

Hill International, Inc.
Form 10-K
March 29, 2016

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

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

FORM 10-K

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

For the fiscal year ended December 31, 2015
Commission file number 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware
State or other jurisdiction of
incorporation or organization

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

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

19103
(Zip Code)

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

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

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

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

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

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

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

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

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

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

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

Smaller reporting company ☐

(Do not check if a

smaller reporting company)

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2015 was approximately \$203,536,000. As of March 9, 2016, there were 51,701,442 shares of the Registrant's Common Stock outstanding.

Documents Incorporated by Reference

Portions of the proxy statement for the 2016 Annual Meeting of Shareholders of Hill International, Inc. are incorporated by reference into Part III of this Form 10-K.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

Index to Form 10-K

PART I.

<u>Item 1.</u>	<u>Business</u>	<u>4</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>13</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>22</u>
<u>Item 2.</u>	<u>Properties</u>	<u>22</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>23</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>23</u>

Part II.

<u>Item 5.</u>	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>26</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>49</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>100</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>100</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>102</u>

Part III.

<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>103</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>103</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>103</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>104</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>104</u>

Part IV.

<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>105</u>
-----------------	--	------------

Table of Contents

PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). We may also make forward-looking statements in other reports filed with the United States Securities and Exchange Commission (the "SEC"), in materials delivered to stockholders and in press releases. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Although we believe that the expectations, estimates and assumptions reflected in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. You can identify forward-looking statements by the use of terminology such as "may," "will," "anticipate," "believe," "estimate," "expect," "future," "intend," "plan," "could," "should," "potential" or "continue" or the negative or other variations thereof, as well as other statements regarding matters that are not historical fact.

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

The markets for our services;

Projections of revenues and earnings, anticipated contractual obligations, capital expenditures, funding requirements or other financial items;

Statements concerning our plans, strategies and objectives for future operations; and

Statements regarding future economic conditions or performance.

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

Modifications and termination of client contracts;

Control and operational issues pertaining to business activities that we conduct pursuant to joint ventures with other parties;

Difficulties we may incur in implementing our acquisition strategy;

The need to retain and recruit key technical and management personnel; and

Unexpected adjustments and cancellations related to our backlog.

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

Special risks of our ability to obtain debt financing or otherwise raise capital to meet required working capital needs and to support potential future acquisition activities;

Special risks of international operations, including uncertain political and economic environments, acts of terrorism or war, potential incompatibilities with foreign joint venture partners, foreign currency fluctuations, civil disturbances and labor

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

issues; and

Special risks of contracts with governmental entities, including the failure of applicable governing authorities to take necessary actions to secure or maintain funding for particular projects with us, the unilateral termination of contracts by the government and reimbursement obligations to the government for funds previously received.

We assume no obligation to update or revise any forward-looking statements. 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

Table of Contents

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-K, in our other filings with the SEC or in materials incorporated therein by reference.

Item 1. Business.

General

Hill International, Inc., with 4,800 professionals in 100 offices worldwide, provides program management, project management, construction management, construction claims and other consulting services primarily to the buildings, transportation, environmental, energy and industrial markets. According to the June 18, 2015 edition of *Engineering News-Record* magazine, Hill is the seventh largest construction management firm and eighth largest program management firm headquartered in the United States. The terms "Hill", the "Company", "we", "us" and "our" refer to Hill International, Inc.

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

Our Growth Strategy

Our growth strategy emphasizes the following key elements:

Increase Revenues from Our Existing Clients. We have long-standing relationships with a number of public and private sector entities. Meeting our clients' diverse needs in managing construction risk and generating repeat business from our clients to expand our project base is one of our key growth strategies. We accomplish this objective by providing a broad range of project management and construction claims consulting services in a wide range of geographic areas that support our clients during every phase of a project, from concept through completion. We believe that nurturing our existing client relationships expands our project base through repeat business.

Capitalize Upon the Continued Spend in the Markets We Serve. We believe that the demand for project management services will grow with increasing construction and infrastructure spending in the markets we serve. We believe that our reputation and experience combined with our broad platform of service offerings will enable us to capitalize on increases in demand for our services. In addition, we strategically open new offices to expand into new geographic areas and we aggressively hire individuals with significant contacts to accelerate growth of these new offices and to strengthen our presence in existing markets.

Continue to Pursue Acquisitions. We operate in a highly fragmented industry with many smaller, regional competitors. Our acquisition strategy allows us to manage risk by diversifying our markets, which enables us to compete better by integrating capabilities and obtaining new relationships. We pursue acquisitions primarily for three reasons: to expand into new geographic markets; add to professional resources and improve critical mass in existing markets to compete more effectively; and to enhance our specialization and capability in certain strategic areas. We intend to continue to pursue both U.S. acquisitions to round out our domestic presence and enhance capabilities in specific areas and foreign acquisitions that bring new relationships as well as widen our geographic base to offer our global capabilities.

Table of Contents

Strengthen Professional Resources. Our biggest asset is the people that work for Hill. We intend to continue spending significant time recruiting and retaining the best and the brightest to improve our competitive position. Our independent status has attracted top project management talent with varied industry experience. Additionally, our construction claims business provides us with a strong base of expertise that allows knowledge transfer across our businesses. We believe maintaining and bolstering our team will enable us to continue to grow our business.

Reporting Segments

We operate through two reporting segments: the Project Management Group and the Construction Claims Group. Our total revenue consists of two components: consulting fee revenue ("CFR") and reimbursable expenses. Reimbursable expenses are reflected in equal amounts in both total revenue and total direct expenses. Because these revenue/costs may be subject to significant fluctuation from year to year, we measure the performance of many of our key operating metrics as a percentage of CFR, as we believe that this is a better and more consistent measure of operating performance than total revenue. Throughout this report we have used CFR as the denominator in many of our ratios. The following table sets forth the amount and percentage of CFR from our operations in each reporting segment for each of the past three fiscal years (dollars in thousands):

Consulting Fee Revenue ("CFR")

	2015		2014		2013		
Project Management	\$	467,877	74.2%	\$ 428,827	74.3%	\$ 392,602	76.7%
Construction Claims		163,074	25.8	148,290	25.7	119,483	23.3
Total	\$	630,951	100.0%	\$ 577,117	100.0%	\$ 512,085	100.0%

Project Management

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

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

Construction Claims

Our Construction Claims Group advises clients in order to assist them in preventing or resolving claims and disputes based upon schedule delays, cost overruns and other problems on major construction projects worldwide.

We may be retained as a claims consultant at the onset of a project, during the course of a project or upon the completion of a project. We assist owners or contractors in adversarial situations as well as in situations where an amicable resolution is sought. Specific activities that we undertake as part of these services include claims preparation, analysis and review, litigation support, cost/damages

Table of Contents

assessment, delay/disruption analysis, adjudication, risk assessment, lender advisory, expert witness testimony and other services.

Clients are typically billed based on an hourly rate for each consultant assigned to the project, and we are reimbursed for our out-of-pocket expenses. Our claims consulting clients include participants on all sides of a construction project, including owners, contractors, subcontractors, architects, engineers, attorneys, lenders and insurance companies.

Global Business

We operate worldwide and currently have over 100 offices in over 40 countries. The following table sets forth the amount and percentage of our CFR by geographic region for each of the past three fiscal years (dollars in thousands):

Consulting Fee Revenue by Geographic Region

	2015		2014		2013	
U.S./Canada	\$	150,096	23.8%	\$	125,691	21.8%
Latin America		31,189	4.9		40,844	7.1
Europe		85,293	13.5		79,009	13.7
Middle East		303,769	48.2		272,236	47.2
Africa		28,138	4.5		23,849	4.1
Asia/Pacific		32,466	5.1		35,488	6.1
Total	\$	630,951	100.0%	\$	577,117	100.0%
U.S.	\$	147,013	23.3%	\$	122,096	21.2%
Non-U.S.		483,938	76.7		455,021	78.8
Total	\$	630,951	100.0%	\$	577,117	100.0%

Growth Organically and Through Acquisitions

Over the years, our business has expanded through organic growth and the acquisition of a number of project management and claims consulting businesses. Over the past 18 years, we have completed 24 acquisitions of project management and claims consulting businesses.

We believe that our industry includes a number of small regional companies in a highly fragmented market. We believe that we have significant experience and expertise in identifying, negotiating, completing and integrating acquisitions and view the acquisition of these smaller competitors as a key part of our growth strategy. Through our acquisitions, we gained entry into the United Kingdom, Spain, Mexico, Poland, Australia, Brazil, South Africa and Turkey and expanded our presence in the United States. These transactions have enabled us to accelerate our growth, strengthen our geographic diversity and compete more effectively.

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

Table of Contents

Clients

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

Consulting Fee Revenue By Client Type

	2015		2014		2013	
U.S. federal government	\$	9,345	1.5%	\$	13,250	2.3%
U.S. state, regional and local governments		85,135	13.5		74,921	13.0
Foreign governments		221,464	35.1		220,917	38.3
Private sector		315,007	49.9		268,029	46.4
					246,584	48.2
Total	\$	630,951	100.0%	\$	577,117	100.0%
					512,085	100.0%

The following table sets forth the percentage of our consulting fee revenue contributed by each of our five largest clients for the years ended December 31, 2015, 2014 and 2013:

	For the Years Ended December 31,		
	2015	2014	2013
Largest client	8.0%	11.0%	10.0%
2nd largest client	4.9%	3.4%	3.4%
3rd largest client	4.2%	2.6%	2.3%
4th largest client	3.2%	2.6%	1.6%
5th largest client	2.7%	2.5%	1.6%
Top 5 largest clients	23.0%	22.1%	18.9%

Business Development

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

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

Doing business with governments is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We believe that the ability to understand these requirements and to successfully conduct business with government agencies is a barrier to entry for smaller, less experienced competitors. Most government contracts, including those with foreign governments, are subject to termination by the government, to government audits and to continued appropriations. For the year ended December 31, 2015, CFR from U.S. and foreign government contracts represented approximately 50.1% of our total CFR.

Table of Contents

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

Contracts

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

Backlog

We believe a strong indicator of our future performance is our backlog of uncompleted projects under contract or awarded. Our backlog represents management's estimate of the amount of contracts and awards in hand that we expect to result in future consulting fees. Project Management backlog is evaluated by management on a project-by-project basis and is reported for each period shown based upon the binding nature of the underlying contract, commitment or letter of intent, and other factors, including the economic, financial and regulatory viability of the project and the likelihood of the contract being extended, renewed or cancelled. Construction Claims backlog is based largely on management's estimates of future revenue based on known construction claims assignments. Because a significant number of construction claims may be awarded and completed within the same period, our actual construction claims revenue has historically exceeded backlog by a significant amount.

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

At December 31, 2015, our backlog was \$860,000,000, compared to approximately \$1,036,000,000 at December 31, 2014. Our net bookings during 2015 of \$454,000,000, which equates to a book-to-bill ratio of 72%, is well under our goal of at least 110%. This will be a major area of focus in 2016. At December 31, 2015, September 30, 2015 and December 31, 2014, backlog attributable to uncompleted work in Libya amounting to approximately \$44,000,000 was excluded from our backlog in each period due to the uncertainty surrounding the Libya Receivable and the political instability in Libya. We estimate that approximately \$388,000,000, or 45.1% of the backlog at December 31, 2015, will be recognized during our 2016 fiscal year.

Although backlog reflects business that we consider to be firm, cancellations or scope adjustments may occur. Further, substantially all of our contracts with our clients may be terminated at will, in which case the client would only be obligated to us for services provided through the termination date. Historically, the impact of terminations and modifications on our realization of revenue from our backlog has not been significant, however, there can be no assurance that such changes will not be

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

Table of Contents

significant in the future. Furthermore, reductions of our backlog as a result of contract terminations and modifications may be offset by additions to the backlog.

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

	Total Backlog		12-Month Backlog			
As of December 31, 2015:						
Project Management	\$	807,000	93.8%	\$	340,000	87.6%
Construction Claims		53,000	6.2		48,000	12.4
Total	\$	860,000	100.0%	\$	388,000	100.0%

U.S./Canada	\$	389,675	45.3%	125,019 32.2%
Latin America		23,074	2.7	16,274 4.2
Europe		53,721	6.2	34,597 8.9
Middle East		312,100	36.3	166,979 43.0
Africa		52,737	6.1	23,385 6.0
Asia/Pacific		28,693	3.3	21,746 5.6
Total	\$	860,000	100.0%	\$ 388,000 100.0%

As of September 30, 2015:				
Project Management	\$	830,000	94.4%	\$ 353,000 88.9%
Construction Claims		49,000	5.6	44,000 11.1
Total	\$	879,000	100.0%	\$ 397,000 100.0%

U.S./Canada	\$	362,499	41.2%	119,587 30.1%
Latin America		28,223	3.2	17,365 4.4
Europe		54,651	6.2	37,157 9.4
Middle East		349,514	39.8	181,532 45.7
Africa		40,140	4.6	18,140 4.6
Asia/Pacific		43,973	5.0	23,219 5.8
Total	\$	879,000	100.0%	\$ 397,000 100.0%

As of December 31, 2014:				
Project Management	\$	990,000	95.6%	\$ 421,000 90.2%
Construction Claims		46,000	4.4	46,000 9.8
Total	\$	1,036,000	100.0%	\$ 467,000 100.0%

U.S./Canada	\$	366,297	35.4%	120,470 25.8%
--------------------	-----------	----------------	--------------	----------------------

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

Latin America	45,273	4.4	31,157	6.7
Europe	69,351	6.7	38,467	8.2
Middle East	467,671	45.1	236,130	50.6
Africa	35,986	3.5	17,626	3.8
Asia/Pacific	51,512	5.0	23,150	5.0
Total	\$ 1,036,090	100.0%	\$ 467,000	100.0%

Competition

The project management and claims consulting industries are highly competitive. We compete for contracts, primarily on the basis of technical capability, with numerous entities, including design or

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

Table of Contents

engineering firms, general contractors, other "pure" construction management companies, other claims consulting firms, the "Big Four" and other accounting firms, management consulting firms and other entities. Compared to us, many of these competitors are larger, well-established companies that have broader geographic scope and greater financial and other resources. During 2015, some of our largest project management competitors included: AECOM, ARCADIS N.V., Jacobs Engineering Group, Inc., WSP Parsons Brinckerhoff, Inc., Parsons Corp. and Turner Construction Co. Some of our largest claims consulting competitors last year included: Driver Group, Ltd., Exponent, Inc., Navigant Consulting, Inc. and Systech Group, Ltd.

