Loss from discontinued operations	853	390	1,243
(Loss) earnings from continuing operations	2,307	2,429	4,736
Adjustments to reconcile net (loss) earnings to net cash (used in):			
Depreciation and amortization	1,878	28	1,906
Provision for bad debts	1,271		1,271
Amortization of deferred loan fees	444		444
Deferred tax benefit	749	3,638	4,387
Stock based compensation	668		668
Unrealized foreign exchange losses (gains) on intercompany balances		206	206
Changes in operating assets and liabilities:			
Restricted cash	378	19	397
Accounts receivable	(1,897)	(7,264)	(9,161)
Accounts receivable - affiliate	(4,149)	(113)	(4,262)
Prepaid expenses and other current assets	18	312	330
Income taxes receivable	(292)	11	(281)
Retainage receivable	(281)		(281)
Other assets	3,979	5,817	9,796
Accounts payable and accrued expenses	(6,558)	625	(5,933)
Income taxes payable	(3,867)	(770)	(4,637)
Deferred revenue	(2,533)	3,259	726
Other current liabilities	3,633	(1,095)	2,538
Retainage payable	266		266
Other liabilities	(995)	1,503	508
Net cash (used in) provided by continuing operations	(4,981)	8,605	3,624
Net cash (used in) provided by discontinued operations	368	(3,149)	(2,781)
Net cash (used in) provided by operating activities	(4,613)	5,456	843
Cash flows from investing activities:			
Purchase of businesses, net of cash acquired		(58)	(58)
Payments for purchase of property and equipment	(141)	(251)	(392)
Net cash used in investing activities of continuing operations	(141)	(309)	(450)
Net cash (used in) provided by investing activities of discontinued operations	(31)	75	44
Net cash used in investing activities	(172)	(234)	(406)
Cash flows from financing activities:			
Payments on term loans	(314)	1,133	(348)
Net borrowings on revolving loans	1,202	(1,550)	819
Proceeds from stock issued under employee stock purchase plan	10		10
Proceeds from exercise of stock options	86		86
Net cash provided by financing activities	984	(417)	567
Effect of exchange rate changes on cash	747	(4,805)	(4,058)
Net decrease in cash and cash equivalents	(3,054)		(3,054)
Cash and cash equivalents beginning of period	24,089		24,089
Cash and cash equivalents end of period	\$ 21,035		\$ 21,035

Table of Contents**Note 3 - Discontinued Operations**

In early 2016, the Company began to investigate the sale of its Construction Claims Group (the "Claims Group"). The pending sale of that segment represents a strategic shift that will have a major effect on its operations and financial results. Accordingly, the Company had classified the assets and liabilities of that segment as held for sale and has reflected its operations and cash flows as discontinued operations for all periods presented.

On December 20, 2016, the Company and its subsidiary Hill International N.V. ("Hill N.V." and, collectively with the Company, the "Sellers") entered into a Stock Purchase Agreement (as amended on May 3, 2017, the "Agreement") with Liberty Mergeco, Inc. (the "US Purchaser") and Liberty Bidco UK Limited (the "UK Purchaser" and, collectively with the US Purchaser, the "Purchasers") pursuant to which the Purchasers will acquire the Claims Group by the US Purchaser's acquisition of all of the stock of Hill International Consulting, Inc. from the Company and the UK Purchaser's acquisition of all of the stock of Hill International Consulting B.V. from Hill N.V. for a total purchase price of \$140.0 million in cash reduced by assumed indebtedness and certain other items, as set forth in the Agreement. The transaction closed effective May 5, 2017. See Note 19 for further information.

The carrying amounts of assets and liabilities of the discontinued operations which have been classified as held for sale are as follows (in thousands):

	March 31, 2017 (As restated)	December 31, 2016 (As restated)
Accounts receivable, net	\$ 48,580	\$ 50,892
Prepaid expenses and other current assets	2,775	3,064
Income taxes receivable	1,996	695
Total current assets classified as held for sale	\$ 53,351	\$ 54,651
Property and equipment, net	4,907	4,617
Acquired intangibles, net	3,500	3,397
Goodwill	23,907	23,461
Investments	7	6
Other assets	603	610
Total non-current assets classified as held for sale	\$ 32,924	\$ 32,091
Accounts payable and accrued expenses	20,329	21,539
Income taxes payable	8	92
Deferred revenue	1,684	1,562
Other current liabilities	2,178	2,695
Total current liabilities classified as held for sale	\$ 24,199	\$ 25,888
Deferred income taxes	599	385
Deferred revenue	437	1,012
Retained Earnings	457	457
Other liabilities	2,907	3,233
Total non-current liabilities classified as held for sale	\$ 4,400	\$ 5,087

Table of Contents

The line items constituting earnings from discontinued operations consist of the following (in thousands):

	March 31,	
	2017 (As restated)	2016 (As restated)
Revenues	\$ 44,030	\$ 41,851
Direct expenses	21,994	19,678
Gross profit	22,036	22,173
Selling, general and administrative expenses	22,960	20,132
Operating (loss) profit	(924)	2,041
Interest and related financing fees, net	3,095	2,769
Loss before income taxes	(4,019)	(728)
Income tax expense	232	515
Net loss from discontinued operations	\$ (4,251)	\$ (1,243)

In connection with the sale of the Construction Claims Group, the Company will be required to pay off the Secured Credit Facilities (See Note 19). Accordingly, the Company has allocated to discontinued operations all interest expense related to the Secured Credit Facilities. During the first quarter of 2017, the Company charged discontinued operations approximately \$1.6 million of costs related to the pending sale of the Construction Claims and \$0.4 million for a potential tax liability related to foreign jurisdictions. See Notes 18 and 19 for further information.

Note 4 - Liquidity

The amount of revenues attributable to operations in the Middle East and Africa is approximately \$51,491,000 of total consolidated revenue for the three months ended March 31, 2017. There has been significant political upheaval and civil unrest in this region, most notably in Libya and Iraq where the Company had substantial operations. In 2012, due to the overthrow of the Libyan government, the Company reserved a \$59,937,000 receivable from the Libyan Organization for Development of Administrative Centres (ODAC). Subsequently, the Company received payments totaling approximately \$9,511,000. During the quarter ended March 31, 2017, the Company wrote off approximately \$3,593,000 and maintains a reserve of approximately \$2,777,000 against accounts receivable from various projects in Iraq. This shortfall of cash flows continues to put a considerable strain on its liquidity.

