

Hill International, Inc.
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
 1934

For the quarterly period ended September 30, 2018

or

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

For the transition period

from _____ to _____

Commission File Number: 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-0953973

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One Commerce Square

2005 Market Street, 17th Floor 19103

Philadelphia, PA

(Address of principal executive offices) (Zip Code)

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

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

Indicate by a check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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 revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There were 55,558,243 shares of the Registrant's Common Stock outstanding at October 22, 2018.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Form 10-Q

PART I FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	<u>4</u>
<u>Consolidated Balance Sheets at September 30, 2018 (unaudited) and December 31, 2017</u>	<u>4</u>
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Comprehensive (Loss) Earnings for the three and nine months ended September 30, 2018 and 2017 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017 (unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>34</u>
<u>Item 4. Controls and Procedures</u>	<u>35</u>
<u>PART II OTHER INFORMATION</u>	<u>35</u>
<u>Item 1. Legal Proceedings</u>	<u>36</u>
<u>Item 1A. Risk Factors</u>	<u>36</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>36</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>36</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>36</u>
<u>Item 5. Other Information</u>	<u>36</u>
<u>Item 6. Exhibits</u>	<u>36</u>
<u>Signatures</u>	

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 the Company's 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, margin, profit improvement, cost savings or other financial items; any statements of belief, any statements concerning the Company's 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 the Company's current expectations, estimates and assumptions and are subject to certain risks and uncertainties. Although the Company believes 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 the Company's services;
- Projections of revenues and earnings, anticipated contractual obligations, funding requirements or other financial items;
- Statements concerning the Company's plans, strategies and objectives for future operations; and
- Statements regarding future economic conditions or the Company's performance.

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

- The risks set forth in Item 1A, “Risk Factors,” in the Company's most recent Annual Report on Form 10K;
- Unfavorable global economic conditions may adversely impact its business;
- Backlog, which is subject to unexpected adjustments and cancellations, may not be fully realized as revenue;
- The Company's expenses may be higher than anticipated;
- Modifications and termination of client contracts;
- Control and operational issues pertaining to business activities that the Company conducts pursuant to joint ventures with other parties;
- Difficulties that may occur in implementing the Company's acquisition strategy; and
- The ability to retain and recruit key technical and management personnel.

Other factors that may affect the Company's business, financial position or results of operations include:

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

The Company does not intend, and undertakes 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 cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Form 10-Q, in our other filings with the Securities and Exchange Commission ("SEC") or in materials incorporated therein by reference.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
 CONSOLIDATED BALANCE SHEETS
 (In thousands)

	September 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 23,083	\$ 21,353
Cash - restricted	4,051	4,407
Accounts receivable, less allowance for doubtful accounts of \$68,189 and \$72,850	137,927	147,611
Current portion of retainage receivable	18,775	9,249
Accounts receivable - affiliates	5,373	4,599
Prepaid expenses and other current assets	8,427	9,053
Income tax receivable	1,315	2,139
Total current assets	198,951	198,411
Property and equipment, net	11,502	12,004
Cash - restricted, net of current portion	3,261	1,160
Retainage receivable	5,816	13,095
Acquired intangibles, net	2,433	3,908
Goodwill	48,404	52,658
Investments	3,799	3,639
Deferred income tax assets	3,839	4,052
Other assets	4,206	4,368
Total assets	\$ 282,211	\$ 293,295
Liabilities and Stockholders' Equity		
Current maturities of notes payable and long-term debt	\$ 2,986	\$ 3,241
Accounts payable and accrued expenses	83,346	83,221
Income taxes payable	8,327	16,494
Current portion of deferred revenue	10,210	13,945
Other current liabilities	9,234	8,973
Total current liabilities	114,103	125,874
Notes payable and long-term debt, net of current maturities	44,843	34,541
Retainage payable	707	599
Deferred income taxes	403	933
Deferred revenue	13,458	7,212
Other liabilities	8,737	13,466
Total liabilities	182,251	182,625
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, 61,840 shares and 59,389 shares issued at September 30, 2018 and December 31, 2017, respectively	6	6
Additional paid-in capital	208,007	197,104
Accumulated deficit	(78,159)	(53,983)
Accumulated other comprehensive loss	(2,278)	(4,011)
Less treasury stock of 6,546 and 6,977 shares at September 30, 2018 and December 31, 2017, respectively	(28,231)	(30,041)
Hill International, Inc. share of equity	99,345	109,075
Noncontrolling interests	615	1,595

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

Total equity	99,960	110,670
Total liabilities and stockholders' equity	\$ 282,211	\$ 293,295

See accompanying notes to consolidated financial statements.

4

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues	\$ 101,935	\$ 123,192	\$ 327,980	\$ 364,748
Direct expenses	68,811	85,875	226,969	251,191
Gross profit	33,124	37,317	101,011	113,557
Selling, general and administrative expenses	41,478	38,945	112,123	112,482
Plus: Share of profit of equity method affiliates	685	—	2,616	48
Less: Loss on performance bond	—	—	7,938	—
Operating profit (loss)	(7,669)	(1,628)	(16,434)	1,123
Interest and related financing fees, net	1,275	1,035	3,855	2,066
Loss before income taxes	(8,944)	(2,663)	(20,289)	(943)
Income tax expense (benefit)	(460)	(1,068)	2,928	(368)
Loss from continuing operations	(8,484)	(1,595)	(23,217)	(575)
Discontinued operations:				
Loss from discontinued operations, net of tax	—	(752)	(863)	(12,304)
Gain on disposal of discontinued operations, net of tax	—	(1,892)	—	50,303
Total earnings (loss) from discontinued operations	—	(2,644)	(863)	37,999
Net earnings (loss)	(8,484)	(4,239)	(24,080)	37,424
Less: net earnings - noncontrolling interests	60	55	96	175
Net earnings (loss) attributable to Hill International, Inc.	\$(8,544)	\$(4,294)	\$(24,176)	\$37,249
Basic loss per common share from continuing operations	\$(0.15)	\$(0.03)	\$(0.42)	\$(0.01)
Basic loss per common share from discontinued operations	—	(0.01)	(0.02)	(0.24)
Basic gain (loss) on disposal of discontinued operations, net of tax	—	(0.04)	—	0.97
Basic earnings (loss) per common share - Hill International, Inc.	\$(0.15)	\$(0.08)	\$(0.44)	\$0.72
Basic weighted average common shares outstanding	55,476	52,371	54,466	52,065
Diluted loss per common share from continuing operations	\$(0.15)	\$(0.03)	\$(0.42)	\$(0.01)
Diluted loss per common share from discontinued operations	—	(0.01)	(0.02)	(0.24)
Diluted gain on disposal of discontinued operations, net of tax	—	(0.04)	—	0.97
Diluted earnings (loss) per common share - Hill International, Inc.	\$(0.15)	\$(0.08)	\$(0.44)	\$0.72
Diluted weighted average common shares outstanding	55,476	52,371	54,466	52,065

See accompanying notes to consolidated financial statements.

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

(In thousands)
 (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net earnings (loss)	\$(8,484)	\$(4,239)	\$(24,080)	\$37,424
Foreign currency translation adjustment, net of tax	673	1,929	1,280	(273)
Comprehensive earnings (loss)	(7,811)	(2,310)	(22,800)	37,151
Less: Comprehensive earnings (loss) attributable to non-controlling interests	52	454	(357)	438
Comprehensive earnings (loss) attributable to Hill International, Inc.	\$(7,863)	\$(2,764)	\$(22,443)	\$36,713

See accompanying notes to consolidated financial statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net (loss) earnings	\$(24,080)	\$37,424
Loss from discontinued operations	863	12,304
Gain on sale of discontinued operations, net of taxes	—	(50,303)
Loss from continuing operations	(23,217)	(575)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in):		
Depreciation and amortization	3,433	5,011
(Recovery) provision for bad debts	(3,304)	2,350
Amortization of deferred loan fees	77	789
Deferred tax (benefit) provision	(181)	706
Stock based compensation	741	2,671
Loss on sale of assets	—	184
Unrealized foreign exchange losses on intercompany balances	8,496	425
Changes in operating assets and liabilities:		
Accounts receivable	12,717	10,490
Accounts receivable - affiliate	(771)	(1,243)
Prepaid expenses and other current assets	1,025	562
Income taxes receivable	550	(566)
Retainage receivable	(2,351)	9,298
Other assets	600	(4,305)
Accounts payable and accrued expenses	188	(7,888)
Income taxes payable	(8,146)	516
Deferred revenue	2,518	(25,061)
Other current liabilities	876	2,131
Retainage payable	116	(326)
Other liabilities	(6,630)	843
Net cash used in continuing operations	(13,263)	(3,988)
Net cash used in discontinued operations	(863)	(10,217)
Net cash used in operating activities	(14,126)	(14,205)
Cash flows from investing activities:		
Purchases of business	—	(123)
Purchase of additional interest in Engineering S.A.	(745)	—
Purchase of property and equipment	(2,328)	(1,927)
Proceeds from sale of assets	—	60
Net cash used in investing activities of continuing operations	(3,073)	(1,990)
Net cash provided by investing activities of discontinued operations	—	129,247
Net cash (used in) provided by investing activities	(3,073)	127,257
Cash flows from financing activities:		
Payments on term loans	(682)	(75)
Proceeds from term loans	—	30,000
Net borrowings (payments) on revolving loans	10,226	(28,885)
Pay-off and termination of term loan	—	(117,494)
Payments on Philadelphia Industrial Development Corporation loan	(42)	(42)

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

Dividends paid to noncontrolling interest	—	(18)
Payments of financing fees	—	(4,038)
Proceeds from stock issued under employee stock purchase plan	29	138
Proceeds from exercise of stock options	11,689	1,838
Net cash provided by (used in) financing activities	21,220	(118,576)
Effect of exchange rate changes on cash	(546)	(4,111)
Net increase (decrease) in cash, cash equivalents and restricted cash	3,475	(9,635)
Cash, cash equivalents and restricted cash — beginning of period	26,920	30,262
Cash, cash equivalents and restricted cash — end of period	\$30,395	\$20,627

See accompanying notes to consolidated financial statements.