Insurance

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

Management

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

Executive Officers

Name	Age	Position
David L. Richter	49	President and Chief Executive Officer
Raouf S. Ghali	54	Chief Operating Officer
Mohammed Al Rais	62	Regional President (Middle East), Project Management Group
Frederic Z. Samelian	68	President, Construction Claims Group
John Fanelli III	61	Senior Vice President and Chief Financial Officer
Ronald F. Emma	64	Senior Vice President and Chief Accounting Officer
William H. Dengler, Jr.	49	Senior Vice President and General Counsel
Catherine H. Emma	56	Senior Vice President and Chief Administrative Officer
Michael J. Petrisko	51	Senior Vice President and Chief Information Officer

DAVID L. RICHTER has been our President and Chief Executive Officer since December 2014 and he has been a member of our Board of Directors since 1998. Prior to his current position, he was our President and Chief Operating Officer from March 2004 to December 2014. Before that, Mr. Richter was President of our Project Management Group from 2001 to 2004, Senior Vice President and General Counsel from 1999 to 2001 and Vice President and General Counsel from 1995 to 1999. Prior to joining us, he was an attorney with the New York City law firm of Weil, Gotshal & Manges LLP from 1992 to 1995. Mr. Richter is a Fellow of the Construction Management Association of America (CMAA) and a member of the World Presidents' Organization, the Construction Industry Round Table and the American Society of Civil Engineers. He is a member of the Board of Directors of the Greater Philadelphia Chamber of Commerce and the Board of Trustees of Princeton Day School. He is a former member of the Board of Directors of the CMAA and the Board of Trustees of the Southern New Jersey Development Council. Mr. Richter earned his B.S. in management, his B.S.E. in civil engineering and his J.D. from the University of Pennsylvania and his M.Sc. in major program management from the University of Oxford. Mr. Richter is a son of Irvin E. Richter.

Table of Contents

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

MOHAMMED AL RAIS has been Regional President (Middle East) with Hill's Project Management Group since January 2015. Prior to that, he was Senior Vice President and Managing Director (Middle East) of our Project Management Group from April 2010 to January 2015 and Vice President from 2006 to 2010. Mr. Al Rais has over 38 years of experience in the management of construction projects throughout the Middle East, North Africa, the United Kingdom and Canada. He earned his B.Sc. in city and regional planning from the University of Engineering and Technology in Pakistan and his M.Sc. in project management from the University of Reading in the United Kingdom. Mr. Al Rais is a member of the Association for Project Management in the U.K., the Canadian Business Council, the Society of Engineers in the U.A.E., the Chartered Management Institute, the Project Management Institute and the Chartered Institute of Building.

FREDERIC Z. SAMELIAN has been President of our Construction Claims Group since January 2005. He was a Senior Vice President with us from 2003 to 2004. Before that, Mr. Samelian was President of Conex International, Inc., a construction dispute resolution firm, from 2002 to 2003 and from 2000 to 2001, an Executive Director with Greyhawk North America, Inc., a construction management and consulting firm, from 2001 to 2002, and a Director with PricewaterhouseCoopers LLP from 1998 to 2000. Before that, he had worked with Hill from 1983 to August 1998. He served as Hill's President and Chief Operating Officer from 1996 to 1998. Mr. Samelian has a B.A. in international affairs from George Washington University and an M.B.A. from Southern Illinois University at Edwardsville. He is a Project Management Professional certified by the Project Management Institute and he is a licensed General Building Contractor in California and Nevada. Mr. Samelian is also a Member of the Chartered Institute of Arbitrators (CI Arb) and is a CI Arb Accredited Mediator. Mr. Samelian is also a licensed real estate salesperson in Nevada.

JOHN FANELLI III has been our Senior Vice President and Chief Financial Officer since September 2006. Before that, Mr. Fanelli was Vice President and Chief Accounting Officer of CDI Corp. from 2005 to 2006, and he was Vice President and Corporate Controller of CDI Corporation (a subsidiary of CDI Corp.) from 2003 to 2006. CDI Corp. is a New York Stock Exchange-traded professional services and outsourcing firm based in Philadelphia with expertise in engineering, technical services and information technology. During 2003, Mr. Fanelli was a financial consultant to Berwind Corporation, an investment management company based in Philadelphia which owns a diversified portfolio of manufacturing and service businesses and real estate. Before that, Mr. Fanelli was employed for 18 years by Hunt Corporation, then a New York Stock Exchange-traded manufacturer and marketer of office products. At Hunt, he served as Vice President and Chief Accounting Officer from 1995 until 2003, and before that as Director of Budgeting, Financial Analysis and Control, from 1985 to 1995. Before that, Mr. Fanelli was employed with Coopers & Lybrand for eight years in various accounting and auditing positions. Mr. Fanelli earned his B.S. in accounting from LaSalle University and he is a Certified Public Accountant in Pennsylvania.

RONALD F. EMMA has been our Senior Vice President and Chief Accounting Officer since January 2007. Mr. Emma had been Senior Vice President of Finance from 1999 to 2007. Before that, he was Vice President of Finance. Mr. Emma has been with Hill since 1980. Before joining Hill, he was Assistant Controller of General Energy Resources, Inc., a mechanical contracting firm, and prior to that was a Staff Accountant with the accounting firm of Haskins & Sells. Mr. Emma has a B.S. in accounting from St. Joseph's University and he is a Certified Public Accountant in New Jersey.

Table of Contents

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

CATHERINE H. EMMA has been our Senior Vice President and Chief Administrative Officer since January 2007. Ms. Emma had been Vice President and Chief Administrative Officer from 2005 to 2007. Before that, she served as Vice President of Human Resources and Administration. Ms. Emma has been with Hill since 1982. She is certified by the Society for Human Resource Management as a Professional in Human Resources (PHR) and holds professional memberships with Tri-State Human Resources, the Society for Human Resource Management and Risk and Insurance Management Society, Inc. Ms. Emma previously participated in BNA's Human Resources Personnel Policies Forum. Ms. Emma is the wife of Ronald F. Emma.

MICHAEL J. PETRISKO has been our Senior Vice President and Chief Information Officer since June 2014. Prior to that, Mr. Petrisko was Vice President and Chief Information Officer for STV Group, an architecture, engineering and construction management firm, from June 2012 through June 2014. Before that, Mr. Petrisko was Hill's Senior Vice President and Chief Information Officer from January 2009 through June 2012, and Vice President and Chief Information Officer from 2007 to 2008. Before that, Mr. Petrisko was Director of Global IT Operations for AECOM Technology Corp. from 2005 to 2007 and Vice President and Chief Information Officer for DMJM Harris, Inc., a subsidiary of AECOM, a global architecture, engineering and construction management firm, from 2002 to 2005. From 1999 to 2002, he was Director of Technical Services for Foster Wheeler Corp., an engineering and construction services firm. Mr. Petrisko studied management information technology at Thomas Edison State College and he is a member of the New Jersey Society of Information Management and a member of the CMAA.

Employees

At March 9, 2016, we had 4,759 professionals. Of these professionals, 3,743 worked in our Project Management Group, 911 worked in our Construction Claims Group and 105 worked in our Corporate Group. Our personnel included 4,038 full-time employees, 224 part-time employees and 497 independent contractors. We are not a party to any collective bargaining agreements and we have not experienced any strikes or work stoppages. We consider our relationship with our employees to be satisfactory.

Access to Company Information

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

We make available, free of charge, through our website or by responding to requests addressed to our Legal Department, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current

Table of Contents

Reports on Form 8-K and all amendments to those reports filed by us with the SEC pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act, as amended. These reports are available as soon as practicable after such material is filed with or furnished to the SEC. Our primary website is www.hillintl.com. We post the charters for our audit, compensation and governance and nominating committees, corporate governance principles and code of ethics in the "Investor Relations" section of our website. The information contained on our website, or on other websites linked to our website, is not part of this document.

Item 1A. Risk Factors.

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

Risks Affecting the Business

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

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

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

Accounts receivable represent the largest asset on our balance sheet. While we take steps to evaluate and manage the credit risks relating to our clients, economic downturns or other events can adversely affect the markets we serve and our clients ability to pay, which could reduce our ability to collect all amounts due from clients. In addition, political unrest in countries in which we operate and the effect of the decline of oil prices have impacted and may in the future impact our collections on accounts receivable. If our clients delay in paying or fail to pay us a significant amount of our outstanding receivables, it could have a material adverse effect on our liquidity, results of operations, and financial condition.

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

Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control. Since 2011, our consulting fee revenue derived from our operations in major oil and gas producing countries in the Middle East and Africa has grown from 32% in 2011 to approximately 53% of total consolidated CFR. Significant drops in oil or gas prices have led, and could lead to further slowdowns, in construction in these regions, which has had and could have a material adverse effect on our business, results of operations, financial condition and cash flows.

Table of Contents

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

The markets that we serve are cyclical and subject to fluctuation based on general global economic conditions and other factors. Unfavorable global economic conditions, including disruption of financial markets in the United States, Europe, Brazil and elsewhere, could adversely affect our business and results of operations, primarily by limiting our access to credit and disrupting our clients' businesses. The reduction in financial institutions' willingness or ability to lend has increased the cost of capital and reduced the availability of credit. Although we currently believe that the financial institutions with which we do business will be able to fulfill their commitments to us, there is no assurance that those institutions will be able or willing to continue to do so, which could have a material adverse impact on our business. The current European debt crisis and Brazil economic crisis may cause the value of European and Brazilian currencies, including the Euro, British pound sterling and Brazilian real, to deteriorate, thus reducing the purchasing power of European and Brazilian clients and reducing the translated amounts of U.S. dollar revenues. For the year ended December 31, 2015, 13.5% and 4.9% of our consulting fee revenue was attributable to European and Brazilian clients, respectively. In addition, any negative change in general market conditions in the United States, Europe or other national economies important to our businesses may adversely affect our clients' level of spending, ability to obtain financing, and ability to make timely payments to us for our services, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding and adversely affect our results of operations.

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

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

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

Our international operations contributed 76.7%, 78.8% and 77.0% of our consulting fee revenue for the years ended December 31, 2015, 2014 and 2013, respectively. There are risks inherent in doing business internationally, including:

Lack of developed legal systems to enforce contractual rights;

Foreign governments may assert sovereign or other immunity if we seek to assert our contractual rights thus depriving us of any ability to seek redress against them;

Greater difficulties in managing and staffing foreign operations;

Differences in employment laws and practices which could expose us to liabilities for payroll taxes, pensions and other expenses;

Inadequate or failed internal controls, processes, people, and systems associated with foreign operations;

Increased logistical complexity;

Table of Contents

Increased selling, general and administrative expenses associated with managing a larger and more global business;

Greater risk of uncollectible accounts and longer collection cycles;

Currency exchange rate fluctuations;

Restrictions on the transfer of cash from certain foreign countries;

Imposition of governmental controls;

Political and economic instability;

Changes in U.S. and other national government policies affecting the markets for our services and our ability to do business with certain foreign governments or their political leaders;

Conflict between U.S. and non-U.S. law;

Changes in regulatory practices, tariffs and taxes;

Less well established bankruptcy and insolvency procedures;

Potential non-compliance with a wide variety of non-U.S. laws and regulations; and

General economic, political and civil conditions in these foreign markets.

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

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

The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar worldwide and local anti-corruption laws in other jurisdictions, generally prohibit companies and their intermediaries from making improper payments to officials for the purpose of obtaining or retaining business. Our internal policies mandate compliance with these anti-corruption laws. The policies also are applicable to agents through which we do business in certain non-U.S. jurisdictions. We operate in many parts of the world that have experienced governmental corruption to some degree, and in certain circumstances, strict compliance with anti-corruption laws may conflict with local customs and practices. Despite our training and compliance programs, we cannot assure you that our internal control policies and procedures always will protect us from improper or criminal acts committed by our employees or agents. Our continued expansion outside the U.S., including in developing countries, could increase the risk of such violations in the future. Violations of these laws, or allegations of such violations, could disrupt our business, subject us to fines, penalties and restrictions and otherwise result in a material adverse effect on our results of operations or financial condition. All of our recently acquired businesses are subject to our internal policies. However, because our internal policies are more restrictive than some local laws or customs where we operate, we may be at an increased risk for violations while we train our new employees to comply with our internal policies and procedures.

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

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

Table of Contents

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

In 2015, U.S. federal government contracts and U.S. state, regional and local government contracts contributed approximately 1.5% and 13.5%, respectively, of our consulting fee revenue, and foreign government contracts contributed approximately 35.1% of our consulting fee revenue. Our inability to win profitable government contracts could harm our operations and adversely affect our net earnings. Government contracts are typically awarded through a heavily regulated procurement process. Some government contracts are awarded to multiple competitors, causing increases in overall competition and pricing pressure. In turn, the competition and pricing pressure may require us to make sustained post-award efforts to reduce costs under these contracts. If we are not successful in reducing the amount of costs, our profitability on these contracts may be negatively impacted. Also, some of our federal government contracts require U.S. government security clearances. If we or certain of our personnel were to lose these security clearances, our ability to continue performance of these contracts or to win new contracts requiring such clearances may be negatively impacted.

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

A significant portion of our consulting fee revenue is derived from contracts with federal, state, regional, local and foreign governments. During the years ended December 31, 2015, 2014 and 2013, approximately 50.1%, 53.6% and 51.8%, respectively, of our consulting fee revenue were derived from such contracts.

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

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

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

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

Our books and records are subject to audit by the various governmental agencies we serve and by their representatives. These audits can result in adjustments to reimbursable contract costs and

Table of Contents

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

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

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

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

At December 31, 2015, our backlog of uncompleted projects under contract or awarded was approximately \$860 million. The inability to obtain financing or governmental approvals, changes in economic or market conditions or other unforeseen events, such as terrorist acts or natural disasters, could lead to us not realizing any revenue under some or all of these contracts. We cannot assure you that the backlog attributed to any of our uncompleted projects under contract will be realized as revenue or, if realized, will result in profits.

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

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

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

Table of Contents

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

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

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

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

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

Over the past 18 years, we have acquired 24 businesses and our strategy is to continue to expand and diversify our operations with additional acquisitions as strategic opportunities arise. If the competition for acquisitions increases, or if the cost of acquiring businesses or assets becomes too expensive, the number of suitable acquisition opportunities may decline, the cost of making an acquisition may increase or we may be forced to agree to less advantageous acquisition terms for the companies that we are able to acquire. Alternatively, at the time an acquisition opportunity presents itself, internal and external pressures (including, but not limited to, borrowing capacity under our credit facilities or the availability of alternative financing), may cause us to be unable to pursue or complete an acquisition. Our ability to grow our business, particularly through acquisitions, may depend on our ability to raise capital by selling equity or debt securities or obtaining additional debt financing. There can be no assurance that we will be able to obtain financing when we need it or on terms acceptable to us.

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

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

As a global company, we are heavily reliant on computer, information and communications technology and related systems in order to properly operate. From time to time, we experience system interruptions and delays. In the event we are unable to regularly deploy software and hardware, effectively upgrade our systems and network infrastructure, and take other steps to improve the

Table of Contents

efficiency and effectiveness of our systems, the operation of such systems could be interrupted or delayed, or our data security could be breached. In addition, our computer and communications systems and operations could be damaged or interrupted by natural disasters, power loss, telecommunications failures, acts of war or terrorism, acts of God, computer viruses, physical or electronic security breaches. Any of these or other events could cause system interruptions, delays, and loss of critical data including private data. While we have taken steps to address these concerns by implementing sophisticated network security, training and internal control measures, there can be no assurance that a system failure or loss or data security breach will not materially adversely affect our business, financial condition and operating results.