The Company continues to experience slowing of collections from its clients in the Middle East, primarily Oman. In 2012, the Company commenced operations on the Muscat International Airport (the Oman Airport) project with the Ministry of Transport 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 delays in payments during the second quarter of 2015 when MOTC commenced its formal review and certification of the Company s invoices. In October 2015, the MOTC paid the Company for work performed in April and May 2015. 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 through approximately June 2018. The MOTC resumed payments in 2016, paying the Company approximately \$42,000,000 during 2016 and approximately \$12,728,000 through April 2017. At March 31, 2017, accounts receivable from the Oman Airport totaled approximately \$29,200,000, of which approximately \$18,700,000 was past due based on contractual terms.

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

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. As a result, the Company has had to rely heavily on debt and equity transactions to fund its operations over the past few years.

Table of Contents

Note 5 Basis of Presentation

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/A (Amendment No. 2) for the year ended December 31, 2016. Accordingly, they do not include all of the information and footnotes required by US 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 US 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 6 Accounts Receivable**

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

	March 31, 2017 (As restated)	December 31, 2016 (As restated)
Billed	\$ 191,243	\$ 200,134
Retainage, current portion	11,242	10,824
Unbilled	33,106	24,968
	235,591	235,926
Allowance for doubtful accounts	(68,302)	(71,082)
Total	\$ 167,289	\$ 164,844

Unbilled receivables primarily represent revenue earned on contracts, which the Company is contractually precluded from billing until predetermined future dates.

In 2012, the Company commenced operations on the Muscat International Airport (the Oman Airport) project with the Ministry of Transport 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 delays in payments 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 through approximately June 2018. When the MOTC resumed payments in 2016, the Company received approximately \$42,000,000 during that year. At March 31, 2017, accounts receivable from the Oman Airport totaled approximately \$29,200,000, of which approximately \$18,700,000, was past due based on contractual terms. Through April 2017, the Company received payments totaling approximately \$12,728,000 against this receivable.

In addition, there is approximately \$17,000,000 included in non-current Retainage Receivable in the consolidated balance sheet at March 31, 2017. Of that amount, approximately \$8,400,000 relates to retention and approximately \$8,600,000 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 released 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 ends with a 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.

Table of Contents

Note 7 Intangible Assets

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

	March 31, 2017		December 31, 2016	
	Gross Carrying Amount (As restated)	Accumulated Amortization (As restated)	Gross Carrying Amount (As restated)	Accumulated Amortization (As restated)
Client relationships	\$ 16,859	\$ 11,931	\$ 16,699	\$ 11,298
Acquired contract rights	2,005	1,901	2,058	1,912
Trade names	967	525	959	500
Total	\$ 19,831	\$ 14,357	\$ 19,716	\$ 13,710
Intangible assets, net	\$ 5,474		\$ 6,006	

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

Three Months Ended March 31,	
2017 (As restated)	2016 (As restated)
\$ 559	\$ 872

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 (As restated)
2017 (remaining 9 months)	\$ 1,529
2018	1,005
2019	1,001
2020	739
2021	342

Note 8 Goodwill

The following table summarizes the changes in the Company's carrying value of goodwill during 2017 (in thousands):

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

		As restated
Balance, December 31, 2016	\$	50,665
Additions		
Translation adjustments		802
Balance, March 31, 2017	\$	51,467

Table of Contents

Note 9 Accounts Payable and Accrued Expenses

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

	March 31, 2017 (As restated)		December 31, 2016 (As restated)
Accounts payable	\$ 29,808	\$	30,944
Accrued payroll and related expenses	34,616		32,618
Accrued subcontractor fees	11,012		9,188
Accrued agency fees	5,742		5,702
Accrued legal and professional fees	2,476		2,223
Other accrued expenses	4,339		5,005
	\$ 87,993	\$	85,680

Note 10 Notes Payable and Long-Term Debt

Outstanding debt obligations are as follows (in thousands):

	March 31, 2017		December 31, 2016
Term Loan Facility	\$ 112,878	\$	112,884
Domestic Revolving Credit Facility	25,000		16,500
International Revolving Credit Facility	11,274		11,102
Borrowings under revolving credit facilities with a consortium of banks in Spain	2,835		2,962
Borrowings under revolving credit facilities with the National Bank of Abu Dhabi	2,671		
Borrowings from Philadelphia Industrial Development Corporation	642		655
	155,300		144,103
Less current maturities	4,492		1,983
Notes payable and long-term debt, net of current maturities	\$ 150,808	\$	142,120

In conjunction with the sale of its Construction Claims Group in May 2017, the Company paid off and terminated the Secured Credit Facilities described below and has entered into a new credit facility (See Note 19). The disclosures that follow below describe the Secured Credit Facilities in existence as of March 31, 2017.

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 \$12,573,000 at March 31, 2017) 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

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

International Revolver include sub-limits for letters of credit amounting to \$25,000,000 and \$10,000,000, respectively.

Table of Contents

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 Maximum 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 (b) consolidated earnings before interest, taxes, depreciation, amortization, non-cash items and 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 December 31, 2016, the Company was in default of the Consolidated Net Leverage Ratio. The Company requested and received a waiver of the default from the Agent on March 27, 2017. In connection with the waiver, the Company incurred a consent fee amounting to \$401,000 that was charged to discontinued operations in the first quarter of 2017.

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 accounts receivable from 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) accounts receivable from any individual client 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 will be reset as soon as the accounts receivable over 120 days decline below the 10% or 14% levels. At March 31, 2017, the accounts receivable from Oman exceeded the limit described above, however, due to a payment received on April 12, 2017, the accounts receivable declined below the established limit.

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.

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

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 March 31, 2017, 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 after the closing, (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 commencing with the first full fiscal year ending after closing (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.

Table of Contents

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 \$4,122,000 and \$4,416,000 are included as an offset against the Term Loan balances in the consolidated balance sheets at March 31, 2017 and December 31, 2016, 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 March 31, 2017, the interest rate was 6.75%.

The interest rate on borrowings under the International Revolver will be the European Inter-Bank Offered Rate, or 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 March 31, 2017, the interest rate was 3.60%.

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.

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 March 31, 2017, the domestic borrowing base was \$30,000,000 and the international borrowing base was \$11,765,000 (approximately \$12,573,000 at March 31, 2017).