7

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data)

Note 1 — The Company

Hill International, Inc. ("Hill" or the "Company") is a professional services firm that provides program management, project management, construction management and other consulting services primarily to the buildings, transportation, environmental, energy and industrial markets worldwide. Hill's clients include the U.S. federal government, U.S. state and local governments, foreign governments and the private sector.

Note 2 — Liquidity

At September 30, 2018 our principal sources of liquidity consisted of \$23,083 of cash and cash equivalents, \$104 of available borrowing capacity under the Domestic Revolving Credit Facility, \$4,573 of available borrowing capacity under the International Revolving Credit Facility and \$1,640 under other foreign credit agreements. Additional information regarding the Company's credit facilities is set forth in Note 9 - Notes Payable and Long-Term Debt. The Company believes that it has sufficient liquidity to support the reasonably anticipated cash needs of its operations over the next twelve months.

Note 3 — Basis of Presentation

Summary

The accompanying unaudited interim consolidated financial statements were prepared in accordance with the rules and regulations of the SEC pertaining to reports on Form 10-Q and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, these statements include all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial statements. The consolidated financial statements include the accounts of Hill and its wholly- and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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

Reclassification

A reclassification was made in the presentation of the consolidated balance sheet as of December 31, 2017. The Company adjusted the classification of current portion of retainage receivable from accounts receivable, less allowance for doubtful accounts to a new line item on the balance sheet, "current portion of retainage receivable." Current portion of retainage receivable is reported separately as a result of the Company's adoption of accounting standards update 2014-09, Revenue from Contracts with Customers (Topic 606). As a result, \$9,249 was reclassified from accounts receivable, less allowance for doubtful accounts to current portion of retainage receivable to conform with current period reporting.

Additionally, a reclassification was made in the presentation of the consolidated statement of cash flows for the nine months ended September 30, 2017. As a result of the adoption of 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 Company included restricted cash in the opening and closing "cash, cash equivalents and restricted cash" balance in this filing on the consolidated statement of cash flows for the nine months ended September 30, 2017.

Construction Claims Group Sale

On December 20, 2016, the Company and its subsidiary Hill International N.V. (“Hill N.V.” and, collectively with the Company, the “Sellers”) entered into a Stock Purchase Agreement (as amended on May 3, 2017, the “Agreement”) with Liberty Mergeco, Inc. (the “US Purchaser”) and Liberty Bidco UK Limited (the “UK Purchaser” and, collectively with the US Purchaser, the “Purchasers”) pursuant to which the Purchasers were to acquire the Construction 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. The Construction Claims Group sale closed on May 5, 2017. For a detailed description of the transaction, see “Note 2 Discontinued Operations” in the Company’s 2017 Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on August 31, 2018.

Summary of Significant Accounting Policies

(a) Foreign Currency Translations and Transactions

Assets and liabilities of all foreign operations are translated at period-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), including those resulting from intercompany transactions, are reflected in selling, general and administrative expenses in the consolidated statement of operations. The impact of foreign exchange on long-term intercompany loans, for which repayment has not been scheduled or planned, are recorded in accumulated other comprehensive loss on the consolidated balance sheet.

(b) 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 believes that the financial institutions with which it does business will be able to fulfill their commitments, there is no assurance that those institutions will be able to continue to do so.

No single client accounted for 10% or more of revenue for the three and nine months ended September 30, 2018 or 2017.

There were 1 and 2 clients who contributed 10% or more to accounts receivable at September 30, 2018 and December 31, 2017, respectively which represents 17% and 34% of the accounts receivable balance at September 30, 2018 and December 31, 2017, respectively.

(c) Allowance for Doubtful Accounts

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.

(d) Retainage Receivable

Retainage receivable represents balances billed but not paid by clients pursuant to retainage provisions in certain contracts and will be due upon completion of specific tasks or the completion of the contract.

(e) 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 than not to be realized in future years. If the Company determines in the future that it 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, 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 that the benefit will be ultimately realized. 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.

(f) 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 includes 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 project 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. These loss projects are re-assessed for each subsequent reporting period until the project is complete. Such revisions could occur at any time and the effects may be material.

See footnote 4, "Revenue from Contracts with Customers," for more detail, regarding how the Company recognizes revenue under each of its contractual arrangements.

(g) Earnings (loss) per Share

Basic earnings per common share have been computed using the weighted-average number of shares of common stock outstanding during the period.

Diluted earnings (loss) per common share incorporates the incremental shares issuable upon the assumed exercise of stock options, the assumed vesting of stock and deferred stock unit awards using the treasury stock method, if dilutive. The Company has outstanding options to purchase approximately 1,966 shares and 2,079 shares at September 30, 2018 and 2017, respectively. The Company has 96 deferred stock units outstanding at September 30, 2018 and 2017. These awards were excluded from the calculation of diluted earnings (loss) per share for the three and nine months ended September 30, 2018 and 2017 because they were antidilutive due to the Company's net loss from continuing

operations.

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

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Loss from continuing operations	\$ (8,484)	\$ (1,595)	\$ (23,217)	\$ (575)
Less: net earnings - noncontrolling interest	60	55	96	175
Net loss from continuing operations attributable to Hill	\$ (8,544)	\$ (1,650)	\$ (23,313)	\$ (750)

10

In 2017, the Company's Board of Directors (the "Board") approved a monthly grant of Company stock valued at \$80 per month to the Interim Chief Executive Officer ("ICEO") during his term of service, to be delivered to him after his service as ICEO. There is no circumstance in which these shares will not be issued, therefore, the shares to be issued under this grant are included in the calculation of basic weighted average shares outstanding. Basic shares outstanding for the three and nine months ended September 30, 2018 and 2017 included such shares granted, but not yet delivered, which accumulated to 263 and 81 shares through September 30, 2018 and 2017, respectively. See Note 11 - Share-Based Compensation for further details of this grant.

(I) New Accounting Pronouncements

Changes to U.S. GAAP are typically established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASUs") to the FASB's Accounting Standards Codification ("ASC"). The Company considers the applicability and impact of all ASUs and, based on its assessment, determined that any recently issued or proposed ASUs not listed below are either not applicable to the Company or adoption will have minimal impact on its consolidated financial statements.

For additional information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 4 to the consolidated financial statements in Item 8 of Form 10K for the year ended December 31, 2017 filed with the SEC on August 31, 2018. See update below.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") or Accounting Standards Codification 606 ("ASC 606"). This ASU supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and 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 to provide additional clarification and implementation instructions relating to (i) principal versus agent considerations, (ii) identifying performance obligations and licensing, (iii) narrow-scope improvements and practical expedients and (iv) technical corrections and improvements. However, none of the amendments change the core principle of the guidance in ASU 2014-09. The Company adopted this standard effective January 1, 2018. See Note 4 - Revenue from Contracts with Customers for further information regarding implementation and disclosures.

In January 2016, the FASB issued ASU 2016-1, 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 was effective for the Company commencing January 1, 2018. The adoption of this ASU did not have a significant impact on the Company's financial statements.

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 Company adopted this ASU effective January 1, 2018 and elected the cumulative interest approach for distributions received from equity method investments. The adoption of this ASU did not have a significant impact on the Company's financial statements.

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 previous U.S. 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 equipment. The Company's adoption of this ASU on January 1, 2018 did not have a material effect on its 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. The Company defines restricted cash as collateral for letters of credit, bonds or guarantees on projects (for further details see Note 4 of the Company's 2017 form 10-K). The Company adopted this ASU on January 1, 2018 which resulted in restricted cash being included in the opening and closing balance of cash and cash equivalents on the cash flow statements.

In January 2017, the FASB issued ASU 2017-1, 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 Company adopted the amendments of this ASU on January, 1 2018 and will apply its provisions prospectively to future business combinations.

In May 2017, the FASB issued ASU 2017-9, 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 Company adopted this ASU on January 1, 2018 and will prospectively apply its provisions to any future award modifications.

In February 2018, the FASB issued ASU No. 2018-3, 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. 2016-1, Financial Instruments-Overall (Subtopic 825-10) related 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. The Company adopted this ASU on January 1, 2018 and it did not have a significant impact on its financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842), which will require the Company to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on its consolidated balance sheet for all leases in excess of one year in duration. The ASU will be effective for the Company commencing January 1, 2019. The adoption of this ASU will impact the Company's financial statements in that all existing leases will be recorded as right-of-use assets and liabilities and the timing and classification of associated lease expenses will change. To ensure timely adoption of the new accounting standard, the Company will engage additional resources to assist with its assessment and implementation of the financial reporting and disclosure processes. The Company also began the assessment process in October 2018 by performing an inventory of domestic real estate leases of which there were approximately 40 as of October 31, 2018.

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. The Company is in the process of assessing the impact of this ASU on our consolidated financial statements and disclosures.

