

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

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K/A**

Amendment No. 2

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

For the fiscal year ended December 31, 2016

Commission file number 001-33961

**HILL INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
State or other jurisdiction of  
incorporation or organization

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

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

**19103**  
(Zip Code)

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

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

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

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

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

---

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

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

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

Indicate by a check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

Large Accelerated Filer   
Non-Accelerated Filer

Accelerated Filer   
Smaller reporting company   
Emerging growth company

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

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

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

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

### **Documents Incorporated by Reference**

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

---

Table of Contents

**Explanatory Note**

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

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

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

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

Benefits .

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

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

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

---

Table of Contents

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

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

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

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

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

---

Table of Contents

**HILL INTERNATIONAL, INC. AND SUBSIDIARIES**

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

**PART I.**

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

**Part II.**

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

**Part III.**

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

**Part IV.**





Table of Contents

**PART I**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

Table of Contents

**Item 1. Business.**

*General*

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

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

*Our Strategy*

Our strategy emphasizes the following key elements:

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

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

***Recent events***

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

***Reporting Segments***

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

Table of Contents

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

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

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

**Global Business**

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

**Revenue by Geographic Region (As restated)**

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

**Grow Organically and Through Selective Acquisitions**

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

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

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

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

### *Clients*

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

### *Revenue By Client Type (As restated)*

	<b>2016</b>		<b>2015</b>		<b>2014</b>	
U.S. federal government	\$	12,050	2.3%	\$	10,737	2.0%
U.S. state, regional and local governments		155,976	30.2%		139,086	25.5%
Foreign governments		170,567	33.1%		209,468	38.5%
Private sector		177,419	34.4%		185,469	34.0%
<b>Total</b>	<b>\$</b>	<b>516,012</b>	<b>100.0%</b>	<b>\$</b>	<b>544,760</b>	<b>100.0%</b>

Table of Contents

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

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

***Business Development***

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

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

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

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



Table of Contents

***Contracts***

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

***Backlog***

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

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

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

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

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

Table of Contents

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

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

**Competition**

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

**Insurance**

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

**Management**

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



Table of Contents*Executive Officers*

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

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

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

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

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

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

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

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

Table of Contents

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

***Employees***

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

***Access to Company Information***

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

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

**Item 1A. Risk Factors.**

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

***Risks Affecting the Business***

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

*contracts or the loss of personnel.*

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

*Risks Related to Ownership of Our Common Stock*

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

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

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

Table of Contents

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

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

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

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

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

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

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



Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents

**Item 1B. Unresolved Staff Comments.**

None.

**Item 2. Properties.**

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

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

**United States/Canada**

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

**Europe**

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

**Latin America**

Bogota, Colombia  
Mexico City, Mexico  
Sao Paulo, Brazil

**Middle East**

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

**Africa**

Algiers, Algeria  
Cairo, Egypt  
Casablanca, Morocco

**Asia/Pacific**

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

**Item 3. Legal Proceedings.**

*General Litigation*

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



Table of Contents

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

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

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

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

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

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

*Stockholders*

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

*Dividends*

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

*Securities Authorized for Issuance under Equity Compensation Plans*

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

Table of Contents

*Recent Sales of Unregistered Securities*

None.

*Performance Graph*

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

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



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

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

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

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

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

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

Table of Contents

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

United States, Latin America and Europe.

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

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

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

Table of Contents

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

***Critical Accounting Policies and Estimates***

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

***Revenue Recognition***

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

*Time and Materials Contracts*

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

*Cost Plus Contracts*

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

*Fixed-Price Contracts*

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

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

Table of Contents

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

*Allowance for Doubtful Accounts*

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

*Goodwill and Acquired Intangible Assets*

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

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

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

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

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



Table of Contents

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

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

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

***Income Taxes***

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

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

***Stock Options***

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

price volatility, expected life and stock option exercise behavior.

*Contingencies*

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

Table of Contents**Results of Operations**

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

**Revenues (dollars in thousands)**

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

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

**Direct expenses (dollars in thousands)**

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

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

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

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

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

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

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

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

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

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

**Operating Profit (Loss) (dollars in thousands)**

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

Table of Contents

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

**Interest and related financing fees, net**

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

**Income Taxes**

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

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

**Net Loss Attributable to Hill**

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





Table of Contents

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

**Revenue (dollars in thousands)**

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

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

**Direct expenses (dollars in thousands)**

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

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

America due to decreased revenues.

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

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

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

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

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

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

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

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

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

**Operating Profit (Loss) (dollars in thousands)**

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

Table of Contents

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

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

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

**Interest and related financing fees, net**

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

**Income Taxes**

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

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

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

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

### **Net Earnings (Loss) Attributable to Hill**

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

### **Non-GAAP Financial Measures**

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

Table of Contents

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

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

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

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

### Liquidity and Capital Resources

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

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

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



Table of Contents

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

**Sources of Additional Capital**

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

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

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

**Additional Capital Requirements**

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

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

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

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

Table of Contents

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

**Cash Flow Activity During the Year Ended December 31, 2016**

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

***Operating Activities***

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

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

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

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

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

Table of Contents

***Investing Activities***

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

***Financing Activities***

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

**New Accounting Pronouncements**

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

**Quarterly Fluctuations**

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

**Inflation**

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

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

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

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

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

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

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

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

**Contractual Obligations**

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

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

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

#### **Subsequent Events**

##### *Sale of Construction Claims Group*

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

##### *Financing Transactions*

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

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

Table of Contents

*Resignation of Chief Executive Officer*

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

*Appointment of Interim Chief Executive Officer*

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

*Resignation of Chief Financial Officer*

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



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

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

### *Appointment of Interim Chief Financial Officer*

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

Table of Contents

*Finalization of ESA purchase*

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

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

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

*Tax Cuts and Jobs Act*

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

*Performance Guarantee*

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

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

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

*Foreign Exchange Rates*

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

Table of Contents

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

*Interest Rates*

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

Table of Contents

Item 8. Financial Statements and Supplementary Data.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of

Hill International, Inc. and Subsidiaries

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

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

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

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

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

/s/ EisnerAmper LLP

EISNERAMPER LLP

Iselin, New Jersey

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

Table of Contents

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders

Hill International, Inc. and Subsidiaries

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

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

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

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

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

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

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



Table of Contents

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

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

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

/s/ EisnerAmper LLP

EISNERAMPER LLP

Iselin, New Jersey

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

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

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

Table of Contents

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

(In thousands)

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

See accompanying notes to consolidated financial statements.

Table of Contents

## HILL INTERNATIONAL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

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

(In thousands)

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

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

Stock issued for acquisition of CPI										
Dividends paid to noncontrolling interests								(253)	(253)	
Acquisition of additional interest in subsidiary	925		4,703					4,703	(4,703)	
Purchase of treasury stock					130	(580)		(580)		(580)
<b>Balance - December 31, 2015 (As restated)</b>	58,335	6	189,198	(47,793)	(10,589)	6,743	(29,245)	101,577	2,360	103,937
Net (loss) earnings (As restated)				(33,812)				(33,812)	76	(33,736)
Other comprehensive loss (As restated)					5,978			5,978	(331)	5,647
Stock issued to Board of Directors	3		10					10		10
Stock-based compensation expense (As restated)			2,486	256				2,742		2,742
Stock issued under employee stock purchase plan	59		182					182		182
Exercise of stock options	117		351					351		351
Cashless exercise of stock options	321		796			234	(796)			
Dividends paid to noncontrolling interests									(111)	(111)
Decrease related to ESA Put Options			(2,670)					(2,670)		(2,670)
<b>Balance - December 31, 2016 (As restated)</b>	58,835	\$ 6	\$ 190,353	\$ (81,349)	\$ (4,611)	6,977	\$ (30,041)	\$ 74,358	\$ 1,994	\$ 76,352

See accompanying notes to consolidated financial statements.

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

	<b>Years Ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2014</b>
	<b>(As restated)</b>	<b>(As restated)</b>	<b>(As restated)</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (33,736)	\$ (13,678)	\$ (11,373)
Loss from discontinued operations	11,776	2,564	18,627
(Loss) earnings from continuing operations	(21,960)	(11,114)	7,254
Adjustments to reconcile net (loss) earnings to net cash provided by (used in):			
operating activities:			
Depreciation and amortization	7,265	7,940	6,951
Provision (recovery) for bad debts	14,454	6,262	(5,195)
Interest accretion on term loan			15,526
Amortization of loan fees	1,778	1,778	555
Deferred tax (benefit) provision	(692)	(1,786)	(2,708)
Stock based compensation	2,496	2,755	3,189
Unrealized foreign exchange losses (gains) on intercompany balances	11,579	13,929	5,291
Changes in operating assets and liabilities (net of acquisitions):			
Restricted cash	22	11,170	2,436
Accounts receivable	5,284	(51,041)	(12,747)
Accounts receivable - affiliate	3,345	(3,762)	(3,505)
Prepaid expenses and other current assets	(808)	4,446	(1,921)
Income taxes receivable	(1,058)	(384)	(957)
Retainage receivable	(14,982)	662	(2,088)
Other assets	5,970	1,717	7,545
Accounts payable and accrued expenses	(2,805)	18,704	8,920
Income taxes payable	(3,337)	(50)	(1,895)
Deferred revenue	9,989	1,554	(4,141)
Other current liabilities	(84)	(1,423)	(4,285)
Retainage payable	(968)	(519)	1,431
Other liabilities	1,353	5,626	238
<b>Net cash provided by continuing operations</b>	<b>16,841</b>	<b>6,464</b>	<b>19,894</b>
<b>Net cash used in discontinued operations</b>	<b>(7,943)</b>	<b>(5,928)</b>	<b>(14,065)</b>
<b>Net cash provided by operating activities</b>	<b>8,898</b>	<b>536</b>	<b>5,829</b>
<b>Cash flows from investing activities:</b>			
Purchase of businesses, net of cash acquired		(4,354)	(2,701)
Purchase of additional interest in Engineering S.A.			(3,556)
Payments for purchase of property and equipment	(2,363)	(10,083)	(3,825)
<b>Net cash used in investing activities of continuing operations</b>	<b>(2,363)</b>	<b>(14,437)</b>	<b>(10,082)</b>
<b>Net cash used in investing activities of discontinued operations</b>	<b>(1,687)</b>	<b>(4,996)</b>	<b>(2,128)</b>
<b>Net cash used in investing activities</b>	<b>(4,050)</b>	<b>(19,433)</b>	<b>(12,210)</b>
<b>Cash flows from financing activities:</b>			
Due to bank			(2)
Proceeds from secondary public offering of common stock			38,042
Proceeds from term loan borrowing		23,548	120,000
Payoff and termination of term loan	(1,390)	(1,240)	(100,000)
Payoff and termination of revolving credit facility	(109)		(25,500)



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

Payment of financing fees			(10,065)
Payments on term loan			(13,833)
Net borrowings (payments) on revolving loans			(300)
Proceeds from Philadelphia Industrial Development Corporation loan		750	
Payment of holdback purchase price	(1,531)		
Dividends paid to noncontrolling interest	(111)	(253)	(173)
Proceeds from stock issued under employee stock purchase plan	182	126	197
Proceeds from exercise of stock options	351	272	1,032
Purchase of treasury stock		(580)	
<b>Net cash (used in) provided by financing activities</b>	<b>(2,608)</b>	<b>22,623</b>	<b>9,398</b>
<b>Effect of exchange rate changes on cash</b>	<b>(692)</b>	<b>(9,761)</b>	<b>(3,274)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,548</b>	<b>(6,035)</b>	<b>(257)</b>
<b>Cash and cash equivalents beginning of year</b>	<b>24,089</b>	<b>30,124</b>	<b>30,381</b>
<b>Cash and cash equivalents end of year</b>	<b>\$ 25,637</b>	<b>\$ 24,089</b>	<b>\$ 30,124</b>

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.

Table of Contents

**Note 2 Restatement of Previously Reported Consolidated Financial Statements**

As previously disclosed in the Company's Current Report on Form 8-K filed on September 21, 2017, the Board of Directors (the Board) of 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 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 (collectively, the Non-Reliance Periods) can no longer be relied upon. In connection with the accounting for the May 2017 sale of the Construction Claims Group, the Company discovered a number of errors related to its application of generally accepted accounting principles in the United States (US GAAP) and computational errors. This Note 2 to the consolidated financial statements discloses the nature of the restatement matters and their impact on the consolidated financial statements for each of the years ended December 31, 2016, 2015 and 2014. Restated unaudited quarterly financial data for the interim periods in fiscal years 2016 and 2015 is presented in the Quarterly Results (Unaudited) section below and is, collectively with the restated annual information, referred to as the Restatement.

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 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 errors resulted in a reduction to retained earnings of \$48,415,000, \$36,784,000 and \$22,867,000 at December 31, 2016, 2015 and 2014, respectively; a reduction to accumulated other comprehensive loss of \$48,415,000, \$38,532,000 and \$21,986,000 at December 31, 2016, 2015 and 2014, respectively; a decrease of \$1,748,000 and an increase of \$880,000 in noncontrolling interest at December 31, 2015 and 2014, respectively; an increase to SG&A expenses of \$11,818,000, \$14,087,000 and \$5,291,000 in 2016, 2015 and 2014, respectively; a \$172,000 and \$170,000 decrease in income tax expense in 2016 and 2015, respectively; and net loss from discontinued operations decreased \$16,000 in 2016.

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 a reduction of \$4,052,000, a reduction of \$6,474,000 and an increase of \$705,000 to revenues in 2016, 2015 and 2014, respectively; increases of \$290,000, \$168,000 and \$705,000 in accounts receivable at December 31, 2016, 2015 and 2014, respectively; an increase in deferred revenue of \$10,113,000 and \$5,936,000 at December 31, 2016 and 2015, respectively; and an increase in accumulated other comprehensive loss of \$2,000 and a decrease of \$1,000 at

December 31, 2016 and 2015, respectively.

Table of Contents

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 \$398,000 and \$159,000 decrease in property plant and equipment at December 31, 2016 and 2015, respectively; a \$741,000, \$895,000 and \$1,136,000 decrease in acquired intangibles at December 31, 2016, 2015 and 2014, respectively; a \$223,000, \$195,000 and \$83,000 decrease in accumulated other comprehensive loss at December 31, 2016, 2015 and 2014, respectively; and a \$112,000 increase, a \$32,000 increase and a \$153,000 decrease in SG&A expense in 2016, 2015 and 2014 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 decreases in other liabilities of \$349,000 and \$372,000 at December 31, 2016 and 2015, respectively; an increase in liabilities held for sale of \$457,000 at December 31, 2016; a decrease in accumulated other comprehensive loss of \$1,000 at December 31, 2015 a \$23,000 increase and \$371,000 decrease in SG&A expenses for 2016 and 2015, respectively and a \$457,000 increase in the loss from discontinued operations for the year ended December 31, 2016.

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, during the period of civil unrest in that country, 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 \$4,252,000, \$4,789,000 and \$4,818,000 in other liabilities at December 31, 2016, 2015 and 2014 respectively; a decrease of \$851,000, \$501,000 and \$309,000 in accumulated other comprehensive loss at December 31, 2016, 2015 and 2014, respectively; and a \$187,000 decrease, \$162,000 increase and \$2,824,000 increase in income tax expense for 2016, 2015 and 2014, respectively.

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 \$783,000 decrease, \$1,342,000 decrease and \$889,000 increase in revenue in 2016, 2015 and 2014, respectively; a decrease in SG&A expense of \$3,916,000, \$790,000 and \$952,000 in 2016, 2015 and 2014, respectively; a decrease of \$2,720,000, \$1,050,000 and \$1,714,000 in net earnings from discontinued operations in 2016, 2015 and 2014, respectively; decreases of \$614,000, \$62,000 and \$560,000 in income tax expense during 2016, 2015 and 2014, respectively; a \$60,000 decrease, a \$15,000 and \$3,000 increase in income from noncontrolling interest for the years ended December 31, 2016, 2015 and 2014, respectively; a \$3,964,000 increase in accounts receivable-affiliates at December 31, 2015; a decrease of \$80,000, a decrease of \$3,442,000 and an increase of \$1,586,000 in investments at December 31, 2016, 2015 and 2014, respectively; an increase of \$747,000 and \$896,000 in assets held for sale at December 31, 2016 and 2015, respectively; a \$1,688,000, \$1,698,000 and \$1,127,000 increase in accounts payable and accrued expenses at December 31, 2016, 2015 and 2014, respectively; an \$11,000 decrease in other current liabilities at December 31, 2016; a \$2,322,000 and \$147,000 decrease in current liabilities held for sale, at December 31, 2016 and 2015, respectively; a \$971,000, \$461,000 and \$800,000 decrease in other liabilities at December 31, 2016, 2015 and 2014, respectively; an increase of \$1,717,000, \$1,358,000 and \$801,000 in liabilities held for sale at December 31, 2016, 2015 and 2014,



Table of Contents

respectively; a \$329,000, increase in additional paid in capital at December 31, 2016 and 2015; a decrease in other comprehensive loss of \$644,000, \$76,000 and \$26,000 at December 31, 2016, 2015 and 2014, respectively; and a \$22,000 decrease, \$38,000 and \$352,000 increase in noncontrolling interest at December 31, 2016, 2015 and 2014, respectively. In conjunction with the sale of the construction claims group in 2016, interest expense of \$1,661,000, \$1,585,000 and \$1,535,000 for the years ended December 31, 2016, 2015 and 2014, respectively, was reclassified from discontinued operations to continuing operations. In addition, the adjustment to correct forfeitures resulted in a \$331,000 increase in retained earnings, a \$331,000 decrease in additional paid in capital, a \$76,000 decrease in selling, general and administrative expenses as of and for the year ended December 31, 2016.

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 \$1,003,000 increase, \$1,518,000 decrease and \$1,118,000 decrease in deferred income tax assets at December 31, 2016, 2015 and 2014, respectively; a decrease in income taxes receivable of \$507,000 and an increase in current assets held for sale of \$507,000 at December 31, 2016; a decrease of \$1,954,000, \$1,305,000 and \$1,477,000 in non-current assets held for sale at December 31, 2016, 2015 and 2014, respectively; income tax payable decreased \$441,000, \$3,000 and \$403,000 at December 31, 2016, 2015 and 2014, respectively; an increase in current liabilities held for sale of \$507,000 at December 31, 2016; deferred income taxes increased \$25,000, \$44,000 and \$3,080,000 at December 31, 2016, 2015 and 2014, respectively; liabilities held for sale decreased \$1,766,000, \$1,031,000 and \$1,340,000 at December 31, 2016, 2015 and 2014, respectively; accumulated other comprehensive loss increased \$415,000, \$3,029,000 and \$1,416,000 at December 31, 2016, 2015 and 2014, respectively; income tax expense increased \$860,000, decreased \$562,000 and increased \$221,000 in 2016, 2015 and 2014, respectively; and net earnings from discontinued operations increased \$800,000, decreased \$225,000 and increased \$265,000 in 2016, 2015 and 2014, respectively.

At December 31, 2014, deferred income tax assets and deferred tax liabilities were netted to conform to current period presentation. This resulted in \$15,385,000 decrease in deferred income taxes and, a \$18,762,000 decrease in deferred income taxes.