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

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

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 \$1,500,000 and \$1,650,000 are included in other assets in the consolidated balance sheet at March 31, 2017 and December 31, 2016, respectively.

Table of Contents

At March 31, 2017 the Company had \$4,470,000 of outstanding letters of credit and \$530,000 of available borrowing capacity under the U.S. Revolver.

At March 31, 2017, the Company had \$909,000 of outstanding letters of credit and \$1,604,000 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 2015 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), maintained a revolving credit facility with six banks in Spain which initially provided for total borrowing of up to 5,640,000 with interest at 6.50% on outstanding borrowings. The facility expired on December 17, 2016. Concurrent with the satisfaction of this facility Hill Spain entered into a new agreement with three new banks. The total new facility is for 2,623,000 (approximately \$2,803,000) at March 31, 2017. The facility was fully utilized at March 31, 2017. Interest rates at March 31, 2017 were between 1.85% and 3.50%. The loans have varying expiration dates between 36 and 60 months.

Hill Spain also maintains an ICO (Official Credit Institute) loan with Bankia Bank in Spain for 30,000 (approximately \$32,000) at March 31, 2017. The availability is reduced by 15,000 on a quarterly basis. At March 31, 2017, the loan was fully utilized. The interest rate at March 31, 2017 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 March 31, 2017) collateralized by certain overseas receivables. At March 31, 2017, AED 9,811,000 was utilized (approximately \$2,671,000). The interest rate is the one-month Emirates InterBank Offer Rate plus 3.50% (or 4.91% at March 31, 2017) but no less than 5.50%. This facility allows for letters of guarantee up to AED 200,000,000 (approximately \$54,451,000 at March 31, 2017) of which AED 99,180,000 (approximately \$27,002,000) was outstanding at March 31, 2017. The credit facility is subject to periodic review by the bank and as such has been classified as current in the consolidated balance sheet.

Engineering S.A. maintains four unsecured revolving credit facilities with two banks in Brazil aggregating 2,380,000 Brazilian Reais (BRL) (approximately \$755,000 at March 31, 2017, with a weighted average interest rate of 5.07% per month at March 31, 2017. 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 March 31, 2017, the maximum U.S. dollar equivalent of the commitments was \$83,376,000 of which \$33,177,000 is outstanding.

Note 11 Supplemental Cash Flow Information

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

	Three Months Ended March 31,			
	2017		2016	
Interest and related financing fees paid	\$	3,500	\$	3,003
Income taxes paid	\$	1,194	\$	2,956

Table of Contents**Note 12 Earnings per Share**

Basic earnings per common share have 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. Dilutive stock options increased average common shares outstanding by 91,000 shares for the three-month period ended March 31, 2016. Options to purchase approximately 6,754,000 shares and 2,590,000 shares were excluded from the calculation of diluted earnings per share for the three-month periods ended March 31, 2017 and 2016, respectively, because they were antidilutive.

Note 13 Share-Based Compensation

At March 31, 2017, the Company had 6,517,473 options outstanding with a weighted average exercise price of \$3.96. During the three months ended March 31, 2017, the Company granted 715,853 options which vest over a five-year period. The options have a weighted average exercise price of \$4.98 and a weighted-average contractual life of 7.0 years. The aggregate fair value of the options was \$1,412,500 calculated using the Black-Scholes valuation model. The weighted average assumptions used to calculate fair value were: expected life 5 years; volatility 48.30% and risk-free interest rate 2.08%. During the three months ended March 31, 2017, options for 1,165,200 shares with a weighted average exercise price of \$5.55 lapsed and options for 95,000 shares with a weighted average exercise price of \$4.40 were forfeited.

During the three months ended March 31, 2017, employees purchased 13,104 common shares for an aggregate purchase price of approximately \$49,000 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 \$461,000 and \$668,000 for the three months ended March 31, 2017 and 2016, respectively.

Note 14 Stockholders' Equity

The following table summarizes the changes in stockholders' equity during the three months ended March 31, 2017 (in thousands):

	Total (As restated)	Hill International, Inc. Stockholders (As restated)	Noncontrolling Interest (As restated)
Stockholders' equity, December 31, 2016	\$ 76,352	\$ 74,358	\$ 1,994
Net (loss) earnings	(2,235)	(2,354)	119
Other comprehensive earnings	(1,490)	(1,557)	67
Comprehensive (loss) earnings	(3,725)	(3,911)	186
Additional paid in capital	510	510	
Stockholders' equity, March 31, 2017	\$ 73,137	\$ 70,957	\$ 2,180

Note 15 Income Taxes

The effective tax rates for the three months ended March 31, 2017 and 2016 were 40.1% and 8.8%, 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. 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 benefit related to the U.S. net operating loss.

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

Table of Contents

	Three Months Ended March 31, 2017			Three Months Ended March 31, 2016		
	U.S.	Foreign (As restated)	Total	U.S.	Foreign (As restated)	Total
(Loss) earnings before income taxes	\$ (5,475)	\$ 8,840	\$ 3,365	\$ (6,147)	\$ 11,339	\$ 5,192
Income tax expense, net	\$	\$ 1,349	\$ 1,349	\$	\$ 456	\$ 456

The reserve for uncertain tax positions amounted to \$6,757,000 and \$6,735,000 at March 31, 2017 and December 31, 2016, respectively, and is included in Other liabilities in the consolidated balance sheet at those dates.

The Company's policy is to record income tax related interest and penalties in income tax expense. At both March 31, 2017 and December 31, 2016, potential interest and penalties related to uncertain tax positions amounting to \$228,000 and \$206,000 at March 31, 2017 and December 31, 2016, respectively, were 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 ASC 740, *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.

Note 16 Segment and Related Information

At March 31, 2017, due to the pending sale of our Construction Claims Group (which was closed on May 5, 2017; see Note 19), the Company now has one operating segment, the Project Management Group, which reflects how the Company will be managed going forward. The Project Management Group 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 services and facilities management services. The information for 2016 has been revised to exclude the operations of the Construction Claims Group which is accounted for as discontinued operations.