In January 2017, the FASB issued ASU 2017-4, 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 units' 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. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting to simplify the accounting for share-based transactions by expanding the scope of Topic 718 from only being applicable to share-based payments to employees to also include share-based payment transactions for acquiring goods and services from nonemployees. As a result, nonemployee share-based transactions will be measured by estimating the fair value of the equity instruments at the grant date, taking into consideration the probability of satisfying performance conditions. This ASU is effective for annual and interim reporting periods beginning after December 15, 2018. Early adoption is permitted. Our equity incentive plans limit share-based awards to employees and directors of the Company, therefore, we do not expect this update to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this update. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption of the amendments in this update is permitted, including adoption in any interim period, for all entities. The amendments in this update should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is in the process of assessing the impact of this ASU on its consolidated financial statements and but does not expect this update to have a material impact on the Company's consolidated financial statements.

Note 4 — Revenue from Contracts with Customers

The Company adopted ASU 2014-09 on January 1, 2018. Under ASC 606, the Company recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for such goods or services.

Below is a description of the basic types of contracts from which the Company may earn revenue:

Time and Materials Contracts

Under the time and materials ("T&M") arrangements, contract fees are based upon time and materials incurred. The contracts may be structured as basic time and materials, cost plus a margin or time and materials subject to a maximum contract value (the "cap value"). Due to the potential limitation of the cap value, the economic factors of the contracts subject to a cap value differ from the economic factors of basic T&M and cost plus contracts. The majority of the Company's contracts are for consulting projects where it bills the client monthly at hourly billing rates. The hourly billing rates are determined by contract terms. Under cost plus contracts, the Company charges its clients for its costs, including both direct and indirect costs, plus a fixed fee or rate. Under time and materials contracts with a cap

value, the Company charges the clients for time and materials based upon the work performed however there is a cap or a not to exceed value. There are often instances that a contract is modified to extend the contract value past the cap. As the consideration is variable depending on the outcome of the contract renegotiation, the Company will estimate the total contract price in accordance with the variable consideration guidelines and will only include consideration that it expects to receive from the customer. When the Company is reaching the cap value, the contract will be renegotiated, or Hill ceases work when the maximum contract value is reached. The Company will continue to work if it is probable that the contract will be extended. The Company will only include consideration or contract renegotiations to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. If the Company continues to work and is uncertain that a contract change order will be processed, the variable consideration will be constrained until it is probable that the contract will be renegotiated. The Company is only entitled to consideration for the work it has performed, and the cap value is not a guaranteed contract value.

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 is guaranteed to receive the consideration to the extent that the Company delivers under the contract. The Company recognizes revenue over a period of time on fixed price contracts using the input method based upon direct costs incurred to date, which are compared to total projected direct costs. Costs are the most relevant measure to determine the transfer of the service to the customer. The Company assesses contracts quarterly and may recognize any expected future loss before actually incurring the loss. When the Company is expecting to reach the total consideration under the contract, the Company will begin to negotiate a change order.

Change Orders and Claims

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. Change orders may take time to be formally documented and terms of such change orders are agreed with the client before the work is performed. Sometimes circumstances require that work progresses before an agreement is reached with the client. If the Company is having difficulties in renegotiating the change order, the Company will stop work, record all costs incurred to date, and determine, on a project by project basis, the appropriate final revenue recognition.

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. Costs related to change orders and claims are recognized when they are incurred.

U.S. Federal Acquisition Regulations

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 the Company's federal government contracts are subject to termination at the convenience of the federal government. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

Federal government contracts that are subject to the FAR and that are required by state and local governmental agencies to be audited are performed, for the most part, by the Defense Contract Audit Agency ("DCAA"). The DCAA audits the 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 incurred 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. The Company provides for a refund liability to the extent that it expects to refund some of the consideration received from a customer.

Disaggregation of Revenues

The Company has one operating segment, the Project Management Group, which reflects how the Company is being managed. Additional information related to the Company's operating segment is provided in Note 14 - Segment and Related Information. The Project Management Group provides extensive construction and project management services to construction owners worldwide. The Company considered the type of customer, type of contract and geography for disaggregation of revenue. The Company determined that disaggregating by (1) contract type; and (2) geography would provide the most meaningful information to understand the nature, amount, timing, and uncertainty of its revenues. The type of customer does not influence the Company's revenue generation. Ultimately, the Company is supplying the same services of 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 Company's contracts are generally long term contracts that are either based upon time and materials incurred or provide for a fixed price. The contract type will determine the level of risk in the contract related to revenue recognition. For purposes of disaggregation of revenue, the contract types have been grouped into: (1) Fixed Price - which include fixed price projects; and, (2) T&M - which include T&M contracts, T&M with a cap and cost plus contracts. The geography of the contracts will depict the level of global economic factors in relation to revenue recognition.

The components of the Company's revenue by contract type and geographic region for the three and nine months ended September 30, 2018 are as follows:

	Three Months Ended September 30, 2018			
	Fixed Price	T&M	Total	Percent of revenue
United States	\$2,575	\$46,544	\$49,119	48.2 %
Latin America	2,751	—	2,751	2.7 %
Europe	4,950	5,543	10,493	10.3 %
Middle East	11,904	18,785	30,689	30.1 %
Africa	621	6,091	6,712	6.6 %
Asia/Pacific	782	1,389	2,171	2.1 %
Total	\$23,583	\$78,352	\$101,935	100.0 %

	Nine Months Ended September 30, 2018			
	Fixed Price	T&M	Total	Percent of revenue
United States	\$8,436	\$143,847	\$152,283	46.4 %
Latin America	7,314	1,277	8,591	2.6 %
Europe	15,271	15,989	31,260	9.5 %
Middle East	45,377	61,066	106,443	32.5 %
Africa	1,264	19,015	20,279	6.2 %
Asia/Pacific	4,772	4,352	9,124	2.8 %
Total	\$82,434	\$245,546	\$327,980	100.0 %

The Company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company exercises judgment in determining if the contractual criteria are met to determine if a contract with a customer exists, specifically in the earlier stages of a project when a formally executed contract may not yet exist. The Company typically has one performance obligation under a contract to provide fully-integrated project management services, and, occasionally, a separate performance obligation to provide facilities management services. Performance obligations are delivered over time as the customer receives the service.

The consideration promised within a contract may include fixed amounts, variable amounts, or both. Variable consideration is included in the transaction price only to the extent it is probable, in the Company's judgment, that a significant future reversal in the amount of cumulative revenue recognized under the contract will not occur. In estimating the transaction price for pending change orders, the Company considers all relevant facts, including documented correspondence with the customer regarding acknowledgment and/or agreement with the modification, as well as historical experience with the customer or similar contractual circumstances. The Company transfers control of its service over time and, therefore, satisfies a performance obligation and recognizes revenue over time by measuring the progress toward complete satisfaction of that performance obligation. The Company's fixed price projects and T&M contracts subject to a cap value generally use a cost-based input method to measure its progress towards complete satisfaction of the performance obligation as the Company believes this best depicts the transfer of control to the customer. Under the cost-based measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Due to the nature of the work required to be performed under the Company's performance obligations, estimating total revenue and cost at completion on its long term contracts is complex, subject to many variables and requires significant judgment.

For basic and cost plus T&M contracts, the Company recognizes revenue over time using the output method which measures progress toward complete satisfaction of the performance obligation based upon actual costs incurred, using the right to invoice practical expedient.

Accounts Receivable

Accounts receivable includes amounts billed and currently due from customers and amounts for work performed which have not been billed to date. The billed and unbilled amounts are stated at the net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected. The allowance is based upon an assessment of customer creditworthiness, historical payment experience and the age of outstanding receivables.

Contract Assets and Liabilities

Contract assets include unbilled amounts typically resulting from performance under long-term contracts where the revenue recognized exceeds the amount billed to the customer. Retainage receivable is included in contract assets. The current portion of retainage receivable is a contract asset, which prior to the adoption of ASC 606, had been classified within accounts receivable. For periods beginning after December 31, 2017, amounts representing contract assets, which were previously included in "Accounts receivable" within the consolidated balance sheets, have been reclassified as "Current portion of retainage receivable."

The Company's contract liabilities consist of advance payments and billings in excess of revenue recognized and are reported as deferred revenue in the consolidated balance sheet. The Company classifies billings in excess of revenue recognized as deferred revenue as current or noncurrent based on the timing of when revenue is expected to be recognized.

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing of the Company's performance and customer payments. The amount of revenue recognized during the three and nine months ended September 30, 2018 that was included in the deferred revenue balance at the beginning of the period was \$5,103 and \$12,561, respectively.

Remaining Performance Obligations

The remaining performance obligations represent the aggregate transaction price of executed contracts with customers for which work has partially been performed or not started as of the end of the reporting period. The Company's remaining performance obligations include projects that have a written award, a letter of intent, a notice to proceed or an agreed upon work order to perform work on mutually accepted terms and conditions. T&M contracts are excluded from the remaining performance obligation as these contracts are not fixed price contracts and the consideration expected under these contracts is variable as it is based upon hours and costs incurred in accordance with the variable consideration optional exemption. As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was \$95,955. During the following 12 months, approximately 53% of the remaining performance obligations are expected to be recognized as revenue with the remaining balance recognized over 1 to 5 years.

Note 5 — Accounts Receivable

The components of accounts receivable are as follows:

	September 30, 2018	December 31, 2017
Billed	\$165,966	\$186,411
Unbilled	40,150	34,050
	206,116	220,461
Allowance for doubtful accounts	(68,189)	(72,850)
Accounts receivable, less allowance for doubtful accounts	\$137,927	\$147,611

In September 2018, a client directly paid the Libyan government approximately \$4,100 in taxes that the Company owed and in return, the Company reduced the client's outstanding accounts receivable balance for the amount paid. The outstanding accounts receivable balance of the client had been fully reserved, therefore, a portion of that reserve was reversed by the \$4,100 payment. The reserve reversal was recorded in the second quarter of 2018 due to the fact that the second quarter financial statements had not been issued at the time the payment was made.