The Restatement includes the net effect of adjustments to opening retained earnings and opening accumulated other comprehensive income as of January 1, 2014, which adjustment reflects the impact of the Restatement on periods prior to 2014. The cumulative effect of those adjustments decreased previously reported retained earnings by approximately \$21,037,000, decreased accumulated other comprehensive loss by approximately \$16,819,000, increased non-controlling interests by approximately \$1,007,000 and decreased total stockholders' equity by approximately \$3,211,000 as of December 31, 2013. The table below summarizes the effects of the cumulative Restatement adjustments recorded to all periods prior to January 1, 2014 on previously reported retained earnings, accumulated other comprehensive income and Non-controlling Interests (in thousands):

	December 31, 2013				Reference
	As Previously Reported	Adjustments	As Restated		
Retained Earnings	\$ 422	(21,037)	\$ (20,615)	A, B, C, D, E, F, G	
Accumulated Other Comprehensive Loss	(24,591)	16,819	(7,772)	A, B, C, F, G	

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

Non-controlling Interests	11,887	1,007	12,894	<b>A, F</b>
---------------------------	--------	-------	--------	-------------

The following tables summarize the impact of the Restatement on our previously reported Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Comprehensive Loss and Consolidated Statements of Cash Flows for the years ending December 31, 2016, 2015 and 2014 (in thousands):



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

Table of Contents

**Consolidated Balance Sheet  
December 31, 2016**

	As Previously Reported	Adjustments	As Restated	Reference
<b>Assets</b>				
Cash and cash equivalents	\$ 25,637	\$	\$ 25,637	
Cash - restricted	4,312		4,312	
Accounts receivable, less allowance for doubtful accounts of \$71,082	164,554	290	164,844	<b>B</b>
Accounts receivable - affiliates	5,712		5,712	
Prepaid expenses and other current assets	7,751		7,751	
Income taxes receivable	4,061	(507)	3,554	<b>G</b>
Current assets held for sale	54,144	507	54,651	<b>G</b>
Total current assets	266,171	290	266,461	
Property and equipment, net	16,787	(398)	16,389	<b>C</b>
Cash - restricted, net of current portion	313		313	
Retainage receivable	17,225		17,225	
Acquired intangibles, net	6,747	(741)	6,006	<b>C</b>
Goodwill	50,665		50,665	
Investments	3,581	(80)	3,501	<b>F</b>
Deferred income tax assets	2,197	1,003	3,200	<b>G</b>
Other assets	4,224		4,224	
Assets held for sale	33,298	(1,207)	32,091	<b>F, G</b>
Total assets	\$ 401,208	\$ (1,133)	\$ 400,075	
<b>Liabilities and Stockholders' Equity</b>				
Current maturities of notes payable and long-term debt	1,983		1,983	
Accounts payable and accrued expenses	83,992	1,688	85,680	<b>F</b>
Income taxes payable	5,315	(441)	4,874	<b>G</b>
Current portion of deferred revenue	12,943		12,943	
Other current liabilities	8,168	(11)	8,157	<b>F</b>
Current liabilities held for sale	27,703	(1,815)	25,888	<b>G, F</b>
Total current liabilities	140,104	(579)	139,525	
Notes payable and long-term debt, net of current maturities	142,120		142,120	
Retainage payable	961		961	
Deferred income taxes	535	25	560	<b>G</b>
Deferred revenue	12,691	10,113	22,804	<b>B</b>
Other liabilities	9,732	2,934	12,666	<b>D, E, F</b>
Liabilities held for sale	4,679	408	5,087	<b>D, F, G</b>
Total liabilities	310,822	12,901	323,723	
<b>Commitments and contingencies</b>				
<b>Stockholders' equity:</b>				
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued				
Common stock, \$0.0001 par value; 100,000 shares authorized, 58,835 shares issued at December 31, 2016	6		6	
Additional paid-in capital	190,355	(2)	190,353	<b>F</b>
Retained earnings (deficit)	(17,623)	(63,726)	(81,349)	<b>A, B, C, D, E, F, G</b>
Accumulated other comprehensive loss	(54,327)	49,716	(4,611)	<b>A, C, E, F, G</b>
	118,411	(14,012)	104,399	
Less treasury stock of 6,977 shares at December 31, 2016	(30,041)		(30,041)	
Hill International, Inc. share of equity	88,370	(14,012)	74,358	
Noncontrolling interests	2,016	(22)	1,994	

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

Total equity		90,386		(14,034)		76,352
Total liabilities and stockholders equity	\$	401,208	\$	(1,133)	\$	400,075

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

Table of Contents

**Consolidated Balance Sheet  
December 31, 2015**

	As Previously Reported	Adjustments	As Restated	Reference
<b>Assets</b>				
Cash and cash equivalents	\$ 24,089	\$	\$ 24,089	
Cash - restricted	4,435		4,435	
Accounts receivable, less allowance for doubtful accounts of \$60,535	187,553	168	187,721	<b>B</b>
Accounts receivable - affiliates	5,205	3,964	9,169	<b>F</b>
Prepaid expenses and other current assets	7,030		7,030	
Income taxes receivable	3,187		3,187	
Current assets held for sale	60,092		60,092	
Total current assets	291,591	4,132	295,723	
Property and equipment, net	18,981	(159)	18,822	<b>C</b>
Cash - restricted, net of current portion	259		259	
Retainage receivable	2,638		2,638	
Acquired intangibles, net	9,773	(895)	8,878	<b>C</b>
Goodwill	49,739		49,739	
Investments	8,378	(3,442)	4,936	<b>F</b>
Deferred income tax assets	4,602	(1,518)	3,084	<b>G</b>
Other assets	6,177		6,177	
Assets held for sale	36,608	(409)	36,199	<b>F, G</b>
Total assets	\$ 428,746	\$ (2,291)	\$ 426,455	
<b>Liabilities and Stockholders Equity</b>				
Current maturities of notes payable and long-term debt	4,357		4,357	
Accounts payable and accrued expenses	89,336	1,698	91,034	<b>F</b>
Income taxes payable	8,983	(3)	8,980	<b>G</b>
Current portion of deferred revenue	9,866		9,866	
Other current liabilities	3,009		3,009	
Current liabilities held for sale	27,497	(147)	27,350	<b>F</b>
Total current liabilities	143,048	1,548	144,596	
Notes payable and long-term debt, net of current maturities	140,626		140,626	
Retainage payable	1,929		1,929	
Deferred income taxes	988	44	1,032	<b>G</b>
Deferred revenue	9,921	5,936	15,857	
Other liabilities	7,792	3,956	11,748	<b>D, E, F</b>
Liabilities held for sale	6,403	327	6,730	<b>F, G</b>
Total liabilities	310,707	11,811	322,518	
Commitments and contingencies				
Stockholders equity:				
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued				
Common stock, \$0.0001 par value; 100,000 shares authorized, 58,335 shares issued at December 31, 2015	6		6	
Additional paid-in capital	188,869	329	189,198	<b>F</b>
Retained earnings (deficit)	1,205	(48,998)	(47,793)	<b>A, B, C, D, E, F, G</b>
Accumulated other comprehensive loss	(46,866)	36,277	(10,589)	<b>A, C, E, F, G</b>
	143,214	(12,392)	130,822	
Less treasury stock of 6,743 shares at December 31, 2015	(29,245)		(29,245)	
Hill International, Inc. share of equity	113,969	(12,392)	101,577	
Noncontrolling interests	4,070	(1,710)	2,360	

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

Total equity		118,039		(14,102)		103,937
Total liabilities and stockholders equity	\$	428,746	\$	(2,291)	\$	426,455

Table of Contents

<b>Consolidated Balance Sheet</b>				
<b>December 31, 2014</b>				
	As Previously Reported	Adjustments	As Restated	Reference
<b>Assets</b>				
Cash and cash equivalents	\$ 30,124	\$	\$ 30,124	
Cash - restricted	8,851		8,851	
Accounts receivable, less allowance for doubtful accounts of \$66,119	145,330	705	146,035	<b>B</b>
Accounts receivable - affiliates	3,993		3,993	
Prepaid expenses and other current assets	11,582		11,582	
Income taxes receivable	3,316		3,316	
Current assets held for sale	53,393		53,393	
Total current assets	256,589	705	257,294	
Property and equipment, net	8,957		8,957	
Cash - restricted, net of current portion	7,156		7,156	
Retainage receivable	3,300		3,300	
Acquired intangibles, net	12,122	(1,136)	10,986	<b>C</b>
Goodwill	53,669		53,669	
Investments	5,065	1,586	6,651	<b>F</b>
Deferred income tax assets	18,300	(16,503)	1,797	<b>G</b>
Other assets	8,613		8,613	
Assets held for sale	39,126	(1,477)	37,649	<b>G</b>
Total assets	\$ 412,897	\$ (16,825)	\$ 396,072	
<b>Liabilities and Stockholders Equity</b>				
Current maturities of notes payable and long-term debt	6,361		6,361	
Accounts payable and accrued expenses	75,019	1,127	76,146	<b>F</b>
Income taxes payable	7,917	(403)	7,514	<b>G</b>
Current portion of deferred revenue	14,339		14,339	
Other current liabilities	6,829		6,829	
Current liabilities held for sale	28,779		28,779	
Total current liabilities	139,244	724	139,968	
Notes payable and long-term debt, net of current maturities	115,163		115,163	
Retainage payable	2,448		2,448	
Deferred income taxes	16,353	(15,682)	671	<b>G</b>
Deferred revenue	11,488		11,488	
Other liabilities	1,875	4,018	5,893	<b>E, F</b>
Liabilities held for sale	4,326	(539)	3,787	<b>F, G</b>
Total liabilities	290,897	(11,479)	279,418	
<b>Commitments and contingencies</b>				
<b>Stockholders equity:</b>				
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued				
Common stock, \$0.0001 par value; 100,000 shares authorized, 56,920 shares issued at December 31, 2014	6		6	
Additional paid-in capital	179,912		179,912	
Retained earnings (deficit)	(5,726)	(27,566)	(33,292)	<b>A, B, C, E, F, G</b>
Accumulated other comprehensive loss	(32,600)	20,988	(11,612)	<b>A, C, E, F, G</b>
	141,592	(6,578)	135,014	
Less treasury stock of 6,546 shares at December 31, 2014	(28,304)		(28,304)	
Hill International, Inc. share of equity	113,288	(6,578)	106,710	
Noncontrolling interests	8,712	1,232	9,944	
Total equity	122,000	(5,346)	116,654	

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

Total liabilities and stockholders equity	\$	412,897	\$	(16,825)	\$	396,072
---	----	---------	----	----------	----	---------

Table of Contents

<b>Consolidated Statement of Operations</b>				
<b>Year ended December 31, 2016</b>				
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>	<b>Reference</b>
Revenues	\$ 520,847	\$ (4,835)	\$ 516,012	<b>B, F</b>
Direct expenses	358,943		358,943	
Gross Profit	161,904	(4,835)	157,069	
Selling, general and administrative expenses	162,721	7,961	170,682	<b>A, C, D, F</b>
Share of loss of equity method affiliates	37		37	
Operating Loss	(854)	(12,796)	(13,650)	
Interest and related financing fees, net	694	1,661	2,355	<b>F</b>
Loss before income taxes	(1,548)	(14,457)	(16,005)	
Income tax expense (benefit)	6,068	(113)	5,955	<b>E, F, G</b>
Loss from continuing operations	(7,616)	(14,344)	(21,960)	
Loss from discontinued operations	(11,076)	(700)	(11,776)	<b>A, D, F, G</b>
Net (loss) earnings	(18,692)	(15,044)	(33,736)	
Less: net earnings - noncontrolling interest	136	(60)	76	<b>F</b>
Net Loss attributable to Hill International, Inc.	\$ (18,828)	\$ (14,984)	\$ (33,812)	
Basic loss per common share from continuing operations	\$ (0.15)	\$ (0.28)	\$ (0.43)	
Basic loss per common share from discontinued operations	(0.21)	(0.01)	(0.22)	
Basic loss per common share - Hill International, Inc.	\$ (0.36)	\$ (0.28)	\$ (0.65)	
Basic weighted average common shares outstanding	51,724		51,724	
Diluted loss per common share from continuing operations	\$ (0.15)	\$ (0.28)	\$ (0.43)	
Diluted loss per common share from discontinued operations	(0.21)	(0.01)	(0.22)	
Diluted loss per common share - Hill International, Inc.	\$ (0.36)	\$ (0.28)	\$ (0.65)	
Basic weighted average common shares outstanding	51,724		51,724	

Table of Contents

	<b>Consolidated Statement of Operations</b>			
	<b>Year ended December 31, 2015</b>			
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>	<b>Reference</b>
Revenues	\$ 552,576	\$ (7,816)	\$ 544,760	<b>B, F</b>
Direct expenses	373,544		373,544	
Gross Profit	179,032	(7,816)	171,216	
Selling, general and administrative expenses	159,691	12,958	172,649	<b>A, C, D, F</b>
Share of loss of equity method affiliates	237		237	
Operating profit	19,104	(20,774)	(1,670)	
Interest and related financing fees, net	2,026	1,585	3,611	<b>F</b>
Earnings (loss) before income taxes	17,078	(22,359)	(5,281)	
Income tax expense	6,465	(632)	5,833	<b>A, E, F, G</b>
Loss from continuing operations	10,613	(21,727)	(11,114)	
Loss from discontinued operations	(2,874)	310	(2,564)	<b>F, G</b>
Net earnings (loss)	7,739	(21,417)	(13,678)	
Less: net earnings - noncontrolling interest	808	15	823	<b>F</b>
Net Earnings (loss) attributable to Hill International, Inc.	\$ 6,931	\$ (21,432)	\$ (14,501)	
Basic earnings (loss) per common share from continuing operations	\$ 0.20	\$ (0.44)	\$ (0.24)	
Basic loss per common share from discontinued operations	(0.06)	0.01	(0.05)	
Basic earnings (loss) per common share - Hill International, Inc.	\$ 0.14	\$ (0.43)	\$ (0.29)	
Basic weighted average common shares outstanding	50,874		50,874	
Diluted earnings (loss) per common share from continuing operations	\$ 0.20	\$ (0.44)	\$ (0.24)	
Diluted loss per common share from discontinued operations	(0.06)	0.01	(0.05)	
Diluted earnings (loss) per common share - Hill International, Inc.	\$ 0.14	\$ (0.43)	\$ (0.29)	
Basic weighted average common shares outstanding	51,311	(437)	50,874	



Table of Contents

<b>Consolidated Statement of Operations</b>				
<b>Year ended December 31, 2014</b>				
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Restated</b>	<b>Reference</b>
Revenues	487,754	1,594	489,348	<b>B, F</b>
Direct expenses	322,733		322,733	
Gross Profit	165,021	1,594	166,615	
Selling, general and administrative expenses	142,079	4,186	146,265	<b>A, C, F</b>
Operating profit	22,942	(2,592)	20,350	
Interest and related financing fees, net	1,564	1,535	3,099	<b>F</b>
Earnings before income taxes	21,378	(4,127)	17,251	
Income tax expense	7,512	2,485	9,997	<b>E, F, G</b>
Earnings from continuing operations	13,866	(6,612)	7,254	
Loss from discontinued operations	(18,713)	86	(18,627)	<b>F, G</b>
Net loss	(4,847)	(6,526)	(11,373)	
Less: net earnings - noncontrolling interest	1,301	3	1,304	<b>F</b>
Net Loss attributable to Hill International, Inc.	\$ (6,148)	\$ (6,529)	\$ (12,677)	
Basic earnings per common share from continuing operations	\$ 0.28	\$ (0.15)	\$ 0.13	
Basic loss per common share from discontinued operations	(0.42)		(0.42)	
Basic loss per common share - Hill International, Inc.	\$ (0.14)	\$ (0.15)	\$ (0.29)	
Basic weighted average common shares outstanding	44,370		44,370	
Diluted earnings per common share from continuing operations	\$ 0.28	\$ (0.15)	\$ 0.13	
Diluted loss per common share from discontinued operations	(0.42)		(0.42)	
Diluted loss per common share - Hill International, Inc.	\$ (0.14)	\$ (0.15)	\$ (0.29)	
Basic weighted average common shares outstanding	44,370		44,370	

Table of Contents

**Consolidated Statement of Comprehensive Loss**  
**Year ended December 31, 2016**

	As Previously Reported	Adjustments	As Restated	Reference
Net loss	\$ (18,692)	(15,044)	\$ (33,736)	A,B,C,E,F,G
Foreign currency translation adjustment, net	(10,124)	15,186	5,062	A,C,E,G
Other, net	584	1	585	
Comprehensive loss	(28,232)	143	(28,089)	A,C,E,G
Comprehensive loss attributable to noncontrolling interest	(1,943)	1,688	(255)	
Comprehensive loss attributable to Hill International, Inc.	\$ (26,289)	(1,545)	\$ (27,834)	A,B,C,E,F,G

**Consolidated Statement of Comprehensive Loss**  
**Year ended December 31, 2015**

	As Previously Reported	Adjustments	As Restated	Reference
Net earnings (loss)	\$ 7,739	\$ (21,417)	\$ (13,678)	A,B,C,E,F,G
Foreign currency translation adjustment, net	(14,861)	12,659	(2,202)	A,B,C,E,F,G
Other, net	(228)	2	(226)	
Comprehensive loss	(7,350)	(8,756)	(16,106)	A,C,E,G
Comprehensive loss attributable to noncontrolling interest	(15)	(2,613)	(2,628)	
Comprehensive loss attributable to Hill International, Inc.	\$ (7,335)	\$ (6,143)	\$ (13,478)	A,B,C,E,F,G

**Consolidated Statement of Comprehensive Loss**  
**Year ended December 31, 2014**

	As Previously Reported	Adjustments	As Restated	Reference
Net loss	\$ (4,847)	(6,526)	\$ (11,373)	A,B,C,E,F,G
Foreign currency translation adjustment, net	(9,786)	4,392	(5,394)	A,B,C,E,F,G
Other, net	123	(1)	122	
Comprehensive loss	(14,510)	(2,135)	(16,645)	A,B,C,E,F,G
Comprehensive loss attributable to noncontrolling interest	(353)	225	(128)	
Comprehensive loss attributable to Hill International, Inc.	\$ (14,157)	(2,360)	\$ (16,517)	A,B,C,E,F,G

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

<b>Consolidated Statement of Cash Flows</b>			
<b>Year Ended December 31, 2016</b>			
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As restated</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (18,692)	(15,044)	\$ (33,736)
Loss from discontinued operations	11,076	700	11,776
(Loss) earnings from continuing operations	(7,616)	(14,344)	(21,960)
Adjustments to reconcile net (loss) earnings to net cash provided by (used in):			
operating activities:			
Depreciation and amortization	7,153	112	7,265
Provision for bad debts	14,454		14,454
Amortization of loan fees	1,778		1,778
Deferred tax (benefit) provision	2,293	(2,985)	(692)
Stock based compensation	2,827	(331)	2,496
Unrealized foreign exchange losses (gains) on intercompany balances		11,579	11,579
Changes in operating assets and liabilities (net of acquisitions):			
Restricted cash	(106)	128	22
Accounts receivable	(4,926)	10,210	5,284
Accounts receivable - affiliate	(511)	3,856	3,345
Prepaid expenses and other current assets	(1,012)	204	(808)
Income taxes receivable	(1,058)		(1,058)
Retainage receivable	(14,587)	(395)	(14,982)
Other assets	5,170	800	5,970
Accounts payable and accrued expenses	(2,372)	(433)	(2,805)
Income taxes payable	(3,512)	175	(3,337)
Deferred revenue	6,907	3,082	9,989
Other current liabilities	4,067	(4,151)	(84)
Retainage payable	(963)	(5)	(968)
Other liabilities	1,990	(637)	1,353
<b>Net cash provided by continuing operations</b>	<b>9,976</b>	<b>6,865</b>	<b>16,841</b>
<b>Net cash used in discontinued operations</b>	<b>(408)</b>	<b>(7,535)</b>	<b>(7,943)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>9,568</b>	<b>(670)</b>	<b>8,898</b>
<b>Cash flows from investing activities:</b>			
Payments for purchase of property and equipment	(956)	(1,407)	(2,363)
<b>Net cash used in investing activities of continuing operations</b>	<b>(956)</b>	<b>(1,407)</b>	<b>(2,363)</b>
<b>Net cash used in investing activities of discontinued operations</b>	<b>(2,928)</b>	<b>1,241</b>	<b>(1,687)</b>
<b>Net cash used in investing activities</b>	<b>(3,884)</b>	<b>(166)</b>	<b>(4,050)</b>
<b>Cash flows from financing activities:</b>			
Payments on term loan	(1,255)	(135)	(1,390)
Net borrowings (payments) on revolving loans	(803)	694	(109)
Proceeds from Philadelphia Industrial Development Corporation loan			
Payment of holdback purchase price	(1,531)		(1,531)
Dividends paid to noncontrolling interest	(111)		(111)
Proceeds from stock issued under employee stock purchase plan	182		182
Proceeds from exercise of stock options	351		351
<b>Net cash used in financing activities</b>	<b>(3,167)</b>	<b>559</b>	<b>(2,608)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(969)</b>	<b>274</b>	<b>(692)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>1,548</b>		<b>1,548</b>
<b>Cash and cash equivalents beginning of year</b>	<b>24,089</b>		<b>24,089</b>
<b>Cash and cash equivalents end of year</b>	<b>\$ 25,637</b>		<b>\$ 25,637</b>