The following tables present certain information for the Project Management Group's operations (in thousands):

Table of Contents*Revenue by Geographic Region*

	Three Months Ended March 31,					
	2017 (As restated)		2016 (As restated)			
United States/Canada	\$	48,736	42.0%	\$	45,240	33.0%
Latin America		3,043	2.6		5,207	3.8
Europe		10,190	8.8		9,764	7.1
Middle East		45,776	39.4		65,656	48.0
Africa		5,715	4.9		6,395	4.7
Asia/Pacific		2,660	2.3		4,637	3.4
Total	\$	116,120	100.0%	\$	136,899	100.0%

For the quarter ended March 31, 2017, no other country, except for the United States, accounted for over 10% of consolidated total revenue.

For the quarter ended March 31, 2016, total revenue for the United Arab Emirates amounted to \$25,797,000 representing 18.8% of the total and Oman amounted to \$14,002,000 representing 10.2% of consolidated total. No other country, except for the United States, accounted for over 10% of consolidated total revenue.

Operating Profit (Loss)

	Three Months Ended March 31,			
	2017 (As restated)		2016 (As restated)	
United States	\$	4,274	\$	2,829
Latin America		(373)		895
Europe		1,416		1,514
Middle East		6,802		10,542
Africa		780		(2,149)
Asia/Pacific		124		737
Corporate		(8,909)		(8,548)
Total	\$	4,114	\$	5,820

Depreciation and Amortization Expense

	Three Months Ended March 31,			
	2017 (As restated)		2016 (As restated)	
Project Management	\$	1,522	\$	1,850

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

Corporate		73		56
Total	\$	1,595	\$	1,906

Revenue By Client Type

	Three Months Ended March 31,			
	2017 (As restated)		2016 (As restated)	
U.S. federal government	\$ 3,221	2.8%	\$ 2,858	2.1%
U.S. state, regional and local governments	35,240	30.3	33,973	24.8
Foreign governments	36,582	31.5	52,553	38.4
Private sector	41,077	35.4	47,515	34.7
Total	\$ 116,120	100.0%	\$ 136,899	100.0%

Table of Contents***Property, Plant and Equipment, Net, by Geographic Location***

	March 31, 2017 (As restated)	December 31, 2016 (As restated)
United States/Canada	\$ 12,069	\$ 12,626
Latin America	865	881
Europe	892	218
Middle East	1,603	1,645
Africa	151	169
Asia/Pacific	135	850
Total	\$ 15,715	\$ 16,389

Note 17 Client Concentrations

The Company had no individual clients that accounted for 10% or more of total revenues during the three months ended March 31, 2017 and 2016.

Note 18 Commitments and Contingencies*General Litigation*

In 2013, M.A. Angeliades, Inc. (Plaintiff) filed a complaint with the Supreme Court of New York against the Company and the New York City Department of Design and Construction (DDC) regarding payment of approximately \$8,771,000 for work performed as a subcontractor to the Company plus interest and other costs. On October 5, 2015, pursuant to a settlement agreement, Hill paid Plaintiff approximately \$2,596,000, including interest amounting to \$1,056,000, of which \$448,000 had been previously accrued and \$608,000 was charged to expense for the year ended December 31, 2015. The Plaintiff resolved its remaining issues regarding change orders and compensation for delay with DDC. On January 16, 2016, Plaintiff filed a Motion to amend its complaint against the Company claiming that the amounts paid by the Company do not reconcile with the amounts Plaintiff believes the Company received from DDC despite DDC s records reflecting the same amount as the Company s. The Plaintiff s Motion was granted and the parties are currently engaged in mediation and discovery.

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

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

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.

Table of Contents

Acquisition-Related Contingencies

As of March 31, 2017 our subsidiary, Hill International (Spain), S.A. (Hill Spain), owned an indirect 91% interest in Engineering S.A. (ESA), a firm located in Brazil. ESA s shareholders entered into an agreement whereby the minority shareholders have a right to compel (ESA Put Option) Hill Spain to purchase any or all of their shares during the period from February 28, 2014 to February 28, 2021. Hill Spain also has the right to compel (ESA Call Option) the minority shareholders to sell any or all of their shares during the same time period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA s most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed. On June 17, 2016, the three remaining minority shareholders exercised their ESA Put Options claim a value of BRL 8,656,000 (approximately \$2,670,000 at March 31, 2017). At that time, the Company accrued the liability in other current liabilities and as an adjustment to additional paid in capital. The amount is subject to negotiation and any difference will be recorded upon completion of the transaction.

Other

The Company has identified a potential tax liability related to certain foreign subsidiaries failure to comply with laws and regulations of the jurisdictions, outside of their home country, in which their employees provided services. The Company has estimated the potential liability to be approximately \$2,545,000 of which approximately \$410,000 has been included in discontinued operations in the consolidated statement of operations for the three months ended March 31, 2017. The potential liability balance is included in other liabilities in the consolidated balance sheet at March 31, 2017.

In connection with the move of its corporate headquarters, the Commonwealth of Pennsylvania provided the Company with a \$1,000,000 grant received on July 13, 2015. The terms of the grant require the Company to spend at least \$6,425,000 on capital expenditures for leasehold improvements and equipment for its new headquarters, remain at One Commerce Square for at least seven-years and employ at least 359 persons no later than April 1, 2018. The Company has met the capital expenditure requirement and has a twelve-year lease for its corporate headquarters. Upon receipt of the funds, the Company recorded a deferred credit which, assuming the employment requirement is met, will be reflected in income in the second quarter of 2018. If the Company does not meet the employment criteria, it will be required to repay the grant to the Commonwealth of Pennsylvania. The terms of the agreement are currently under review..

The landlord for the new Philadelphia headquarters provided the Company with a tenant improvement allowance amounting to approximately \$3,894,000. The tenant improvement allowance has been deferred, is included in other liabilities in the consolidated balance sheet at March 31, 2017 and December 31, 2016 and is being amortized on a straight-line basis against rent expense over the term of the twelve-year lease which commenced on May 1, 2015.

Note 19 Subsequent Events

Sale of Construction Claims Group

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

Table of Contents

Financing Transactions

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

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

Resignation of Chief Executive Officer

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

Table of Contents

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

Overview

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

Our revenue consists of two components: consulting fee revenue and reimbursable expenses. Reimbursable expenses are reflected in both revenue and direct expenses. These pass-through revenues/costs are subject to significant fluctuation from year to year.

Total revenue decreased \$20,779,000, or 15.2%, to \$116,120,000 for the first quarter of 2017 from \$136,899,000 for the first quarter of 2016. The decrease was primarily in the Middle East as economic conditions caused a decrease in project activity and a decrease in Oman as a major project began to wind down.