Risks Related to Ownership of Our Common Stock

We have restated our prior consolidated financial statements, which may lead to additional risks and uncertainties.

We restated our consolidated financial statements for the each of the years ended December 31, 2014, 2013, and 2012 and for each of the quarters ended March 31, 2015 and June 30, 2015 (collectively, the "Restated Periods"). The determination to restate the financial statements for the Restated Periods was made by our Audit Committee upon management's recommendation following the identification of errors related to accounts receivable from the Libyan Organization for Development of Administrative Centres (the "Libya Receivable"). Due to the errors, our Audit Committee concluded that our previously issued financial statements for the Restated Periods should no longer be relied upon. Our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2015 and June 30, 2015 have been amended to, among other things, reflect the restatement of our financial statements for the Restated Periods (the "Restatement").

As a result of these events, we have become subject to a number of additional costs and risks, including unanticipated costs for accounting and legal fees in connection with or related to the Restatement and the remediation of our ineffective disclosure controls and procedures and material weaknesses in internal control over financial reporting. In addition, the attention of our management team was diverted by these efforts. We could be subject to additional stockholder, governmental, or other actions in connection with the Restatement or other matters. Any such proceedings will, regardless of the outcome, consume management's time and attention and may result in additional legal, accounting, insurance and other costs. If we do not prevail in any such proceedings, we could be required to pay substantial damages or settlement costs. In addition, the Restatement and related matters could impair our reputation or could cause our counterparties to lose confidence in us. Each of these occurrences could have a material adverse effect on our business, results of operations, financial condition and stock price which could, among other things, result in a default under the Company's financing agreements.

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

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over our financial reporting, as defined in Rules 13a-15(e) and 13a-15(f), respectively, under the Securities Exchange Act of 1934, as amended. As disclosed in Item 9A of this Form 10-K, management identified material weaknesses in our internal control over financial reporting and determined our disclosure controls and procedures were not effective based upon our identification of certain errors related to the estimation of potential losses on our accounts receivable. A material weakness is defined as a deficiency, or combination of significant deficiencies, in internal control over financial reporting, such that there is a more than a remote likelihood that a

Table of Contents

material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that the Company did not maintain effective disclosure controls and procedures and internal control over financial reporting as of December 31, 2015.

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

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

As of March 9, 2016, there were 51,701,442 shares of our common stock outstanding. An additional 6,426,648 shares of our common stock may be issued upon the exercise of options held by employees, management and directors. We also have the authority to issue up to 1,000,000 shares of preferred stock upon terms that are determined by our Board of Directors and additional options to purchase 2,393,645 shares of our common stock without stockholder approval. In addition, we have a registration statement on file with the SEC for an aggregate issuance of 20,000,000 common shares (of which 10,453,371 shares remain available for issuance), which may be used for working capital and general corporate purposes, subject to the restrictions of our Secured Credit Facilities and another registration statement on file with the SEC for an aggregate issuance of 20,000,000 common shares, (of which 18,926,804 shares remain available for issuance), which may be used in future acquisitions. Sales of a substantial number of these shares in the public market, or factors relating to the terms we may determine for our preferred stock, options or warrants, could decrease the market price of our common stock. In addition, the perception that such sales might occur may cause the market price of our common stock to decline. Future issuances or sales of our common stock could have an adverse effect on the market price of our common stock.

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

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

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

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

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

Table of Contents

with voting rights that dilute the voting power of our common stock, the rights of holders of our common stock or the market price of our common stock could be adversely affected.

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

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

Our Board of Directors is expressly authorized to make, alter or repeal our bylaws;

Our Board of Directors is divided into three classes of service with staggered three-year terms. This means that only one class of directors will be elected at each annual meeting of stockholders, with the other classes continuing for the remainder of their respective terms;

Our Board of Directors is authorized to issue preferred stock without stockholder approval;

Only our Board of Directors, our Chairman of the Board, our Chief Executive Officer or the holders of not less than 25% of our outstanding common stock and entitled to vote may call a special meeting of stockholders;

Our bylaws require advance notice for stockholder proposals and director nominations;

Our bylaws limit the removal of directors and the filling of director vacancies; and

We will indemnify officers and directors against losses that may incur in connection with investigations and legal proceedings resulting from their services to us, which may include services in connection with takeover defense measures.

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

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

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

As of December 31, 2015, Irvin E. Richter, David L. Richter and other members of the Richter family beneficially owned approximately 21.4% of our common stock. This concentration of ownership could significantly influence matters requiring stockholder approval and could delay, deter or prevent a change in control of the Company or other business combinations that might otherwise be beneficial to our other stockholders. Accordingly, this concentration of ownership may impact the market price of our common stock. In addition, the interest of our significant stockholders may not always coincide with the interest of the Company's other stockholders. In deciding how to vote on such matters, they may be influenced by interests that conflict with our other stockholders.

Table of Contents

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our executive and operating offices are currently located at One Commerce Square, 2005 Market Street, 17th Floor, Philadelphia, Pennsylvania 19103. We lease all of our office space and do not own any real property. The telephone number at our executive office is (215) 309-7700. In addition to our executive offices, we have approximately 100 operating leases for office facilities throughout the world. Due to acquisition and growth we may have more than one operating lease in the cities in which we are located. Additional space may be required as our business expands geographically, but we believe we will be able to obtain suitable space as needed.

As of March 9, 2016, our principal worldwide office locations and the geographic regions in which we reflect their operations are:

U.S./Canada

Albuquerque, NM
Atlanta, GA
Austin, TX
Baltimore, MD
Bensalem, PA
Boston, MA
Broadview Heights, OH
Columbus, OH
East Hartford, CT
Fresno, CA
Granite Bay, CA
Houston, TX
Irvine, CA
Irving, TX
Jacksonville, FL
Las Vegas, NV
Lemont Furnace, PA
Los Angeles, CA
Miami, FL
Mission Viejo, CA
New Orleans, LA
New York, NY
Ontario, CA
Orlando, FL
Perrysburg, OH
Philadelphia, PA (Headquarters)
Phoenix, AZ
Pittsburgh, PA
Providence, RI
San Diego, CA
San Francisco, CA
Seattle, WA
Spokane, WA
Tampa, FL
Toronto, Canada
Woodbridge, NJ
Washington, DC

Europe

Almaty, Kazakhstan
Amsterdam, Netherlands
Astana City, Kazakhstan
Athens, Greece
Baku, Azerbaijan
Barcelona, Spain
Belgrade, Serbia
Birmingham, UK
Bucharest, Romania
Cumbria, UK
Daresbury, UK
Dundee, UK
Dusseldorf, Germany
Edinburgh, UK
Frankfurt, Germany
Geneva, Switzerland
Glasgow, UK
Hamburg, Germany
Istanbul, Turkey
Lisbon, Portugal
London, UK
Luxembourg
Madrid, Spain
Munich, Germany
Pristina, Kosovo
Riga, Latvia
Teesside, UK
Warsaw, Poland

**Latin America/
the Caribbean**

Bogota, Colombia
Mexico City, Mexico
Rio de Janeiro, Brazil
Sao Paulo, Brazil
Trinidad and Tobago

Middle East

Abu Dhabi, UAE
Aqaba, Jordan
Baghdad, Iraq
Doha, Qatar
Dubai, UAE
Erbil, Kurdistan
Jeddah, Saudi Arabia
Kabul, Afghanistan
Kuwait City, Kuwait
Manama, Bahrain
Muscat, Oman
Riyadh, Saudi Arabia

Africa

Algiers, Algeria
Cairo, Egypt
Cape Town, South Africa
Casablanca, Morocco
Johannesburg, South Africa
Pretoria, South Africa
Tripoli, Libya

Asia/Pacific

Beijing, China
Brisbane, Australia
Danang City, Vietnam
Gurgaon, India
Hong Kong, China
Jakarta, Indonesia
Kuala Lumpur, Malaysia
Manila, Philippines
Melbourne, Australia
Perth, Australia
Shanghai, China
Singapore
Sydney, Australia

Table of Contents

Item 3. Legal Proceedings.

General Litigation

M.A. Angeliades, Inc. ("Plaintiff") has filed a complaint with the Supreme Court of New York against the Company and the New York City Department of Design and Construction ("DDC") regarding payment of approximately \$8,771,000 for work performed as a subcontractor to the Company plus interest and other costs. On October 5, 2015, pursuant to a settlement agreement, Hill paid Plaintiff approximately \$2,596,000, including interest amounting to \$1,056,000. The remaining issues regarding Plaintiff's request for change orders and compensation for delay are being negotiated between Plaintiff and the DDC.

A former executive of the Company ("Plaintiff") resigned and filed a labor dispute with the Company in the Dubai Labour Court seeking AED 4,536,000 (approximately \$1,210,000) for end of service remuneration. The Company filed a counterclaim against Plaintiff for breach for employment contract and filed a complaint against Plaintiff's new employer, Driver Group plc, in the UK for breach of non-solicitation and non-compete obligations in Plaintiff's employment agreement. On June 15, 2015, the Company paid AED 750,000 (approximately \$200,000) pursuant to an executed settlement agreement.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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

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

	Price Range	
	High	Low
2015		
Fourth Quarter	\$ 4.02	\$ 3.11
Third Quarter	5.38	3.20
Second Quarter	5.50	3.49
First Quarter	4.38	3.26

2014		
Fourth Quarter	\$ 4.07	\$ 2.83
Third Quarter	6.39	3.61
Second Quarter	7.57	4.89
First Quarter	5.73	3.82

Stockholders

As of December 31, 2015, there were 88 holders of record of our common stock. However, a single record stockholder account may represent multiple beneficial owners, including owners of shares in street name accounts. We believe there are approximately 5,000 beneficial owners of our common stock.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

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

Recent Sales of Unregistered Securities

None.

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

Table of Contents

Performance Graph

The performance graph and table below compare the cumulative total return of our common stock for the period December 31, 2009 to December 31, 2015 with the comparable cumulative total returns of the Russell 2000 Index (of which the Company is a component stock) and a peer group which consists of the following nine companies: AECOM (ACM), Exponent, Inc. (EXPO), Fluor Corporation (FLR), ICF International, Inc. (ICFI), Jacobs Engineering Group, Inc. (JEC), KBR, Inc. (KBR), Navigant Consulting, Inc. (NCI), Tutor Perini Corporation (TPC), and Tetra Tech, Inc. (TTEK).

	2010	2011	2012	2013	2014	2015
Hill International, Inc.	\$ 100.00	\$ 79.44	\$ 56.57	\$ 61.05	\$ 59.35	\$ 59.97
Russell 2000 Index	100.00	95.82	111.49	154.78	162.35	155.18
Peer Group	100.00	82.66	93.11	124.62	96.84	88.02

Table of Contents
Item 6. Selected Financial Data.

The following is selected financial data from the Company's audited consolidated financial statements for each of the last five years. This data should be read in conjunction with the Company's consolidated financial statements (and related notes) appearing in Item 8 of this report and with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations." The data presented below is in thousands, except for earnings (loss) per share data.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
Income Statement Data:					
Consulting fee revenue	\$ 630,951	\$ 577,117	\$ 512,085	\$ 417,598	\$ 399,254
Reimbursable expenses	89,654	64,476	64,596	63,183	102,202
Total revenue	720,605	641,593	576,681	480,781	501,456
Cost of services	362,366	329,755	296,055	239,572	227,991
Reimbursable expenses	89,654	64,476	64,596	63,183	102,202
Total direct expenses	452,020	394,231	360,651	302,755	330,193
Gross profit	268,585	247,362	216,030	178,026	171,263
Selling, general and administrative expenses	237,504	213,424	181,332	221,328	175,312
Share of loss (earnings) of equity method affiliates	237				(190)
Operating profit (loss)	30,844	33,938	34,698	(43,302)	(3,859)
Interest and related financing fees, net	14,663	30,485	22,864	18,150	7,262
Earnings (loss) before income taxes	16,181	3,453	11,834	(61,452)	(11,121)
Income tax expense (benefit)	8,442	8,300	6,350	13,442	(6,186)
Net earnings (loss)	7,739	(4,847)	5,484	(74,894)	(4,935)
Less: net earnings noncontrolling interests	808	1,301	1,922	1,872	1,082
Net earnings (loss) attributable to Hill International, Inc.	\$ 6,931	\$ (6,148)	\$ 3,562	\$ (76,766)	\$ (6,017)
Basic earnings (loss) per common share Hill International, Inc.	\$ 0.14	\$ (0.14)	\$ 0.09	\$ (1.99)	\$ (0.16)
Basic weighted average common shares outstanding	50,874	44,370	39,098	38,500	38,414
Diluted earnings (loss) per common share Hill International, Inc.	\$ 0.14	\$ (0.14)	\$ 0.09	\$ (1.99)	\$ (0.16)
Diluted weighted average common shares outstanding	51,311	44,370	39,322	38,500	38,414

Table of Contents

	As of December 31,				
	2015	2014	2013	2012	2011
Selected Balance Sheet Data:					
Cash and cash equivalents	\$ 24,089	\$ 30,124	\$ 30,381	\$ 16,716	\$ 17,924
Accounts receivable, net	243,417	195,098	174,685	151,239	197,906
Current assets(1)	291,591	256,589	238,298	194,582	229,117
Total assets(2)	442,563	412,897	391,450	361,153	407,512
Current liabilities(1)	143,048	139,244	139,124	138,082	108,463
Total debt(2)	144,983	121,524	131,235	106,704	94,759
Stockholders' equity:					
Hill International, Inc. share of equity	\$ 113,969	\$ 113,288	\$ 84,969	\$ 78,997	\$ 154,136
Noncontrolling interests	4,070	8,712	11,887	13,557	18,258
Total equity	\$ 118,039	\$ 122,000	\$ 96,856	\$ 92,554	\$ 172,394

-
- (1) Amounts as of December 31, 2014, 2013, 2012 and 2011 have been revised to reflect the retrospective adoption of ASU 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Taxes*.
- (2) Amounts as of December 31, 2014, 2013 and 2012 have been revised to reflect the retrospective adoption of ASU 2015-03, *Interest Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs*.

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

Our revenue consists of two components: consulting fee revenue ("CFR") and reimbursable expenses. Reimbursable expenses are reflected in equal amounts in both total revenue and total direct expenses. Because these pass-through revenue/costs are subject to significant fluctuation from year to year, we measure the performance of many of our key operating metrics as a percentage of CFR, as we believe that this is a better and more consistent measure of operating performance than total revenue.