Table of Contents

<b>Consolidated Statement of Cash Flows</b>			
<b>Year Ended December 31, 2015</b>			
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As restated</b>
<b>Cash flows from operating activities:</b>			
Net (loss) earnings	\$ 7,739	(21,417)	\$ (13,678)
Loss from discontinued operations	2,874	(310)	2,564
(Loss) earnings from continuing operations	10,613	(21,727)	(11,114)
Adjustments to reconcile net (loss) earnings to net cash provided by (used in):			
operating activities:			
Depreciation and amortization	7,909	31	7,940
Provision for bad debts	6,262		6,262
Amortization of loan fees	1,778		1,778
Deferred tax (benefit) provision	(2,306)	520	(1,786)
Stock based compensation	2,755		2,755
Unrealized foreign exchange losses (gains) on intercompany balances		13,929	13,929
Changes in operating assets and liabilities (net of acquisitions):			
Restricted cash	11,313	(143)	11,170
Accounts receivable	(47,786)	(3,255)	(51,041)
Accounts receivable - affiliate	166	(3,928)	(3,762)
Prepaid expenses and other current assets	4,802	(356)	4,446
Income taxes receivable	129	(513)	(384)
Retainage receivable	662		662
Other assets	(1,843)	3,560	1,717
Accounts payable and accrued expenses	14,089	4,615	18,704
Income taxes payable	(420)	370	(50)
Deferred revenue	(6,342)	7,896	1,554
Other current liabilities	(5,178)	3,755	(1,423)
Retainage payable	(519)		(519)
Other liabilities	5,289	337	5,626
<b>Net cash provided by continuing operations</b>	<b>1,373</b>	<b>5,091</b>	<b>6,464</b>
<b>Net cash used in discontinued operations</b>	<b>(8,226)</b>	<b>2,298</b>	<b>(5,928)</b>
<b>Net cash provided by (used in) operating activities</b>	<b>(6,853)</b>	<b>7,389</b>	<b>536</b>
<b>Cash flows from investing activities:</b>			
Purchase of businesses, net of cash acquired	(4,384)	30	(4,354)
Purchase of additional interest in Engineering S.A.			
Payments for purchase of property and equipment	(13,508)	3,425	(10,083)
<b>Net cash used in investing activities of continuing operations</b>	<b>(17,892)</b>	<b>3,455</b>	<b>(14,437)</b>
<b>Net cash used in investing activities of discontinued operations</b>	<b>(694)</b>	<b>(4,302)</b>	<b>(4,996)</b>
<b>Net cash used in investing activities</b>	<b>(18,586)</b>	<b>(847)</b>	<b>(19,433)</b>
<b>Cash flows from financing activities:</b>			
Payments on term loan	(1,240)		(1,240)
Net borrowings (payments) on revolving loans	23,229	319	23,548
Proceeds from Philadelphia Industrial Development Corporation loan	750		750
Dividends paid to noncontrolling interest	(253)		(253)
Proceeds from stock issued under employee stock purchase plan	126		126
Proceeds from exercise of stock options	272		272
Purchase of treasury stock	(580)		(580)
<b>Net cash provided by financing activities</b>	<b>22,304</b>	<b>319</b>	<b>22,623</b>
<b>Effect of exchange rate changes on cash</b>	<b>(2,900)</b>	<b>(6,861)</b>	<b>(9,761)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(6,035)</b>		<b>(6,035)</b>
<b>Cash and cash equivalents beginning of year</b>	<b>30,124</b>		<b>30,124</b>
<b>Cash and cash equivalents end of year</b>	<b>\$ 24,089</b>		<b>\$ 24,089</b>



Table of Contents

<b>Consolidated Statement of Cash Flows</b>			
<b>Year Ended December 31, 2014</b>			
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As restated</b>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (4,847)	(6,526)	\$ (11,373)
Loss from discontinued operations	18,713	(86)	18,627
(Loss) earnings from continuing operations	13,866	(6,612)	7,254
Adjustments to reconcile net (loss) earnings to net cash provided by (used in):			
operating activities:			
Depreciation and amortization	7,104	(153)	6,951
Provision for bad debts	(5,195)		(5,195)
Interest accretion on term loan	15,526		15,526
Amortization of loan fees	555		555
Deferred tax (benefit) provision	(3,372)	664	(2,708)
Stock based compensation	3,189		3,189
Unrealized foreign exchange losses (gains) on intercompany balances		5,291	5,291
Changes in operating assets and liabilities (net of acquisitions):			
Restricted cash	2,499	(63)	2,436
Accounts receivable	(9,641)	(3,106)	(12,747)
Accounts receivable - affiliate	(3,501)	(4)	(3,505)
Prepaid expenses and other current assets	(1,772)	(149)	(1,921)
Income taxes receivable	(779)	(178)	(957)
Retainage receivable	(2,088)		(2,088)
Other assets	7,569	(24)	7,545
Accounts payable and accrued expenses	9,023	(103)	8,920
Income taxes payable	(1,308)	(587)	(1,895)
Deferred revenue	(3,310)	(831)	(4,141)
Other current liabilities	(4,825)	540	(4,285)
Retainage payable	1,431		1,431
Other liabilities	(2,512)	2,750	238
<b>Net cash provided by continuing operations</b>	<b>22,459</b>	<b>(2,565)</b>	<b>19,894</b>
<b>Net cash used in discontinued operations</b>	<b>(16,154)</b>	<b>2,089</b>	<b>(14,065)</b>
<b>Net cash provided by operating activities</b>	<b>6,305</b>	<b>(476)</b>	<b>5,829</b>
<b>Cash flows from investing activities:</b>			
Purchase of businesses, net of cash acquired	(2,701)		(2,701)
Purchase of additional interest in Engineering S.A.	(3,556)		(3,556)
Payments for purchase of property and equipment	(3,580)	(245)	(3,825)
<b>Net cash used in investing activities of continuing operations</b>	<b>(9,837)</b>	<b>(245)</b>	<b>(10,082)</b>
<b>Net cash used in investing activities of discontinued operations</b>	<b>(2,141)</b>	<b>13</b>	<b>(2,128)</b>
<b>Net cash used in investing activities</b>	<b>(11,978)</b>	<b>(232)</b>	<b>(12,210)</b>
<b>Cash flows from financing activities:</b>			
Due to bank	(2)		(2)
Proceeds from secondary public offering of common stock	38,042		38,042
Proceeds from term loan borrowing	120,000		120,000
Payoff and termination of term loan	(100,000)		(100,000)
Payoff and termination of revolving credit facility	(25,500)		(25,500)
Payment of financing fees	(10,065)		(10,065)
Payments on term loan	(13,833)		(13,833)
Net borrowings (payments) on revolving loans	(300)		(300)
Dividends paid to noncontrolling interest	(173)		(173)
Proceeds from stock issued under employee stock purchase plan	197		197
Proceeds from exercise of stock options	1,032		1,032
<b>Net cash provided by financing activities</b>	<b>9,398</b>		<b>9,398</b>
<b>Effect of exchange rate changes on cash</b>	<b>(3,982)</b>	<b>708</b>	<b>(3,274)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(257)</b>		<b>(257)</b>

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

<b>Cash and cash equivalents</b>	<b>beginning of year</b>		30,381		30,381
<b>Cash and cash equivalents</b>	<b>end of year</b>	\$	30,124	\$	30,124

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 our operations and financial results. Accordingly, the Company has 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 (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 \$147,000,000 in cash reduced by assumed indebtedness, as defined in the Agreement. The Purchasers are companies controlled by funds managed by Bridgepoint Development Capital, part of international private equity group Bridgepoint. The closing transaction occurred on May 5, 2017. See Footnote 21 Subsequent Events for the update of the sale.

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

	2016	December 31, (As restated)	2015
Accounts receivable, net	\$ 50,892	\$ 55,864	55,864
Prepaid expenses and other current assets	3,064	3,269	3,269
Income taxes receivable	695	959	959
Total current assets classified as held for sale	\$ 54,651	\$ 60,092	60,092
Property and equipment, net	4,617	4,770	4,770
Acquired intangibles, net	3,397	4,886	4,886
Goodwill	23,461	26,050	26,050
Investments	6	8	8
Other assets	610	485	485
Total non-current assets classified as held for sale	\$ 32,091	\$ 36,199	36,199
Accounts payable and accrued expenses	21,539	23,076	23,076
Income taxes payable	92	81	81
Deferred revenue	1,562	1,444	1,444
Other current liabilities	2,695	2,749	2,749
Total current liabilities classified as held for sale	\$ 25,888	\$ 27,350	27,350
Deferred income taxes	385	660	660
Deferred revenue	1,012	1,998	1,998
Retained Earnings	457	4,072	4,072
Other liabilities	3,233	4,072	4,072
Total non-current liabilities classified as held for sale	\$ 5,087	\$ 6,730	6,730



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

Table of Contents

	2016	Years Ended December 31, 2015 (As restated)	2014
Revenue	169,252	168,029	153,839
Direct expenses	78,688	78,476	71,498
Gross profit	90,564	89,553	82,341
Selling, general and administrative expenses	86,594	78,800	72,499
Operating profit	3,970	10,753	9,842
Interest and related financing fees, net	11,271	11,053	27,386
Loss before income taxes	(7,301)	(300)	(17,544)
Income tax expense	4,475	2,264	1,083
Net loss from discontinued operations	\$ (11,776)	\$ (2,564)	\$ (18,627)

In connection with the sale of the Construction Claims Group, the Company will be required to pay off the Term Loan Facility (See Note 12). Accordingly, the Company has allocated to discontinued operations all interest expense related to the Term Loan Facility.

**Note 4 - Liquidity**

Over the years, the amount of revenue attributable to operations in the Middle East and Africa has grown to approximately 46.1% of total consolidated revenue in 2016. There has been significant political upheaval and civil unrest in 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. In 2016, the Company established reserves of \$5,078,000 against accounts receivable from various projects in Iraq. This shortfall of cash flows continues to put a considerable strain on its liquidity.

The Company has seen a delay in collections from 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 projects. 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. MOTC resumed payments in 2016 paying the Company approximately \$42,000,000 during the year and approximately \$6,153,000 in the first quarter of 2017. At December 31, 2016, accounts receivable from Oman totaled approximately \$27,132,000 of which approximately \$16,500,000 was past due based on contractual terms.

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 Summary of Significant Accounting Policies**

**(a) *Basis of Presentation and Principles of Consolidation***

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States ( GAAP ). The consolidated financial statements include the accounts of Hill International, Inc. and its majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

**(b) *Foreign Currency Translations and Transactions***

Assets and liabilities of all foreign operations are translated at year-end rates of exchange while revenues and expenses are translated at the average monthly exchange rates. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of stockholders' equity entitled accumulated other comprehensive loss until the entity is sold or substantially liquidated. Gains or losses arising from foreign currency transactions (transactions denominated in a currency other than the entity's local currency) are reflected in selling, general and administrative expenses in the consolidated statement of operations.

**(c) *Use of Estimates and Assumptions***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the revenue and expenses reported for the periods covered by the financial statements and certain amounts disclosed in the accompanying notes to the consolidated financial statements. Actual results could differ significantly from those estimates and assumptions. The estimates affecting the consolidated financial statements that are particularly significant include revenue recognition, allocation of purchase price to acquired intangibles and goodwill, fair value of contingent consideration, recoverability of long-lived assets, income taxes, allowance for doubtful accounts and commitments and contingencies.

**(d) *Fair Value Measurements***

The fair value of financial instruments, which primarily consists of cash and cash equivalents, accounts receivable and accounts payable, approximates carrying value due to the short-term nature of the instruments. The carrying value of our various credit facilities approximates fair value as the interest rate is variable.

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value, the Company considers the principal or most advantageous market in which it would transact, and the Company considers assumptions that market participants would use when pricing the asset or liability.

Nonfinancial assets and liabilities, such as goodwill and long lived assets that are initially recorded at fair value, will be assessed for impairment, if deemed necessary. During the years ended December 31, 2016 and 2015, the Company did not record any impairment to any financial or nonfinancial assets or liabilities.

(e) ***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and investments in money market funds and investment grade securities held with high quality financial institutions. The Company considers all highly liquid instruments purchased with a remaining maturity of three months or less at the time of purchase to be cash equivalents.

(f) ***Restricted Cash***

Restricted cash represents cash collateral required to be maintained in foreign bank accounts to serve as collateral for letters of credit, bonds or guarantees on several projects. The cash will remain restricted until the respective project has been completed, which typically is greater than one year.

Table of Contents

(g) ***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable.

The Company maintains its cash accounts with high quality financial institutions. Although the Company currently believes that the financial institutions, with which it does business, will be able to fulfill their commitments to it, there is no assurance that those institutions will be able to continue to do so.

The Company provides professional services, under contractual arrangements, to domestic and foreign governmental units, institutions and the private sector. To reduce credit risk, the Company performs ongoing credit evaluations of its clients and does not require collateral beyond customary retainers.

The following tables show the number of the Company's clients which contributed 10% or more of total revenue and accounts receivable:

	2016	Years Ended December 31,	
		2015	2014
		(As restated)	
Number of 10% clients			1
Percentage of total revenue	0%	0%	13%

	2016	December 31,	
		2015	
		(As restated)	
Number of 10% clients	2		1
Percentage of accounts receivable	32%		19%

The following provides information with respect to total revenue from contracts with U.S. federal government agencies:

	2016	Years Ended December 31,	
		2015	2014
		(As restated)	
Percentage of total revenue	2%	2%	3%

(h) ***Allowance for Doubtful Accounts***

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

The allowance for doubtful accounts is an estimate prepared by management based on identification of the collectability of specific accounts and the overall condition of the receivable portfolios. When evaluating the adequacy of the allowance for doubtful accounts, the Company specifically analyzes trade receivables, including retainage receivable, historical bad debts, client credits, client concentrations, client credit worthiness, current economic trends and changes in client payment terms. If the financial condition of clients were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Likewise, should the Company determine that it would be able to realize more of its receivables in the future than previously estimated, an adjustment to the allowance would increase earnings in the period such determination was made. The allowance for doubtful accounts is reviewed on a quarterly basis and adjustments are recorded as deemed necessary.

(i) ***Property and Equipment***

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is provided over the estimated useful lives of the assets as follows:

Table of Contents

	Method	Estimated Useful Life
Furniture and equipment	Straight-line	10 years
Leasehold improvements	Straight-line	Shorter of estimated useful life or lease term
Computer equipment and software	Straight-line	3 to 5 years
Automobiles	Straight-line	5 years

The Company capitalizes costs associated with internally developed and/or purchased software systems that have reached the application development stage and meet recoverability tests. Capitalized costs include external direct costs of materials and services utilized in developing or obtaining internal-use software, payroll and payroll-related expenses for employees who are directly associated with and devote time to the internal-use software project. Capitalization of such costs begins when the preliminary project stage is complete and ceases no later than the point at which the project is substantially complete and ready for its intended purpose. Costs for general and administrative, overhead, maintenance and training, as well as the cost of software that does not add functionality to existing systems, are expensed as incurred.

Upon retirement or other disposition of these assets, the cost and related depreciation are removed from the accounts and the resulting gain or loss, if any, is reflected in results of operations. Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized.

*(j) Retainage Receivable*

Retainage receivable represents balances billed but not paid by clients pursuant to retainage provisions in the construction management contracts and will be due upon completion of specific tasks or the completion of the contract. The current portion of retainage receivable is included in accounts receivable and the long-term portion of retainage receivable is included in retainage receivable in the consolidated balance sheets.

*(k) Long-Lived Assets*

Acquired intangible assets consist of contract rights, client related intangibles and trade names arising from the Company's Project Management acquisitions. Contract rights represent the fair value of contracts in progress and backlog of an acquired entity. For intangible assets purchased in a business combination, the estimated fair values of the assets are used to establish the cost bases. Valuation techniques consistent with the market approach, the income approach and the cost approach are used to measure fair value. These assets are amortized over their estimated lives which range from three to fifteen years.

The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flow discounted at a rate commensurate with the risks associated with the recovery of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

(l) ***Goodwill***

Goodwill represents the excess of purchase price and other related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Acquired intangible assets other than goodwill are amortized over their useful lives. For intangible assets purchased in a business combination, the estimated fair values of the assets are used to establish the cost bases. Valuation techniques consistent with the market approach and the income approach are used to measure fair value.

Goodwill is tested annually for impairment in the fiscal third quarter. The Company has determined that, due to the pending sale of its Construction Claims Group, it now has one reporting unit, the Project Management unit. The



Table of Contents

Company made that determination based on the similarity of the services provided, the methodologies in delivering its services and the similarity of the client base. Goodwill is assessed for impairment using a two-step approach. In the first step of the impairment test, the Company compares the fair value of the reporting unit to its carrying value. To the extent the carrying amount of the reporting unit exceeds its fair value, an indication exists that goodwill may be impaired and the Company must perform a second more detailed assessment. The second step, if necessary, involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the goodwill as of the assessment date. The implied fair value of the goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date.

Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital. The Company's changes in estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment. The Company performed its annual impairment test effective July 1, 2016 and noted no impairment. In the future, the Company will continue to perform the annual test during its fiscal third quarter unless events or circumstances indicate an impairment may have occurred before that time.

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

*(m) Investments*

The Company will, in the ordinary course, form joint ventures for specific projects. These joint ventures have historically required limited or no investment and simply provide a pass-through for the Company's billings. Any distributions in excess of the Company's billings are accounted for as income when received. The Company's cost-basis investments at December 31, 2016 and 2015 are as follows (in thousands):

	December 31,	
	2016	2015
	(As restated)	
RAMPED Metro Joint Venture (1)	\$ 687	\$ 1,254
Concessia, Cartera y Gestion de Infraestructuras S.A. (2)	2,515	2,927
Other	299	755
	\$ 3,501	\$ 4,936

(1) The Company has a 45% interest in this joint venture, which was formed for construction management of the Riyadh Metro system in Saudi Arabia.

(2) The Company has a 4.45% interest in this entity, which invests in the equity of companies that finance,

construct and operate various public and private infrastructure projects in Spain.

(n) ***Deferred Revenue***

In certain instances, the Company may collect advance payments from clients for future services. Upon receipt, the payments are reflected as deferred revenue in the Company's consolidated balance sheet. As the services are performed, the Company reduces the balance and recognizes revenue.

(o) ***Deferred Rent***

Rent expenses for operating leases, which include scheduled rent increases, is determined by expensing the total amount of rent due over the life of the operating lease on a straight-line basis. The difference between the rent paid under the

Table of Contents

terms of the lease and the rent expensed on a straight-line basis is recorded as a liability. The deferred rent at December 31, 2016 and 2015 was \$2,830,000 and \$1,732,000, respectively, and is included in other liabilities in the consolidated balance sheet.