Note 6 — Intangible Assets

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

	September 30, 2018		December 31, 2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$7,604	\$ 5,442	\$16,397	\$ 12,862
Acquired contract rights	—	—	1,007	1,007
Trade names	543	272	877	504
Total	\$8,147	\$ 5,714	\$18,281	\$ 14,373
Intangible assets, net	\$2,433		\$3,908	

Amortization expense related to intangible assets was as follows:

Three Months Ended September 30,	Nine Months Ended September 30,		
2018	2017	2018	2017
\$209	\$493	\$784	\$1,556

The following table presents the estimated amortization expense for the next five years:

Year ending December 31,	Estimated Amortization Expense
2018 (remaining 3 months)	\$ 228
2019	912
2020	651
2021	297
2022	232

Note 7 — Goodwill

The following table summarizes the changes in the Company's carrying value of goodwill during 2018:

Balance, December 31, 2017	\$52,658
Translation adjustments	(4,254)
Balance, September 30, 2018	\$48,404

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. Goodwill is subject to an impairment review at a reporting unit level, on an annual basis as of July 1st of each fiscal year, or when events occur or circumstances change that would indicate potential impairment. The Company has only one reporting unit, and therefore the entire goodwill is allocated to that reporting unit.

The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of the events or circumstances, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company performed its annual goodwill impairment test at July 1, 2018.

Utilizing the two-step impairment test, the Company first assessed the carrying value of goodwill at the reporting unit level based on an estimate of the fair value of the respective reporting unit. Fair value of the reporting unit was estimated using a discounted cash flow analysis consisting of various assumptions, including expectations of future cash flows based on projections or forecasts derived from analysis of business prospects and economic or market trends that may occur, specifically, the Company gave significant consideration for work expected to be completed under existing contracts during the fourth quarter of 2018 or contracts expected to be executed during 2019. We also used these same expectation in a number of valuation models in addition to discounted cash flows, including, the public company method and quoted price method, and ultimately determined the fair value of our reporting unit based on weighted average calculations from these models. Based on the Company's assessment, we determined that the fair value of our reporting unit exceeds its carrying value, and accordingly, the goodwill associated with the reporting unit is not considered to be impaired at July 1, 2018.

The Company recognizes that any changes in our actual fourth quarter 2018 or projected 2019 results could potentially have a material impact on our assessment of goodwill impairment. The Company will continue to monitor the actual performance of its operations against expectations and assess indicators of possible impairment. The valuation of goodwill is subject to a high degree of judgement, uncertainty and complexity. Should any indicators of impairment occur in subsequent periods, the Company will be required to perform an analysis in order to determine whether goodwill is impaired.

Note 8 — Accounts Payable and Accrued Expenses

Below are the components of accounts payable and accrued expenses:

	September 30, 2018	December 31, 2017
Accounts payable	\$ 31,520	\$ 32,345
Accrued payroll and related expenses	29,557	29,569
Accrued subcontractor fees	13,848	10,814
Accrued agency fees	578	1,671
Accrued legal and professional fees	1,600	2,983
Other accrued expenses	6,243	5,839
	\$ 83,346	\$ 83,221

Note 9 — Notes Payable and Long-Term Debt

The table below reflects the Company's notes payable and long-term debt, which includes credit facilities:

Loan	Maturity	Interest Rate Type	Interest Rate ⁽¹⁾		Balance Outstanding as of	
			September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Secured Credit Facilities						
Hill International, Inc. - Société Générale 2017 Term Loan Facility	06/20/2023	Variable	7.48%	7.32%	\$29,625	\$ 29,850
Hill International, Inc. - Société Générale Domestic Revolving Credit Facility	05/04/2022	Variable	6.13%	5.25%	14,400	3,300
Hill International N.V.. - Société Générale International Revolving Credit Facility	05/04/2022	Variable	N/A	4.10%	—	—
Unsecured Credit Facilities						
Hill International, Inc. - First Abu Dhabi Bank PJSC Overdraft Credit Facility (2)	11/30/2018	Variable	5.50%	5.50%	2,078	2,316
Engineering SA Services Technicos - Consortium of Brazilian Credit Facilities (3)	12/07/2018	Fixed	4.76%	4.76%	—	—
Unsecured Notes Payable and Long-Term Debt						
Hill International Spain SA-Bankia S.A. & Bankinter S.A.(4)	12/31/2021	Fixed	2.17%	2.17%	1,745	2,202
Hill International Spain SA - IberCaja Banco. S.A. (4)	12/31/2019	Variable	3.42%	3.37%	250	407
Philadelphia Industrial Development Corporation Loan	03/31/2027	Fixed	2.75%	2.75%	556	599
Total notes payable and long-term debt, gross					\$48,654	\$ 38,674
Less: unamortized discount and deferred financing costs related to Société Générale 2017 Term Loan Facility					(825)	(892)
Notes payable and long-term debt					\$47,829	\$ 37,782
Current portion of notes payable					3,159	3,406
Current portion of unamortized debt discount and deferred financing costs					(173)	(165)
Current maturities of notes payable and long-term debt					2,986	3,241
Notes payable and long-term debt, net of current maturities					44,843	34,541

(1) Interest rates for variable interest rate debt are reflected on a weighted average basis through September 30, 2018 since inception.

(2) Credit facility lender was formerly known as National Bank of Abu Dhabi. There is no stated maturity date as the loan is subject to periodic review by the bank. Therefore, the amount outstanding is reflected within the current maturities of notes payable and long-term debt. Balances outstanding are reflected in U.S. dollars based on the

conversion rates from AED as of September 30, 2018 and December 31, 2017.

(3) The unsecured Engineering SA Services revolving credit facilities are held with two banks in Brazil and are subject to automatic renewal on a monthly basis with varying terms. The borrowing availability is based on conversion rates from Brazilian Real.

(4) Balances outstanding are reflected in U.S. dollars based on the conversion rates from Euros as of September 30, 2018 and December 31, 2017.

Secured Credit Facilities

On May 5, 2017 the Company entered into a credit agreement with Société Générale (the "Agent") and other U.S. Loan Parties (the "U.S. Lenders") consisting of (1) a \$30,000 term loan (the "2017 Term Loan Facility"); (2) a \$25,000 U.S. dollar-denominated revolving credit facility (the "Domestic Revolving Credit Facility", together with the 2017 Term Loan Facility, the "U.S. Credit Facilities"); and (3) a credit agreement with the Agent (the "International Lender") providing a €9,156 (\$10,000 at closing) revolving credit facility (the "International Revolving Credit Facility" and together with the Domestic Revolving Credit Facility, the "Revolving Credit Facilities" and, together with the U.S. Credit Facilities, the "Secured Credit Facilities") which is available to Hill International N.V. The Domestic Revolving Credit Facility and the International Revolving Credit Facility include sub-limits for letters of credit amounting to \$20,000 and €8,000 (\$9,130 at closing), 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 covenant is comprised of a maximum Consolidated Net Leverage Ratio of 3.00 to 1.00 for any fiscal quarter ending on or subsequent to March 31, 2017 for the trailing twelve months then-ended. The Consolidated Net Leverage Ratio is the ratio of (a) consolidated total debt (minus unrestricted cash and cash equivalents) to consolidated earnings before interest, taxes, depreciation, amortization, share-based compensation and other non-cash charges, including bad debt expense, certain one-time litigation and transaction related expenses, and restructuring charges for the trailing twelve months. In the event of a default, the U.S. Lender and the International Lender may increase the interest rates by 2.0%. The Company was in compliance with this financial covenant calculation for the September 30, 2018 test date.

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.

2017 Term Loan Facility

On June 21, 2017, the Company entered into the 2017 Term Loan Facility with a term of 6 years, requiring repayment of 1.0% of the original principal amount annually for the first five years. Any amounts repaid on the 2017 Term Loan Facility will not be available to be re-borrowed.

The 2017 Term Loan Facility (along with interest thereon) 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 and cash proceeds thereof, as to which the 2017 Term Loan Facility (and the interest thereon) is secured by a second-priority security interest.

Revolving Credit Facilities

The Domestic Revolving Credit Facility and the International Revolving Credit Facility provide for letter of credit sub-limits in amounts of \$20,000 and €8,000 (\$9,288 at September 30, 2018), respectively. The maximum Consolidated Net Leverage Ratio is 3.00 to 1.00 under the Revolving Credit Facilities for all test dates.

The Revolving Credit Facilities require payment of interest only during the term and 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 the maturity date.

The unamortized debt issuance costs of \$2,019 and \$2,400 are included in other assets in the consolidated balance sheet at September 30, 2018 and December 31, 2017, respectively.

The interest rate on borrowings under the Domestic Revolving Credit Facility are, at the Company's option, either the LIBOR rate for the relevant interest period plus 3.75% per annum or the Base Rate plus 2.75% per annum.

The interest rate on borrowings under the International Revolving Credit Facility 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 4.50% per annum. On June 21, 2017, borrowings under the International Revolving Credit Facility were paid in full and there have not been any subsequent borrowings through September 30, 2018.

Commitment fees are calculated at 0.50% annually on the average daily unused portion of the Domestic Revolving Credit Facility, and are calculated at 0.75% annually on the average daily unused portion of the International Revolving Credit Facility.