Since 2011, the amount of CFR attributable to operations in the Middle East and Africa has grown from approximately 32% in 2011 to approximately 53% of total consolidated CFR in 2015. There has been significant political upheaval and civil unrest in this region, most notably in Libya where we had substantial operations. In 2012, we reserved a \$59,937,000 receivable from the Libyan Organization for Development of Administrative Centres ("ODAC"). Subsequently, we have received payments totaling approximately \$9,511,000, but this situation with ODAC has put a considerable strain on our liquidity. As a result, we have had to rely heavily on debt and equity transactions to fund our operations.

We have recently seen further slowing of collections from our clients in the Middle East, primarily Oman. In 2012, we commenced operations on the Muscat International Airport ("Oman Airport") project with the Ministry of Transport and Communications (the "MOTC") in Oman. The original contract term was to expire in November 2014. In October 2014, we applied for a twelve-month extension of time. While we awaited approval, we continued to work on the project. The client paid us on account through May 2015 when payments stopped. In connection with the work performed there, our consolidated financial statements for the years ended December 31, 2015, 2014 and 2013 reflected the following (in thousands):

	2015	2014	2013
Consulting fee revenue	\$ 50,743	\$ 62,585	\$ 50,898
Accounts receivable, net	\$ 35,184 ⁽¹⁾	\$ 11,967	\$ 9,314
Collections received during the year	\$ 29,958	\$ 53,277	\$ 46,099

(1) The client has resumed payments and we received approximately \$15,000,000 against this receivable in March 2016.

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

Table of Contents
2015 Business Overview
Consolidated Results
(In thousands)

	Years Ended December 31,		Change	
	2015	2014	\$	%
Income Statement Data:				
Consulting fee revenue	\$ 630,951	\$ 577,117	53,834	9.3%
Reimbursable expenses	89,654	64,476	25,178	39.1%
Total revenue	720,605	641,593	79,012	12.3%
Cost of services	362,366	329,755	32,611	9.9%
Reimbursable expenses	89,654	64,476	25,178	39.1%
Total direct expenses	452,020	394,231	57,789	14.7%
Gross profit	268,585	247,362	21,223	8.6%
Selling, general and administrative expenses	237,504	213,424	24,080	11.3%
Equity in loss of affiliates	237		237	
Operating profit	30,844	33,938	(3,094)	(9.1)%
Interest and related financing fees, net	14,663	30,485	(15,822)	(51.9)%
Earnings before income taxes	16,181	3,453	12,728	368.6%
Income tax expense	8,442	8,300	142	1.7%
Net earnings (loss)	7,739	(4,847)	12,586	N/A%
Less: net earnings noncontrolling interests	808	1,301	(493)	(37.9)%
Net earnings (loss) attributable to Hill International, Inc.	\$ 6,931	\$ (6,148)	13,079	N/A%

Overall, 2015 was a turnaround year for the Company in terms of growth and profitability despite some unusual events and items negatively impacting the year. Our Project Management and Construction Claims segments had strong years with CFR increasing 9.1% and 10.0%, respectively, and operating profit increasing 5.8% and 6.8%, respectively. During 2015, we initiated and completed a review of our global overhead cost structure and these efforts have reduced our overhead costs on an annualized basis by approximately \$21,000,000. Interest expense was lower by \$15,822,000 compared to the prior year as a result of our debt refinancing in 2014. In addition, we incurred a higher level of expenses, reflected within selling, general and administrative expenses, that negatively impacted our profitability in 2015. These expenses included legal and professional fees related to a shareholder proxy contest (\$1,369,000), the settlement of a labor dispute with a former executive (\$1,048,000), severance costs associated with our cost optimization plan (\$1,495,000), a write-down of a note receivable to the value of the underlying collateral (\$959,000) and restatement of our consolidated financial statements for 2014, 2013 and 2012 (\$460,000). The Company also experienced an increase in bad debt expense (\$3,350,000) primarily in the fourth quarter related to certain receivables primarily in the Middle East. In 2014, SG&A was reduced by a credit (\$4,948,000) for collections from Libya.

CFR increased \$53,834,000, or 9.3%, to \$630,951,000 in 2015. CFR for the Project Management segment increased \$39,050,000, or 9.1%, principally due to increased work in the United States, primarily in our Northeast, Mid-Atlantic and Western regions, along with increases in the Middle East, primarily in the United Arab Emirates. CFR for the Construction Claims segment increased by \$14,784,000, or 10.0%, due primarily to increased work in the Middle East and the United States and from the acquisition of Cadogans.

Table of Contents

Cost of services increased \$32,611,000, or 9.9%, to \$362,366,000 in 2015 primarily as a result of an increase in employees and other direct expenses related to the additional work in the Middle East and the United States.

Gross profit increased \$21,223,000, or 8.6%, to \$268,585,000 in 2015 due to the increases in CFR. Gross profit as a percent of CFR was 42.6% in 2015 compared to 42.9% in 2014.

The Company has open but inactive contracts with the Libyan Organization for the Development and Administrative Centres ("ODAC"). Due to the civil unrest which commenced in Libya in February 2011, the Company suspended its operations in and demobilized substantially all of its personnel from Libya. At December 31, 2012, the Libya Receivable was approximately \$59,937,000; however, because the political instability and economic uncertainty within Libya may have a detrimental effect on the collectability of the accounts receivable and because a promised payment of \$31,600,000 in 2011 never materialized, we established a reserve against the entire Libya Receivable amounting to \$59,937,000 and eliminated \$11,388,000 of certain assets and liabilities related to the Libya Receivable in 2012 resulting in a net charge to selling, general and administrative expenses of \$48,549,000 in 2012. We received payments on the Libya Receivable of approximately \$2,880,000 and \$6,631,000 in 2013 and 2014, respectively, and have paid agency fees and certain taxes amounting to \$640,000 and \$1,683,000 in 2013 and 2014, respectively. We have accounted for these transactions as a net reduction of selling, general and administrative expenses of \$2,240,000 and \$4,948,000 in 2013 and 2014, respectively.

Selling, general and administrative ("SG&A") expenses increased \$24,080,000, or 11.3%, primarily due to increased unapplied and indirect labor costs primarily in the Middle East in support of the increased work and expenses at Cadogans and IMS which were acquired in October 2014 and April 2015, respectively. We also were subjected to significant expenses related to a shareholder proxy contest, an employment dispute, severance costs, a write-down of a note receivable, and restatement matters. Also, SG&A expenses in 2014 were reduced by a \$4,948,000 credit arising from a partial payment against the Libya Receivable, an earn-out reduction of \$1,225,000 from the CPI acquisition and an earn-out reduction of \$892,000 from the BCA acquisition. Excluding the effect of the one-time legal costs, bad debt expense, severance costs, the Libya Receivable and the earn-out reductions, as a percentage of CFR, selling, general and administrative expenses decreased to 36.3% compared to 38.2% in 2014.

Operating profit was \$30,844,000 in 2015 compared to \$33,938,000 in 2014, a decrease of 9.1%. The decrease in operating profit was primarily due to the increase in selling, general and administrative expenses partially offset by increases in CFR and gross profit. Excluding the effects of the unusual expense items noted above, operating profit in 2015 and 2014 would have been \$39,525,000 and \$26,873,000, respectively, reflecting an increase of \$12,652,000, or 47.1%, in operating profit year-over-year.

Income tax expense was \$8,442,000 for 2015 compared to \$8,300,000 for 2014. The increase in expense results from increased pretax profits from foreign operations, the mix of tax rates in those jurisdictions and no offsetting tax benefits arising from the Company's U.S. net operating losses which management believes the Company will not be able to utilize.

Net earnings attributable to Hill was \$6,931,000 in 2015 compared to a net loss of (\$6,148,000) in 2014. Diluted earnings per common share was \$0.14 in 2015 based upon 51,311,000 diluted common shares outstanding compared to a net loss per diluted common share of (\$0.14) in 2014 based upon 44,370,000 diluted common shares outstanding. Excluding the effects of the unusual expense items noted above, net earnings and diluted earnings per share would have been \$15,083,000 and \$0.29, respectively, in 2015.

Despite the recent drop in global oil prices and its negative impact on the construction industry particularly in the Middle East, we remain optimistic about maintaining our current growth strategy to

Table of Contents

pursue new business development opportunities, continue to take advantage of organic growth opportunities, continue to pursue acquisitions and strengthen our professional resources. In addition, we have completed a review of our global overhead cost structure. The areas most affected were the personnel and related benefits and expenses. We believe these efforts combined with continued revenue growth should significantly improve profitability and shareholder value.

Critical Accounting Policies and Estimates

Our consolidated financial statements contained in this Annual Report on Form 10-K were prepared in accordance with U.S. generally accepted accounting principles. While there are a number of accounting policies, methods and estimates that affect the consolidated financial statements as described in Note 2 to the consolidated financial statements, areas that are particularly significant are discussed below. We believe our assumptions are reasonable and appropriate, however actual results may be materially different than estimated.

Revenue Recognition

We generate revenue primarily from providing professional services to our clients. Revenue is generally recognized upon the performance of services. In providing these services, we may incur reimbursable expenses, which consist of amounts paid to subcontractors and other third parties as well as travel and other job related expenses that are contractually reimbursable from clients. We will include reimbursable expenses in computing and reporting our total contract revenue as long as we remain responsible to the client for the fulfillment of the contract and for the overall acceptability of all services provided.

We earn our revenue from cost-plus, fixed-price and time-and-materials contracts. If estimated total costs on any contract indicate a loss, we charge 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 other effects are recorded in the accounting period in which the events indicating a loss are known and the loss can be reasonably estimated. Such revisions could occur at any time and the effects may be material.

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

We account for fixed-price contracts on the "percentage-of-completion" method, wherein revenue is recognized as costs are incurred. Under the percentage-of-completion method for revenue recognition, we estimate the progress towards completion to determine the amount of revenue and profit to be recognized. We generally utilize a cost-to-cost approach in applying the percentage-of-completion method, where revenue is earned in proportion to total costs incurred divided by total costs expected to be incurred.

Under the percentage-of-completion method, recognition of profit is dependent upon the accuracy of estimates. We have a history of making reasonably dependable estimates of contract revenue, the extent of progress towards completion and contract completion costs on our long-term construction

Table of Contents

management contracts. However, due to uncertainties inherent in the estimation process, it is possible that actual completion costs may vary from estimates.

Allowance for Doubtful Accounts

We make ongoing estimates relating to the collectability of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our clients to make required payments. Estimates used in determining accounts receivable allowances are based on our evaluation of specific client accounts and contracts involved and the financial condition of our clients. The factors we consider in our evaluations include, but are not limited to, client type (U.S. federal and other national governments, state and local governments or private sector); historical contract performance; historical collection and delinquency trends; client credit worthiness; and general economic and political conditions. At December 31, 2015 and 2014, the allowance for doubtful accounts was \$63,748,000 and \$60,801,000, respectively.

Goodwill and Acquired Intangible Assets

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

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

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

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

With regard to weighting the conclusions rendered by the approaches utilized, we believe that the quoted price method provides the most reliable indication of value (that is, a Level 1 input); therefore,

Table of Contents

we placed the greatest emphasis upon this method assigning a 50% weighting. We also determined that the value using the discounted cash flow method (to which we assigned a 30% weighting) provided a more reliable indication of value than the public company method (to which we assigned a 20% weighting) with the relative levels of reliability contributing to the weighting accorded to each approach.

Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for each reporting unit, the period over which cash flows will occur, and determination of the weighted average cost of capital, among other things. Based on the valuation as of July 1, 2015, the fair values of the Project Management unit and the Construction Claims unit substantially exceeded their carrying values. Changes in these estimates and assumptions could materially affect our determination of fair value and/or goodwill impairment for each reporting unit. Changes in future market conditions, our business strategy, or other factors could impact upon the future values of Hill's reporting units, which could result in future impairment charges.

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

Income Taxes

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

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

Stock Options

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

Table of Contents**Contingencies**

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

Results of Operations

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

Consulting Fee Revenue ("CFR") (dollars in thousands)

	2015		2014		Change	
Project Management	\$	467,877	74.2%	\$	428,827	74.3%
Construction Claims		163,074	25.8		148,290	25.7
					14,784	10.0
Total	\$	630,951	100.0%	\$	577,117	100.0%
					53,834	9.3%

The increase in CFR included an organic increase of 8.0% primarily in the Middle East and the United States and an increase of 1.3% due to the acquisitions of Angus Octan Scotland Ltd. ("Cadogans") in October 2014 and IMS Proje Yonetimi ve Danismanlik A.S. ("IMS") in April 2015.

The increase in Project Management CFR included an organic increase of 8.1% and an increase of 1.0% due to the acquisition of IMS. The increase in CFR consisted of a \$20,173,000 increase in domestic projects and an increase of \$18,877,000 in foreign projects. The increase in domestic Project Management CFR was due primarily to increases in our Northeast, Mid-Atlantic and Western regions. The increase in foreign Project Management CFR included increases from new work of \$37,614,000 in the United Arab Emirates and \$5,088,000 in Saudi Arabia. These increases were partially offset by a decrease of \$8,914,000 in Brazil primarily due to an economic slowdown in 2014 and 2015, a decrease of \$13,883,000 in Iraq due to the political turmoil and a decrease of \$8,092,000 in Oman due to the winding down of the first phase of a major infrastructure project.

The increase in Construction Claims CFR was comprised of an organic increase of 7.6% and an increase of 2.4% from the acquisition of Cadogans. The organic increase was primarily due to increases in the Middle East, Africa and the United States.

Reimbursable Expenses (dollars in thousands)

	2015		2014		Change	
Project Management	\$	84,699	94.5%	\$	58,927	91.4%
Construction Claims		4,955	5.5		5,549	8.6
					(594)	(10.7)
Total	\$	89,654	100.0%	\$	64,476	100.0%
					25,178	39.1%

Reimbursable expenses consist of amounts paid to subcontractors and other third parties, and travel and other job-related expenses that are contractually reimbursable from clients. These items are reflected as separate line items in both our revenue and cost of services captions in our consolidated statements of operations. The increase in Project Management reimbursable expense is primarily due to higher use of subcontractors in our Northeast and Mid-Atlantic regions.

Table of Contents
Cost of Services (dollars in thousands)

	2015			2014			Change	
			% of CFR			% of CFR		
Project Management	\$ 288,845	79.7%	61.7%	\$ 263,806	80.0%	61.5%	\$ 25,039	9.5%
Construction Claims	73,521	20.3	45.1	65,949	20.0	44.5	7,572	11.5
Total	\$ 362,366	100.0%	57.4%	\$ 329,755	100.0%	57.1%	\$ 32,611	9.9%

Cost of services consists of labor expenses for time charged directly to contracts and non-reimbursable job-related travel and out-of-pocket expenses. The increase in Project Management cost of services is primarily due to an increase in the Middle East and the United States in support of increased work.

The increase in the cost of services for Construction Claims was due primarily to increases in direct costs in the Middle East, the United States and Africa in support of the increase in CFR plus costs arising from the acquisition of Cadogans.