**(p)** *Income Taxes*

The Company estimates income taxes in each of the jurisdictions in which it operates. This process involves estimating its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company's consolidated balance sheets. The Company assesses the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent it believes recovery is not likely, the Company establishes a valuation allowance. To the extent the Company establishes a valuation allowance in a period, it must include an expense within the tax provision in the consolidated statements of earnings. The Company has recorded a valuation allowance to reduce the deferred tax asset to an amount that is more likely to be realized in future years. If the Company determines in the future that it is more likely that the deferred tax assets subject to the valuation allowance will be realized, then the previously provided valuation allowance will be adjusted.

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

**(q)** *Revenue Recognition*

The Company generates revenue primarily from providing professional services to its clients under various types of contracts. In providing these services, the Company may incur reimbursable expenses, which consist principally of amounts paid to subcontractors and other third parties and travel and other job related expenses that are contractually reimbursable from clients. The Company has determined that it will include reimbursable expenses in computing and reporting its total revenue as long as the Company remains responsible to the client for the fulfillment of the contract and for the overall acceptability of all services provided.

If estimated total costs on any contract indicate a loss, the Company charges the entire estimated loss to operations in the period the loss becomes known. The cumulative effect of revisions to revenue, estimated costs to complete contracts, including penalties, incentive awards, change orders, claims, anticipated losses, and others are recorded in the accounting period in which the events indicating a loss are known and the loss can be reasonably estimated. Such revisions could occur at any time and the effects may be material.

The Company evaluates contractual arrangements to determine how to recognize revenue. Below is a description of the basic types of contracts from which the Company may earn revenue:

*Time and Materials Contracts*

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

Table of Contents

*Cost Plus Contracts*

Under cost plus contracts, the Company charges its clients for its costs, including both direct and indirect costs, plus a fixed fee or rate. The Company generally recognizes revenue based on the labor and non-labor costs it incurs, plus the portion of the fixed fee or rate it has earned to date. Included in the total contract value for cost-plus fee arrangements is the portion of the fee for which receipt is determined to be probable. The Company invoices for its services as revenue is recognized or in accordance with agreed-upon billing schedules. Aggregate revenue from cost-plus contracts may vary based on the actual number of labor hours worked and other actual contract costs incurred. However, if actual labor hours and other contract costs exceed the original estimate agreed to by its client, the Company generally must obtain a change order, contract modification or successfully prevail in a claim in order to receive additional revenue relating to the additional costs (see *Change Orders and Claims* ).

*Fixed-Price Contracts*

Under fixed-price contracts, the Company's clients pay an agreed amount negotiated in advance for a specified scope of work. The Company recognizes revenue on fixed-price contracts using the percentage-of-completion method where direct costs incurred to date are compared to total projected direct costs at contract completion. Prior to completion, the Company's recognized profit margins on any fixed-price contract depend on the accuracy of its estimates and will increase to the extent that its actual costs are below the original estimated amounts. Conversely, if its costs exceed these estimates, its profit margins will decrease, and the Company may realize a loss on a project. In order to increase aggregate revenue on a fixed-price contract, the Company generally must obtain a change order, contract modification or successfully prevail in a claim in order to receive payment for the additional costs (see *Change Orders and Claims* ).

*Change Orders and Claims*

For all contract types noted above, change orders are included in total estimated contract revenue when it is probable that the change order will result in an addition to contract value and when the change order can be estimated. Change orders are modifications of an original contract that effectively change the provisions of the contract without adding new provisions. Either the Company or its client may initiate change orders. They may include changes in specifications or design, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Management evaluates when a change order is probable based upon its experience in negotiating change orders, the customer's written approval of such changes or separate documentation of change order costs that are identifiable.

Claims are amounts in excess of the agreed contract price that the Company seeks to collect from its clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs. Additional contract revenue related to claims is included in total estimated contract revenue when the amount can be reliably estimated, which is typically evidenced by a contract or other evidence providing a legal basis for the claim.

Change orders and claims occur when changes are experienced once contract performance is underway. Change orders are sometimes documented and terms of such change orders are agreed with the client before the work is performed. Sometimes circumstances require that work progresses before agreement is reached with the client. Costs related to change orders and claims are recognized when they are incurred.

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

Change orders and claims are included in total estimated contract revenue when it is probable that the change order or claim will result in a bona fide addition to contract value that can be reliably estimated. No profit is recognized on claims until final settlement occurs; unapproved change orders are evaluated as claims. This can lead to a situation where costs are recognized in one period and revenue is recognized when client agreement is obtained or claims resolution occurs, which can be in subsequent periods.

The Company has contracts with the U.S. government that contain provisions requiring compliance with the U.S. Federal Acquisition Regulations ( FAR ). These regulations are generally applicable to all of its federal government contracts and are partially or fully incorporated in many local and state agency contracts. They limit the recovery of certain specified indirect costs on contracts subject to the FAR. Cost-plus contracts covered by the FAR provide for upward or downward adjustments if actual recoverable costs differ from the estimate billed under forward pricing arrangements. Most of its federal government contracts are subject to termination at the convenience of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

Federal government contracts which are subject to the FAR and some state and local governmental agencies require audits, which are performed for the most part by the Defense Contract Audit Agency ( DCAA ). The DCAA audits the

Table of Contents

Company's overhead rates, cost proposals, incurred government contract costs and internal control systems. During the course of its audits, the DCAA may question incurred costs if it believes the Company has accounted for such costs in a manner inconsistent with the requirements of the FAR or Cost Accounting Standards and recommend that its U.S. government corporate administrative contracting officer disallow such costs. Historically, the Company has not experienced significant disallowed costs because of such audits. However, the Company can provide no assurance that the DCAA audits will not result in material disallowances of incurred costs in the future.

*(r) Share-Based Compensation*

The Company uses the Black-Scholes option-pricing model to measure the estimated fair value of options to purchase the Company's common stock. The compensation expense, less estimated forfeitures, is being recognized over the service period on a straight-line basis. The Company's policy is to use newly issued shares to satisfy the exercise of stock options.

*(s) Advertising Costs*

Advertising costs are expensed as incurred and amounted to the following (in thousands):

	Years Ended December 31,		
	2016	2015	2014
	\$ 556	\$ 421	\$ 536

*(t) Earnings per Share*

Basic earnings per common share has been computed using the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per common share incorporates the incremental shares issuable upon the assumed exercise of stock options using the treasury stock method.

Options to purchase 6,899,000 shares, 3,849,000 shares and 3,521,000 shares of the Company's common stock were not included in the calculation of common shares outstanding for the years ended December 31, 2016, 2015 and 2014, respectively, because they were anti-dilutive.

The following table provides a reconciliation to net (loss) earnings used in the numerator for (loss) earnings per share from continuing operations (in thousands):

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

	2016	2015 (As restated)	2014
(Loss) earnings from continuing operations	\$ (21,960)	\$ (11,114)	\$ 7,254
Less: net earnings - noncontrolling interest	76	823	1,304
(Loss) earnings	\$ (22,036)	\$ (11,937)	\$ 5,950

(u) ***New Accounting Pronouncements***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and in most industry-specific topics. The new guidance identifies how and when entities should recognize revenue. The new rules establish a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In connection with this new standard, the FASB has issued several amendments to ASU 2014-09, as follows:

- In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. This standard improves the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis.



Table of Contents

- In April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. This standard clarifies identifying performance obligations and the licensing implementation guidance.
- In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. This standard provides additional guidance on (a) the objective of the collectability criterion, (b) the presentation of sales tax collected from customers, (c) the measurement date of non-cash consideration received, (d) practical expedients in respect of contract modifications and completed contracts at transition and (e) disclosure of the effects of the accounting change in the period of adoption.
- In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which amends certain narrow aspects of the guidance, including the disclosure of remaining performance obligations and prior-period performance obligations, as well as other amendments to the guidance on loan guarantee fees, contract costs, refund liabilities, advertising costs and the clarification of certain examples.
- In September 2017, the FASB issued ASU No. 2017-13, *Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcement at the July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observer Comments*, which provides additional clarification and implementation guidance on ASU 2014-09 and is effective consistent with the adoption schedule for ASU 2014-09.

The new guidance in ASU 2014-09, as well as all amendments discussed above, is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The new guidance permits two methods of adoption, full retrospective or modified retrospective and the Company anticipates that it will use the modified retrospective method of adoption in which the cumulative effect of applying the ASU will be recognized at January 1, 2018, the date of initial application. Management is evaluating the impact that adoption of this guidance will have on the financial statements and expects that there will be an impact to the financial reporting disclosures and internal control over financial reporting. The Company will adopt the requirements of the new standard upon its effective date of January 1, 2018.

In August 2014, the FASB issued Accounting Standards Updated No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* (ASU 2014-15). The objective of ASU 2014-15 is to provide guidance in GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires a management evaluation about whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued or available to be issued. In doing so, ASU 2014-15 should reduce diversity in the timing and content of footnote disclosures. ASU 2014-15 is effective for fiscal years ending after December 15, 2016. The Company has adopted this guidance effective for its year ended December 31, 2016.

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Topic 825-10)*, which requires all equity investments to be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to (1) present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and (2) provide separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. In addition the amendments in this pronouncement eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This ASU is effective for the Company commencing January 1, 2018. The Company is in the process of assessing the impact of this ASU on its consolidated financial statements and related disclosures.

Table of Contents

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require the Company to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous GAAP) on its consolidated balance sheet. The ASU will be effective for the Company commencing January 1, 2019. The Company is in the process of assessing the impact of this ASU on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, as part of its simplification initiative. The amendments in this update are effective for annual periods beginning after December 31, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. Previously, as they relate to share-based payments, tax benefits in excess of compensation costs ( windfalls ) were recorded in equity, and tax deficiencies ( shortfalls ) were recorded in equity to the extent of previous windfalls, and then to the income statement. ASU 2016-09 reduced some of the administrative complexities by eliminating the need to track a windfall pool, but could increase the volatility of income tax expense. This change is required to be applied prospectively to all excess tax benefits and tax deficiencies resulting from settlements after the date of adoption. ASU 2016-09 also removed the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable. Under the new guidance, the benefit will be recorded when it arises, subject to normal valuation allowance considerations. The change is required to be applied on a modified retrospective basis, with a cumulative-effect adjustment to opening retained earnings. Furthermore, all tax-related cash flows resulting from share-based payments are to be reported as operating activities on the statement of cash flows, a change from the previous requirement to present windfall tax benefits as an inflow from financing activities and an outflow from operating activities. However, cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity. Under the new guidance, entities were also permitted to make an accounting policy election for the impact of forfeitures on expense recognition for share-based payment awards. Forfeitures can be estimated in advance, as previously required or recognized as they occur. Estimates will still be required in certain circumstances, such as at the time of modification of an award or issuance of a replacement award in a business combination. If elected, the change to recognize forfeitures when they occur needs to be adopted using a modified retrospective approach, with a cumulative effect adjustment recorded to opening retained earnings. The Company early adopted ASU 2016-09 effective January 1, 2016. We expect that the adoption of ASU 2016-09 could result in increased volatility to our reported income tax expense going forward. However, due to our net operating loss carryforward position, we do not anticipate the effect to be significant. The Company elected to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using a retrospective transition method.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments (Topic 326) Credit Losses: Measurement of Credit Losses on Financial Instruments*, which provides guidance regarding the measurement of credit losses on financial instruments. The new guidance replaces the incurred loss impairment methodology in the current guidance with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to determine credit loss estimates. This ASU will be effective for the Company commencing January 1, 2020 with early adoption permitted commencing January 1, 2019. We are in the process of assessing the impact of this ASU on our consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. This ASU's amendments add or clarify guidance on eight cash flow issues: debt prepayment, settlement of zero-coupon debt instruments, contingent consideration payments, insurance claim proceeds, life insurance proceeds, distributions from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The ASU is effective commencing January 1, 2018 with earlier adoption permitted. The Company plans on adopting this ASU effective January 1, 2018 and is in the process of assessing the impact of this ASU on our Statement of Cash Flows.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. Under the new standard, an entity is required to recognize the income tax consequences of an intra-entity transfer of an asset (with the exception of inventory) when the transfer occurs. Under current GAAP, entities are prohibited from recognizing current and deferred income taxes for an intra-entity transfer until the asset is sold to a third party. Examples of assets that would be affected by the new guidance are intellectual property and property, plant, and



Table of Contents

equipment. The ASU will be effective for the Company commencing January 1, 2018 with early adoption permitted as of January 1, 2017. The adoption of this ASU will not have a material effect on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Restricted Cash* (a consensus of the FASB Emerging Issues Task Force), which addresses classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as *restricted cash* and *restricted cash equivalents*. The ASU does not define restricted cash or restricted cash equivalents, but the Company will need to disclose the nature of the restrictions. The ASU is effective for the Company for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted. The Company elected to early adopt this ASU effective January 1, 2016 using a retrospective transition method for each period presented in this Amendment.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, to clarify the definition of a business with the objective of providing a more robust framework to assist management when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for the Company for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted. The amendments are to be applied prospectively to business combinations that occur after the effective date.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350)*, which removes step 2 from the goodwill impairment test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017, and the prospective transition method should be applied. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The ASU is effective for the Company for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. When the Company adopts the ASU, it will be applied prospectively to any awards modified on or after the adoption date.

In February 2018, the FASB issued ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, that clarifies the guidance in ASU No. 2016-01, *Financial Instruments - Overall (Subtopic 825-10)* relate to: Equity Securities without a Readily Determinable Fair Value - Discontinuation, Equity Securities without a Readily Determinable Fair Value - Adjustments, Forward Contracts and Purchased Options, Presentation Requirements for Certain Fair Value Option Liabilities, Fair Value Option Liabilities Denominated in a Foreign Currency and Transition Guidance for Equity Securities without a Readily Determinable Fair Value. For public business entities, ASU 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt ASU 2018-03 for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01. The

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

Company is in the process of assessing the impact of this ASU on its consolidated financial statements and related disclosures and will adopt this ASU concurrently with ASU 2016-01.

### **Note 6 Acquisitions**

Our recent acquisition activity is detailed below. The Company's consolidated financial statements include the operating results of these businesses from their respective dates of acquisition. Pro forma results of operations for these acquisitions

Table of Contents

have not been presented because they are not material to the Company's consolidated results of operations, either individually or in the aggregate.

The Company expenses all acquisition-related costs plus any anticipated restructuring costs for which it is not obligated at the acquisition date, rather than including such costs as a component of the purchase consideration. During 2016, 2015 and 2014, the Company expensed \$0, \$139,000 and \$0, respectively, of acquisition-related costs.

***IMS Proje Yonetimi ve Danismanlik A.S.***

On April 15, 2015, the Company acquired all of the equity interests of IMS, a firm that provides project management services for international developers, institutional investors and major retailers. IMS had approximately 80 professionals and is headquartered in Istanbul, Turkey. Consideration consisted of an Initial Purchase Price of 12,411,000 Turkish Lira ( TRY ) (approximately \$4,640,000 as of the closing date) comprised of TRY 4,139,000 (approximately \$1,547,000) paid in cash on the closing date plus a second payment of TRY 8,272,000 (approximately \$3,145,000) which was paid on May 12, 2015; a Holdback Purchase Price of TRY 4,400,000 (approximately \$1,626,000) which was paid on April 15, 2016, less any set off related to certain indemnification obligations; and a potential Additional Purchase Price of (i) TRY 1,700,000 (approximately \$628,000) if earnings before interest, income taxes, depreciation and amortization for the twelve month period subsequent to the closing date ( EBITDA ) exceeds TRY 3,500,000 (approximately \$1,294,000) or (ii) TRY 1,500,000 (\$554,000) if EBITDA is less than TRY 3,500,000 but not less than TRY 3,200,000 (\$1,183,000). IMS's EBITDA through the one-year anniversary of the acquisition date was not sufficient to earn any of the Additional Purchase Price and the liability was eliminated by a credit of approximately \$673,000 to selling, general and administrative expenses for the year ended December 31, 2016.

***Collaborative Partners, Inc.***

On December 23, 2013, Hill acquired all of the outstanding common stock of Collaborative Partners, Inc. ( CPI ), a firm that provides project management, strategic planning and regulatory services for healthcare, life sciences, educational, commercial and residential construction projects throughout New England. CPI, which has about 30 professionals, has offices in Boston, Massachusetts and Providence, Rhode Island. The acquisition expands the Company's project management business in the New England region of the United States. At closing, the sellers received \$2,450,000 in the form of 678,670 shares of the Company's common stock priced at \$3.61 per share. On March 7, 2014, the sellers received 171,308 shares of common stock with a value of \$618,000 representing CPI's common equity in excess of \$600,000. On December 23, 2014, the sellers were to receive, subject to potential offset, an additional \$350,000 ( holdback ) in shares of common stock; the number of shares was determined based on the average closing price of the common stock for the ten trading days ending on December 18, 2014. The Agreement also provided that should the price of the Company's common stock not increase by 50% to \$5.42 on December 23, 2014, the Company will issue additional shares to the sellers representing the difference between \$5.42 and the price on December 23, 2014 and (2) the sellers are entitled to receive additional shares of the Company's common stock for (i) 50% of the operating profit of CPI in excess of \$1,000,000 for the first 12-month period after closing, but in no event more than \$500,000, and (ii) 5% of the net revenue backlog in excess of \$10,000,000 on the date 60 days after closing. The Company estimated and accrued \$2,697,000 for the potential additional consideration which was included in other current liabilities in the consolidated balance sheet at December 31, 2013. In April 2014, the portion of the liability attributable to the change in the common stock price was waived by the sellers and the liability was eliminated by a credit of \$1,225,000 to selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2014. In addition, a portion of the liability attributable to the holdback in shares was not

paid and \$215,000 was credited to selling, general and administrative expense in the consolidated statement of operations for the year ended December 31, 2014. In May 2015, the Company paid the final installment to the sellers by issuing 148,460 shares of its common stock valued at approximately \$530,000.

*Engineering S.A.*

On February 28, 2011, the Company's subsidiary, Hill Spain, indirectly acquired 60% of the outstanding common stock of Engineering S.A., now known as Hill International do Brasil, S.A. (ESA) one of the largest project management firms in Brazil with approximately 400 professionals. It has main offices in Rio de Janeiro and Sao Paulo and an



Table of Contents

additional office in Parauapebas. Engineering S.A. provides project management, construction management and engineering consulting services throughout Brazil. Total consideration will not exceed 42,000,000 Brazilian Reals ( BRL ) (approximately \$25,336,000 at the date of acquisition) consisting of an initial cash payment of BRL 22,200,000 (approximately \$13,392,000) plus minimum additional payments of BRL 7,400,000 (approximately \$4,464,000) due on each of April 30, 2012 and 2013 and a potential additional payment of BRL 5,000,000 (\$3,016,000). Also, 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. In April 2014, two of the minority shareholders exercised their ESA Put Option whereby Hill Spain paid approximately 7,838,000 Brazilian Reals (approximately \$3,556,000) in October 2014. After the transaction, Hill Spain owned approximately 72% of ESA. In accordance with the guidance in ASC 810-10-45-23, under *Changes in the Parent's Ownership Interest in a Subsidiary When There Is No Change in Control*, the Company has accounted for this transaction as an equity transaction. Accordingly, Hill Spain reduced noncontrolling interests by BRL 5,839,000 (approximately \$2,649,000), and reduced additional paid in capital by approximately BRL 1,999,000 (approximately \$907,000) which represents the excess of the fair value over the amount of the adjustment to noncontrolling interests.

The Company estimated the fair value of the potential additional payments to total approximately BRL 17,200,000 (approximately \$10,376,000) and discounted that amount using an interest rate of 4.72%, the weighted average interest rate on the outstanding borrowings under the Company's credit agreement at the acquisition date. The Company paid the first installment amounting to BRL 6,624,000 (approximately \$3,508,000) on April 30, 2012 and paid the second installment amounting to BRL 11,372,000 (approximately \$5,095,000) on July 23, 2013.