Generally, the obligations of the Company under the Domestic Revolving Credit Facility are secured by a first-priority security interest in the Eligible Domestic Receivables, 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 Revolving Credit Facility are generally secured by a first-priority security interest in substantially all accounts receivable and cash proceeds thereof, certain bank accounts of the Subsidiary and certain of the Company's non-U.S. subsidiaries, and a second-priority security interest in substantially all other assets of the Company and certain of the Company's U.S. and non-U.S. subsidiaries.

At September 30, 2018 the Company had \$9,828 of outstanding letters of credit and \$104 of available borrowing capacity under the Domestic Revolving Credit Facility. At September 30, 2018, the Company had \$2,617 of outstanding letters of credit and \$4,573 of available borrowing capacity under the International Revolving Credit Facility. The availability under the International Revolving Credit Facility was reduced from the maximum borrowing capacity of €9,156 (\$10,630 as of September 30, 2018) to €6,193 (\$7,190 as of September 30, 2018).

Other Financing Arrangements

On May 1, 2018, the Company entered into a commercial premium financing agreement for the renewal of its corporate insurance policies with AFCO Premium Credit LLC ("AFCO") for \$2,471. The terms of the arrangement include a \$260 down payment, followed by monthly payments to be made over a ten month period at a 4.57% interest rate through February 28, 2019. On July 25, 2018, the Company entered into another financing agreement with AFCO for \$86 for the renewal of additional corporate insurance policies. The terms of the arrangement include monthly payments to be made over seven months at a 4.57% interest rate through February 28, 2019.

As of September 30, 2018, the balances payable to AFCO for these arrangements was \$1,178 and is reflected in other current liabilities on the consolidated balance sheets.

Note 10 — Supplemental Cash Flow Information

The following table provides additional cash flow information:

	Nine Months Ended September 30,	
	2018	2017
Interest and related financing fees paid	\$3,652	\$5,831
Income taxes paid	\$11,435	\$7,713
Increase (decrease) in other current liabilities and decrease (increase) in additional paid-in capital related to ESA Put Options	\$—	\$(777)
Increase in additional paid-in capital from the issuance of shares of common stock from cashless exercise of stock options	\$202	\$—

Note 11 — Share-Based Compensation

At September 30, 2018, the Company had approximately 1,966 options outstanding with a weighted average exercise price of \$4.35. The Company did not grant any stock options during the nine months ended September 30, 2018. During the nine months ended September 30, 2018, options for approximately 928 shares with a weighted average exercise price of \$5.77 lapsed and options for approximately 285 shares with a weighted average exercise price of \$4.66 were forfeited.

Pursuant to the Company's 2008 Employee Stock Purchase Plan (the "Plan"), employees purchased approximately 6 common shares, for an aggregate purchase price of approximately \$29 during the nine months ended September 30, 2018. There were no common shares purchased under the Plan during the three months ended September 30, 2018. During the three and nine months ended September 30, 2017, employees purchased approximately 5 and 36 common shares for an aggregate purchase price of approximately \$24 and \$138, respectively, under the Plan.

The Company recognized share-based compensation expense in selling, general and administrative expenses in the consolidated statement of operations totaling approximately \$1,048 for the three months ended September 30, 2017,

and approximately \$737 and \$2,261 for the nine months ended September 30, 2018 and 2017, respectively. During the three months ended September 30, 2018, the Company recognized a cumulative net compensation expense reduction of \$47 as a result of the remeasurement described below.

On May 10, 2017, the Board approved a monthly grant of Company stock valued at \$80 per month to the Interim Chief Executive Officer ("ICEO") during his term of service. At the end of each month during such period, the ICEO is entitled to \$80 worth of Company stock based on the closing price of the Company's common stock on the last trading day of the month. During the three and nine months ended September 30, 2018, the ICEO accumulated an additional 53 and 138 shares, respectively. The value of the shares accumulated is remeasured each reporting period. The change in value from the previous reporting period is recorded as an adjustment to compensation expense. The remeasurement of the value of the total accumulated shares of this grant during the three months ended September 30, 2018 reduced compensation expense of \$162 and increased compensation expense by \$399 for the three and nine months ended September 30, 2018, respectively, and is included in the net share-based compensation expense total reflected above. The ICEO's term of service ended on October 1, 2018 at which time the ICEO had accumulated a total of 263 shares under this program.

On August 17, 2018, the Board approved the termination of Raouf S. Ghali's (current CEO), former Employment Agreement, and the Company and Mr. Ghali entered into a written termination agreement with respect to his former Employment Agreement. Further, the Board approved the following new compensation terms, also effective October 1, 2018: (1) Base Salary of \$650,000 annually; (2) Participation in the Company's Annual Incentive Bonus Plan with an annual target cash bonus of \$675,000, based on metrics to be determined by the Board; (3) Grant of \$900,000 annually in shares of the Company's common stock, 50% of which will be performance based (as determined by the Board) and 50% of which will be time vested; and (4) Participation in the Company's 2016 Executive Retention Plan, pursuant to which Mr. Ghali will be entitled to severance equal to two times his annual base salary under certain circumstances.

Note 12 — Stockholders' Equity

The following table summarizes the changes in stockholders' equity during the nine months ended September 30, 2018:

	Total	Hill International, Inc. Stockholders	Noncontrolling Interest
Stockholders' equity, December 31, 2017	\$ 110,670	\$ 109,075	\$ 1,595
Net (loss) earnings	(24,080)	(24,176)	96)
Other comprehensive earnings (loss)	1,280	1,733	(453)
Comprehensive loss	(22,800)	(22,443)	(357)
Additional paid in capital	399	399	—
Exercise of stock options	11,691	11,691	—
Reversal of accrual for portion of ESA Put	745	745	—
Acquisition of additional interest in ESA	(745)	(122)	(623)
Stockholders' equity, September 30, 2018	\$ 99,960	\$ 99,345	\$ 615

Note 13 — Income Taxes

The Company calculates the interim tax expense based on an annual effective tax rate (AETR). The AETR represents the Company's estimated effective tax rate for the year based on full year projection of tax expense, divided by the projection of full year pretax book income/(loss) among the various foreign tax jurisdictions, adjusted for discrete transactions occurring during the period. The effective tax rates for the three months ended September 30, 2018 and 2017 were 5.1% and 40.1%, respectively and the effective tax rates for the nine months ended September 30, 2018 and 2017 were (14.4)% and 39.0%, respectively. The Company's effective tax rate for the three and nine month ended September 30, 2018 is lower than the comparable periods of 2017, primarily due to the mix of pretax earnings in

jurisdictions with different jurisdictional tax rates, as well as not having the ability to benefit from losses in jurisdictions that have a history of negative earnings.

The 2017 Tax Act reduced the U.S. statutory tax rate from 35% to 21% beginning in 2018. The 2017 Tax Act requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and introduces a new U.S. tax on certain off-shore earnings referred to as Global Intangible Low-Taxed Income (GILTI) beginning in 2018.

The Company is applying the guidance issued by the Securities and Exchange Commission in Staff Accounting Bulletin 118 when accounting for the enactment-date effects of the 2017 Tax Act. The guidance provides for a measurement period up to one year in which provisional amounts may be adjusted as an income tax expense or benefit in the period the adjustment is determined.

As of September 30, 2018, the Company has not completed its accounting for the tax effects of the 2017 Tax Act and the provisional amounts recorded at December 31, 2017 were not adjusted during the quarter ended September 30, 2018. The Company will continue to analyze the impact of the 2017 Tax Act during the accounting measurement period. The Company's actual results may materially differ from the Company's current estimates due to, among other things, further guidance that may be issued by U.S. tax authorities or regulatory bodies to interpret the 2017 Tax Act.

US GAAP allows companies to adopt an accounting policy to either recognize deferred taxes for GILTI or treat as a period cost in the year incurred. The Company has not yet determined its tax accounting policy and the Company has included in its calculation of current US income tax expense(benefit), an amount related to its estimate of 2018 current year GILTI.

The reserve for uncertain tax positions amounted to \$2,587 and \$2,676 at September 30, 2018 and December 31, 2017, respectively, and is included in "Other liabilities" in the consolidated balance sheet at those dates.

The Company's policy is to record income tax related interest and penalties in income tax expense. There were no such items for the three and nine months ended September 30, 2018 and 2017.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all, or some portion, 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. In making this determination, management assesses all available evidence, both positive and negative, at the balance sheet date. This includes, but is not limited to, recent earnings, internally-prepared income projections, and historical financial performance.

Note 14 —Segment and Related Information

The Company operates as one reporting segment, the Project Management Group, which reflects how the Company is managed. The Project Management Group provides 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 (collectively, "integrated project management") and facilities management services.

The following tables present certain information for the Project Management Group's operations:

Revenue by Geographic Region:

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2018	2017		2018	2017			
United States	\$49,119	48.2 %	\$59,640	48.4 %	\$152,283	46.4 %	169,229	46.4 %
Latin America	2,751	2.7 %	2,889	2.3 %	8,591	2.6 %	9,189	2.5 %
Europe	10,493	10.3 %	10,811	8.8 %	31,260	9.5 %	30,931	8.5 %
Middle East	30,689	30.1 %	42,248	34.3 %	106,443	32.5 %	131,211	36.0 %
Africa	6,712	6.6 %	6,034	4.9 %	20,279	6.2 %	17,651	4.8 %
Asia/Pacific	2,171	2.1 %	1,570	1.3 %	9,124	2.8 %	6,537	1.8 %
Total	\$101,935	100.0%	\$123,192	100.0%	\$327,980	100.0%	\$364,748	100.0%

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

For the three and nine months ended September 30, 2018, the United States and United Arab Emirates were the only countries to account for 10% or more of consolidated total revenue. For the three and nine months ended September 30, 2017, the United States was the only country to account for 10% or more of consolidated total revenue.