Gross Profit (dollars in thousands)

	2015			2014			Change	
			% of CFR			% of CFR		
Project Management	\$ 179,032	66.7%	38.3%	\$ 165,021	66.7%	38.5%	\$ 14,011	8.5%
Construction Claims	89,553	33.3	54.9	82,341	33.3	55.5	7,212	8.8
Total	\$ 268,585	100.0%	42.6%	\$ 247,362	100.0%	42.9%	\$ 21,223	8.6%

The increase in Project Management gross profit included an increase of \$9,823,000 from domestic operations, primarily related to CFR increases in the Northeast, Mid-Atlantic and Western regions. There was an increase of \$4,188,000 from foreign operations related to CFR increases in the United Arab Emirates, Saudi Arabia and Qatar partially offset by decreases in Brazil, Oman and Iraq.

The increase in Construction Claims gross profit was driven by CFR increases in the Middle East, United Kingdom (including Cadogans) and the United States, partially offset by decreases in Asia/Pacific.

The overall gross profit percentage decreased slightly due to lower margins achieved in the Middle East, primarily Oman and Iraq, partially offset by an increase in the United Arab Emirates.

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

	2015			2014			Change	
			% of CFR			% of CFR		
SG&A Expenses	\$ 237,504	37.6%		\$ 213,424	37.0%		\$ 24,080	11.3%

Discrete items which impacted SG&A expenses are as follows:

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

A net decrease of \$4,948,000 in 2014 due to payments against the Libya Receivable;

An increase of \$4,540,000 in 2015 due to the acquisition of Cadogans in October 2014 and IMS in April 2015;

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

Table of Contents

A charge of \$959,000 related to the write-down of a note receivable to the value of the underlying collateral;

A credit for an earn-out reduction in 2014 amounting to \$1,225,000 on the CPI acquisition; and

A credit for an earn-out reduction in 2014 amounting to \$892,000 on the BCA acquisition.

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

An increase of \$7,411,000 in unapplied and indirect labor primarily due to salary increases, increases in staff in the Middle East in support of increased work and severance costs of \$1,495,000, primarily in Spain, as part of the Company's cost optimization plan;

An increase in legal and other professional fees of \$2,550,000 primarily related to an employment dispute, the proxy contest and restatement matters;

An increase in bad debt expense of \$3,350,000 related to certain accounts receivable in the Middle East; and

A decrease of \$2,248,000 in administrative travel as a result of cost-cutting initiatives implemented during 2015.

Operating Profit (dollars in thousands)

	2015		2014		Change	
		% of CFR		% of CFR		
Project Management	\$ 56,157	12.0%	\$ 53,174	12.4%	\$ 2,983	5.6%
Share of loss of equity method affiliates	(237)	(0.1)			(237)	
Total Project Management	55,920	11.9	53,174	12.4	2,746	5.2
Construction Claims	11,740	7.2	10,996	7.4	744	6.8
Corporate	(36,816)		(30,232)		(6,584)	21.8
Total	\$ 30,844	4.9%	\$ 33,938	5.9%	\$ (3,094)	(9.1)%

The increase in Project Management operating profit included increases in the United Arab Emirates, Saudi Arabia, Qatar and the United States, partially offset by decreases in Oman, Iraq and Spain.

The increase in Construction Claims operating profit was primarily due to increases in the Middle East, the United Kingdom and the United States, partially offset by decreases in Asia/Pacific, Europe and Africa.

In 2015, Corporate expenses increased \$6,584,000 which was primarily due to higher legal and other professional fees associated with the proxy contest, restatement matters and higher labor expenses due to raises and the transfer of our chief operating officer's expenses to Corporate from Project Management due to his promotion. Corporate expenses represented 5.8% of CFR in 2015 compared to 5.2% in 2014.

Interest and related financing fees, net

Interest and related financing fees decreased \$15,822,000 to \$14,663,000 in 2015 as compared with \$30,485,000 in 2014, primarily due to \$9,338,000 of accelerated interest paid in 2014 upon the early payoff and termination of the 2012 Term Loan, interest accretion of \$6,003,000

from the term loan paid off in 2014 and lower rates.

Table of Contents

Income Taxes

In 2015, income tax expense was \$8,442,000 compared to \$8,300,000 in 2014. The effective income tax expense rates for 2015 and 2014 were 52.2% and 240.4%, respectively. The increase in expense in 2015 compared to 2014 results from the mix of income and tax rates in the various foreign jurisdictions. In 2014, income tax expense was offset by approximately \$2,500,000 of reversal for uncertain tax positions based on management's assessment that those items were effectively settled with a foreign jurisdiction. The difference in the Company's 2015 effective tax rate compared to the 2014 rate is primarily related to a significant decrease in the U.S. pretax loss in 2015 due to the reduction of interest expense of approximately \$16,000,000 related to the refinancing and early termination of the Company's former senior credit facility and term loan during the third quarter of 2014. In addition, the Company recognized an income tax benefit of \$502,000 in 2015 resulting from adjustments to agree the 2014 book amount to the actual amounts reported on the tax returns in foreign jurisdictions. In both years, the Company's effective tax rate is significantly higher than it otherwise would be primarily as a result of not being able to record an income tax benefit related to the U.S. net operating loss plus increases caused by various foreign withholding taxes.

In 2014, several items materially affected the Company's effective tax rate. The Company realized a net benefit of \$2,379,000 primarily from the reversal of prior year's uncertain tax positions based on management's assessment that these items were effectively settled with the appropriate foreign tax authorities. An income tax expense of \$552,000 resulted from adjustments to agree the 2013 book amount to the actual amounts reported on the tax returns in foreign jurisdictions.

Net Earnings (Loss) Attributable to Hill

Net earnings attributable to Hill International, Inc. for 2015 was \$6,931,000, or \$0.14 per diluted common share based on 51,311,000 diluted common shares outstanding, as compared to a net loss for 2014 of (\$6,148,000), or (\$0.14) per diluted common share based upon 44,370,000 diluted common shares outstanding.

**Year Ended December 31, 2014 Compared to
Year Ended December 31, 2013**

Consulting Fee Revenue ("CFR") (dollars in thousands)

	2014			2013			Change		
Project Management	\$	428,827	74.3%	\$	392,602	76.7%	\$	36,225	9.2%
Construction Claims		148,290	25.7		119,483	23.3		28,807	24.1
Total	\$	577,117	100.0%	\$	512,085	100.0%	\$	65,032	12.7%

The increase in CFR included an organic increase of 11.1% primarily in the Middle East and an increase of 1.6% due to the acquisitions of Binnington Copeland & Associates (Pty.) Ltd ("BCA") in May 2013, Collaborative Partners, Inc. ("CPI") in December 2013 and Cadogans in October 2014.

The increase in Project Management CFR included an organic increase of 7.7% and an increase of 1.5% from the acquisition of CPI. The increase in CFR consisted of a \$34,173,000 increase in foreign projects and an increase of \$2,052,000 in domestic projects. The increase in foreign Project Management CFR included an increase from new work of \$14,049,000 in Oman, \$10,788,000 in Qatar and \$8,760,000 in Iraq. These increases were partially offset by a decrease of \$10,062,000 in Brazil primarily due to an economic slowdown in 2014 and a decrease of \$4,079,000 in Azerbaijan. The increase in domestic Project Management CFR was due primarily to an increase of \$5,868,000 due to the acquisition of CPI, partially offset by a decrease in our Southern U.S. region.

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

Table of Contents

The increase in Construction Claims CFR was comprised of an organic increase of 21.8% and an increase of 2.3% from the acquisitions of BCA and Cadogans. The organic increase was primarily due to increases in Asia/Pacific, the United Kingdom and the Middle East.

Reimbursable Expenses (dollars in thousands)

	2014		2013		Change	
Project Management	\$	58,927	91.4%	\$ 59,915	92.8%	\$ (988) (1.6)%
Construction Claims		5,549	8.6	4,681	7.2	868 18.5
Total	\$	64,476	100.0%	\$ 64,596	100.0%	\$ (120) (0.2)%

Reimbursable expenses consist of amounts paid to subcontractors and other third parties, and travel and other job-related expenses that are contractually reimbursable from clients. These items are reflected as separate line items in both our total revenue and total direct expenses captions in our consolidated statements of operations. The decrease in Project Management reimbursable expense is primarily due to lower use of subcontractors in our Northeast U.S. region, partially offset by increased subcontractors in Oman and the Western U.S. region. The increase in Construction Claims reimbursable expenses was due primarily to increases in the United Kingdom due to increased use of subcontractors plus increases in other reimbursable expenses associated with the higher work volume.

Cost of Services (dollars in thousands)

	2014			2013			Change	
			% of CFR			% of CFR		
Project Management	\$	263,806	80.0%	\$	244,003	82.4%	\$ 19,803	8.1%
Construction Claims		65,949	20.0		52,052	17.6	13,897	26.7
Total	\$	329,755	100.0%	\$	296,055	100.0%	\$ 33,700	11.4%

Cost of services consists of labor expenses for time charged directly to contracts and non-reimbursable job-related travel and out-of-pocket expenses. The increase in Project Management cost of services is primarily due to an increase in the Middle East in support of increased work there and to a lesser degree to the CPI acquisition, partially offset by a decrease in Brazil.

The increase in the cost of services for Construction Claims was due primarily to increases in direct costs in the United Kingdom, the Middle East and Asia/Pacific in support of the increased CFR.

Gross Profit (dollars in thousands)

	2014			2013			Change	
			% of CFR			% of CFR		
Project Management	\$	165,021	66.7%	\$	148,599	68.8%	\$ 16,422	11.1%
Construction Claims		82,341	33.3		67,431	31.2	14,910	22.1
Total	\$	247,362	100.0%	\$	216,030	100.0%	\$ 31,332	14.5%

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

The increase in Project Management gross profit included an increase of \$15,815,000 from international operations, primarily due to increases from the Middle East, principally Oman, Qatar and Iraq, partially offset by decreases in Brazil and Azerbaijan.

Table of Contents

The increase in Construction Claims gross profit was driven by increases in the United Kingdom, the Middle East, South Africa and Asia/Pacific.

The overall gross profit percentage increased slightly due to higher margins achieved on new work in the Middle East, primarily Oman and Qatar for Project Management.

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

	2014		2013		Change	
		% of CFR		% of CFR		
SG&A Expenses	\$ 213,424	37.0%	\$ 181,332	35.4%	\$ 32,092	17.7%

Discrete items which impacted SG&A expenses are as follows:

A net credit of \$4,948,000 in 2014 as a result of cash recoveries against the Libya Receivable;

A net credit of \$2,240,000 in 2013 as a result of cash recoveries against the Libya Receivable; and

A credit of \$3,693,000 in 2013 resulting from the elimination, net of foreign exchange effects, of a reserve for a foreign subsidiary's potential employment tax liabilities which were indemnified by the former shareholders of the subsidiary.

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

An increase of \$16,648,000 in unapplied labor primarily due to the impact of new hires, salary increases and lower utilization in the early part of 2014. There was an increase of approximately \$7,551,000 for new staff required on increased work volume in the Middle East for Project Management and in the United Kingdom and Asia/Pacific for Construction Claims, an increase of approximately \$2,910,000 primarily for new staff hired in the Middle East to support expanded Construction Claims work which started later than anticipated in 2014 and an increase of \$1,627,000 in the U.S. Project Management Group due to lower utilization in the first half of the year. Unapplied labor also increased by approximately \$1,890,000 due to the acquisitions of BCA, CPI and Cadogans;

An increase in indirect labor of \$6,813,000 primarily due to salary increases, new hires for business development in the Project Management Group and increased staff in support of the growth in the Middle East;

An increase of \$1,770,000 in administrative travel in support of growth in international operations;

An increase of \$1,765,000 in business development related costs including advertising and proposal-related costs;

An increase of \$1,429,000 in information technology related costs to support our global growth; and

An increase of \$1,395,000 in bad debt expense.

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

	2014		2013		Change	
		% of CFR		% of CFR		
Project Management	\$ 53,174	12.4%	\$ 50,922	13.0%	\$ 2,252	4.4%
Construction Claims	10,996	7.4	12,171	10.2	(1,175)	(9.7)
Corporate	(30,232)		(28,395)		(1,837)	6.5
Total	\$ 33,938	5.9%	\$ 34,698	6.8%	\$ (760)	(2.2)%

The increase in Project Management operating profit is primarily due to a \$4,948,000 net credit related to Libya Receivable transactions compared to a net credit of \$2,240,000 in 2013. Otherwise, Project Management operating profit included decreases in Brazil and Europe, partially offset by increases in the Middle East, primarily Oman, Qatar and Iraq.

The decrease in Construction Claims operating profit was primarily due to decreases in the Middle East and the United Kingdom, partially offset by an increase in Asia/Pacific.

Corporate expenses increased \$1,837,000 which was primarily due to salary increases and information technology costs in support of growing operations overseas. Corporate expenses increased by 6.5% compared to an increase of 12.4% in CFR. Corporate expenses represented 5.3% of CFR in 2014 compared to 5.5% in 2013.

Interest and related financing fees, net

Interest and related financing fees increased \$7,621,000 to \$30,485,000 in 2014 as compared with \$22,864,000 in 2013, primarily due to \$9,338,000 of accelerated interest paid upon the early payoff and termination of the 2012 Term Loan and the write-off of \$1,482,000 of deferred financing fees related to the early payoff and termination of the Company's 2009 Credit Facility and 2012 Term Loan in September 2014.

Income Taxes

In 2014, the income tax expense was \$8,300,000 compared to an income tax expense of \$6,350,000 in 2013. The effective income tax expense rates for 2014 and 2013 were 240.4% and 53.7%, respectively. The increase in expense results from increased pretax profits from foreign operations, the mix of tax rates in those jurisdictions and no offsetting tax benefits arising from the Company's U.S. net operating losses which management believes the Company will not be able to utilize. The difference in the Company's 2014 effective tax rate compared to the 2013 rate is primarily related to a significant increase in the U.S. pretax loss in 2014 primarily due to the recognition of an additional \$10,820,000 of interest expense related to the refinancing and early termination of the Company's former senior credit facility and term loan during the third quarter of 2014. In both years, the Company's effective tax rate is significantly higher than it otherwise would be primarily as a result of not being able to record an income tax benefit related to the U.S. net operating loss plus increases caused by various foreign withholding taxes.

In 2014, several items materially affected the Company's effective tax rate. The Company realized a net benefit of \$2,379,000 primarily from the reversal of prior year's uncertain tax positions based on management's assessment that these items were effectively settled with the appropriate foreign tax authorities. An income tax expense of \$552,000 resulted from adjustments to agree the 2013 book amount to the actual amounts reported on the tax returns in foreign jurisdictions.