Direct expenses decreased \$14,792,000 or 15.9% to \$78,509,000 for the first quarter of 2017 from \$93,301,000 for the first quarter of 2016 primarily due to decreases in the Middle East and Latin America partially offset by increases in the United States.

Gross profit decreased \$5,987,000, or 13.7%, to \$37,611,000 for the first quarter of 2017 from \$43,598,000 for the first quarter of 2016 due to decreases in revenues in the Middle East, Latin America and Asia Pacific, partially offset by increases in the United States. The overall gross profit percentage increased due to higher margins in the United States and Africa.

Selling, general and administrative (SG&A) expenses decreased \$4,330,000, or 11.5%, to \$33,463,000 for the first quarter of 2017 from \$37,793,000 for the first quarter of 2016 primarily due to the decrease in unapplied and indirect labor cost the United Arab Emirates, Saudi Arabia and Latin America and to a decrease in bad debt expensed in the Middle East.

Operating profit was \$4,114,000, for the first quarter of 2017 compared to operating profit of \$5,820,000 for the first quarter of 2016. The decrease in operating profit was primarily due to the decrease in revenues in the Middle East and Latin America, partially offset by an increase in the United States and Africa and lower SG&A expenses.

Income tax expense was \$1,349,000 for the first quarter of 2017 compared to income tax expense of \$456,000 for the first quarter of 2016. The increase in income expense resulted from a change in the mix of pretax profits from foreign operations and the mix of tax rates in those jurisdictions and no offsetting tax benefits arising from the Company's U.S. net operating losses which management believes the Company will not be able to utilize.

Net loss attributable to Hill was (\$2,354,000) for the first quarter of 2017, compared to net income of \$3,504,000 for the first quarter of 2016. Diluted loss per common share was (\$0.05) for the first quarter of 2017 based upon 51,860,000 diluted common shares outstanding compared to a diluted earnings per common share of \$0.07 for the first quarter of 2016 based upon 51,722,000 diluted common shares outstanding.

Despite the drop in global oil prices and its negative impact on the construction industry, particularly in the Middle East, we remain optimistic about maintaining our current growth strategy to pursue new business development opportunities, continue to take advantage of organic growth opportunities, and strengthen our professional resources. In addition, in the latter part of 2016, we initiated a review of our corporate and operational overhead cost structure. The areas that will be most affected will be overhead personnel and related benefits and expenses. We believe these efforts combined with the sale of the Construction Claims Group and deleveraging of our balance sheet should significantly improve profitability and shareholder value.

Critical Accounting Policies

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

Table of Contents

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 2016 Annual Report on Form 10-K/A (Amendment No. 2).

Results of Operations

**Three Months Ended March 31, 2017 Compared to
Three Months Ended March 31, 2016**

Revenue by geographic region (dollars in thousands)

	Three Months Ended March 31,		2016		Change	
	2017 (As restated)	2016 (As restated)	2016 (As restated)	2015 (As restated)	2016 (As restated)	2015 (As restated)
United States/Canada	\$ 48,736	42.0%	\$ 45,240	33.0%	\$ 3,496	7.7%
Latin America	3,043	2.6	5,207	3.8	(2,164)	(41.6)
Europe	10,190	8.8	9,764	7.1	426	4.4
Middle East	45,776	39.4	65,656	48.0	(19,880)	(30.3)
Africa	5,715	4.9	6,395	4.7	(680)	(10.6)
Asia/Pacific	2,660	2.3	4,637	3.4	(1,977)	(42.6)
Total	\$ 116,120	100.0%	\$ 136,899	100.0%	\$ (20,779)	(15.2)%

The primary decrease in revenues occurred in the Middle East with decreases of \$15,501,000 in the United Arab Emirates and \$2,515,000 in Saudi Arabia due to a decrease in funding for projects as well as the demobilization of personnel due to the wind down of certain projects in the region and a decrease of \$4,034,000 in Oman due to a wind down of a major project partially offset by increases in other countries in the region. The decrease in revenues in the United States occurred primarily in the Northeast region and was partially offset by increases in the Southern and Southeast regions. In Latin America, the decrease was primarily in Brazil where revenues decreased by \$1,817,000 as the economic conditions in the region continue to limit available work. The decrease in Asia/Pacific occurred primarily in India and Afghanistan.

Direct expenses (dollars in thousands)

	Three Months Ended March 31,		2016		Change	
	2017 (As restated)	% of Revenue	2016 (As restated)	% of Revenue	2016 (As restated)	2015 (As restated)
United States/Canada	\$ 33,156	42.2%	\$ 31,563	33.8%	\$ 1,593	5.0%
Latin America	1,960	2.5	3,292	3.5	(1,332)	(40.5)

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

Europe	6,900	8.8	67.7	6,295	6.7	64.5	605	9.6
Middle East	31,937	40.7	69.8	45,497	48.8	69.3	(13,560)	(29.8)
Africa	3,205	4.1	56.1	4,336	4.6	67.8	(1,131)	(26.1)
Asia/Pacific	1,351	1.7	50.8	2,318	2.5	50.0	(967)	(41.7)
Total	\$ 78,509	100.0%	67.6%	\$ 93,301	100.0%	68.2%	\$ (14,792)	(15.9)%

Direct expenses consist of labor expenses for time charged directly to contracts, certain reimbursable expenses consisting of amounts paid to subcontractors and other third parties, and travel and other job-related expenses. The decrease in direct expenses occurred primarily in the Middle East direct labor due to lower revenues. Direct expense in the United States increased due increased revenues partially offset by the mix of internal labor and subcontractor utilization.

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

	Three Months Ended March 31,						Change	
	2017 (As restated)			2016 (As restated)				
			% of Revenue			% of Revenue		
United States/Canada	\$ 15,580	41.4%	32.0%	\$ 13,677	31.4%	30.2%	\$ 1,903	13.9%
Latin America	1,083	2.9	35.6	1,915	4.4	36.8	(832)	(43.4)
Europe	3,290	8.7	32.3	3,469	8.0	35.5	(179)	(5.2)
Middle East	13,839	36.8	30.2	20,159	46.2	30.7	(6,320)	(31.4)
Africa	2,510	6.7	43.9	2,059	4.7	32.2	451	21.9
Asia/Pacific	1,309	3.5	49.2	2,319	5.3	50.0	(1,010)	(43.6)
Total	\$ 37,611	100.0%	32.4%	\$ 43,598	100.0%	31.8%	\$ (5,987)	(13.7)%

The decrease in gross profit included decreases in the Middle East, Latin America and Asia/Pacific due to the decreases in revenues partially offset by increases in the United States due to lower subcontractor costs. The overall gross profit percentage increased to 32.4% in 2017 from 31.8% in 2016 with higher margins in the United States and Africa.