In April 2015, two shareholders who owned approximately 19% of ESA exercised their ESA Put Options claiming an aggregate value of BRL 10,645,000. As an incentive to the sellers to receive Hill's common stock as payment, the Company offered the sellers a 25% premium. The sellers countered the Company's offer by requesting payment in common stock at the U.S. dollar value on April 4, 2015 (approximately \$4,374,000) as well as a price guarantee upon the sale of the stock during a 30-day period after closing. The Company agreed to the counter offer and paid the liability with 924,736 shares of its common stock in August 2015. In November 2015, the Company paid approximately \$580,000 to the selling shareholders to repurchase 129,648 shares of its common stock. The Company now owns approximately 91% of ESA.

On June 17, 2016, the three remaining minority shareholders exercised their ESA Put Option claiming a value of BRL 8,656,000 (approximately \$2,659,000) at December 31, 2016. The company accrued the liability which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2016.

**Note 7 Accounts Receivable**

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

**December 31,**

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

	2016 (As restated)		2015 (As restated)
Billed	\$ 200,134	\$	216,618
Retainage, current portion	10,824		13,661
Unbilled	24,968		17,977
	<b>235,926</b>		248,256
Allowance for doubtful accounts	(71,082)		(60,535)
Total	\$ 164,844	\$	187,721

Table of Contents

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

The decrease in accounts receivable in 2016 is attributable to the decrease in revenues, the increase in the allowance for bad debts, and the impact of foreign exchange, offset to some degree by a slowdown of collections primarily in the Middle East and particularly Oman.

Included in billed receivables are \$673,000 and \$694,000 of the amounts due from various branches of the U.S. federal government and \$100,409,000 and \$131,015,000 of receivables from foreign governments at December 31, 2016 and December 31, 2015, respectively.

Bad debt expense of \$14,454,000, \$6,262,000 and (\$5,195,000) is included in selling, general and administrative expenses in the consolidated statements of operations for the years ended December 31, 2016, 2015 and 2014, respectively. The increase in bad debt expense in 2016 is related to certain accounts receivable, primarily in the Middle East.

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 some delays in payment during the second quarter of 2015 when the MOTC commenced its formal review and certification of the Company s invoices. In December 2015, the Company began discussions with the MOTC on a second extension of time amendment (the second extension ) and has since commenced 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 the year. At December 31, 2016, accounts receivable from Oman totaled approximately \$27,132,000, of which approximately \$16,500,000 was past due based on contractual terms. Through April 2017, the Company received payments totaling \$6,153,000 against this receivable. In addition, there is approximately \$16,400,000 included in non-current Retainage Receivable in the consolidated balance sheet at December 31, 2016. Of that amount, approximately \$8,400,000 relates to retention and approximately \$8,000,000 relates to a Defect and Liability Period ( DLP ). Retention represents five percent of each monthly invoice which is retained by MOTC. Fifty percent of the retention will be released one year from the commencement of the DLP and the balance will be release upon the issuance of final Completion Certificates. DLP represents the period by which the contractor must address any defect issues. This period commences upon the issuance of a Taking Over Certificate (by MOTC) to contractors for up to a period of 24 months and then final certificate closing the project.

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

**Note 8 Property and Equipment**

The components of property and equipment are as follows (in thousands):

**December 31,**

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

	2016	(As restated)	2015
Furniture and equipment	\$	<b>10,434</b>	\$ 9,625
Leasehold improvements		<b>8,615</b>	9,914
Automobiles		<b>844</b>	1,131
Computer equipment and software		<b>28,881</b>	26,887
		<b>48,774</b>	47,557
Less accumulated depreciation and amortization		<b>(32,385)</b>	(28,735)
Property and equipment, net	\$	<b>16,389</b>	\$ 18,822

Table of Contents

Information with respect to depreciation expense is as follows (in thousands):

	<b>2016</b> (As restated)	<b>Years Ended December 31,</b> <b>2015</b> (As restated)	<b>2014</b>
Total depreciation expense	\$ 4,347	\$ 3,715	\$ 2,604
Portion charged to cost of services	\$ 890	\$ 813	\$ 841
Portion charged to selling, general and administrative expense	\$ 3,457	\$ 2,902	\$ 1,763

Table of Contents

**Note 9 Intangible Assets**

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

	December 31,			
	2016 (As restated)		2015 (As restated)	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$ 16,699	\$ 11,298	\$ 19,851	\$ 12,464
Acquired contract rights	2,058	1,912	11,801	10,832
Trade names	959	500	1,088	566
Total	\$ 19,716	\$ 13,710	\$ 32,740	\$ 23,862
Intangible assets, net	\$ 6,006		\$ 8,878	

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

	Years Ended December 31,		
	2016	2015 (As restated)	2014
	\$ 2,918	\$ 4,225	\$ 4,347

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

Years Ending December 31,	Estimated Amortization Expense (As Restated)
2017	\$ 1,990
2018	1,078
2019	992
2020	730
2021	344

**Note 10 Goodwill**

The addition to goodwill in 2015 is due to the acquisition of IMS (see Note 6 for further information).

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

Table of Contents

The following table summarizes the changes in the Company's carrying value of goodwill during 2016 and 2015 (in thousands):

Balance, December 31, 2014	\$	53,669
Additions		3,783
Translation adjustments		(7,713)
<b>Balance, December 31, 2015</b>		<b>49,739</b>
Translation adjustments		926
<b>Balance, December 31, 2016</b>	\$	<b>50,665</b>

**Note 11 Accounts Payable and Accrued Expenses**

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

	December 31,	
	2016 (As restated)	2015 (As restated)
Accounts payable	\$ 30,944	\$ 38,094
Accrued payroll and related expenses	32,618	36,722
Accrued subcontractor fees	9,188	5,864
Accrued agency fees	5,702	6,282
Accrued legal and professional fees	2,223	1,114
Other accrued expenses	5,005	2,958
	<b>\$ 85,680</b>	<b>\$ 91,034</b>

**Note 12 Notes Payable and Long-Term Debt**

Outstanding debt obligations are as follows (in thousands):

	December 31,	
	2016	2015
2014 Term Loan Facility	\$ 112,884	\$ 112,906
2014 Domestic Revolving Credit Facility	16,500	17,500
2014 International Revolving Credit Facility	11,102	10,715
Borrowings under revolving credit facilities with a consortium of banks in Spain	2,962	3,013
Borrowing from Philadelphia Industrial Development Corporation	655	710
Other notes payable		139
	<b>144,103</b>	<b>144,983</b>
Less current maturities	1,983	4,357



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

Notes payable and long-term debt, net of current maturities	\$	<b>142,120</b>	\$	140,626
---	----	----------------	----	---------

Table of Contents

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 as administrative agent and collateral agent, (the **International Lender** ) providing a facility of \$11,765,000 (\$15,000,000 at closing and \$12,380,000 at December 31, 2016) which is available to the Subsidiary (the **International Revolver** and together with the U.S. Revolver, the **Revolving Credit Facilities** and, together with the U.S. Credit Facilities, the **Secured Credit Facilities** ). The U.S. Revolver and the International Revolver include sub-limits for letters of credit amounting to \$25,000,000 and \$10,000,000, respectively.

The Secured Credit Facilities contain customary default provisions, representations and warranties, and affirmative and negative covenants, and require the Company to comply with certain financial and reporting covenants. The financial covenants consist of a 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 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's Consolidated Net Leverage Ratio was 3.89 to 1.00 which exceeded the 2.75 to 1.00 limit imposed by the Secured Credit Facilities and constituted a default.

In anticipation of the event of default upon delivery of the quarterly compliance certificate, the Company requested a waiver from the Agent. On March 27, 2017, the Company obtained the waiver of the Consolidated Net Leverage Ratio default. In connection with the waiver, the Company incurred a consent fee of \$401,000 which will be charged to interest expense 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. In accordance with the credit agreement, failure to comply with the excess account concentration shall not constitute an event of default. At December 31, 2016, the Company had a concentration of accounts receivable from Oman of approximately 12%, which exceeded the 10% 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.

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 December 31, 2016, the interest rate on the Term Loan was 7.75%.

Table of Contents

The Company has the right to prepay the Term Loan Facility in full or in part at any time without premium or penalty. The Company is required to make mandatory prepayments of the Term Loan Facility, without premium or penalty, (i) with net proceeds of any issuance or incurrence of indebtedness (other than that permitted under the Term Loan Facility) by the Company, (ii) with net proceeds from certain asset sales outside the ordinary course of business, and (iii) with 50% of the excess cash flow (as defined in the agreement) for each fiscal year of the Borrowers commencing with the year ending December 31, 2016 (which percentage would be reduced to 25% if the Consolidated Net Leverage Ratio is equal to or less than 2.25 to 1.00 or reduced to 0% if the Consolidated Net Leverage Ratio is equal to or less than 1.50 to 1.00).

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

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

The Company incurred fees and expenses related to the Term Loan Facility aggregating \$7,066,000 which were 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 \$4,416,000 and \$5,594,000 are reflected as reductions of the term loan in the consolidated balance sheets at December 31, 2016 and 2015, respectively.

**Revolving Credit Facilities**

The interest rate on borrowings under the U.S. Revolver will be, at the Company's option from time to time, either the LIBOR for the relevant interest period plus 3.75% per annum or the Base Rate plus 2.75% per annum. At December 31, 2016 the interest rate was 6.50%.

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 December 31, 2016 the interest rate was 4.38%.

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 December 31, 2016, the domestic borrowing base was \$30,000,000 and the international borrowing base was \$11,765,000 (approximately \$12,380,000 at December 31, 2016).

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

Table of Contents

Subsidiary and certain of the Company's non-U.S. subsidiaries, and a second-priority security interest in substantially all other assets of the Company and certain of the Company's U.S. and non-U.S. subsidiaries.

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

The Company incurred fees and expenses related to the Revolving Credit Facilities aggregating \$3,000,000 which was 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 \$1,650,000 and \$2,250,000 are included in other assets in the consolidated balance sheet at December 31, 2016 and 2015, respectively.

At December 31, 2016, the Company had \$4,519,000 of outstanding letters of credit and \$ 8,981,000 of available borrowing capacity under the U.S. Revolver.

At December 31, 2016, the Company had \$945,000 of outstanding letters of credit and \$4,195,000 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 (the Financing Entities ) 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 2,770,000 (approximately \$2,915,000) at December 31, 2016. The facility was fully utilized at December 31, 2016. Interest rates at December 31, 2016 were between 1.85% and 3.50%. The loans have varying expiration dates between 36 and 60 months.

Hill Spain also maintains an ICO (Official Credit Institute) loan with Bankia Bank in Spain for 45,000 (approximately \$47,355) at December 31, 2016. The availability is reduced by 15,000 on a quarterly basis. At December 31, 2016, the loan was fully utilized with total borrowings outstanding of 45,000 (approximately \$47,355). The interest rate at December 31, 2016 was 6.50%. The ICO loan expires on August 10, 2017.

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

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 December 31, 2016) collateralized by certain overseas receivables. At December 31, 2016, there were no borrowings outstanding. The interest rate is the one-month Emirates InterBank Offer Rate plus 3.00% (or 4.41% at December 31, 2016) but no less than 5.50%. This facility allows for up to AED 200,000,000 (approximately \$54,451,000 at December 31, 2016) of which AED 127,377,000 (approximately \$34,686,000) was outstanding at December 31, 2016. The credit facility is subject to periodic review by the bank.

Engineering S.A. maintains four unsecured revolving credit facilities with two banks in Brazil aggregating 2,380,000 Brazilian Reals (BRL) (approximately \$732,000 at December 31, 2016), with a weighted average interest rate of 5.09% per month at December 31, 2016. There were no borrowings outstanding on any of these facilities which are renewed automatically every three months.

The Company also maintains relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At December 31, 2016, the maximum U.S. dollar equivalent of the commitments was \$83,382,000 of which \$38,680,000 is outstanding.

Table of Contents

At December 31, 2016, contractually scheduled maturities of long term debt were as follows (in thousands):

Years Ending December 31,	
2017	\$ 1,983
2018	1,902
2019	29,506
2020	109,834
2021	520
Thereafter	358
<b>Total</b>	<b>\$ 144,103</b>

**Note 13 Supplemental Cash Flow Information**

The Company issues shares of its common stock and deferred stock units to its non-employee directors as partial compensation for services on the Company's Board through the next annual stockholders meeting. See Note 14 for further information with respect to this plan.

Other activity is provided in the following table (in thousands):

	2016	Years Ended December 31, 2015	2014
Interest and related financing fees paid	\$ 12,004	\$ 13,180	\$ 22,753
Income taxes paid	\$ 9,523	\$ 5,684	\$ 10,863
Increase in property and equipment from a tenant improvement allowance related to the relocation of the corporate headquarters	\$	\$ 3,894	\$
Reduction of noncontrolling interest in connection with acquisitions of additional interests in Engineering S.A.	\$	\$ (4,374)	\$ (2,649)
Increase in additional paid in capital from issuance of shares of common stock in connection with the acquisition of an additional interest in ESA	\$	\$ 4,374	\$
Decrease in additional paid-in capital related to ESA Put Options	\$ (2,670)	\$	\$
Increase in additional paid in capital from issuance of shares of common stock related to purchase of CPI	\$	\$ 530	\$ 618
Increase in additional paid in capital from issuance of shares of common stock from cashless exercise of stock options	\$ 796	\$ 361	\$ 538

**Note 14 Share-Based Compensation**



*2009 Non-Employee Director Stock Grant Plan*

The 2009 Non-Employee Director Stock Grant Plan covers 400,000 shares of the Company's common stock. Awards

Table of Contents

under the plan may take the form of shares of the Company's common stock or deferred stock units ( DSU ) which entitle the participants to receive one share of common stock for each DSU upon retirement from the Board of directors. Only the Company's Non-Employee Directors are eligible to receive awards under the plan. Information with respect to the plan's activity follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Shares issued	3	25	27
Compensation expense	\$ 10	\$ 115	\$ 175
Deferred stock units issued	96		
Compensation expense	\$ 350	\$	\$

*2008 Employee Stock Purchase Plan*

The Employee Stock Purchase Plan covers 2,000,000 shares of the Company's common stock. Eligible employees may purchase shares at 85% of the fair market value on the date of purchase. Information with respect to the plan's activity follows (in thousands):

	Years Ended December 31,		
	2016	2015	2014
Shares purchased	59	43	55
Aggregate purchase price	\$ 182	\$ 126	\$ 197
Compensation expense	\$ 32	\$ 22	\$ 35

*2006 Employee Stock Option Plan*

The 2006 Employee Stock Option Plan, as amended, covers 10,000,000 shares of the Company's common stock. Under its terms, directors, officers and employees of the Company and its subsidiaries are eligible to receive non-qualified and incentive stock options. Options granted to non-employee directors vest immediately and have a five-year contractual term. Options granted to officers and employees vest over five years and have a seven-year contractual term. Generally, each option has an exercise price equal to the closing quoted market price of a share of the Company's common stock on the date of grant. For grants of incentive stock options, if the grantee owns, or is deemed to own, 10% or more of the total voting power of the Company, then the exercise price shall be 110% of the closing quoted market price on the date of grant and the option will have a five-year contractual term. Options that are forfeited or expire are available for future grants. At December 31, 2016, a total of 1,643,000 shares of common stock were reserved for future issuance under the plan.

The Black-Scholes option valuation model is used to estimate the fair value of the options. The following table summarizes the fair value of options granted during 2016, 2015 and 2014 and the assumptions used to estimate the fair value:

	December 31,		
	2016	2015	2014
Average expected life (years)	4.98	4.86	4.59

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

Forfeiture range	<b>0%</b>	<b>0 - 5.0%</b>	0 - 5.0%
Weighted average forfeiture rate	<b>0%</b>	<b>0.3%</b>	0.9%
Dividends	<b>0%</b>	<b>0%</b>	0%
Volatility range	<b>47.4 - 57.5%</b>	<b>46.9 - 59.9%</b>	61.5 - 65.5%
Weighted average volatility	<b>56.5%</b>	<b>58.9%</b>	62.9%
Range of risk-free interest rates	<b>0.97 - 1.46%</b>	<b>1.07 - 1.61%</b>	0.86 - 1.74%
Weighted average risk-free interest rate	<b>1.22%</b>	<b>1.45%</b>	1.67%
Weighted average fair value at grant date	<b>\$1.52</b>	<b>\$2.01</b>	\$2.28

Table of Contents

The expected term of the options is estimated based on the simplified method as permitted by SAB No. 110. Expected volatility was calculated using the average historical volatility of the Company. The risk-free interest rate is based on U.S. Treasury yields for securities in effect at the time of grants with terms approximating the term of the grants. The assumptions used in the Black-Scholes option valuation model are highly subjective, particularly as to stock price volatility of the underlying stock, which can materially affect the resulting valuation.

A summary of the Company's stock option activity and related information for the years ended December 31, 2016, 2015 and 2014 is as follows (in thousands, except exercise price and remaining life data):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, December 31, 2013	6,574	\$ 4.67		
Granted	1,849	4.57		
Exercised	(524)	3.00		
Expired	(496)	7.66		
Forfeited	(44)	4.37		
Outstanding, December 31, 2014	7,359	4.57		
Granted	1,117	4.02		
Exercised	(274)	3.03		
Expired	(405)	7.11		
Forfeited	(86)	4.50		
Outstanding, December 31, 2015	7,711	4.41		
<b>Granted</b>	<b>1,025</b>	<b>4.40</b>		
<b>Exercised</b>	<b>(438)</b>	<b>2.66</b>		
<b>Expired</b>	<b>(1,154)</b>	<b>6.81</b>		
<b>Forfeited</b>	<b>(82)</b>	<b>4.24</b>		
<b>Outstanding, December 31, 2016</b>	<b>7,062</b>	<b>\$ 4.45</b>	<b>1.78</b>	<b>\$</b>
<b>Exercisable, December 31, 2016</b>	<b>3,727</b>	<b>\$ 4.64</b>	<b>3.07</b>	<b>\$</b>

Aggregate intrinsic value represents the difference between the exercise prices and the closing stock price on December 31, 2016. At December 31, 2016, the weighted average exercise price of the outstanding options was \$4.45 and the closing stock price was \$4.35.

Table of Contents

For various price ranges, weighted average characteristics of outstanding stock options at December 31, 2016 are as follows:

Exercise Prices	Options Outstanding			Weighted Average Exercise Price	Options Exercisable		
	Number Outstanding at December 31, 2016	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price		Number Exercisable at December 31, 2016	Weighted Average Exercise Price	
\$ 2.85	68,181	0.44	\$ 2.85	68,181	\$ 2.85		
2.89	69,768	1.43	2.89	69,768	2.89		
3.00	10,101	4.10	3.00	10,101	3.00		
3.12	10,000	3.60	3.12	6,000	3.12		
3.35	15,000	6.06	3.35		3.35		
3.46	13,274	3.86	3.46	13,274	3.46		
3.55	5,000	5.78	3.55	1,000	3.55		
3.67	781,000	3.06	3.67	465,000	3.67		
3.91	500,000	5.01	3.91	100,000	3.91		
3.95	500,000	4.01	3.95	200,000	3.95		
4.00	500,000	6.25	4.00		4.00		
4.03	475,000	5.08	4.03	95,000	4.03		
4.04	1,000,000	1.06	4.04	750,000	4.04		
4.31	112,500	6.45	4.31		4.31		
4.35	500,000	2.01	4.35	250,000	4.35		
4.46	25,000	6.76	4.46		4.46		
4.84	37,974	3.60	4.84	37,974	4.84		
4.90	10,000	5.59	4.90	2,000	4.90		
4.95	680,000	4.19	4.95	272,000	4.95		
5.00	250,000	6.25	5.00		5.00		
5.17	112,500	6.45	5.17		5.17		
5.31	20,000	0.07	5.31	20,000	5.31		
5.47	880,200	0.18	5.47	880,200	5.47		
5.73	8,000	1.84	5.73	8,000	5.73		
5.83	265,000	0.24	5.83	265,000	5.83		
6.31	175,000	1.42	6.31	175,000	6.31		
6.61	38,322	2.45	6.61	38,322	6.61		
	7,061,820	3.07	\$ 4.13	3,726,820	\$ 4.64		

In the years ended December 31, 2016, 2015 and 2014, the Company recorded share-based compensation related to stock options of approximately \$2,360,000, \$2,960,000 and \$3,292,000, respectively, which is included in selling, general and administrative expenses.