Several items materially affected the Company's effective tax rate during 2013. The Company realized a net benefit of \$2,314,000 primarily from the reversal of prior year's uncertain tax position

Table of Contents

based on management's assessment that these items were effectively settle with the appropriate foreign tax authorities. An income tax expense of \$386,000 resulted from adjustments to agree the 2012 book amount to the actual amounts reported on the tax returns, primarily in foreign jurisdictions. In addition, the Company recognized higher foreign withholding taxes in 2013 which were partially offset by the true-up of income tax accounts in foreign jurisdictions.

Net (Loss) Earnings Attributable to Hill

Net loss attributable to Hill International, Inc. for 2014 was \$6,148,000, or \$0.14 per diluted common share based on 44,370,000 diluted common shares outstanding, as compared to net earnings for 2013 of \$3,562,000, or \$0.09 per diluted common share based upon 39,322,000 diluted common shares outstanding.

Non-GAAP Financial Measures

Item 10(e) of Regulation S-K, "Use of Non-GAAP Financial Measures in Commission Filings," and other SEC regulations define and prescribe the conditions for use of certain financial information that is not recognized by generally accepted accounting principles. Generally, a Non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We believe earnings before interest, taxes, depreciation and amortization ("EBITDA"), in addition to operating profit, net earnings and other GAAP measures, is a useful indicator of our financial and operating performance and our ability to generate cash flows from operations that are available for taxes and capital expenditures. This measure, however, should be considered in addition to, and not as a substitute or superior to, operating profit, cash flows, or other measures of financial performance prepared in accordance with GAAP. Investors should also be aware that this non-GAAP financial measure may not be comparable to a similarly-titled measure of other companies. The following table is a reconciliation of EBITDA to the most directly comparable GAAP measure for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Net earnings (loss) attributable to Hill	\$ 6,931	\$ (6,148)	\$ 3,562
Interest	14,663	30,485	22,864
Income taxes	8,442	8,300	6,350
Depreciation and amortization	11,004	9,823	10,756
EBITDA	\$ 41,040	\$ 42,460	\$ 43,532

Under the caption "2015 Business Overview," we cited significant expenses that had an adverse impact upon our 2015 results of operations. EBITDA as adjusted for significant expenses, SG&A as adjusted for significant expenses, Operating profit as adjusted for significant expenses and net earnings as adjusted for significant expenses provide investors with additional perspective on the period-to-period performance of our business. Investors should recognize that such non-GAAP financial measures might not be comparable to similarly-titled measures of other companies. The following table

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

Table of Contents

reconciles the actual amounts within our consolidated statement of operations for the year ended December 31, 2015 to the "as adjusted" amounts.

	EBITDA	SG&A Expenses	Operating Profit	Net Earnings
As reported	\$ 41,040	\$ 237,504	\$ 30,844	\$ 6,931
Adjustments:				
Bad debt expense	3,350	(3,350)	3,350	3,350
Severance	1,495	(1,495)	1,495	1,495
Proxy contest	1,369	(1,369)	1,369	1,369
Labor dispute	1,048	(1,048)	1,048	1,048
Note reduction	959	(959)	959	959
Restatement	460	(460)	460	460
Income tax effect				(529)
Subtotal	8,681	(8,681)	8,681	8,152
As adjusted	\$ 49,721	\$ 228,823	\$ 39,525	\$ 15,083

Liquidity and Capital Resources

Since 2011, the amount of CFR attributable to operations in the Middle East and Africa has grown from approximately 32% in 2011 to approximately 53% of total consolidated CFR in 2015. There has been significant political upheaval and civil unrest in this region, most notably in Libya where we had substantial operations prior to the outbreak of its civil unrest. In 2012, due to the overthrow of the Libyan government and the subsequent civil war, we reserved a \$59,937,000 receivable from the Libyan Organization for Development of Administrative Centres ("ODAC"). In 2013 and 2014, we have received payments totaling approximately \$9,511,000, but this shortfall of cash flows from ODAC has put a considerable strain on our liquidity. As a result, we have had to rely heavily on debt and equity transactions to fund our operations and we may continue our reliance on debt or equity transactions for our liquidity needs in the next 12 to 18 months.

We have recently seen further slowing of collections from our clients in the Middle East, primarily Oman. In 2012, we commenced operations on the Oman Airport project with the MOTC in Oman. Throughout the original term of the contract, we were paid timely and regularly in accordance with the terms of the contract. The original contract term was to expire in November 2014. In October 2014, we applied for a twelve-month extension of time amendment ("first extension") (which was subsequently approved in March 2016). We continued to work on the Oman Airport project. During the early part of the first extension, MOTC paid us on account for work performed. We began to experience delays in payment during the second quarter of 2015 when MOTC commenced its formal review and certification of our invoices. In October 2015, the MOTC paid us for work performed in April and May 2015. In December 2015, we began discussions with the MOTC on a second extension of time amendment (which was approved in March 2016) and have since commenced additional work, which we expect to last approximately 18 months. Accounts receivable from Oman totaled \$35,184,000 at December 31, 2015. In March 2016, the MOTC resumed payments and we received approximately \$15,000,000 against the accounts receivable from the first extension. We expect to collect the remaining past-due accounts receivable in the second quarter of 2016.

Any additional delays in payments from MOTC and other foreign governments may have a negative impact on our liquidity and financial covenants, which could have a negative impact on our financial position and results of operations.

Table of Contents

Former Operations in Libya

We began work in Libya in 2007 primarily with the Libyan Organization for Development of Administrative Centres ("ODAC"). In February 2011, due to civil and political unrest in Libya, we suspended our operations in and demobilized substantially all of our personnel from Libya. Due to the uncertainty surrounding collection of approximately \$48,975,000 due to us for work performed there, we reserved this receivable at December 31, 2012 and it remains fully reserved. We intend to continue to pursue collection of monies owed to us by ODAC and if subsequent payments are received, we will reflect such receipts, net of any third party obligations related to the collections, as reductions of SG&A expenses.

Additional Capital Requirements

Our subsidiary, Hill International (Spain), S.A. ("Hill Spain"), owns an indirect 91% interest in Engineering S.A. ("ESA"), a firm located in Brazil, and now known as Hill International do Brasil, S.A. ESA's shareholders entered into an agreement whereby the minority shareholders have a right to compel ("ESA Put Option") Hill Spain to purchase any or all of their shares during the period from February 28, 2014 to February 28, 2021. Hill Spain also has the right to compel ("ESA Call Option") the minority shareholders to sell any or all of their shares during the same time period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA's most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed.

On October 31, 2014, our subsidiary Hill International (UK) Ltd. acquired all of the outstanding common stock of Angus Octan Scotland Ltd., which included its subsidiary companies Cadogan Consultants Ltd., Cadogan Consult Ltd. and Cadogan International Ltd. (collectively, "Cadogans"). Total consideration for the acquisition was £2,719,000 (approximately \$4,350,000 at the date of acquisition). Cash payments of £2,000,000 (\$3,200,000) were made during 2014 and £579,000 (\$894,000) during 2015. The remaining payouts consist of a potential earn out based upon Cadogans' average earnings before interest, taxes, depreciation and amortization ("EBITDA") for the two-year period ending on October 31, 2016 (which amount shall not be less than £0 nor more than £200,000).

On April 15, 2015, our subsidiary, Hill International N.V., acquired all of the equity interests of IMS Proje Yonetimi ve Danismanlik A.S. ("IMS"). We have paid approximately TRY 12,411,000 (\$4,692,000) to date. Potential remaining payments of TRY 4,400,000 (\$1,506,000) and TRY 1,700,000 (\$582,000) are payable in 2016 and 2017, respectively.

Sources of Additional Capital

We have an effective registration statement on Form S-3 on file with the SEC to register 20,000,000 shares of our common stock for issuance and sale by us at various times in the future. To date, we have issued 9,546,629 shares, leaving a balance of 10,453,371 shares. The proceeds, if any, will be used for working capital and general corporate purposes, subject to the restrictions of our Secured Credit Facilities. We cannot predict the amount of proceeds from those future sales, if any, or whether there will be a market for our common stock at the time of any such offering or offerings to the public.

In addition, we have an effective registration statement on Form S-4 on file with the SEC to register 20,000,000 shares of our common stock for issuance in connection with business acquisitions. To date, we have issued 1,073,196 shares under this registration statement, leaving a balance of 18,926,804 shares. We cannot predict whether, in the future, we will offer these shares to potential

Table of Contents

sellers of businesses or assets we might consider acquiring or whether these shares will be acceptable as consideration by any potential sellers.

At December 31, 2015, we had \$7,214,000 of available borrowing capacity under our various credit agreements. At February 29, 2016, we had \$3,450,000 available under those agreements.

We also have relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At December 31, 2015, we had approximately \$82,127,000 of availability under these arrangements.

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

Cash Flow Activity During the Year Ended December 31, 2015

For the year ended December 31, 2015, our cash and cash equivalents decreased by (\$6,035,000) to \$24,089,000. This compares to a net decrease in cash and cash equivalents of (\$257,000) during the prior year. Cash used in operations was (\$6,853,000), cash used in investing activities was (\$18,586,000) and cash provided by financing activities was \$22,304,000. We also experienced a decrease in cash of (\$2,900,000) from the effect of foreign currency exchange rate fluctuations.

Operating Activities

Our operations used cash of (\$6,853,000) in 2015. This compares to cash generated of \$6,305,000 in 2014 and cash generated of \$21,433,000 in 2013. We had net earnings in 2015 amounting to \$7,739,000, a net loss of (\$4,847,000) in 2014 and net earnings of \$5,484,000 in 2013. Depreciation and amortization was \$11,004,000 in 2015 compared to \$9,823,000 in 2014 and \$10,756,000 in 2013; the increase in this category is due to significant additions to property and equipment related to the move of our headquarters to Philadelphia, partially offset by the full amortization of the shorter-lived intangible assets of companies which we acquired over the last several years. We had deferred tax benefit of (\$826,000) in 2015 primarily due to several minor temporary differences in foreign jurisdictions.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and letters of credit at December 31, 2015 and 2014 were \$4,696,000 and \$16,007,000, respectively. The decrease between years is due to a reduction in the collateral requirements that we were able to achieve with certain foreign lenders.

Average days sales outstanding ("DSO") at December 31, 2015 was 106 days compared to 86 days at December 31, 2014 and 91 days at December 31, 2013. DSO is a measure of our ability to collect our accounts receivable and is calculated by dividing the total of the period-end billed accounts receivable balance by average daily revenue (i.e., revenue for the quarter divided by 90 days). The increase in DSO in 2015 was due to the growth in our accounts receivable due to a slowing of collections from our clients in the Middle East, particularly Oman. Also, the age of our receivables is adversely affected by the timing of payments from our clients in Europe and Africa, which have historically been slower than payments from clients in other geographic regions of the Company's operations.

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

Table of Contents

engagements, including pass-through costs such as subcontractor costs. Deferred revenue consists of payments received from clients in advance of work performed.

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

Investing Activities

Net cash used in investing activities was (\$18,586,000). We used \$14,202,000 for the purchase of leasehold improvements, computers, office equipment, furniture and fixtures, primarily in connection with the relocation of our corporate headquarters to Philadelphia, Pennsylvania and the relocation and/or renovation of our offices in Turkey, Abu Dhabi, Dubai and South Africa. We used \$4,384,000 for the acquisition of IMS.

Financing Activities

Net cash provided by financing activities was \$22,304,000. We received \$23,229,000 from borrowings under various credit facilities and \$750,000 from a low interest Philadelphia Industrial Development Corp. loan of which we have repaid \$40,000. We also paid \$1,200,000 against the 2014 Term Loan Facility. We also received \$398,000 from the exercise of stock options and purchases under our Employee Stock Purchase Plan. We paid \$253,000 as dividends to noncontrolling interests.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU allows for both retrospective and prospective methods of adoption. The ASU was to be effective for interim and annual periods commencing after December 15, 2016, however, in August 2015, the FASB issued ASU 2015-14 which defers the effective date for one year. Early adoption is permitted as of January 1, 2017. We are in the process of determining the method of adoption and assessing the impact of this ASU on our consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement Extraordinary and Unusual Items*. The ASU eliminates the concept of extraordinary items, but the presentation and disclosure guidance for items that are unusual in nature or occur infrequently has been retained. The ASU is effective for us commencing January 1, 2016 with early adoption permitted. Adoption of this ASU did not have a material impact on our consolidated financial statements.

In April 2015, the FASB has issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as an amortizable deferred charge. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU permits early adoption. We adopted the guidance retrospectively which resulted in the reclassification of \$6,712,000 of deferred

Table of Contents

financing costs from other assets to long-term debt as a reduction of the 2014 Term Loan at December 31, 2014. This ASU did not have a material impact on our consolidated financial statements. Because this ASU did not address debt issuance costs associated with line-of-credit arrangements, the FASB issued ASU 2015-15, which indicates that the SEC Staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

In September 2015, the FASB issued ASU NO. 2015-16, *Business Combinations (Topic 825-10): Simplifying the Accounting for Measurement-Period Adjustments*. The ASU affects all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete at the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to those provisional amounts. The ASU requires the acquirer to recognize adjustments to provisional amounts in the reporting period in which the adjustment amounts are determined with disclosure of the adjustment amounts and the related financial statement line items. This ASU is effective for us commencing January 1, 2017 with early adoption permitted. We adopted the ASU which had no effect on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current in the balance sheet. The ASU permits early adoption. We adopted the guidance retrospectively which resulted in the reclassification of \$6,575,000 of deferred tax assets and \$2,456,000 of deferred tax liabilities as of December 31, 2014. This ASU did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Topic 825-10)*, which requires all equity investments to be measured a 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 Update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This ASU is effective for us commencing January 1, 2018. We are in the process of assessing the impact of this ASU on its consolidated financial statements.

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

Quarterly Fluctuations

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

Table of Contents

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.

Off-Balance Sheet Arrangements

(in thousands)	Total(1)	2015	2016 - 2017	2018 - 2019	2020 and later
Performance bonds(2)	\$ 40,997	\$ 24,101	\$ 7,939	\$ 1,791	\$ 7,166
Advance payment bonds(2)	9,134	5,201	257		3,676
Bid bonds(3)	14,068	12,644	1,161	263	
Letters of credit(4)	9,359	6,309	2,792	258	
	\$ 73,558	\$ 48,255	\$ 12,149	\$ 2,312	\$ 10,842

-
- (1) At December 31, 2015, the Company had provided cash collateral amounting to \$4,696,000 for certain of these items. That collateral is reflected in restricted cash on the consolidated balance sheet. See Note 14 to our consolidated financial statements for further information regarding these arrangements.
- (2) Represents guarantee of service performance bonds issued through international banks required under certain international contracts.
- (3) Represents bid bonds issued through international banks as part of the bidding process for new work to demonstrate our financial strength.
- (4) Represents letters of credit issued through a domestic bank in support for certain performance, advance payments and bid bonds.