Operating Profit (Loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
United States	\$6,422	\$6,350	\$20,202	\$17,730
Latin America	(413)	88	(2,127)	(2,431)
Europe *	(1,084)	(57)	(1,644)	3,763
Middle East *	2,846	4,042	3,017	15,402
Africa	806	180	5,873	(533)
Asia/Pacific *	297	(658)	(191)	(1,106)
Corporate	(16,543)	(11,573)	(41,564)	(31,702)
Total	\$(7,669)	\$(1,628)	\$(16,434)	\$1,123

* includes Hill's share of loss (profit) of equity method affiliates on the Consolidated Statements of Operations.

Depreciation and Amortization Expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Project Management	\$762	\$1,422	\$2,793	\$4,397
Corporate	164	334	640	614
Total	\$926	\$1,756	\$3,433	\$5,011

Revenue By Client Type:

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2018	2017		2018	2017			
U.S. federal government	\$4,329	4.2 %	\$3,729	3.0 %	\$12,124	3.7 %	\$10,965	3.0 %
U.S. state, regional and local governments	34,047	33.4 %	43,177	35.0 %	103,759	31.6 %	119,132	32.7 %
Foreign governments	27,039	26.5 %	33,524	27.2 %	94,476	28.8 %	105,546	28.9 %
Private sector	36,520	35.9 %	42,762	34.8 %	117,621	35.9 %	129,105	35.4 %
Total	\$101,935	100.0 %	\$123,192	100.0 %	\$327,980	100.0 %	\$364,748	100.0 %

Property, Plant and Equipment, Net, by Geographic Location:

	September 30,	December 31,
	2018	2017
United States	\$ 9,132	\$ 9,434
Latin America	713	546
Europe	535	675

Middle East	967	1,164
Africa	95	105
Asia/Pacific	60	80
Total	\$ 11,502	\$ 12,004

Note 15 — Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a defendant or plaintiff in various legal proceedings which arise in the normal course of business. As such the Company is required to assess the likelihood of any adverse outcomes to these proceedings as well as potential ranges of probable losses. A determination of the amount of the provision required for commitments and contingencies, if any, which would be charged to earnings, is made after careful analysis of each proceeding. 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 proceedings will not have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

In September 2017, the Board appointed a special committee of independent directors (the "Special Committee") to conduct a review of the need for, and causes of, the restatement of the Company's financial statements. The review was performed with the assistance of independent outside counsel and was completed in April 2018. The review discovered facts that indicated certain former employees of the Company violated Company policies related to accounting for foreign currency exchange transactions. The Company self-reported these facts to the SEC in April 2018 and received a subpoena from the SEC in June 2018. The Company has cooperated and continues to cooperate with the SEC with respect to the SEC's investigation.

Loss on Performance Bond

The Company is often required to provide a Performance Guarantee to our customers on projects. The guarantees provide monetary compensation to the customer should we fail to perform our obligations under the contract. Some of these Performance Guarantees are unconditional in that the customer can request and receive payment at any time, for any reason. Historically, payments have not been unconditionally claimed from our customers. Performance Guarantee claims made by customers could have a material adverse impact on our business, financial condition, results of operations, and cash flows.

On February 8, 2018, the Company received notice from the First Abu Dhabi Bank ("FAB", formerly known as the National Bank of Abu Dhabi) that Public Authority of Housing Welfare of Kuwait submitted a claim for payment on a Performance Guarantee issued by the Company for approximately \$7,938 for a project located in Kuwait. FAB subsequently issued, on behalf of the Company, a payment on February 15, 2018. The Company is taking legal action to recover the full Performance Guarantee amount. On September 20, 2018 the Kuwait First Instance Court dismissed the Company's case. The Company has filed an appeal before the Kuwait Court of Appeals. As a result of the First Instance Court decision, the Company fully reserved the performance guarantee payment above in the first quarter of 2018 and it is presented as "Loss on Performance Bond" on the consolidated statements of operations.

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 \$882 and is included in other liabilities in the consolidated balance sheet at September 30, 2018.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (in thousands).

Overview

The following discussion should be read in conjunction with the information contained in Hill International, Inc.'s (collectively referred to as "Hill", "we", "us", "our" and "the Company") unaudited consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. See our Annual Report on Form 10-K, for the fiscal year ended December 31, 2017 filed with the Securities and Exchange Commission on August 31, 2018, including the factors disclosed therein, as well as "Disclosure Regarding Forward-looking Statements" for certain factors that may cause actual results to vary materially from these forward-looking statements.

The Company operates in one operating segment, the Project Management Group, which reflects how the Company is currently being managed.

Total revenue decreased \$21,257, or 17.3%, to \$101,935 for the third quarter of 2018 from \$123,192 for the third quarter of 2017. The decrease was primarily in the Middle East, which declined 27.4% from the same period in the prior year primarily due to the winding down of certain projects. The United States also decreased 17.6% as a result of the winding down of certain projects in the Northeast, Mid-Atlantic and Western Regions. This was partially offset by a 38.3% increase in the Asia Pacific region related to a large project in Afghanistan.

Gross profit decreased \$4,193, or 11.2%, to \$33,124 for the third quarter of 2018 from \$37,317 for the third quarter of 2017 primarily due to the winding down of major projects in the Middle East and United States partially offset by a decrease in direct expenses.

Selling, general and administrative ("SG&A") expenses increased \$2,533, or 6.5%, to \$41,478 for the third quarter of 2018 from \$38,945 for the third quarter of 2017 due to increased expenses of approximately \$2,174 to accelerate the Company's financial filings with the SEC, an increase in foreign currency translation net losses of \$3,104 related to unfavorable fluctuations in exchange rates in several countries and a \$3,140 expense related to a former executive. The increases were partially offset by a \$967 decrease in unapplied labor in the Middle East and United States, a decrease in indirect labor of \$1,447 across the Company mainly due to staff reductions mainly related to the Company's profit improvement plan, a \$1,142 reduction in share-based compensation, which partially related to the remeasurement of the cumulative stock awarded to the former interim Chief Executive Officer, in addition to decreased share-based compensation related to our 2006 Employee Stock Option Plan and a \$1,256 decrease in bad debt expense, when compared to the prior period, primarily related to a terminated project in Europe recorded during the three months ended September 30, 2017.

We had an operating loss of \$7,669, for the third quarter of 2018 compared to operating loss of \$1,628 for the third quarter of 2017. The increase in operating loss was primarily the result of decreased revenues in the Middle East and United States along with an increase in currency exchange losses related to unfavorable changes in exchange rates in several countries.

Income tax benefit was \$460 and \$1,068 for the third quarters of 2018 and 2017, respectively. The change is due to the mix of pretax profits from foreign operations, coupled with the tax effect from those profits and losses in jurisdictions with different statutory tax rates.

Net loss attributable to Hill was \$8,544 for the third quarter of 2018, compared to net loss of \$4,294 for the third quarter of 2017. Diluted loss per common share attributable to Hill was \$0.15 for the third quarter of 2018 based upon 55,476 diluted common shares outstanding compared to a diluted loss per common share attributable to Hill of \$0.08

for the third quarter of 2017 based upon 52,371 diluted common shares outstanding.

Results of Operations

Three Months Ended September 30, 2018 Compared to
Three Months Ended September 30, 2017

Revenue by geographic region:

	Three Months Ended September 30,				Change	
	2018		2017			
United States	\$49,119	48.2 %	\$59,640	48.4 %	\$(10,521)	(17.6)%
Latin America	2,751	2.7 %	2,889	2.3 %	(138)	(4.8)%
Europe	10,493	10.3 %	10,811	8.8 %	(318)	(2.9)%
Middle East	30,689	30.1 %	42,248	34.3 %	(11,559)	(27.4)%
Africa	6,712	6.6 %	6,034	4.9 %	678	11.2 %
Asia/Pacific	2,171	2.1 %	1,570	1.3 %	601	38.3 %
Total	\$101,935	100.0%	\$123,192	100.0%	\$(21,257)	(17.3)%

Total revenue decreased by approximately \$21,257 for the three months ended September 30, 2018 when compared to the same time period in the prior year. Consulting Fee Revenue (CFR) was \$81,229 and \$95,807 of the total revenue for the three months ended September 30, 2018 and 2017, respectively, which was approximately 80% and 78% of total revenues, respectively. Total revenues in the Middle East decreased approximately \$11,559 due to the winding down of large projects in Saudi Arabia, Qatar and Oman. The United States also contributed to the decrease with a revenue decline of \$10,521 spread across the Northeast, Mid-Atlantic and Western Regions due to the winding down of projects. These decreases were partially offset by a \$601 increase in Asia Pacific due to a large project in Afghanistan and a \$678 increase in Africa due in large part to the start of an additional phase of an existing project in Algeria.

Gross Profit:

	Three Months Ended September 30,				Change	
	2018		2017			
		% of Revenue		% of Revenue		
United States	\$15,329	46.2 %	\$16,654	44.6 %	\$(1,325)	(8.0)%
Latin America	1,127	3.4 %	1,349	3.6 %	(222)	(16.5)%
Europe	3,672	11.1 %	3,392	9.1 %	280	8.3 %
Middle East	8,805	26.6 %	12,475	33.4 %	(3,670)	(29.4)%
Africa	2,869	8.7 %	2,668	7.2 %	201	7.5 %
Asia/Pacific	1,322	4.0 %	779	2.1 %	543	69.7 %
Total	\$33,124	100.0%	\$37,317	100.0%	\$(4,193)	(11.2)%

Gross Profit for the three months ended September 30, 2018 decreased approximately \$4,193 compared to the same period in the prior year. The decrease was primarily due to a decrease in revenue in the Middle East and United States due to the winding down of projects in those regions partially offset by decreases in direct expenses.