The following table summarizes the Company's non-vested stock option activity and related information for the years ended December 31, 2016, 2015 and 2014 (in thousands, except weighted average grant date fair value):

Table of Contents

	Options		Weighted Average Grant Date Fair Value Per Share
Non-vested options at December 31, 2013	3,541	\$	2.20
Granted	1,849		2.28
Vested	(1,289)		2.19
Forfeited	(44)		2.33
Non-vested options at December 31, 2014	4,057		2.24
Granted	1,117		2.01
Vested	(1,434)		2.26
Forfeited	(86)		2.48
Non-vested options at December 31, 2015	3,654		2.15
<b>Granted</b>	<b>1,025</b>		<b>1.52</b>
<b>Vested</b>	<b>(1,262)</b>		<b>2.18</b>
<b>Forfeited</b>	<b>(82)</b>		<b>2.76</b>
<b>Non-vested options at December 31, 2016</b>	<b>3,335</b>	<b>\$</b>	<b>1.92</b>

At December 31, 2016, total unrecognized compensation cost related to non-vested options was \$4,546,000 which will be recognized over the remaining weighted-average service period of 1.91 years.

**Note 15 Stockholders Equity**

During the year ended December 31, 2016, the Company received cash proceeds of \$351,000 from the exercise of stock options.

During 2016, certain officers exercised 320,745 options with an exercise price of \$2.45 through the Company. The Company withheld 233,752 shares as payment for the options and placed those shares in treasury. The officers received 87,713 shares from these transactions.

During May 2015, four of the Company's directors exercised an aggregate of 84,868 options with an exercise price of \$4.25 through the Company on a cashless basis. The Company withheld 67,400 shares as payment for the options and placed those shares in treasury. The directors received a total of 17,468 shares from this transaction.

In April 2015, two shareholders who owned approximately 19% of ESA exercised their ESA Put Options. On August 12, 2015, the Company paid the \$4,374,000 liability with 924,736 shares of its common stock, of which it repurchased 129,648 shares for an aggregate price of \$580,000. See Note 6 for further information.

On August 6, 2014, in connection with the Refinancing, the Company sold 9,546,629 shares of its common stock in an underwritten equity offering and received net proceeds aggregating approximately \$38,078,000, of which two mandatory prepayments of \$9,522,402 were used to pay down the 2012 Term Loan Agreement and the 2009 Revolving Credit Agreement.

In March 2014, the Company's former Chairman and Chief Executive Officer exercised 200,000 options with an exercise price of \$2.70 through the Company on a cashless basis. The Company withheld 112,788 shares as payment for the options and placed those shares in treasury. The Chairman and Chief Executive Officer received 87,212 shares from this transaction.

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

### Table of Contents

We have an effective registration statement on Form S-3 on file with the U.S. Securities and Exchange Commission (the SEC) which registered 20,000,000 shares of our common stock for issuance and sale by us at various times in the future. The proceeds, if any, will be used for working capital and general corporate purposes, subject to the restrictions of our Secured Credit Facilities.

We have an effective registration statement on Form S-4 on file with the SEC which registered 20,000,000 shares of our common stock, which includes 6,438,923 shares of our common stock registered under a previous Form S-4, for use in future acquisitions. During 2013, we issued 1,389,769 shares in connection with our acquisitions of BCA and CPI. During 2014, we issued 171,308 shares in connection with certain additional consideration for CPI. In 2015, we issued 148,460 shares of our common stock for additional consideration for CPI. See Note 6 for further information.

### **Note 16 Income Taxes**

The effective tax rates for the years ended December 31, 2016, 2015 and 2014 were (37.2%), (110.5%) and 58.0% respectively. For all the years presented, the Company's effective tax rate is significantly different than the U.S. federal statutory rate primarily as a result of various foreign withholding taxes and the inability to record an income tax benefit related to the U.S. net operating loss.

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

	2016 (As restated)	Years Ended December 31, 2015 (As restated)	2014 (As restated)
United States	\$ (4,595)	\$ (12,302)	\$ (11,083)
Foreign jurisdictions	(11,410)	7,021	28,334
	<b>\$ (16,005)</b>	<b>\$ (5,281)</b>	<b>\$ 17,251</b>

Income tax expense (benefit) consists of the following (in thousands):

	Current	Deferred	Total
<b>Year ended December 31, 2016 (As restated):</b>			
U.S. federal	\$	\$	\$
State and local			
Foreign jurisdictions	6,793	(838)	5,955
	<b>\$ 6,793</b>	<b>\$ (838)</b>	<b>\$ 5,955</b>
<b>Year ended December 31, 2015 (As restated):</b>			
U.S. federal	\$	\$	\$
State and local			
Foreign jurisdictions	6,889	(1,056)	5,833



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

	\$	6,889	\$	(1,056)	\$	5,833
Year ended December 31, 2014 (As restated):						
U.S. federal	\$		\$		\$	
State and local						
Foreign jurisdictions		10,226		(229)		9,997
	\$	10,226	\$	(229)	\$	9,997

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

### Table of Contents

The increase in tax expense in 2016 compared to 2015 results from the mix of income and tax rates in various foreign jurisdictions.

The decrease in tax expense in 2015 compared to 2014 results from the mix of income and tax rates in various foreign jurisdictions.

The differences between income taxes based on the statutory U.S. federal income tax rate and the Company's effective income tax rate are provided in the following reconciliation (in thousands).

	Years Ended December 31,		
	2016 (As restated)	2015 (As restated)	2014 (As restated)
Statutory federal income tax	\$ (5,602)	\$ (1,848)	\$ 5,865
Foreign tax benefit for earnings taxed at lower rates	6,800	921	(2,004)
Change in the valuation allowance	4,269	9,291	17,559
Valuation allowance - discontinued operations NOL adjustment	(4,206)	(2,960)	(10,907)
Net liability (reductions) additions for uncertain tax positions	(40)	21	149
Excess compensation	513	485	646
State and local income taxes, net of federal income tax benefit	(105)	(519)	(512)
Stock options	4,354	266	224
Purchase accounting reversal			(490)
Other	(30)	175	(533)
<b>Total</b>	<b>\$ 5,955</b>	<b>\$ 5,833</b>	<b>\$ 9,997</b>

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

Table of Contents

The tax effect of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows (in thousands):

	December 31,	
	2016 (As restated)	2015 (As restated)
<b>Deferred tax assets:</b>		
Net operating loss carry forward - U.S. operations	\$ 52,401	\$ 46,493
Amortization of intangibles	3,984	7,010
Net operating loss carry forward - foreign operations	9,112	6,848
Compensated absences	2,626	2,370
Foreign income taxes on currency translation	1,367	2,379
Share based compensation	309	3,764
Allowance for uncollectible accounts	13,912	13,141
Bonus accrual		756
Deferred income	1,198	370
Foreign tax credit	991	982
Other	1,232	1,295
<b>Total gross deferred tax assets</b>	<b>87,132</b>	<b>85,408</b>
Valuation allowances	(73,212)	(68,943)
<b>Net deferred tax assets</b>	<b>13,920</b>	<b>16,465</b>
<b>Deferred tax liabilities:</b>		
Intangible assets	(6,735)	(10,376)
Depreciation	(2,870)	(2,722)
Prepaid expenses	(1,036)	(1,125)
Change in tax method	(101)	(190)
Accrued expenses	(538)	
<b>Total gross deferred tax liabilities</b>	<b>(11,280)</b>	<b>(14,413)</b>
<b>Net deferred tax assets</b>	<b>\$ 2,640</b>	<b>\$ 2,052</b>

The deferred taxes have been reflected in the balance sheet based on tax jurisdiction as follows:

Deferred tax asset	\$ 3,200	\$ 3,084
Deferred tax liability	(560)	(1,032)
<b>Net deferred tax assets</b>	<b>\$ 2,640</b>	<b>\$ 2,052</b>

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.

Due to recurring net operating losses in the United States, management has determined that it is more likely than not that



Table of Contents

the Company will not be able to utilize its U.S. deferred tax assets. The Company continues to generate U.S. net operating losses and recorded additional valuation allowances of \$2,518,000 and \$7,646,000 at December 31, 2016 and 2015, respectively. U.S. valuation allowances of \$52,251,000 and \$49,733,000 were recorded at December 31, 2016 and 2015, respectively, primarily related to the U.S. net operating loss carryforwards. As a result, the U.S. deferred tax assets, net of U.S. deferred tax liabilities, are fully reserved at December 31, 2016. Cumulative U.S. federal and state net operating losses at December 31, 2016 are \$132,331,000 and \$135,234,000, respectively.

At December 31, 2016 and 2015, there were approximately \$38,869,000 and \$28,097,000, respectively, of gross foreign net operating loss carry forwards. The majority of these net operating loss carry forwards have an unlimited carry forward period. It is anticipated that these losses will not be utilized due to continuing losses in these jurisdictions. Foreign valuation allowances of \$20,961,000 and \$19,210,000 were recorded at December 31, 2016 and 2015, respectively, primarily related to the foreign allowance for doubtful accounts in connection with the Libya Receivable reserve and the foreign net operating loss carry forwards.

The Company has made no provision for U.S. taxes on \$134,000,000 of cumulative earnings of foreign subsidiaries as those earnings are intended to be reinvested for an indefinite period of time and are not intended to be distributed to the U.S. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual repatriation of these earnings.

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

The following table indicates the changes to the Company's uncertain tax positions for the years ended December 31, 2016 and 2015 including interest and penalties (in thousands):

	Years Ended December 31,	
	2016 (As restated)	2015 (As restated)
Balance, beginning of year	\$ 6,282	\$ 6,096
Reductions based on tax positions related to prior years	(40)	(16)
Reduction due to settlements with taxing authorities	(172)	(265)
Additions based on tax positions related to prior years	665	467
Balance, end of year	\$ 6,735	\$ 6,282

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company generally is no longer subject to U.S. or state examinations by tax authorities for taxable years prior to 2013. However, net operating losses utilized from prior years in subsequent years' tax returns are subject to examination until three years after the filing of subsequent years' tax returns. The statute of limitations expiration in foreign jurisdictions for corporate tax returns generally ranges between two and five years depending on the jurisdiction.

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

The Company's policy is to record estimated interest and penalties related to uncertain tax positions in income tax expense. At December 31, 2016, 2015 and 2014, the Company's consolidated balance sheet reflects cumulative provisions for interest and penalties of \$206,000, \$500,000 and \$520,000, respectively, related to potential interest and penalties.

The Company's income tax returns are based on calculations and assumptions that are subject to examinations by the Internal Revenue Service and other tax authorities. While the Company believes it has appropriate support for the

Table of Contents

positions taken on its tax returns, the Company regularly assesses the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of its provision for income taxes. As part of its assessment of potential adjustments to its tax returns, the Company increases its current tax liability to the extent an adjustment would result in a cash tax payment or decreases its deferred tax assets to the extent an adjustment would not result in a cash tax payment. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

**Note 17 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 s Construction Claims Group, 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.

From time to time, the Company is a defendant or plaintiff in various legal actions that 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.

*Off-Balance Sheet Arrangements*

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

The Company enters into agreements with banks for the banks to issue bonds to clients or potential clients for three separate purposes as follows:

(1) Certain of the Company's subsidiaries (Hill International N.V., Hill International (UK) Ltd. and Hill International (Middle East) Ltd.) have entered into contracts for the performance of construction management services that provide that the Company receive advance payment of some of the management fee from the client prior to commencement of the construction project. However, the clients require a guarantee of service performance in the form of an advance payment bond. These bonds are evidenced by Letters of Guarantee issued by the subsidiaries banks in favor of the clients. In some cases, these clients also require a parent company guarantee.



Table of Contents

(2) The Company may also enter into certain contracts that require a performance bond to be issued by a bank in favor of the client for a portion of the value of the contract. These bonds may be exercised by the client in instances where the Company fails to provide the contracted services.

(3) Certain clients may require bonds as part of the bidding process for new work. The bid bonds are provided to demonstrate the financial strength of the companies seeking the work and are usually outstanding for short periods. If the bid is rejected, the bond is cancelled and if the bid is accepted, the Company may be required to provide a performance bond.

The maximum potential future payment under these arrangements at December 31, 2016 was \$105,377,000.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and letters of credit at December 31, 2016 and 2015 were \$4,625,000 and \$4,694,000, respectively.

*Acquisition-Related Contingencies*

As of December 31, 2016 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 period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA's most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed. On June 17, 2016, the three remaining minority shareholders exercised their ESA Put Option claiming a value of BRL 8,656,000 (approximately \$2,649,000 at June 30, 2016). The Company accrued the liability, which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2016. The transaction was finalized in November 2017 and February 2018. The shareholders agreed to a total payment of BRL 6,084,000 (approximately \$1,873,000) with the difference recorded to additional paid-in-capital at settlement date. See Note 6.

The Company accrued approximately TRY 6,100,000 (\$2,088,000) for potential future payments in connection with the acquisition of IMS. IMS's EBITDA through the one-year anniversary of the acquisition date was not sufficient to earn any of the Additional Purchase Price and the liability was eliminated by a credit of approximately \$673,000 to selling, general and administrative expenses at December 31, 2016. See Note 6.

*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 \$2,375,000 and has reflected that amount in discontinued operations in the consolidated statement of operations for the year ended December 31, 2016 and in other liabilities in the consolidated balance sheet at December 31, 2016.

**Note 18 Operating Leases**

The Company has numerous operating leases which have various expiration dates through December, 2027. Rent expense was approximately \$9,208,000, \$8,724,000 and \$8,416,000 for the years ended December 31, 2016, 2015 and 2014, respectively, which is included in selling, general and administrative expenses in the consolidated statements of earnings. The Company is required to pay property taxes, utilities and other costs related to several of its leased office facilities.

Table of Contents

At December 31, 2016, approximate future minimum payments under these leases that have remaining non-cancelable lease terms in excess of one year are as follows (in thousands):

Years Ending December 31,		
2017	\$	7,607
2018		6,213
2019		5,026
2020		3,766
2021		3,145
Thereafter		10,963
Total	\$	36,720

**Note 19 - Benefit Plans***401(k) Retirement Savings Plan*

The Company maintains a 401(k) Retirement Savings Plan (the "401(k) Plan") for qualified employees. The terms of the 401(k) Plan define qualified employees as those over 21 years of age. The Company matches 50% of employee contributions up to 2% of employee compensation up to a maximum \$2,650. For the years ended December 31, 2016, 2015 and 2014, the Company recognized expense amounting to \$1,005,000, \$905,000 and \$801,000, respectively, which is included in selling, general and administrative expenses in the consolidated statements of earnings.

*End of Service Benefits*

The Company maintains several End of Service Benefit plans (the "EOSB Plans") in the Middle East, Africa and Mexico. The EOSB Plans provide lump sum termination benefits to certain employees in Saudi Arabia, the United Arab Emirates, Bahrain, Qatar, Oman, Jordan, Kuwait and Mexico. The EOSB plans have an average duration of 5 years and differ by country, but contain similar characteristics: lump sum benefit on leaving employment, based on salary, minimum vesting requirement and graduated benefit based on years of service. The company calculated the present value of expected future payments using the Projected Unit Credit Method, which estimates the fair value of projected benefits current plan participants will earn as of December 31, 2016. The baseline assumptions used were a discount rate of 3.0%, salary increase of 2.0% per annum and an employee turnover rate of 18% per annum. The Company recorded liabilities of \$13,364,000 and \$13,592,000 for the EOSB Plans as of December 31, 2016 and 2015, respectively, which are included in other liabilities in the consolidated balance sheets. For the years ended December 31, 2016, 2015 and 2014, the Company recognized expense for the EOSB Plans of \$4,327,000, \$3,540,000 and \$3,126,000 respectively, which is included in selling, general and administrative expenses in the consolidated statements of earnings.

**Note 20 Segment and Related Information**

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

At December 31, 2016, due to the pending sale of our Construction Claims Group, the Company now has one operating segment, the Project Management Group, which reflects how the Company will be managed going forward. The Company based its determination on how we manage our operations, the similarity of the services provided, the methodologies in delivering our services and the similarity of the client base. 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 2015 and 2014 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):

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

Table of Contents

**Revenue by Geographic Region (As restated)**

	2016		2015		2014	
United States/Canada	\$	204,035	39.5%	\$	187,399	30.2%
Latin America		18,775	3.6		26,350	7.5
Europe		41,062	8.0		42,635	7.6
Middle East		213,613	41.4		248,193	47.3
Africa		24,037	4.7		23,935	4.4
Asia/Pacific		14,490	2.8		16,248	3.0
Total	\$	516,012	100%	\$	544,760	100%

For the twelve months ended December 31, 2016, total revenue for the United Arab Emirates amounted to \$73,617,000 representing 14.3% of the total. No other country except for the United States accounted for over 10% of total revenue.

For the twelve months ended December 31, 2015, total revenue for the United Arab Emirates amounted to \$88,036,000 representing 16.2% of the total. No other country except for the United States accounted for over 10% of total revenue.

For the year ended December 31, 2014, total revenue from the United Arab Emirates amounted to \$50,524,000 representing 10.3% of the total, revenue from Oman amounted to \$66,175,000 representing 13.5% of the total and revenue from Saudi Arabia amounted to \$66,175,000 representing 13.5% of the total. No other country except for the United States accounted for over 10% of total revenue.

**Operating Profit (Loss) (As restated)**

	2016		2015		2014	
United States/Canada	\$	17,742	\$	14,300	\$	7,242
Latin America		1,702		(2,384)		1,501
Europe		(8,285)		(15,180)		(11,834)
Middle East		15,992		36,307		44,885
Africa		(7,083)		864		5,904
Asia/Pacific		1,097		2,418		2,497
Corporate		(34,815)		(37,995)		(29,845)
Total	\$	(13,650)	\$	(1,670)	\$	20,350

**Depreciation and Amortization Expense (As restated)**

	2016		2015		2014	
Project Management	\$	6,635	\$	7,522	\$	6735
Corporate		630		418		216

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

Total	\$	7,265	\$	7,940	\$	6,951
-------	----	-------	----	-------	----	-------

*Revenue By Client Type (As restated)*

	2016		2015		2014	
U.S. federal government	\$	12,050	2.3%	\$	10,737	2.0%
U.S. state, regional and local governments		155,976	30.2		139,086	25.5
Foreign governments		170,567	33.1		209,468	38.5
Private sector		177,419	34.4		185,469	34.0
Total	\$	516,012	100.0%	\$	544,760	100.0%

Table of Contents

*Property, Plant and Equipment, Net by Geographic Location (As restated)*

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
United States/Canada	\$ 12,626	\$ 13,145
Latin America	881	1,017
Europe	218	807
Middle East	1,645	2,318
Africa	169	589
Asia/Pacific	850	946
Total	\$ 16,389	\$ 18,822

Table of Contents**Quarterly Results (Unaudited and Restated)**

Due to the pending sale of its Construction Claims Group, the Company has classified the assets and liabilities of that segment as held for sale and has reflect its operations as discontinued operations for all periods presented. In addition, the Company has restated the consolidated statements of operations for the years ended December 31, 2016 and 2015 for certain errors as discussed in Note 2. Accordingly, the tables below present quarterly results of operations for the years ended December 31, 2016 and 2015, as revised to give effect to the Restatement.