Contractual Obligations

(in thousands)	Total	2016	2017 - 2018	2019 - 2020	2021 and later
Long-term debt obligations	\$ 144,983	4,357	2,563	137,641	422
Interest expense on notes payable(1)	62,255	13,193	25,038	23,985	39
Operating lease obligations(2)	57,557	11,148	18,295	12,002	16,112
	\$ 264,795	\$ 28,698	\$ 45,896	\$ 173,628	\$ 16,573

-
- (1) Estimated using the interest rates in effect at December 31, 2015.
- (2) Represents future minimum rental commitments under non-cancelable leases. The Company expects to fund these commitments with existing cash and cash flow from operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Exchange Rates

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the U.S. which are denominated primarily in British pounds sterling, Euros, U.A.E. dirhams, Qatari riyal,

Table of Contents

Omani rial, Saudi riyal, Brazilian real, Libyan dinar, Polish zloty, Australian dollars as well as other currencies. We do not comprehensively hedge our exposure to currency rate changes; however, we limit exposure to foreign currency fluctuations in most of our contracts through provisions that require client payments to be in currencies corresponding to the currency in which costs are incurred. As a result of this natural hedge, we currently do not hedge foreign currency cash flows for contract work performed, although we may do so in the future. The functional currency of our significant foreign operations is the respective local currency.

Interest Rates

All of our borrowings under our revolving credit facilities bear interest at variable rates. If market interest rates had changed by 100 basis points, interest expense and our cash flows would have changed by \$1,398,000 each.

Table of Contents**Item 8. Financial Statements and Supplementary Data.****HILL INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)**

	December 31,	
	2015	2014
Assets		
Cash and cash equivalents	\$ 24,089	\$ 30,124
Cash restricted	4,435	8,851
Accounts receivable, less allowance for doubtful accounts of \$63,748 and \$60,801	243,417	195,098
Accounts receivable affiliates	5,205	3,993
Prepaid expenses and other current assets	10,299	14,277
Income taxes receivable	4,146	4,246
Total current assets	291,591	256,589
Property and equipment, net	23,751	11,643
Cash restricted, net of current portion	259	7,156
Retainage receivable	2,638	3,300
Acquired intangibles, net	14,659	19,282
Goodwill	74,893	80,437
Investments	8,386	5,083
Deferred income tax assets	19,724	20,220
Other assets	6,662	9,187
Total assets	\$ 442,563	\$ 412,897
Liabilities and Stockholders' Equity		
Current maturities of notes payable and long-term debt	4,357	6,361
Accounts payable and accrued expenses	112,457	93,637
Income taxes payable	9,064	9,306
Deferred revenue	11,310	19,896
Other current liabilities	5,860	10,044
Total current liabilities	143,048	139,244
Notes payable and long-term debt, net of current maturities	140,626	115,163
Retainage payable	1,929	2,448
Deferred income taxes	16,341	18,117
Deferred revenue	11,919	12,193
Other liabilities	10,661	3,732
Total liabilities	324,524	290,897
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.0001 par value; 1,000 shares authorized, none issued		
Common stock, \$0.0001 par value; 100,000 shares authorized, 58,335 shares and 56,920 shares issued at December 31, 2015 and 2014, respectively	6	6
Additional paid-in capital	188,869	179,912
Retained earnings (deficit)	1,205	(5,726)

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

Accumulated other comprehensive loss	(46,866)	(32,600)
	143,214	141,592
Less treasury stock of 6,743 shares and 6,546 shares at December 31, 2015 and 2014, respectively, at cost	(29,245)	(28,304)
Hill International, Inc. share of equity	113,969	113,288
Noncontrolling interests	4,070	8,712
Total equity	118,039	122,000
Total liabilities and stockholders' equity	\$ 442,563	\$ 412,897

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Consulting fee revenue	\$ 630,951	\$ 577,117	\$ 512,085
Reimbursable expenses	89,654	64,476	64,596
Total revenue	720,605	641,593	576,681
Cost of services	362,366	329,755	296,055
Reimbursable expenses	89,654	64,476	64,596
Total direct expenses	452,020	394,231	360,651
Gross profit	268,585	247,362	216,030
Selling, general and administrative expenses	237,504	213,424	181,332
Share of loss of equity method affiliates	237		
Operating profit	30,844	33,938	34,698
Interest and related financing fees, net	14,663	30,485	22,864
Earnings before income taxes	16,181	3,453	11,834
Income tax expense	8,442	8,300	6,350
Net earnings (loss)	7,739	(4,847)	5,484
Less: net earnings noncontrolling interests	808	1,301	1,922
Net earnings (loss) attributable to Hill International, Inc.	\$ 6,931	\$ (6,148)	\$ 3,562
Basic earnings (loss) per common share Hill International, Inc.	\$ 0.14	\$ (0.14)	\$ 0.09
Basic weighted average common shares outstanding	50,874	44,370	39,098
Diluted earnings (loss) per common share Hill International, Inc.	\$ 0.14	\$ (0.14)	\$ 0.09
Diluted weighted average common shares outstanding	51,311	44,370	39,322

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

See accompanying notes to consolidated financial statements.

Table of Contents

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

(In thousands)

	Years Ended December 31,		
	2015	2014	2013
Net earnings (loss)	\$ 7,739	\$ (4,847)	\$ 5,484
Foreign currency translation adjustment, net of tax	(14,861)	(9,786)	(7,292)
Other, net	(228)	123	218
Comprehensive loss	(7,350)	(14,510)	(1,590)
Comprehensive loss attributable to noncontrolling interests	(15)	(353)	(576)
Comprehensive loss attributable to Hill International, Inc.	\$ (7,335)	\$ (14,157)	\$ (1,014)

See accompanying notes to consolidated financial statements.

[Table of Contents](#)

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2015, 2014, and 2013

(In thousands)

		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive (Loss)	Treasury Stock		Hill Share of Stockholders' Equity	Non-controlling Interests	Total Stockholders' Equity
		Shares	Amount				Shares	Amount			
Balance	December 31, 2012	45,097	\$ 5	\$ 129,913	\$ (3,140)	\$ (20,015)	6,434	\$ (27,766)	\$ 78,997	\$ 13,557	\$ 92,554
Net earnings					3,562				3,562	1,922	5,484
Other comprehensive loss						(4,576)			(4,576)	(2,498)	(7,074)
Stock issued to Board of Directors		52		150					150		150
Stock-based compensation expense				2,811					2,811		2,811
Stock issued under employee stock purchase plan		51		138					138		138
Exercise of stock options		8		20					20		20
Tax effect of restricted stock				(583)					(583)		(583)
Stock issued for acquisition of businesses		1,390		4,450					4,450		4,450
Acquisition of additional interest in subsidiary										(1,094)	(1,094)
Balance	December 31, 2013	46,598	5	136,899	422	(24,591)	6,434	(27,766)	84,969	11,887	96,856
Net (loss) earnings					(6,148)				(6,148)	1,301	(4,847)
Other comprehensive loss						(8,009)			(8,009)	(1,654)	(9,663)
Sale of common stock		9,547	1	38,041					38,042		38,042
Stock issued to Board of Directors		27		175					175		175
Stock-based compensation expense				3,327					3,327		3,327
Cancellation of restricted stock		(2)		(8)					(8)		(8)
Stock issued under employee stock purchase plan		55		197					197		197
Exercise of stock options		324		1,032					1,032		1,032
Cashless exercise of stock options		200		538			112	(538)			
Stock issued for acquisition of CPI		171		618					618		618
Dividends paid to noncontrolling interests										(173)	(173)
Acquisition of additional interest in subsidiary				(907)					(907)	(2,649)	(3,556)
Balance	December 31, 2014	56,920	6	179,912	(5,726)	(32,600)	6,546	(28,304)	113,288	8,712	122,000
Net earnings					6,931				6,931	808	7,739
Other comprehensive loss						(14,266)			(14,266)	(823)	(15,089)
Stock issued to Board of Directors		25		115					115		115
Stock-based compensation expense				2,983					2,983		2,983
Stock issued under employee stock purchase plan		43		126					126		126
Exercise of stock options		189		468					468		468
Cashless exercise of stock options		85		361			67	(361)			
Stock issued for acquisition of CPI		148		530					530		530
										(253)	(253)

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

Dividends paid to noncontrolling interests										
Acquisition of additional interest in subsidiary										
			925		4,374				4,374	(4,374)
Purchase of treasury stock										
						130	(580)		(580)	(580)
Balance December 31, 2015	58,335	\$ 6	\$ 188,869	\$ 1,205	\$ (46,866)	6,743	\$ (29,245)	\$ 113,969	\$ 4,070	\$ 118,039

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
Cash flows from operating activities:			
Net earnings (loss)	\$ 7,739	\$ (4,847)	\$ 5,484
Adjustments to reconcile net (loss) earnings to net cash provided by (used in):			
operating activities:			
Depreciation and amortization	11,004	9,823	10,756
Provision (credit) for bad debts	9,079	(2,344)	1,317
Interest accretion on term loan		15,526	7,955
Deferred tax (benefit) provision	(826)	(2,970)	(1,864)
Stock based compensation	3,098	3,494	2,961
Changes in operating assets and liabilities (net of acquisitions):			
Restricted cash	10,784	286	3,822
Accounts receivable	(67,572)	(25,720)	(12,168)
Accounts receivable affiliate	166	(3,501)	768
Prepaid expenses and other current assets	3,532	(2,819)	(2,116)
Income taxes receivable	(389)	(197)	(744)
Retainage receivable	662	(2,088)	2,734
Other assets	(2,392)	(449)	109
Accounts payable and accrued expenses	27,109	23,331	(2,747)
Income taxes payable	(286)	664	1,688
Deferred revenue	(5,952)	2,427	5,476
Other current liabilities	(4,701)	(2,873)	4,923
Retainage payable	(510)	1,440	(3,151)
Other liabilities	2,602	(2,878)	(3,770)
Net cash (used in) provided by operating activities	(6,853)	6,305	21,433
Cash flows from investing activities:			
Purchase of businesses, net of cash acquired	(4,384)	(2,701)	
Purchase of additional interest in Engineering S.A.		(3,556)	
Cash received in stock-based acquisitions			964
Payments for additional equity interests in Hill Spain			(12,062)
Payments for purchase of property and equipment	(14,202)	(5,721)	(3,764)
Distributions from affiliate			36
Net cash used in investing activities	(18,586)	(11,978)	(14,826)
Cash flows from financing activities:			
Due to bank		(2)	(19)
Proceeds from secondary public offering of common stock		38,042	
Proceeds from term loan borrowing		120,000	
Payoff and termination of term loan		(100,000)	
Payoff and termination of revolving credit facility		(25,500)	
Payment of financing fees		(10,065)	
Payment on Engineering S.A. note payable			(5,095)
Payments on notes payable			(167)
Net borrowings (payments) on revolving loans	23,229	(13,833)	21,084
Proceeds from Philadelphia Industrial Development Corporation loan	750		
Payments on term loans	(1,240)	(300)	
Dividends paid to noncontrolling interest	(253)	(173)	
Proceeds from stock issued under employee stock purchase plan	126	197	138
Proceeds from exercise of stock options	272	1,032	20
Purchase of treasury stock	(580)		
Net cash provided by financing activities	22,304	9,398	15,961

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

Effect of exchange rate changes on cash	(2,900)	(3,982)	(8,903)
Net (decrease) increase in cash and cash equivalents	(6,035)	(257)	13,665
Cash and cash equivalents beginning of year	30,124	30,381	16,716
Cash and cash equivalents end of year	\$ 24,089	\$ 30,124	\$ 30,381

See accompanying notes to consolidated financial statements.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 The Company and Liquidity

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

Since 2011, the amount of CFR attributable to operations in the Middle East and Africa has grown from approximately 32% in 2011 to approximately 53% of total consolidated CFR in 2015. There has been significant political upheaval and civil unrest in this region, most notably in Libya where we had substantial operations prior to the civil unrest. In 2012, due to the overthrow of the Libyan government and subsequent civil war, the Company reserved a \$59,937,000 receivable from the Libyan Organization for Development of Administrative Centres ("ODAC"). In 2013 and 2014, the Company received payments totaling approximately \$9,511,000, but this shortfall of cash flows from ODAC has put a considerable strain on its liquidity. As a result, it has had to rely heavily on debt and equity transactions to fund its operations.

The Company has recently seen further slowing of collections from its clients in the Middle East, primarily Oman. In 2012, the Company commenced operations on the Muscat International Airport ("Oman Airport") project with the Ministry of Transport and Communications (the "MOTC") in Oman. Throughout the original term of the contract, the Company was paid timely and regularly in accordance with the terms of the contract. The original contract term was to expire in November 2014. In October 2014, the Company applied for a twelve-month extension of time amendment ("first extension") (which was subsequently approved in March 2016). The Company continued to work on the Oman Airport project. During the early part of the first extension, MOTC paid the Company on account for work performed. The Company began to experience delays in payment during the second quarter of 2015 when MOTC commenced its formal review and certification of the Company's invoices. In October 2015, the MOTC paid the Company for work performed in April and May 2015. In December 2015, the Company began discussions with the MOTC on a second extension of time amendment (which was approved in March 2016) and has since commenced additional work, which management expects to last approximately 18 months. Accounts receivable from Oman totaled \$35,184,000 at December 31, 2015. In March 2016, the MOTC resumed payments, and the Company received approximately \$15,000,000 against the accounts receivable from the first extension. Management expects to collect the remaining past-due accounts receivable in the second quarter of 2016.

Note 2 Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

(b) Foreign Currency Translations and Transactions

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

(c) Use of Estimates and Assumptions

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

(d) Fair Value Measurements

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

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

Nonfinancial assets and liabilities, such as goodwill and long lived assets that are initially recorded at fair value, will be assessed for impairment, if deemed necessary. During the years ended December 31, 2015 and 2014, the Company did not record any impairment to any financial or nonfinancial assets or liabilities.

(e) Cash and Cash Equivalents

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

(f) Restricted Cash

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

(g) Concentrations of Credit Risk

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

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

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

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

	Years Ended December 31,		
	2015	2014	2013
Number of 10% clients		1	
Percentage of total revenue	N/A	10%	N/A

	December 31,		
	2015	2014	2013
Number of 10% clients	1		
Percentage of accounts receivable	14.4%	N/A	N/A

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

	Years Ended December 31,		
	2015	2014	2013
Percentage of total revenue	2%	3%	3%

(h) 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

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of Significant Accounting Policies (Continued)**

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

(i) Property and Equipment

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

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

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

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

(j) Retainage Receivable

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

(k) Long-Lived Assets

Acquired intangible assets consist of contract rights, client related intangibles and trade names arising from the Company's acquisitions. Contract rights represent the fair value of contracts in

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

progress and backlog of an acquired entity. For intangible assets purchased in a business combination, the estimated fair values of the assets are used to establish the cost bases. Valuation techniques consistent with the market approach, the income approach and the cost approach are used to measure fair value. These assets are amortized over their estimated lives which range from three to fifteen years.