SG&A Expense:

SG&A expenses for the three months ended September 30, 2018 increased approximately \$2,533 when compared to the same period in prior year primarily due to increased expenses of approximately \$2,174 to accelerate the Company's financial filings with the SEC and an increase in currency exchange losses of \$3,104 related to unfavorable changes in exchange rates in several countries and a \$3,140 expense related to a former executive. These increases were partially offset by a \$967 decrease in unapplied labor in the Middle East and United States, a decrease in indirect labor of \$1,447 across the Company mainly due to staff reductions related to the Company's profit improvement plan, a \$1,142 reduction in share-based compensation, which partially related to the remeasurement of the cumulative stock awarded to the former interim Chief Executive Officer (see Note 11 Share-Based Compensation), in addition to decreased share-based compensation related to our 2006 Employee Stock Option Plan, and a \$1,256 decrease in bad debt expense when compared to the prior period, which was primarily related to a terminated project in Europe recorded during the three months ended September 30, 2017. SG&A expenses represented approximately 40.7% and 31.6% of revenue for the three months ended September 30, 2018 and 2017, respectively.

Operating Profit (Loss):

	Three Months Ended September 30,				Change			
	2018	2017						
		% of Revenue		% of Revenue				
United States	\$6,422	13.1 %	\$6,350	10.6 %	\$72	1.1 %		
Latin America	(413)	(15.0)%	88	3.0 %	(501)	(569.3)%		
Europe	(1,084)	(10.3)%	(57)	(0.5)%	(1,027)	1801.8 %		
Middle East *	2,846	9.3 %	4,042	9.6 %	(1,196)	(29.6)%		
Africa	806	12.0 %	180	3.0 %	626	347.8 %		
Asia/Pacific	297	13.7 %	(658)	(41.9)%	955	(145.1)%		
Corporate cost	(16,543)	—	(11,573)	—	(4,970)	42.9 %		
Total	\$(7,669)	(7.5)%	\$(1,628)	(1.3)%	\$(6,041)	371.1 %		

* includes Hill's share of loss (profit) of equity method affiliates on the Consolidated Statements of Operations.

Operating Loss increased approximately \$6,041 in the three months ended September 30, 2018 compared to the same period in the prior year. This was primarily due to a \$4,995 decrease in gross profit in the Middle East and United States and an increase in net foreign currency losses of approximately \$3,104. These decreases were partially offset by a decrease of \$1,256 in bad debt expense during the current period related to an increase in expense in the prior period due to terminated project in Europe during the three months ended September 30, 2017.

Interest and Related Financing Fees, net

Interest and related financing fees increased \$240 to \$1,275 for the three months ended September 30, 2018 as compared with \$1,035 for three months ended September 30, 2017. The three months ended September 30, 2018 included higher interest expense primarily related to our U.S. dollar-denominated revolving credit facility with Société Générale (the "Agent") and other U.S. Loan Parties (the "U.S. Lenders") due to higher loan balances throughout the three months ended September 30, 2018 than the three months ended September 30, 2017.

Income Taxes

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

For the three months ended September 30, 2018 and 2017, the Company recognized an income tax benefit of \$460 and \$1,068, respectively.

The effective income tax rate for the three months ended September 30, 2018 and 2017 were 5.1% and 40.1%, respectively. The change in the Company's effective tax rate for the three months ended September 30, 2018 was primarily a result of the mix of income among various foreign jurisdictions with different statutory tax rates.

Net Earnings Attributable to Hill

The net loss attributable to Hill International, Inc. for the three months ended September 30, 2018 was \$8,544, or \$0.15 per diluted common share based on 55,476 diluted weighted average common shares outstanding, as compared to a net loss for the three months ended September 30, 2017 of \$4,294, or \$(0.08) per diluted weighted average common share based upon 52,371 diluted weighted average common shares outstanding. The net loss from continuing operations for the three months ended September 30, 2018 was \$8,484, or \$0.15 per diluted weighted average common share, compared to a net loss from continuing operations of \$1,595, or \$0.03 per diluted weighted average common share, for the three months ended September 30, 2017.

Nine Months Ended September 30, 2018 Compared to
Nine Months Ended September 30, 2017

Revenue by geographic region:

	Nine Months Ended September 30,						Change
	2018		2017				
United States	\$152,283	46.4 %	\$169,229	46.4 %	\$(16,946)	(10.0)%	
Latin America	8,591	2.6 %	9,189	2.5 %	(598)	(6.5)%	
Europe	31,260	9.5 %	30,931	8.5 %	329	1.1 %	
Middle East	106,443	32.5 %	131,211	36.0 %	(24,768)	(18.9)%	
Africa	20,279	6.2 %	17,651	4.8 %	2,628	14.9 %	
Asia/Pacific	9,124	2.8 %	6,537	1.8 %	2,587	39.6 %	
Total	\$327,980	100.0%	\$364,748	100.0%	\$(36,768)	(10.1)%	

Total revenue decreased by approximately \$36,768 for the nine months ended September 30, 2018 when compared to the same time period in the prior year. CFR was \$261,794 and \$293,764 of the total revenue for the nine months ended September 30, 2018 and 2017, respectively, which was approximately 80% and 81% of total revenues, respectively. Total revenues decreased approximately \$24,768 in the Middle East and \$16,946 in the United States due to the winding down of projects. These decreases were partially offset by an increase in Africa of approximately \$2,628 and Asia Pacific of approximately \$2,587 due to the addition of new work.

Gross Profit:

	Nine Months Ended September 30,						Change
	2018		2017				
		% of Revenue		% of Revenue			
United States	\$46,034	45.6 %	\$49,580	43.7 %	\$(3,546)	(7.2)%	
Latin America	3,582	3.5 %	3,538	3.1 %	44	1.2 %	
Europe	10,918	10.8 %	9,867	8.7 %	1,051	10.7 %	
Middle East	29,324	29.0 %	39,362	34.7 %	(10,038)	(25.5)%	
Africa	8,165	8.1 %	7,987	7.0 %	178	2.2 %	
Asia/Pacific	2,988	3.0 %	3,223	2.8 %	(235)	(7.3)%	
Total	\$101,011	100.0%	\$113,557	100.0%	\$(12,546)	(11.0)%	

Gross Profit for the nine months ended September 30, 2018 decreased approximately \$12,546 compared to the same period in the prior year. The decrease was primarily due to a reduction of approximately \$10,038 in the Middle East and \$3,546 in the United States as a result of lower revenues due to the winding down of projects which was partially offset by a reduction of direct expenses.

SG&A Expense:

Selling, General and Administrative expenses for the nine months ended September 30, 2018 decreased approximately \$359 when compared to the same period in prior year. This decrease was largely the result of an approximately \$4,722 decrease in unapplied labor costs in the Middle East and United States, a \$6,644 decrease in indirect labor costs mainly due to staff reductions related to the company's profit improvement plan, and a bad debt reversal in Libya due to the collection of a previously written off account of approximately \$4,100. These reductions were largely offset by an expense increase of approximately \$5,140 due to increased resources utilized to bring the Company current with its financial filings with the SEC and net foreign currency translation losses, which increased approximately \$9,220 due to a weakened Euro, Turkish Lira and Brazilian Real when compared to the same period last year. SG&A expenses represented approximately 34.2% and 30.8% of revenue for the nine months ended September 30, 2018 and 2017, respectively.

Operating Profit (Loss):

	Nine Months Ended September 30,		Change
	2018	2017	
		% of Revenue	% of Revenue
United States	\$20,202	13.3 %	\$17,730 10.5 %
Latin America	(2,127)	(24.8)%	(2,431) (26.5)%
Europe (a)	(1,644)	(5.3)%	3,763 12.2 %
Middle East (a, b)	3,017	2.8 %	15,402 11.7 %
Africa	5,873	29.0 %	(533) (3.0)%
Asia/Pacific (a)	(191)	(2.1)%	(1,106) (16.9)%
Corporate cost	(41,564)	—	(31,702) —
Total	\$(16,434)	(5.0)%	\$1,123 0.3 %

a. includes Hill's share of loss (profit) of equity method affiliates on the Consolidated Statements of Operations.

b. includes loss on performance bond.

Operating Profit decreased approximately \$17,557 in the nine months ended September 30, 2018 compared to the same period in the prior year. The decrease in operating profit is primarily the result of decreased gross profits in the Middle East and the United States, net foreign currency translation loss increases, one time charges related to the company's restatement activities and a loss on a performance bond, as described in the paragraph below. These decreases were partially offset by an increase in the United States from decreased unapplied labor, decreased indirect wages across the Company driven by the profit improvement plan and a bad debt reversal in Libya.

On February 8, 2018, the we received notice from the First Abu Dhabi Bank ("FAB", formerly known as the National Bank of Abu Dhabi) that Public Authority of Housing Welfare of Kuwait submitted a claim for payment on a Performance Guarantee issued by the Company for approximately \$7,938 for a project located in Kuwait. FAB subsequently issued, on behalf of the Company, a payment on February 15, 2018. We are taking legal action to recover the full Performance Guarantee amount. On September 20, 2018 the Kuwait First Instance Court dismissed our case and we have filed an appeal before the Kuwait Court of Appeals. As a result of the First Instance Court decision, we fully reserved the performance guarantee payment in the first quarter of 2018 and it is presented as "Loss on Performance Bond" on the consolidated statements of operations for the nine months ended September 30, 2018.