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

	Three Months Ended March 31,						Change	
	2017 (As restated)			2016 (As restated)				
			% of Revenue			% of Revenue		
United States	\$ 11,306	23.2%	23.2%	\$ 10,848	24.0%	24.0%	\$ 458	4.2%
Latin America	1,456	47.8	47.8	1,020	19.6	19.6	436	42.7
Europe	1,874	18.4	18.4	1,955	20.0	20.0	(81)	(4.1)
Middle East	7,037	15.4	15.4	9,617	14.6	14.6	(2,580)	(26.8)
Africa	1,730	30.3	30.3	4,208	65.8	65.8	(2,478)	(58.9)
Asia/Pacific	1,151	43.3	43.3	1,597	34.4	34.4	(446)	(27.9)
Corporate	8,909	7.7	7.7	8,548	6.2	6.2	361	4.2
Total	\$ 33,463	28.8%	28.8%	\$ 37,793	27.6%	27.6%	\$ (4,330)	(11.5)%

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

- A decrease of \$1,796,000 in bad debt expense for decreased reserves for certain accounts receivable due primarily to the Middle East region;
- A decrease of \$1,259,000 in unapplied and indirect labor due primarily to reductions in staff in the United Arab Emirates, Saudi Arabia and Latin America regions and increased utilization in the United States; and
- A net decrease in costs incurred for foreign currency translation adjustments of \$925,000.

Operating Profit (Loss) (dollars in thousands)

	Three Months Ended March 31,						Change		
	2017 (As restated)		2016 (As restated)						
		% of Revenue		% of Revenue					
United States/Canada	\$	4,274	8.8%	\$	2,829	6.3%	\$	1,445	51.1%
Latin America		(373)	(12.3)		895	17.2		(1,268)	(141.7)
Europe		1,416	13.9		1,514	15.5		(98)	(6.5)
Middle East		6,802	14.9		10,542	16.1		(3,740)	(35.5)
Africa		780	13.6		(2,149)	(33.6)		2,929	(136.3)
Asia/Pacific		124	4.7		737	15.9		(613)	(83.2)
Corporate cost		(8,909)			(8,548)			(361)	4.2
Total	\$	4,114	3.5%	\$	5,820	4.3%	\$	(1,706)	(29.3)%

Table of Contents

The decrease in operating profit was primarily due to the decrease in revenues in the Middle East and Latin America, partially offset by an increase in the United States due to increased utilization and lower subcontractor costs. Lower direct expenses incurred in Africa more than offset lower revenues to produce a higher operating profit in 2017. Corporate expenses increased by \$361,000 primarily due to an increase in foreign currency translation adjustments, and represented 7.7% of revenues in 2017 compared to 6.2% of revenues in 2016.

Interest and Related Financing Fees, net

Interest and related financing fees decreased \$121,000 to \$749,000 for the three months ended March 31, 2017 as compared with \$628,000 for the three months ended March 31, 2016. With the sale of our Construction Claims Group, we paid down and terminated our Secured Credit Facilities (See Notes 10 and 19). Accordingly, we have allocated approximately \$3,095,000 and \$2,769,000 of interest expense to discontinued operations for the three month periods ended March 31, 2017 and 2016, respectively.

Income Taxes

For the three months ended March 31, 2017 and 2016, the Company recognized income tax expense of \$1,349,000 and \$456,000, respectively. The income tax expense in both periods was related to the pre-tax income generated from foreign operations without recognizing an income tax benefit related to the U.S. net operating loss which management believes the Company will not be able to utilize.

The effective income tax rates for the three-month periods ended March 31, 2017 and 2016 were 40.1% and 8.8%, respectively. The change in the Company's effective tax rate in 2017 was primarily a result of a decrease in projected income and the mix of income among various foreign tax jurisdictions.

Net (Loss) Earnings Attributable to Hill

The net loss attributable to Hill International, Inc. for the quarter ended March 31, 2017 was \$2,354,000, or (\$0.05) per diluted common share based on 51,860,000 diluted common shares outstanding, as compared to net earnings in the first quarter of 2016 of \$3,504,000, or \$0.07 per diluted common share based upon 51,722,000 diluted common shares outstanding. Earnings from continuing operations for the three months ended March 31, 2017 was \$2,016,000 or \$0.04 per diluted share, compared to net earnings from continuing operations of \$4,736,000, or \$0.09 per diluted share, for the three months ended March 31, 2016.

Non-GAAP Financial Measures

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

EBITDA, a non-GAAP performance measure used by management, is defined as net earnings plus interest expense, income tax expense and depreciation and amortization, as shown in the table below. EBITDA does not purport to be an alternative to net earnings as a measure of financial and operating performance or ability to generate cash flows from operations that are available for taxes and capital expenditures. Because not all companies use identical calculations, this presentation of EBITDA may not be comparable to other similarly-titled measures of other companies. We use, and we believe investors benefit from the presentation of, EBITDA in evaluating our operating performance because it provides us and our investors with an additional tool to compare our operating performance on a consistent basis by removing the impact of certain items that management believes do not directly reflect our core operations. We believe that EBITDA is useful to investors and other external users of our financial statements in evaluating our operating performance because EBITDA is widely used by investors to measure a company's operating performance without regard to items such as interest expense, taxes, and depreciation and amortization, which can vary substantially from company to company

Table of Contents

depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired.