The following is the quarterly financial information for fiscal years 2016 and 2015 (in thousands except per share data).

	As Previously Reported	Adjustments	As Restated
<b>Quarter Ended March 31, 2016:</b>			
Revenue	134,370	2,529	136,899
Gross profit	41,069	2,529	43,598
Operating profit	2,686	3,134	5,820
Earnings from continuing operations	2,307	2,429	4,736
Loss from discontinued operations	(853)	(390)	(1,243)
Net earnings attributable to Hill	1,450	2,054	3,504
Basic earnings 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 earnings per common share - Hill International, Inc.	0.03	0.04	0.07
Diluted earnings 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 earnings per common share - Hill International, Inc.	0.03	0.04	0.07
<b>Quarter Ended June 30, 2016:</b>			
Revenue	131,845	864	132,709
Gross profit	39,491	864	40,355
Operating profit	3,765	2,236	6,001
Earnings from continuing operations	873	1,803	2,676
(Loss) earnings from discontinued operations	604	(1,178)	(574)
Net earnings attributable to Hill	1,490	640	2,130
Basic earnings per common share from continuing operations	0.02	0.03	0.05
Basic earnings (loss) per common share from discontinued operations	0.01	(0.02)	(0.01)
Basic earnings per common share - Hill International, Inc.	0.03	0.01	0.04
Diluted earnings per common share from continuing operations	0.02	0.03	0.05
Diluted earnings (loss) per common share from discontinued operations	0.01	(0.02)	(0.01)
Diluted earnings per common share - Hill International, Inc.	0.03	0.01	0.04
<b>Quarter Ended September 30, 2016:</b>			
Revenue	125,872	(4,650)	121,222
Gross profit	43,543	(4,650)	38,893
Operating loss	(3,396)	(4,590)	(7,986)
Loss from continuing operations	(6,476)	(4,434)	(10,910)
Loss from discontinued operations	(279)	(261)	(540)
Net loss attributable to Hill	(6,866)	(4,680)	(11,546)
Basic loss per common share from continuing operations	(0.12)	(0.09)	(0.21)



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

Basic loss per common share from discontinued operations	(0.01)	(0.00)	(0.01)
Basic loss per common share - Hill International, Inc.	(0.13)	(0.09)	(0.22)
Diluted loss per common share from continuing operations	(0.12)	(0.09)	(0.21)
Diluted loss per common share from discontinued operations	(0.01)	(0.00)	(0.01)
Diluted loss per common share - Hill International, Inc.	(0.13)	(0.09)	(0.22)

**Quarter Ended December 31, 2016:**

Revenue	128,760	(3,578)	125,182
Gross profit	37,801	(3,578)	34,223
Operating loss	(3,909)	(13,576)	(17,485)
Loss from continuing operations	(4,320)	(14,141)	(18,461)
Loss from discontinued operations	(10,548)	1,130	(9,418)
Net loss attributable to Hill	(14,902)	(12,996)	(27,898)
Basic loss per common share from continuing operations	(0.08)	(0.28)	(0.36)
Basic loss per common share from discontinued operations	(0.20)	0.02	(0.18)
Basic loss per common share - Hill International, Inc.	(0.28)	(0.26)	(0.54)
Diluted loss per common share from continuing operations	(0.08)	(0.28)	(0.36)
Diluted loss per common share from discontinued operations	(0.20)	0.02	(0.18)
Diluted loss per common share - Hill International, Inc.	(0.28)	(0.26)	(0.54)

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

Table of Contents

	As Previously Reported	Adjustments	As Restated
<b>Quarter Ended March 31, 2015:</b>			
Revenue	129,995	(2,639)	127,356
Gross profit	43,386	(2,639)	40,747
Operating profit (loss)	3,273	(8,477)	(5,204)
Earnings (loss) from continuing operations	2,310	(8,596)	(6,286)
Loss from discontinued operations	(1,462)	(600)	(2,062)
Net earnings (loss) attributable to Hill	702	(9,196)	(8,494)
Basic earnings (loss) per common share from continuing operations	0.04	(0.17)	(0.13)
Basic loss per common share from discontinued operations	(0.03)	(0.01)	(0.04)
Basic earnings (loss) per common share - Hill International, Inc.	0.01	(0.18)	(0.17)
Diluted earnings (loss) per common share from continuing operations	0.04	(0.17)	(0.13)
Diluted loss per common share from discontinued operations	(0.03)	(0.01)	(0.04)
Diluted earnings (loss) per common share - Hill International, Inc.	0.01	(0.18)	(0.17)
<b>Quarter Ended June 30, 2015:</b>			
Revenue	137,052	(32)	137,020
Gross profit	43,089	(32)	43,057
Operating profit	5,880	(3,224)	2,656
Earnings from continuing operations	3,700	(3,660)	40
Earnings from discontinued operations	835	1,651	2,486
Net earnings attributable to Hill	4,395	(2,009)	2,386
Basic earnings per common share from continuing operations	0.07	(0.07)	(0.00)
Basic earnings per common share from discontinued operations	0.02	0.03	0.05
Basic earnings per common share - Hill International, Inc.	0.09	(0.04)	0.05
Diluted earnings per common share from continuing operations	0.07	(0.07)	(0.00)
Diluted earnings per common share from discontinued operations	0.02	0.03	0.05
Diluted earnings per common share - Hill International, Inc.	0.09	(0.04)	0.05
<b>Quarter Ended September 30, 2015:</b>			
Revenue	135,539	(318)	135,221
Gross profit	46,082	(318)	45,764
Operating profit	7,111	(1,642)	5,469
Earnings from continuing operations	2,476	(2,052)	424
(Loss) earnings from discontinued operations	860	(953)	(93)
Net earnings (loss) attributable to Hill	2,948	(3,005)	(57)
Basic earnings per common share from continuing operations	0.05	(0.05)	
Basic earnings (loss) per common share from discontinued operations	0.01	(0.01)	(0.00)
Basic earnings per common share - Hill International, Inc.	0.06	(0.06)	(0.00)
Diluted earnings per common share from continuing operations	0.05	(0.05)	
Diluted earnings (loss) per common share from discontinued operations	0.01	(0.01)	(0.00)
Diluted earnings per common share - Hill International, Inc.	0.06	(0.06)	(0.00)
<b>Quarter Ended December 31, 2015:</b>			
Revenue	149,990	(4,826)	145,164
Gross profit	46,475	(4,826)	41,649
Operating profit (loss)	2,840	(7,431)	(4,591)
Earnings (loss) from continuing operations	2,127	(7,419)	(5,292)
(Loss) earnings from discontinued operations	(3,107)	211	(2,896)
Net loss attributable to Hill	(1,114)	(7,223)	(8,337)
Basic earnings (loss) per common share from continuing operations	0.04	(0.15)	(0.11)
Basic loss per common share from discontinued operations	(0.06)	0.01	(0.05)

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

Basic loss per common share - Hill International, Inc.	(0.02)	(0.14)	(0.16)
Diluted earnings (loss) per common share from continuing operations	0.04	(0.15)	(0.11)
Diluted loss per common share from discontinued operations	(0.06)	0.01	(0.05)
Diluted loss per common share - Hill International, Inc.	(0.02)	(0.14)	(0.16)

Table of Contents

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

On April 19, 2017, Hill International, Inc. (the Company) dismissed EisnerAmper LLP (EisnerAmper) as its independent registered public accounting firm. The decision to change independent registered public accounting firms was approved by the Audit Committee of the Company's Board of Directors. Such dismissal became effective upon completion by EisnerAmper of its review of the unaudited quarterly financial statements of Hill International, Inc. for the fiscal quarter ended March 31, 2017 and the filing of the related Quarterly Report on Form 10-Q with the SEC on May 10, 2017.

Also on April 19, 2017, after reviewing proposals from several accounting firms, including EisnerAmper, the Audit Committee of the Board of Directors of the Company selected KPMG LLP (KPMG) to be appointed following the filing of the Form 10-Q related to the fiscal quarter ended March 31, 2017 to serve as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2017. During the two fiscal years ended December 31, 2016, and the subsequent interim period through March 31, 2017, the Company did not consult with KPMG regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

The audit report of EisnerAmper on the consolidated financial statements of Hill International, Inc. as of and for the years ended December 31, 2016 and 2015, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles. The audit report of EisnerAmper LLP on the effectiveness of internal control over financial reporting for the Company as of December 31, 2016 and 2015 did conclude that internal controls over financial reporting were not effective due to identified material weaknesses.

During the two fiscal years ended December 31, 2016, and the subsequent interim period through March 31, 2017, there were no: (1) disagreements with EisnerAmper on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K), except that EisnerAmper advised the Company it agreed with the Company that certain deficiencies in the Company's internal control over financial reporting discussed with the Company during EisnerAmper's audits of the Company's consolidated financial statements for the years ended December 31, 2016 and 2015 constituted material weaknesses.

On March 28, 2018, the Company dismissed KPMG LLP (KPMG) as its independent registered public accounting firm. The decision to change independent registered public accounting firms was approved by the Audit Committee of the Company's Board of Directors (the Audit Committee). Also on March 28, 2018, the Audit Committee entered into an agreement with EisnerAmper LLP (EisnerAmper) to serve as the Company's independent registered public accounting firm. Such dismissal and appointment reflects the Audit Committee's belief that EisnerAmper, who served as the Company's independent public accounting firm during the restatement, will be able to complete the restatement as well as the audit of the Company's 2017 financial statements as expeditiously as possible. The Company consulted with EisnerAmper regarding the application of accounting principles in conjunction with the original audit and the restatement; however, the Company did not consult with EisnerAmper regarding any of the matters or events set forth in Item 304(a)(2)(ii) of Regulation S-K other than those related to the restatement.

The Company had no: (1) disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K) other than those related to the restatement in connection with KPMG's engagement.

As disclosed in Item 9A of this Annual Report on Form 10-K for the year ended December 31, 2016, management identified certain deficiencies that rose to the level of a material weakness related to (i) the estimation of the potential loss on the Company's accounts receivable, (ii) not maintaining effective procedures in the areas of the accounting closing process, accounting estimates and non-routine transactions, and (iii) not having a control in place to identify non-compliance with or the misapplication of local employment related tax laws (collectively, the Material Weaknesses ).

Table of Contents

As a result of these Material Weaknesses, management concluded that, as of December 31, 2016, the Company's internal control over financial reporting was not effective.

**Item 9A. Controls and Procedures.**

**(a) Evaluation of Disclosure Controls and Procedures.**

In connection with filing the Original Form 10-K for fiscal years ended 2016 and 2015, and our Form 10-K/A for the fiscal year ended 2014, 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 periods covered by the Forms 10-K for 2016 and 2015, and Form 10-K/A for 2014. Based on those evaluations, our previous Chairman and Chief Executive Officer and our previous Senior Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of each respective reporting date as a result of the previously disclosed material weakness in internal controls over financial reporting.

Subsequent to this evaluation, in connection with the restatement, discussed in Note 2 to the consolidated financial statements of this Amendment, management re-evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2016, 2015, and 2014. Based upon this re-evaluation, the Company's Interim Chief Executive Officer and Interim Chief Financial Officer have concluded that, because of the material weaknesses in its internal control over financial reporting described below and the Company's inability to file certain reports required under the Exchange Act within their required time periods, the Company's disclosure controls and procedures were still not effective as of December 31, 2016, 2015, and 2014.

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.

**(b) Management's Annual Report on Internal Control Over Financial Reporting.**

Our management is responsible for establishing and maintaining effective internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control system was designed under the supervision of our previous Chairman and Chief Executive Officer and our previous Senior Vice President and Chief Financial Officer and with the participation of management in order to provide reasonable assurance regarding the reliability of our financial reporting and our preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ( "US GAAP" ).

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

All internal control systems, no matter how well designed and tested, have inherent limitations, including, among other things, the possibility of human error, circumvention or disregard. Therefore, even those systems of internal control that have been determined to be effective can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our previous Chairman and Chief Executive Officer and our previous Senior Vice President and Chief Financial Officer, and with the participation of management, we originally conducted an assessment of the effectiveness of our internal control over financial reporting for fiscal years 2016, 2015, and 2014 based on the criteria set forth in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the

Table of Contents

Treadway Commission (the COSO). Due to the material weaknesses originally identified, previous management concluded that we had not maintained effective internal controls over financial reporting for each fiscal year.

Subsequent to those evaluations, and in connection with the restatement discussed in Note 2 to the consolidated financial statements included in Item 8 of this Amendment, management, under the supervision of our Interim Chief Executive Officer, and Interim Chief Financial Officer, re-evaluated the effectiveness of our internal control over financial reporting and, based on the criteria established in the applicable Internal Control-Integrated Framework issued by the COSO, determined that the Company had not maintained effective internal controls over financial reporting as of December 31, 2016, 2015, and 2014 due to the previously identified material weaknesses and the new material weaknesses identified and described below.

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. As a result of the material weaknesses described below, management has restated its Annual Report on Internal Control over Financial Reporting as of December 31, 2016, 2015, and 2014.

**Previously Reported Material Weaknesses**

The company previously reported the following material weaknesses in our original 2016 Form 10-K:

- *Management misapplied US GAAP as it relates to the estimation of the potential loss on the Company's accounts receivable.* Specifically, the Company did not have sufficient procedures and controls in place to enable the proper application of US GAAP to significant, non-routine transactions.
- *Management did not maintain effective procedures in the areas of the accounting closing process, accounting estimates and non-routine transactions.*
- *The Company either inadequately designed or did not implement controls to accurately determine the Company's tax liability and ensure compliance with the respective tax laws and regulations of the jurisdictions in which the employees were providing services.* The Company's corporate management advises local management on the rules and regulations in those jurisdictions and the proper tax implications. However, it was discovered in connection with the sale of the Construction Claims Group that these procedures were not followed by local management and corporate management did not have a control in place to identify non-compliance or the misapplication of local employment related tax laws.

Based on the Company's re-evaluation of our internal controls over financial reporting in connection with this restatement, the Company has updated the previously reported material weaknesses as follows and provides the information below regarding remediation efforts:



- *The Company misapplied US GAAP as it relates to the estimation of the potential loss on the Company's accounts receivable and related balances.* Specifically, the Company did not have sufficient procedures and controls in place to enable the proper application of US GAAP and ensure that the company maintained a reasonable level of reserves for potentially uncollectible accounts receivable.

*Completed Remedial Actions:*

- The Company increased accountability at the operational manager and local finance director levels to closely monitor significantly past due accounts and potential collection issues to regional or upper management on a monthly basis or more frequently, as circumstances require. Required independent and detailed documentation and contracts will be provided to country or regional controllers and headquarters management who will evaluate the collectability of significant and aged client account balances.
- The Company enhanced transparency and active monitoring at the executive level through monthly and/or quarterly meetings to review and assess the proper application of US GAAP in financial reporting and estimates. Material accruals and contingencies (including reserves for potentially uncollectible accounts receivable) will be evaluated objectively by executive management with input from the business segment units prior to the conclusion of quarterly financial reporting processes.

Table of Contents

- The Company enhanced transparency and effective monitoring at the Audit Committee, of the Board of Directors, through regular or quarterly meetings of the Audit Committee to review and evaluate the Company's conclusion and assessment on the key estimates and reserves that will have significant impact on the Company's financial position, results of operation or cash flows.

*Planned Remedial Actions:*

- The Company plans to continue to enhance the documentation to ensure that it is detailed and supports the amounts recognized as reserves for potentially uncollectible accounts receivable.
- The Company plans to continue to enhance the follow-up process with local operations management and finance director levels to ensure that the most current information is obtained in a timely manner for financial reporting purposes.
- The Company plans to conduct training with personnel involved with the accounts receivable controls to reinforce the importance of the controls and the application of controls on a consistent basis.
- The Company plans to implement controls to ensure that accounts receivable and related balances are appropriately reviewed and reserved as necessary.
- The Company plans to implement completeness and accuracy procedures to ensure that the reports utilized to estimate the appropriate reserve balance contain all the necessary and accurate data to calculate a reasonable estimate.
- During the Company's re-evaluation of internal controls over financial reporting, the Company determined that the material weakness identified in the original 2016 10-K filing associated with the accounting close process is more accurately described as *The Company did not maintain effective controls over the financial reporting process, including the application of relevant accounting standards due to an inappropriate complement of personnel with the necessary level of accounting knowledge, experience, and training in the application of US GAAP commensurate with its financial reporting requirements and the complexity of the Company's operations and transactions.* See number 1 below in *Additional Material Weaknesses Identified in Re-evaluation.*

3. *The Company either inadequately designed or did not implement controls to accurately determine the Company's liability and ensure compliance with certain tax laws and employment regulations of the jurisdictions in which the Company operates.* The Company's Management advises local management on the rules and regulations in those jurisdictions and the proper tax implications. However, it was discovered in connection with the sale of the Construction Claims Group that these procedures were not followed by local management and Corporate Management did not have a control in place to identify non-compliance or the misapplication of local employment and related tax laws.

*Remedial Action:*

- The Company will develop policies, procedures, and controls to ensure that the foreign local management team is properly preparing analytics and assessments to determine compliance with the respective tax laws and employment regulations of the jurisdictions in which the employees are providing services.

**Additional Material Weaknesses Identified in Re-evaluation**

Based on its re-evaluation, the Company identified additional material weaknesses and remedial actions as of December 31, 2016, 2015, and 2014. Specifically, the Company noted the following:

1. *The Company did not maintain effective controls over the financial reporting process, including the application of relevant accounting standards due to an inappropriate complement of personnel with the necessary level of accounting knowledge, experience, and training in the application of US GAAP*

Table of Contents

*commensurate with its financial reporting requirements and the complexity of the Company's operations and transactions.*

a. The Company's finance organization was not structured with appropriate resources to ensure the consistent execution of their responsibility to provide independent and proactive leadership in the areas of monitoring of controls, disclosure committee controls and reviews, and financial reporting.

b. The Company did not design, establish, and maintain effective documented US GAAP compliant financial accounting policies and procedures, nor a formalized process for determining, documenting, communicating, implementing, monitoring, and updating accounting policies and procedures.

This material weakness contributed to the material weakness discussed in items 2 through 6 below.

*Remedial Action:*

- In addition to the senior management changes detailed above in Note 21 of our financial statement, the Company augmented our accounting and finance staff, and in some cases, created new positions to provide additional technical accounting expertise in critical areas, including but not limited to, revenue recognition, consolidation, and income taxes. The Company will continue to recruit qualified professionals with appropriate levels of knowledge and experience to assist in resolving accounting issues in non-routine or complex transactions.
- The Company has retained and intends to continue to retain the services of outside consultants, with relevant accounting experience, skills and knowledge, working under the supervision and direction of the Company's management, to supplement the Company's existing accounting personnel.
- The Company plans to develop policies, procedures, and controls for all key processes including the specific areas identified in this material weakness. In addition, management will train personnel to ensure consistent application of these accounting principles and adherence to the Company's newly adopted policies, procedures, and controls. In conjunction with this restatement, the Company corrected the accounting errors that resulted from the non-compliance with US GAAP identified in this material weakness.
- The Company plans to review the current financial controls to assess if additional management review controls are necessary and work with all finance personnel to establish the appropriate documentation criteria for the existing controls including evidence of review, timeliness and variance thresholds.
- The Company plans to establish a Disclosure Committee which meets on a quarterly basis (or more frequently as circumstances dictate) to assure that our SEC filings and other public disclosures are complete, accurate, and otherwise comply with applicable accounting principles and regulations. The Company's Disclosure Committee will be a management committee reporting to our Interim Chief Executive Officer with oversight provided by our Audit Committee, and it will include individuals knowledgeable about, among other things, SEC rules and regulations,

financial reporting, and internal control matters. The Company will also document a formal disclosure policy and procedures to govern the work of the Disclosure Committee.