Interest and Related Financing Fees, net

Interest and related financing fees increased \$1,789 to \$3,855 for the nine months ended September 30, 2018 as compared with \$2,066 for nine months ended September 30, 2017. This increase is attributable to the majority of interest charges related to debt that was paid off as part of the Construction Claims Group sale being allocated to discontinued operations during the nine months ended September 30, 2017. All interest charges in 2018 have been recorded within continuing operation.

Income Taxes

For the nine months ended September 30, 2018 and 2017, the Company recognized an income tax expense of \$2,928 and an income tax benefit of \$368, respectively.

The effective income tax rate for the nine-month periods ended September 30, 2018 and 2017 was (14.4)% and 39.0%, respectively. The change in the Company's effective tax rate for the nine months ended September 30, 2018 was primarily a result of the mix of income among various foreign jurisdictions with different statutory tax rates.

Net Earnings Attributable to Hill

The net loss attributable to Hill International, Inc. for the nine months ended September 30, 2018 was \$24,176, or \$0.44 per diluted common share based on 54,466 diluted weighted average common shares outstanding, as compared to net income attributable to Hill International, Inc. for the nine months ended September 30, 2017 of \$37,249, or \$0.72 per diluted weighted average common shares based upon 52,065 diluted weighted average common shares outstanding. Net loss from continuing operations for the nine months ended September 30, 2018 was \$23,217, or \$0.42 per diluted weighted average common share, compared to net a net loss from continuing operations of \$575, or \$0.01 per diluted weighted average common shares, for the nine months ended September 30, 2017.

Liquidity and Capital Resources

At September 30, 2018, our primary sources of liquidity consisted of \$23,083 of cash and cash equivalents and \$6,317 of available borrowing capacity under our various credit facilities. See Note 9 to our consolidated financial statements for a description of our credit facilities and term loans. We believe that we have sufficient liquidity to support the 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.

Sources of Additional Capital

We have relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At September 30, 2018, we had approximately \$69,689 of availability under these arrangements.

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

Cash Flow Activity For the Nine Months Ended September 30, 2018

For the nine months ended September 30, 2018, cash, cash equivalents and restricted cash increased by \$3,475 to \$30,395. Cash used in operations was \$14,126, cash used in investing activities was \$3,073 and cash provided by financing activities was \$21,220. We also experienced a decrease in cash of \$546 from the effect of foreign currency exchange rate fluctuations.

Operating Activities

Our operations used cash of \$14,126 for the nine months ended September 30, 2018. This compares to cash used in operating activities of \$14,205 for the nine months ended September 30, 2017. We had a consolidated net loss from continuing operations for the nine months ended September 30, 2018 of \$23,217 compared to a net loss from continuing operations of \$575 for the nine months ended September 30, 2017. During 2018, there was an add back of foreign exchange expense of \$8,496 primarily due to the continued weakening of the Turkish Lira, Brazilian Real and Euro.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and other letters of credit at September 30, 2018 and December 31, 2017 was \$7,312 and \$5,567, respectively.

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 changes in our receivables and payables relative to the changes in our overall business, as well as our acquisition activity.

Investing Activities

Net cash used in investing activities was \$3,073 for the nine months ended September 30, 2018, primarily due to purchases of property and equipment in the normal course of business. Net cash provided by investing activities was \$127,257 for the nine months ended September 30, 2017, as a result of the disposition of the discontinued operations during the period.

Financing Activities

Net cash provided by financing activities was \$21,220 for the nine months ended September 30, 2018 primarily related to the exercise of employee stock options during the period and net borrowings on the revolver. Net cash used in financing activities was \$118,576 for the nine months ended September 30, 2017 primarily related to the repayment of the 2014 term loan in conjunction with the sale of the discontinued operations in the second quarter of 2017.

Backlog

Our backlog represents Consulting Fee Revenue (CFR), which includes management's estimate of the amount of contracts and awards in hand that we expect to recognize as CFR in future periods as a component of total 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 canceled.

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.

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 CFR from our backlog has not been significant; however, there can be no assurance that such changes will not be significant in the future. Furthermore, reductions of our backlog as a result of contract terminations and modifications may be offset by additions to the backlog.

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

	Total Backlog			12-Month Backlog		
September 30, 2018						
United States	\$454,141	55.4 %		\$126,099	44.0 %	
Latin America	23,736	2.9 %		12,017	4.2 %	
Europe	83,604	10.2 %		32,676	11.4 %	
Middle East	168,908	20.6 %		83,272	29.1 %	
Africa	68,939	8.4 %		24,403	8.5 %	
Asia/Pacific	20,370	2.5 %		8,099	2.8 %	
Total	\$819,698	100.0 %		\$286,566	100.0 %	

December 31, 2017						
United States	\$449,621	53.2 %		\$116,975	37.5 %	
Latin America	13,350	1.6 %		8,789	2.8 %	
Europe	45,446	5.4 %		29,887	9.6 %	
Middle East	250,956	29.6 %		126,965	40.6 %	
Africa	67,491	8.0 %		23,111	7.4 %	
Asia/Pacific	18,935	2.2 %		6,500	2.1 %	
Total	\$845,799	100.0 %		\$312,227	100.0 %	

At September 30, 2018, our backlog was approximately \$819,698 compared to approximately \$845,799 at December 31, 2017. This reduction in backlog is primarily due to the cancellation and reduction of scope of work for certain projects of approximately \$32,000 in the Middle East during the second quarter of 2018.

Our 2018 year to date net CFR bookings of \$235,693 equates to a book-to-bill ratio for the quarter ended September 30, 2018 of 90.0%. Our book to bill ratio, a non-GAAP measure, is determined by taking our net CFR bookings and dividing by CFR for the applicable period. This metric allows management to monitor the Company's business development efforts to ensure we grow our backlog and our business over time and management believes that this measure is useful to investors for the same reason. For the period ended September 30, 2018, the company saw a backlog decrease primarily due to contract reductions on three major projects in Saudi Arabia. We estimate that approximately \$286,566 or 35.0% of the backlog at September 30, 2018, will be recognized over the next twelve months.

The difference between the remaining performance obligations of \$95,955 and the backlog of \$819,698 at September 30, 2018 is due to the backlog including the full value of customer contracts billed on a time and materials basis, which contracts, are not included as part of the remaining performance obligation. These contracts are excluded from the remaining performance obligation since they are not fixed price contracts and the consideration expected under these contracts is variable as it is based upon hours and costs incurred, which would result in the counter-party only being obligated to the Company for services provided through the termination date.

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.

Critical Accounting Policies

The Company's interim financial statements were prepared in accordance with United States generally accepted accounting principles, which require management to make subjective decisions, assessments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting these judgments increases, such judgments become even more subjective. While management believes its assumptions are reasonable and appropriate, actual results may be materially different than estimated. The critical accounting estimates and assumptions have not materially changed from those identified in the Company's 2017 Annual Report on Form 10-K.

New Accounting Pronouncements

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 3 to the consolidated financial statements filed herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Refer to our 2017 Annual Report on Form 10-K for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in our 2017 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The management of the Company, under the supervision and with the participation of our Chief Executive Officer, Interim Chief Financial Officer, former Interim Chief Executive Officer and former Interim Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of September 30, 2018. Management concluded that, due to the on-going remediation associated with the material weakness identified in our 2017 Annual Report on Form 10-K ("2017 Form 10-K"), our disclosure controls and procedures were ineffective as of September 30, 2018 to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

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

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

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

For a more comprehensive discussion of the material weaknesses in internal control over financial reporting previously identified by management as of December 31, 2017 and the remedial measures undertaken to address these material weaknesses, investors are encouraged to review Item 9A, Disclosure Controls and Procedures, of our 2017 Form 10-K.

Changes in Internal Control Over Financial Reporting

Our remediation efforts, for material weaknesses previously reported, were ongoing during the three and nine months ended September 30, 2018, and, described in Item 9A of our 2017 Annual Report on Form 10-K.

In conjunction with our closing process for the 10-Q dated September 30, 2018, management identified a material weakness, not previously reported, in the controls related to the stock option program. The company did not maintain effective controls over the monitoring of employee termination dates related to participants in the stock option program, which resulted in the exercising of stock options that had vested subsequent to individual's respective

termination dates. The Company plans to develop policies, procedures, and controls to ensure the proper oversight of the stock option program to prevent future occurrences.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings.

Information required by this item is incorporated by reference to Part I, item 1, Note 15 — Commitments and Contingencies, Legal Proceedings.

Item 1A. Risk Factors.

There have been no material changes pertaining to risk factors discussed in the Company's 2017 Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

- 10.1 Nomination and Standstill Agreement, dated as of September 12, 2018, by and among Hill International Inc. and the persons and entities listed on Schedule A thereto (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 13, 2018 and incorporated herein by reference.)
- 10.2 Termination Agreement, dated as of October 1, 2018, by and between Hill International, Inc. and Raouf Ghali.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.PRE XBRL Taxonomy Presentation Linkbase Document.
- 101.CAL XBRL Taxonomy Calculation Linkbase Document.
- 101.LAB XBRL Taxonomy Label Linkbase.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

SIGNATURES

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

Hill International, Inc.

By: /s/ Raouf S. Ghali
Raouf S. Ghali
Chief Executive Officer
(Principal Executive Officer)

Dated: November 7, 2018

By: /s/ Gregory Wolf
Gregory Wolf
Interim Vice President and Interim Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Dated: November 7, 2018