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

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

	Three Months Ended March 31,	
	2017	2016
	(As restated)	(As restated)
Net earnings from continuing operations	\$ 2,016	\$ 4,736
Interest expense, net	749	628
Income tax expense	1,349	456
Depreciation and amortization	1,595	1,906
EBITDA	\$ 5,709	\$ 7,726

Liquidity and Capital Resources

At March 31, 2017, our primary sources of liquidity consisted of \$20,413,000 of cash and cash equivalents, of which \$17,105,000 was on deposit in foreign locations, and \$2,134,000 of available borrowing capacity under our various credit facilities. See Note 10 to our consolidated financial statements for a description of our credit facilities and term loan and Note 19 to our consolidated financial statements for a discussion of our new credit facility arising concurrently with the sale of our Construction Claims Group. We believe that we have sufficient liquidity to support the reasonably anticipated cash needs of our operations over the next twelve months. However, significant unforeseen events, such as termination or cancellation of major contracts or further delays in receivable collections, could adversely affect our liquidity and results of operations. As a result of our not filing the Quarterly Report on Form 10-Q for the period ended June 30, 2017 within the time frame required by our lenders, we were not in compliance with the requirements of our Revolving Credit Facilities. We received a waiver regarding our non-compliance with such requirements, which also established new dates to file delinquent periodic reports. We are in discussions with our lenders regarding a waiver and extension of the required filing period. If market opportunities exist, we intend to undertake financing actions to increase our liquidity, which could include borrowing additional funds under our credit agreements, obtaining new bank debt, raising funds through capital market transactions, or other strategic initiatives. See Sources of Additional

Capital for further information.

The amount of revenue attributable to operations in the Middle East and Africa is approximately \$51,491,000 of total consolidated revenue as of March 31, 2017. We continue to experience a slowdown in collections from our clients in the Middle East primarily due to the drop in oil prices. This has put a considerable strain on our liquidity. As a result, we have had to rely heavily on debt and equity transactions to fund our operations and we may continue our reliance on debt and equity transactions for our liquidity needs over the next year.

In 2012, we commenced operations on the Oman Airport project with the Ministry of Transport and Communications (MOTC). The original contract term was to expire in November 2014. In October 2014, we applied for a twelve-month extension of time amendment (first extension), which was subsequently approved in March 2016, and we continued to work on the Oman Airport project. We began to experience delays in payments during the second quarter of 2015 when MOTC commenced its formal review and certification of our invoices. In December 2015, we began discussions with the

Table of Contents

MOTC on a second extension of time amendment (second extension) and have since commenced additional work, which we expect to last through approximately June 2018. When the MOTC resumed payments in 2016, we received approximately \$42,000,000 during 2016 and approximately \$12,728,000 through April 2017. At March 31, 2017, accounts receivable from the Oman Airport totaled approximately \$29,200,000. Approximately \$18,700,000 was past due based on contractual terms. During 2017, the Company began new discussions with MOTC for a further extension of time amendment (third extension) up to April 2018, which was provisionally approved in May 2017. Additionally, the Company has proposed to the client a fourth extension of time amendment up to August 2018. Although MOTC has not made timely payments under the contractual terms of the first extension and second extension amendments, we have received full payment under the first extension and believe that the same will hold true for the second extension as there is no evidence to the contrary. There are multiple indicators that we will receive payment as Oman is a wealthy, stable and solvent country which recently raised funds in the capital markets to help finance its budget. The MOTC has certified the past due invoices and the MOTC has indicated that it is committed to paying its obligations to us.

Additional Capital Requirements

Our subsidiary, Hill International (Spain), S.A. (Hill Spain), owns an indirect 91% interest in Engineering S.A. (ESA), a firm located in Brazil, and now known as Hill International do Brasil, S.A. ESA's shareholders entered into an agreement whereby the minority shareholders have a right to compel (ESA Put Option) Hill Spain to purchase any or all of their shares during the period from February 28, 2014 to February 28, 2021. Hill Spain also has the right to compel (ESA Call Option) the minority shareholders to sell any or all of their shares during the same period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA's most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed. On June 17, 2016, the three remaining minority shareholders exercised their ESA Put Option claiming a value of BRL 8,656,000 (approximately \$2,670,000 at March 31, 2017). The Company accrued the liability, which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2016.

Hill Spain has a credit agreement with three banks. The aggregate outstanding loan balances with the three banks was 2,623,000 (approximately \$2,803,000) at March 31, 2017. The facility was fully utilized at March 31, 2017. Interest rates at March 31, 2017 were between 1.85% and 3.50%. The loans have varying expiration dates between 36 and 60 months.

Sources of Additional Capital

We have relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At March 31, 2017, we had approximately \$50,199,000 of availability under these arrangements.

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

Cash Flow Activity For the Three Months Ended March 31, 2017

For the three months ended March 31, 2017, our cash and cash equivalents decreased by \$5,224,000 to \$20,413,000. Cash used in operations was \$16,089,000, cash used in investing activities was \$495,000 and cash provided by financing activities was \$10,725,000. We also experienced an increase in cash of \$635,000 from the effect of foreign currency exchange rate fluctuations.

Operating Activities

Our operations used cash of \$16,089,000 for the three months ended March 31, 2017. This compares to cash provided by operating activities of \$843,000 for the three months ended March 31, 2016. We had a consolidated net loss for the three months ended March 31, 2017 amounting to (\$2,235,000) compared to net earnings of \$3,493,000 for the three months ended March 31, 2016. Depreciation and amortization was \$1,595,000 during the three months ended March 31, 2017 compared to \$1,906,000 during the first three months ended March 31, 2016; the decrease in this category in 2017 versus

Table of Contents

2016 is due to the full amortization of the shorter-lived intangible assets of companies which we acquired over the last several years.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and letters of credit at March 31, 2017 and December 31, 2016 were \$3,871,000 and \$4,625,000, respectively.

Average days sales outstanding (DSO) at March 31, 2017 was 144 days compared to 120 days at March 31, 2016. DSO is a measure of our ability to collect our accounts receivable and is calculated by dividing the net period-end accounts receivable balance (including billed and unbilled A/R, joint venture A/R, WIP and current retainage receivable) by average total daily revenue (i.e., total revenue for the quarter divided by 90 days). Generally, the age of our receivables is adversely affected by the timing of payments from our clients in Europe and Africa, which have historically been slower than payments from clients in other geographic regions of the Company's operations. The increase in DSO in 2017 from 2016 was due to a slowing of collections from our clients in the Middle East, particularly Oman.

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

From year to year, the components of our working capital accounts may reflect significant changes. The changes are due primarily to the timing of cash receipts and payments with our working capital accounts combined with increases in our receivables and payables relative to the increase in our overall business, as well as our acquisition activity. In 2017 and 2016, payments to our vendors were drawn out due to a slowdown in our receipts against accounts receivable primarily in the Middle East and particularly Oman.