- The Company plans to further enhance the utilization of the accounting system to increase the number of activities that are automated to reduce the chance of manual errors.

2. *The Company did not maintain effective controls over the accurate preparation, recording, and review of foreign currency related transactions in accordance with ASC 830, Foreign Currency Matters.* This control deficiency resulted in a restatement of the Company's 2016, 2015, and 2014 consolidated financial statements and specifically related to the Company's accounting for its foreign currency gains and losses on intercompany transactions. The Company did not maintain effective controls to address the following deficiencies in the Company's internal control environment:

- a. The Company failed to prevent or detect instances where the assertion that intercompany balances were permanently invested was made in error or no longer applicable; therefore, the related foreign currency translation adjustments were not accurately prepared and recorded in accordance with US GAAP.
- b. The Company did not ensure that all foreign currency accounts and transactions were recorded in the appropriate functional currency and re-measured in a timely manner.
- c. The Company did not ensure that non-monetary transactions and retained earnings were re-measured and translated utilizing the appropriate exchange rate.

Table of Contents

d. The Company failed to ensure that the tax effecting of balances recorded within accumulated other comprehensive income (AOCI) was performed in accordance with US GAAP.

e. The Company did not analyze the composition of the AOCI account to ensure the completeness and accuracy of the balance.

*Remedial Action:*

- The Company plans to develop and implement improved policies, procedures, processes and controls, as well as, conduct trainings to ensure the proper accounting for foreign currency matters in accordance with ASC 830, *Foreign Currency Matters*.
- The Company plans to utilize an accounting system to ensure that all transactions are systematically re-measured and translated at the applicable foreign currency exchange rate and the associated gain or loss is appropriately recognized in AOCI or earnings.
- The Company plans to appropriately reconcile the AOCI account, in a timely manner.

3. *The Company did not maintain effective controls to ensure the accurate preparation and review of the cash flow statement in accordance with ASC 230, Statement of Cash Flows.* The Company did not maintain effective controls to ensure that the statement of cash flows was appropriately prepared first in each functional currency, translated to the reporting currency, and then consolidated. Additionally, the historical process to prepare the consolidated statement of cash flows did not fully consider the US GAAP requirements associated with the appropriate classification of activities as operating, investing, or financing activities. These deficiencies resulted in material line item adjustments to the consolidated statements of cash flows for the years ended December 31, 2016, 2015, and 2014.

*Remedial Actions:*

- The Company plans to manually prepare the statement of cash flows on a functional currency basis, translate the individual statements to United States dollars ( USD ), and then aggregate each statement into a consolidated statement of cash flows.
- The Company plans to identify systematic controls within the accounting system to automate the process of preparing the statement of cash flows for each functional currency and translating each statement at the appropriate exchange rate to USD.

- The Company plans to ensure that the consolidated statement of cash flows is prepared utilizing the appropriate classification of activities in accordance with ASC 230, *Statement of Cash Flows*.

4. *The Company did not maintain effective policies, procedures, and controls to ensure that the revenue recognition accounting for certain customer contracts was performed in accordance with ASC 605-35, Revenue Recognition. Specifically, the Company failed to apply the required percentage of completion of accounting for certain long-term customer contracts (e.g., fixed fee, lump sum, or maximum contract value).*

*Remedial Action:*

- The Company plans to develop policies, procedures, and controls to ensure the proper accounting for revenue recognition matters, and the Company will ensure that the appropriate personnel are effectively trained and adhere to the new policies, procedures, and controls.
- The Company plans to further utilize the accounting system to maintain and report the accounting associated with revenue recognition after setup.

5. *The Company did not maintain effective controls over its income tax provision and related balance sheet accounts. Specifically, the Company reversed established reserves for uncertain tax positions without meeting the criteria specified within ASC 740, Income Taxes.*

*Remedial Actions:*

- The Company plans to develop policies, procedures, and controls to ensure the proper recognition and de-recognition of tax liabilities is performed in accordance with ASC 740, *Income Taxes*, and the Company will ensure that the policies, procedures, and controls are followed by the appropriate personnel.

Table of Contents

6. During the re-evaluation process the Company noted other financial reporting deficiencies as a result of not having the appropriate complement of personnel as described in Item 1 above. These deficiencies are noted as follows:

- a. The Company did not maintain effective controls to ensure that books and records were maintained in accordance with US GAAP including adjustment for any foreign entities for which International Financial Reporting Standards (IFRS) is required for statutory reporting purposes.
- b. Intercompany balances were not appropriately recorded and paired within the system, nor were the intercompany accounts appropriately reconciled on a timely and continuing basis.
- c. The Company continued to amortize assets that were held for sale as a component of discontinued operations, which is not in accordance with ASC 205, *Presentation of Financial Statements*.
- d. The Company did not properly account for its investments in joint ventures as required under ASC 323, *Equity Method and Joint Ventures*.
- e. The Company did not design or maintain adequate policies, procedures, and controls to identify potential triggering events which would result in the recognition of an impairment of long lived assets (other than goodwill) in a timely manner in accordance with ASC 350, *Intangibles Goodwill and Other*.
- f. The Company did not have policies, procedures, and controls in-place to accurately calculate and record the Projected Benefit Obligation for certain End of Service Benefit Plans in accordance with ASC 715, *Compensation Retirement Benefits*.

*Remedial Action:*

- See Remedial Action for Item 1 above.

**(c) Changes in Internal Control Over Financial Reporting**

As a result of the control deficiencies identified above, we restated our consolidated financial statements for fiscal years 2016, 2015, and 2014. Further, we continue to believe that our internal control over financial reporting was not effective as of December 31, 2016, 2015, and 2014. In response to the material weaknesses described above, management has implemented changes and plans to implement additional changes to our internal control over financial reporting as described in the Remedial Actions sections following each material weakness above. These subsequent remediation efforts related to the material weaknesses described above represent changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). An assessment of the effectiveness of our internal control over financial reporting as of December 31, 2016, 2015, and 2014 has been performed by EisnerAmper LLP, an independent registered public accounting firm whose report thereon included an adverse opinion. The attestation report of EisnerAmper LLP is included in Part II, Item 8 of this Amendment.



**Item 9B. Other Information.**

Not applicable.

Table of Contents

**Part III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information in Part III, Item 10 in our Form 10K/A (Amendment No. 1), for the year ended December 31, 2016, filed with the U. S. Securities and Exchange Commission on May 1, 2017, is incorporated by reference in this section. The information under the heading *Executive Officers* in Part I, Item 1 of this Form 10-K is also incorporated by reference in this section.

We have adopted a code of ethics that applies to all of our employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. This code of ethics is available on our website at [www.hillintl.com](http://www.hillintl.com), or may be obtained free of charge by making a written request addressed to our Legal Department. We will disclose on our website amendments to, and, if any are granted, waivers of, our code of ethics.

**Item 11. Executive Compensation.**

The information in Part III, Item 11 in our Form 10K/A (Amendment No. 1), for the year ended December 31, 2016, filed with the U. S. Securities and Exchange Commission on May 1, 2017, is incorporated by reference in this section.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information in Part III, Item 12 in our Form 10K/A (Amendment No. 1), for the year ended December 31, 2016, filed with the U. S. Securities and Exchange Commission on May 1, 2017, is incorporated by reference in this section.

*Equity Compensation Plan Information*

The following table provides information as of December 31, 2016 for common shares of the Company that may be issued under our 2006 Employee Stock Option Plan, our 2008 Employee Stock Purchase Plan and our 2009 Non-Employee Director Stock Grant Plan. See Note 14 to the consolidated financial statements for further information related to these plans.

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

	Number of securities to be issued upon exercise of outstanding options, warrants and rights A		Weighted-average exercise price of outstanding options, warrants and rights B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) C
Equity compensation plans approved by security holders	7,061,820	\$	4.13	3,032,558 (1)
Equity compensation plans not approved by security holders				
Total	7,061,820	\$	4.13	3,032,558

Table of Contents

---

(1) As of December 31, 2016, the Company had 1,643,112 shares remaining available for future issuance under our 2006 Employee Stock Option Plan, 1,274,259 shares remaining available for future issuance under our 2008 Employee Stock Purchase Plan and 115,187 (including 95,884 Deferred Stock Units issued to directors) shares remaining available for future issuance under our 2009 Non-Employee Director Stock Grant Plan.

**Item 13. Certain Relationships and Related Transactions, and Director Independence.**

*Transactions with Related Persons*

On July 14, 2010, Hill International, Inc. ( Hill ) entered into an agreement with Mohamed Abdel Barry ( Barry ), whereby Hill agreed to extend a loan to Barry in the sum of Three Hundred Thousand Dollars (\$300,000.00) ( Loan ), which Loan is evidenced by that certain Promissory Note made by Barry in favor of Hill dated July 14, 2010. On March 7, 2013 Irvin E. Richter, former CEO and Chairman of the Board of Directors, made a guarantee to Hill International, Inc. agreeing that if for any reason Hill should fail to collect on the loan and suffer a loss, the Guarantor will within thirty (30) days of receipt of a written demand pay to Hill a sum equal in the amount of the loss suffered. This guarantee shall remain in full force and effective until the loan is repaid.

On August 9, 2010, Hill purchased 2,111,111 shares of common stock of incNetworks, Inc. at a purchase price of \$850,000 (the Investment ). On August 8, 2011 Irvin E. Richter, former CEO and Chairman of the Board of Directors, made a guarantee to Hill International, Inc. agreeing that if for any reason Hill should dispose of the Investment and suffer a loss, the Guarantor will within thirty (30) days of receipt of a written demand pay to Hill a sum equal in the amount of the loss suffered. This guarantee shall remain in full force and effect until Hill has disposed of its interest in incNetworks, Inc.

For the year ended December 31, 2016, there were no transactions, or series of similar transactions, to which the Company was or is to be a party in which the amount exceeded \$120,000, and in which any of our directors or executive officers, any holders of more than 5% of our common stock or any members of any such person's immediate family, had or will have a direct or indirect material interest, other than compensation described in Executive Compensation and Director Compensation.

It is the policy and practice of our Board to review and assess information concerning transactions involving related persons. Related persons include our directors and executive officers and their immediate family members. If the determination is made that a related person has a material interest in a transaction involving us, then the disinterested members of the Board would review and, if appropriate, approve or ratify it, and we would disclose the transaction in accordance with SEC rules and regulations. If the related person is a member of the Board, or a family member of a director, then that director would not participate in any determination involving the transaction at issue.

Our Code of Ethics and Business Conduct prohibits all employees, including our executive officers, from benefitting personally from any transactions with us other than approved compensation benefits.

*Director Independence*

The standards applied by the Board in affirmatively determining whether a director is independent, in compliance with the rules of the NYSE, generally provide that a director is not independent if:

(1) the director is, or has been within the last three years, our employee, or an immediate family member (defined as including a person's spouse, parents, children, siblings, mothers- and fathers-in-law, sons and daughters-in-law, brothers- and sisters-in-law, and anyone, other than domestic employees, who shares such person's home), is, or has been within the last three years, one of our executive officers;

(2) the director has received, or has an immediate family member who has received, during any 12-month period within the last three years, more than \$120,000 per year in direct compensation from us, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);

Table of Contents

(3) (a) the director is a current partner or employee of a firm that is our internal or external auditor; (b) the director has an immediate family member who is a current partner of such a firm; (c) the director has an immediate family member who is a current employee of such a firm and who works on our audit; or (d) the director or an immediate family member was, within the last three years, a partner or employee of such a firm and personally worked on our audit within that time;

(4) the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of our present executive officers at the same time serves or served on that company's compensation committee; or (5) the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to or received payments from us for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1,000,000 or two percent of such other company's consolidated gross revenues.

In addition to these objective standards, the Board of Directors has adopted a general standard, also in compliance with NYSE rules, to the effect that no director qualifies as independent unless the Board of Directors affirmatively determines that the director has no material relationship with us. In making this determination, the Board considers all relevant facts and circumstances regarding any transactions, relationships and arrangements between Hill and the director, and also between Hill and any company or organization with which the director is affiliated. The Board of Directors has determined that our current independent directors are Camille S. Andrews, Brian W. Clymer, Steven R. Curts, Alan S. Fellheimer, Charles M. Gillman, Craig L. Martin and David Sgro.

**Item 14. Principal Accounting Fees and Services.**

The information in Part III, Item 14 in our Form 10K/A (Amendment No. 1), for the year ended December 31, 2016, filed with the U. S. Securities and Exchange Commission on May 1, 2017, is incorporated by reference in this section.

Table of Contents

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a) Documents filed as part of this report:

Financial statements:

The consolidated balance sheets of the Registrant as of December 31, 2016 and 2015, the related consolidated statements of operations, comprehensive (loss) earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016, the footnotes thereto, and the report of EisnerAmper LLP, independent auditors, are filed herewith.

Financial statement schedule:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2016, 2015 and 2014.

Table of Contents

(b) Exhibits

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
2.1	<u>Agreement and Plan of Merger dated December 5, 2005, by and among Arpeggio Acquisition Corporation, Hill International, Inc. and certain stockholders of Hill International, Inc., as amended. (Included as Annex A of the Definitive Proxy Statement (No. 000-50781) filed on June 6, 2006 and incorporated herein by reference.)</u>
3.1	<u>Amended and Restated Certificate of Incorporation of Arpeggio Acquisition Corporation. (Included as Annex B of the Definitive Proxy Statement (No. 000-50781) filed on June 6, 2006 and incorporated herein by reference.)</u>
3.2	<u>Amended and Restated By-laws of Hill International, Inc. (Included as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 31, 2017 and incorporated herein by reference.)</u>
3.3	<u>Certificate of First Amendment of Amended and Restated Certificate of Incorporation of Hill International, Inc. (Included as Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 18, 2013 and incorporated herein by reference.)</u>
4.1	<u>Specimen Common Stock Certificate. (Included as Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 (No. 333-114816) filed on April 23, 2004 and incorporated herein by reference.)</u>
10.1*	<u>Hill International, Inc. 2006 Employee Stock Option Plan (as amended through June 11, 2012). (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 14, 2012 and incorporated herein by reference.)</u>
10.2*	<u>Employment Agreement between the Company and Irvin E. Richter dated as of December 31, 2014. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 31, 2014 and incorporated herein by reference.)</u>
10.3*	<u>Employment Agreement between the Company and David L. Richter dated as of December 31, 2014. (Included as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 31, 2014 and incorporated herein by reference.)</u>
10.4	<u>U.S. Credit Agreement, dated as of September 26, 2014, among Hill International, Inc., as borrower, Société Générale, as administrative agent, collateral agent and lender, the other lenders party thereto, and certain subsidiaries of the Company. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)</u>
10.5	<u>U.S. Guaranty and Security Agreement, dated as of September 26, 2014, among Hill International, Inc., Société Générale, as administrative agent and collateral agent and certain subsidiaries of the Company. (Included as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)</u>
10.6	<u>International Credit Agreement, dated as of September 26, 2014, among Hill International N.V., as borrower, Hill International, Inc., certain of its subsidiaries party thereto, and Société Générale, as administrative agent, collateral agent and letter of credit issuer, and the lenders party thereto (Included as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)</u>
10.7	<u>International Guaranty and Security Agreement, dated as of September 26, 2014, among Hill International N.V., as borrower, Hill International, Inc., and the lenders party thereto in favor of Société Générale, as administrative agent. (Included as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)</u>
10.8	<u>Intercreditor Agreement, dated as of September 26, 2014, by and among Société Générale, as collateral agent, and the loan parties thereto. (Included as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)</u>



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

- 10.9\* Hill International, Inc. 2009 Non-Employee Director Stock Grant Plan, as amended. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 6, 2013 and incorporated herein by reference.)
- 10.10\* Hill International, Inc. 2007 Restricted Stock Grant Plan. (Included as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (No. 333-141814), filed on April 2, 2007 and incorporated herein by reference.)
- 10.11\* Hill International, Inc. 2008 Employee Stock Purchase Plan. (Included as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (No. 333-152145), filed on July 3, 2008 and incorporated herein by reference.)
- 10.12\* Hill International, Inc. 2015 Senior Executive Retention Plan. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 2, 2015 and incorporated herein by reference.)
- 10.13 Hill International, Inc. 2010 Senior Executive Bonus Plan. (Included as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 30, 2010 and incorporated herein by reference.)
- 10.14 Stock Purchase Agreement, dated as of December 20, 2016, by and among Hill International, Inc., Hill International N.V., Liberty Mergeco, Inc. and Liberty Bidco UK Limited. (Included as Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 20, 2016 and incorporated herein by reference.)

Table of Contents

10.15*	<u>Employment Agreement between the Company and Raouf S. Ghali dated August 18, 2016. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 19, 2016 and incorporated herein by reference.)</u>
10.16*	<u>Hill International, Inc. 2016 Executive Retention Plan. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 9, 2016 and incorporated herein by reference.)</u>
10.17*	<u>Form of Hill International, Inc. 2016 Executive Retention Plan Participation Agreement. (Included as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on November 9, 2016 and incorporated herein by reference.)</u>
10.18	<u>Settlement Agreement among the Company, Bulldog Investors LLC and certain directors of the Company, dated September 16, 2016. (Included as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 14, 2016 and incorporated herein by reference.)</u>
21	<u>Subsidiaries of the Registrant.</u>
23.1	<u>Consent of EisnerAmper LLP, Independent Registered Public Accounting Firm</u>
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 Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

---

\* Constitutes a management contract or compensatory plan.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.**

**By:** */s/ Paul Evans*

Paul Evans  
*Interim Chief Executive Officer*  
Date: May 8, 2018

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dated indicated.

**By:** */s/ Craig L. Martin*  
Craig L. Martin  
*Chairman and Director*  
Date: May 8, 2018

**By:** */s/ Paul Evans*  
Paul Evans  
*Interim Chief Executive Officer and Director*  
*(Principal Executive Officer)*  
Date: May 8, 2018

**By:** */s/ Raouf S. Ghali*  
Raouf S. Ghali  
*President, Chief Operating Officer and Director*  
Date: May 8, 2018

**By:** */s/ Brian W. Clymer*  
Brian W. Clymer  
*Director*  
Date: 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)*  
Date: May 8, 2018

**By:** */s/ Alan S. Fellheimer*  
Alan S. Fellheimer  
*Director*  
Date: May 8, 2018

**By:** */s/ Camille S. Andrews*  
Camille S. Andrews  
*Director*  
Date: May 8, 2018

**By:** */s/ David D. Sgro*  
David Sgro  
*Director*  
Date: May 8, 2018

**By:** */s/ Steven R. Curts*  
Steven R. Curts  
*Director*  
Date: May 8, 2018

**By:** */s/ Charles M. Gillman*  
Charles M. Gillman

*Director*  
Date: May 8, 2018

Table of Contents

**Schedule II**

**Hill International, Inc. and Subsidiaries**

**Valuation and Qualifying Accounts**

*(Allowance for Uncollectible Receivables in thousands)*

	Balance at Beginning of Fiscal Year	Additions (Recoveries) Charged (Credited) to Earnings	Other - Allowance Acquired in Business Combinations	Uncollectible Receivables Written off, Net of Recoveries	Balance at End of Fiscal Year
<b>Fiscal year ended December 31, 2016</b>	\$ 60,535	\$ 14,454	\$	\$ (3,907)	\$ 71,082
Fiscal year ended December 31, 2015	\$ 66,119	\$ 6,262	\$ 120	\$ (11,966)	\$ 60,535
Fiscal year ended December 31, 2014	\$ 64,108	\$ (5,195)	\$	\$ 7,206	\$ 66,119