Investing Activities

Net cash used in investing activities was \$495,000 which was used to purchase leasehold improvements, computers, office equipment, furniture and fixtures.

Financing Activities

Net cash provided by financing activities was \$10,725,000. We received \$10,990,000 from borrowings under our various credit facilities. We repaid \$314,000 against the 2014 Term Loan Facility and \$14,000 against the low interest Philadelphia Industrial Development Corporation loan. We received \$49,000 from purchases under our Employee Stock Purchase Plan.

New Accounting Pronouncements

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 5 to the consolidated financial statements in Item 8 of Form 10K/A (Amendment No. 2) for the year ended December 31, 2016 filed with the SEC on May 4, 2018. There have been no new pronouncements impacting our consolidated financial statements since that filing.

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.

Table of Contents

Subsequent Events

In addition to the items listed in Note 19 of the financial statements, the following items occurred subsequent to the original filing of the March 31, 2017 Form 10-Q.

Appointment of Interim Chief Executive Officer

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

Resignation of Chief Financial Officer

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

Appointment of Interim Chief Financial Officer

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

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

Finalization of ESA Put Option

The Company settled negotiations with the minority shareholders of ESA in November 2017 and February 2018. The shareholders agreed to a reduced total payment of BRL 6,084,000 (approximately \$1,873,000). The Company made an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2017 of BRL 4,475,000 (approximately \$1,365,000) and on March 31, 2018 of BRL 3,146,000 (approximately \$953,000) to record the final transaction amounts.

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

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

Tax Cuts and Jobs Act

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

Performance Guarantee

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

Table of Contents

Inflation

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

Backlog

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

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

At March 31, 2017, our backlog, as restated (See Note 2 Item B), was approximately \$884,702,000 compared to approximately \$841,253,000 at December 31, 2016. Our net bookings during the first quarter of 2017 of \$159,569,000 equates to a book-to-bill ratio of 137.4%, which exceeds our goal of at least 110%. During the first quarter of 2017, we were awarded significant new contracts in the Middle East, Europe and the United States. We estimate that approximately \$324,600,000, or 36.7% of the backlog at March 31, 2017, will be recognized over the next twelve months.

Although backlog reflects business that we consider to be firm, cancellations or scope adjustments may occur. Further, substantially all of our contracts with our clients may be terminated at will, in which case the client would only be obligated to us for services provided through the termination date. Historically, the impact of terminations and modifications on our realization of revenue from our backlog has not been significant; however, 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. The following tables show our backlog by geographic region (in thousands):

	Total Backlog		12-Month Backlog	
As of March 31, 2017 (As restated):				
United States/Canada	\$	457,695	51.7% \$	124,053
				38.2%

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

Latin America	9,000	1.0	7,000	2.2
Europe	58,065	6.6%	26,025	8.0
Middle East	301,942	34.1%	139,547	43.0
Africa	51,000	5.8	22,000	6.8
Asia/Pacific	7,000	0.8	6,000	1.8
Total	\$ 884,702	100.0%	\$ 324,625	100.0%

As of December 31, 2016 (As restated):

United States/Canada	\$ 459,000	54.6%	\$ 141,000	41.7%
Latin America	10,000	1.2	8,000	2.4
Europe	38,225	4.5	26,091	7.7
Middle East	284,028	33.7	133,030	39.3
Africa	42,000	5.0	22,000	6.5
Asia/Pacific	8,000	1.0	8,000	2.4
Total	\$ 841,253	100.0%	\$ 338,121	100.0%

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Refer to our 2016 Annual Report on Form 10-K/A (Amendment No.2) for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in our 2016 Annual Report on Form 10-K/A (Amendment No. 2).

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

In connection with filing the Original Form 10-Q, our previous Chairman and Chief Executive Officer and our previous Senior Vice President and Chief Financial Officer evaluated our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Form 10-Q. Based on that evaluation, our previous Chairman and Chief Executive Officer and our previous Senior Vice President and Chief Financial Officer concluded that due to on-going remediation associated with the material weaknesses identified in our 2016 Form 10-K, our disclosure controls and procedures were ineffective as of such date to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the exchange act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Subsequent to that evaluation, in connection with the restatement discussed in Note 2 to the consolidated financial statements included in Item 8 of the 2016, Annual Report on Form10-K/A(Amendment No. 2), management reevaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2017. Management concluded that, due to the on-going remediation associated with the material weakness identified in our 2016, Annual Report on Form10-K/A (Amendment No. 2), our disclosure controls and procedures remained ineffective as of March 31, 2017 to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

Exchange Act Rules 13a-15(e) and 15d-15(e) define "disclosure controls and procedures" to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

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

For a more comprehensive discussion of the material weaknesses in internal control over financial reporting identified by management as of December 31, 2016 and the remedial measures undertaken to address these material weaknesses, investors are encouraged to review Item 9A, Disclosure Controls and Procedures, of our 2016 Annual Report on Form 10-K/A (Amendment No. 2).

(b) Changes in Internal Control Over Financial Reporting

Our remediation efforts were ongoing during the three months ended March 31, 2017, and, other than those remediation efforts described in Item 9A of our 2016 Annual Report on Form 10-K/A (Amendment No. 2), there were no other material changes in our internal control over financial reporting that occurred during the three months ended March 31,

Table of Contents

2017 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Therefore, while there were no changes, other than the items discussed in Item 9A of our 2016 Annual Report on Form 10-K/A (Amendment No. 2), our internal control over financial reporting in the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, we continued monitoring the operation of these remedial measures through the date of this on Form 10-Q/A.

Table of Contents

Part II OTHER INFORMATION

Item 1. Legal Proceedings.

Information required by this item is incorporated by reference to Part I, item 1, Note 18 Commitments and Contingencies, *General Litigation*.

Item 1A. Risk Factors.

There has been no material changes pertaining to risk factors discussed in the Company's 2016 Annual Report on Form 10-K/A (Amendment No. 2).

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

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	<u>Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	<u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

Table of Contents

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 8, 2018

By: /s/ Paul J. Evans
Paul J. Evans
Interim Chief Executive Officer
(Principal Executive Officer)

Dated: May 8, 2018

By: /s/ Marco A. Martinez
Marco A. Martinez
Senior Vice President and Interim Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)