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

(1) Goodwill

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

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

Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital. The Company's changes in estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company performed its annual impairment test effective July 1, 2015 and noted no impairment for either of its reporting units. In the future, the Company will continue to perform the annual test during its fiscal third quarter unless events or circumstances indicate an impairment may have occurred before that time.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of Significant Accounting Policies (Continued)****(m) Investments**

The Company will, in the ordinary course, form joint ventures for specific projects. These joint ventures have historically required limited or no investment and simply provide a pass-through for the Company's billings. Any distributions in excess of the Company's billings are accounted for as income when received. The Company's cost-basis investments at December 31, 2015 and 2014 are as follows:

	December 31,	
	2015	2014
RAMPED Metro Joint Venture(1)	\$ 4,696	\$
Concessia, Cartera y Gestion de Infraestructuras S.A.(2)	2,927	3,840
Other	763	1,243
	\$ 8,386	\$ 5,083

-
- (1) The Company has a 45% interest in this joint venture which was formed for construction management of the Riyadh Metro system in Saudi Arabia.
- (2) The Company has a 4.45% interest in this entity which invests in the equity of companies which finance, construct and operate various public and private infrastructure projects in Spain.

(n) Deferred Revenue

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

(o) Deferred Rent

Rent expenses for operating leases which include scheduled rent increases is determined by expensing the total amount of rent due over the life of the operating lease on a straight-line basis. The difference between the rent paid under the terms of the lease and the rent expensed on a straight-line basis is recorded as a liability. The deferred rent at December 31, 2015 and 2014 was \$3,744,000 and \$2,968,000, respectively, and is included in other liabilities in the consolidated balance sheet.

(p) Income Taxes

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

assets subject to the valuation allowance will be realized, then the previously provided valuation allowance will be adjusted.

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

(q) Revenue Recognition

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

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

Time-and-Materials Contracts

Under its time-and-materials contracts, the Company negotiates hourly billing rates and charges its clients based on the actual time that the Company spends on a project. In addition, clients reimburse the Company for its actual out-of-pocket costs of materials and other direct incidental expenditures that the Company incurs in connection with its performance under the contract. Its profit margins on time-and-materials contracts fluctuate based on actual labor and overhead costs that the Company directly charges or allocates to contracts compared with negotiated billing rates. Revenue on these contracts are recognized based on the actual number of hours the Company spends on the projects plus any actual out-of-pocket costs of materials and other direct incidental expenditures that the Company incurs on the projects. Its time-and-materials contracts generally include annual billing rate adjustment provisions.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

Cost-Plus Contracts

The Company has two major types of cost-plus contracts:

Cost-Plus Fixed Fee

Under cost-plus fixed fee contracts, the Company charges its clients for its costs, including both direct and indirect costs, plus a fixed negotiated fee. In negotiating a cost-plus fixed fee contract, the Company estimates all recoverable direct and indirect costs and then adds a fixed profit component. The total estimated cost plus the negotiated fee represents the total contract value. The Company recognizes revenue based on the actual labor costs, based on hours of labor effort, plus non-labor costs the Company incurs, plus the portion of the fixed fee the Company has earned to date. The Company invoices for its services as revenue is recognized or in accordance with agreed-upon billing schedules. Aggregate revenue from cost-plus fixed fee contracts may vary based on the actual number of labor hours worked and other actual contract costs incurred. However, if actual labor hours and other contract costs exceed the original estimate agreed to by its client, the Company generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive additional revenue relating to the additional costs (see "Change Orders and Claims").

Cost-Plus Fixed Rate

Under its cost-plus fixed rate contracts, the Company charges clients for its costs plus negotiated rates based on its indirect costs. In negotiating a cost-plus fixed rate contract, the Company estimates all recoverable direct and indirect costs and then adds a profit component, which is a percentage of total recoverable costs to arrive at a total dollar estimate for the project. The Company recognizes revenue based on the actual total number of labor hours and other costs the Company expends at the cost plus the fixed rate the Company negotiated. Similar to cost-plus fixed fee contracts, aggregate revenue from cost-plus fixed rate contracts may vary and the Company generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive additional revenue relating to any additional costs that exceed the original contract estimate (see "Change Orders and Claims").

Labor costs and subcontractor services are the principal components of its direct costs on cost-plus contracts, although some include materials and other direct costs. Some of these contracts include a provision that the total actual costs plus the fee will not exceed a guaranteed price negotiated with the client. Others include rate ceilings that limit the reimbursement for general and administrative costs, overhead costs and materials handling costs. The accounting for these contracts appropriately reflects such guaranteed price or rate ceilings.

Firm Fixed-Price ("FFP") Contracts

The Company's FFP contracts have historically accounted for most of its fixed-price contracts. Under FFP contracts, the Company's clients pay an agreed amount negotiated in advance for a specified scope of work. The Company recognizes revenue on FFP contracts using the percentage-of-completion method (recognizing revenue as costs are incurred). Profit margins the Company recognizes in all periods prior to completion of the project on any FFP contract depend on the accuracy of the Company's estimates of approximate revenue and expenses and will increase to the extent that its current estimates of aggregate actual costs are below amounts previously estimated.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

Conversely, if the Company's current estimated costs exceed prior estimates, its profit margins will decrease and the Company may realize a loss on a project. In order to increase aggregate revenue on the contract, the Company generally must obtain a change order, contract modification, or successfully prevail in a claim in order to receive payment for the additional costs (see "*Change Orders and Claims*").

Change Orders and Claims

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. 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.

Change orders and claims occur when changes are experienced once contract performance is underway. Change orders are sometimes documented and terms of such change orders are agreed with the client before the work is performed. Sometimes circumstances require that work progresses before agreement is reached with the client. Costs related to change orders and claims are recognized when they are incurred. Change orders and claims are included in total estimated contract revenue when it is probable that the change order or claim will result in a bona fide addition to contract value that can be reliably estimated. No profit is recognized on claims until final settlement occurs; unapproved change orders are evaluated as claims. This can lead to a situation where costs are recognized in one period and revenue is recognized when client agreement is obtained or claims resolution occurs, which can be in subsequent periods.

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

Federal government contracts which are subject to the FAR and some state and local governmental agencies require audits, which are performed for the most part by the Defense Contract Audit Agency ("DCAA"). The DCAA audits the Company's overhead rates, cost proposals, incurred government contract costs, and internal control systems. During the course of its audits, the DCAA may question incurred costs if it believes the Company has accounted for such costs in a manner inconsistent with the requirements of the FAR or Cost Accounting Standards and recommend that its U.S. government corporate administrative contracting officer disallow such costs. Historically, the Company has not experienced significant disallowed costs as a result of such audits. However, the Company can provide

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 2 Summary of Significant Accounting Policies (Continued)**

no assurance that the DCAA audits will not result in material disallowances of incurred costs in the future.

(r) Share-Based Compensation

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

(s) Advertising Costs

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

Years Ended December 31,		
2015	2014	2013
\$ 460	\$ 599	\$ 396

(t) Earnings per Share

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

Dilutive stock options increased average common shares outstanding by approximately 437,000 and 225,000 shares for the years ended December 31, 2015 and 2013, respectively.

Options to purchase 3,849,000 shares, 3,521,000 shares and 5,364,000 shares of the Company's common stock were not included in the calculation of common shares outstanding for the years ended December 31, 2015, 2014 and 2013, respectively, because they were anti-dilutive.

(u) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The ASU allows for both retrospective and prospective methods of adoption. The ASU was to be effective for interim and annual periods commencing after December 15, 2016, however, in August 2015, the FASB issued ASU 2015-14 which defers the effective date for one year. Early adoption is permitted as of January 1, 2017. The Company is in the process of determining the method of adoption and assessing the impact of this ASU on its consolidated financial statements.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

In January 2015, the FASB issued ASU No. 2015-01, *Income Statement Extraordinary and Unusual Items*. The ASU eliminates the concept of extraordinary items, but the presentation and disclosure guidance for items that are unusual in nature or occur infrequently has been retained. The ASU is effective for the Company commencing January 1, 2016 with early adoption permitted. Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In April 2015, the FASB has issued ASU No. 2015-03, *Interest Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as an amortizable deferred charge. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU permits early adoption. The Company adopted the guidance retrospectively which resulted in the reclassification of \$6,712,000 of deferred financing costs from other assets to long-term debt as a reduction of the 2014 Term Loan at December 31, 2014. This ASU did not have a material impact on the Company's consolidated financial statements. Because this ASU did not address debt issuance costs associated with line-of-credit arrangements, the FASB issued ASU 2015-15, which indicates that the SEC Staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

In September 2015, the FASB issued ASU NO. 2015-16, *Business Combinations (Topic 825-10): Simplifying the Accounting for Measurement-Period Adjustments*. The ASU affects all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete at the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to those provisional amounts. The ASU requires the acquirer to recognize adjustments to provisional amounts in the reporting period in which the adjustment amounts are determined with disclosure of the adjustment amounts and the related financial statement line items. This ASU is effective for the Company commencing January 1, 2017 with early adoption permitted. The Company adopted the ASU which had no effect on the Company's consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current in the balance sheet. The ASU permits early adoption. The Company adopted the guidance retrospectively which resulted in the reclassification of \$6,575,000 of deferred tax assets and \$2,456,000 of deferred tax liabilities as of December 31, 2014. This ASU did not have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments Overall (Topic 825-10)*, which requires all equity investments to be measured a 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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2 Summary of Significant Accounting Policies (Continued)

(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 Update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This ASU is effective for the Company commencing January 1, 2018. The Company is in the process of assessing the impact of this ASU on its consolidated financial statements.

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

Note 3 Acquisitions

Our recent acquisition activity is detailed below. The Company's consolidated financial statements include the operating results of these businesses from their respective dates of acquisition. Pro forma results of operations for these acquisitions have not been presented because they are not material to the Company's consolidated results of operations, either individually or in the aggregate.

The Company expenses all acquisition-related costs plus any anticipated restructuring costs for which it is not obligated at the acquisition date, rather than including such costs as a component of the purchase consideration. During 2015, 2014 and 2013, the Company expensed \$139,000, \$263,000 and \$455,000, respectively, of acquisition-related costs.

IMS Proje Yonetimi ve Danismanlik A.S.

On April 15, 2015, the Company acquired all of the equity interests of IMS Proje Yonetimi ve Danismanlik A.S. ("IMS"), a firm that provides project management services for international developers, institutional investors and major retailers. IMS had approximately 80 professionals and is headquartered in Istanbul, Turkey. Consideration consisted of an Initial Purchase Price of 12,411,000 Turkish Lira ("TRY") (approximately \$4,640,000 as of the closing date) comprised of TRY 4,139,000 (approximately \$1,547,000) paid in cash on the closing date plus a second payment of TRY 8,272,000 (approximately \$3,145,000) which was paid on May 12, 2015; a Holdback Purchase Price of TRY 4,400,000 (approximately \$1,626,000) payable in cash on April 15, 2016, less any set off related to certain indemnification obligations; and a potential Additional Purchase Price of (i) TRY 1,700,000 (approximately \$628,000) if earnings before interest, income taxes, depreciation and amortization for the twelve month period subsequent to the closing date ("EBITDA") exceeds TRY 3,500,000 (approximately \$1,294,000) or (ii) TRY 1,500,000 (\$554,000) if EBITDA is less than TRY 3,500,000 but not less than TRY 3,200,000 (\$1,183,000). The Company accrued the Holdback Purchase Price and the potential Additional Purchase Price of TRY 6,100,000 (\$2,088,000), of which TRY 4,400,000 (\$1,506,000) is included in other current liabilities and TRY 1,700,000 (\$582,000) is included in other liabilities in the consolidated balance sheet at December 31, 2015. The Company acquired intangible assets and goodwill amounting to TRY 10,575,000 (approximately \$3,953,000 on the date of acquisition) and TRY 9,421,000 (approximately \$3,522,000), respectively. The acquired intangible assets have a weighted average life of seven years. The acquired intangible assets consist of a client relationship

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Acquisitions (Continued)

intangible of TRY 6,235,000 (\$2,331,000) with a ten-year life, a trade name intangible of TRY 434,000 (\$162,000) with a two-year life and a contract intangible of TRY 3,906,000 (\$1,460,000) with a 2.6 year life. Goodwill, which is not deductible for income tax purposes, has been allocated to the Project Management operating segment.

Angus Octan Scotland Ltd.

On October 31, 2014, our subsidiary Hill International (UK) Ltd. acquired all of the outstanding common stock of Angus Octan Scotland Ltd., which included its subsidiary companies Cadogan Consultants Ltd., Cadogan Consult Ltd. and Cadogan International Ltd. (collectively, "Cadogans"). Cadogans, with 27 professionals, has offices in Glasgow and Dundee. The acquisition expanded Hill's construction claims business and provided additional resources in the energy and industrial sectors. Total consideration for the acquisition was £2,719,000 (approximately \$4,350,000 at the date of acquisition). The consideration consists of cash payments of £1,000,000 (\$1,600,000) at closing, £600,000 (\$960,000) on November 25, 2014, £400,000 (\$640,000) on December 23, 2014, £579,000 (\$894,000) paid on October 31, 2015 and an earn-out based upon the average earnings before interest, taxes, depreciation and amortization ("EBITDA") for the two-year period ending on October 31, 2016 (which amount shall not be less than £0 nor more than £200,000). The Company accrued the potential additional consideration of £200,000 (\$296,000) which is included in other current liabilities in the consolidated balance sheet at December 31, 2015. Two of the selling shareholders may receive an earn-out in five annual installments of up to £100,000 (\$148,000 at December 31, 2015), which will be charged to earnings, provided that Cadogans' EBITDA for each of the years ending October 31, 2015, 2016, 2017, 2018 and 2019 is greater than £396,000 (\$587,000). In 2015, the selling shareholders earned approximately \$46,000 which is reflected in SG&A expenses in the consolidated statement of operations. The Company acquired intangible assets and goodwill amounting to £1,353,000 (approximately \$2,165,000 on the date of acquisition) and £601,000 (approximately \$954,000), respectively. The acquired intangible assets have a weighted average life of 8.9 years. The acquired intangible assets consist of a client relationship intangible of £1,181,000 (\$1,890,000) with a ten-year life, a trade name intangible of £82,000 (\$131,000) with a two-year life and a contract intangible of £90,000 (\$144,000) with a six-month life. Goodwill, which is not deductible for income tax purposes, has been allocated to the Construction Claims operating segment.

Collaborative Partners, Inc.

On December 23, 2013, Hill acquired all of the outstanding common stock of Collaborative Partners, Inc. ("CPI"), a firm that provides project management, strategic planning and regulatory services for healthcare, life sciences, educational, commercial and residential construction projects throughout New England. CPI, which has about 30 professionals, has offices in Boston, Massachusetts and Providence, Rhode Island. The acquisition expands the Company's project management business in the New England region of the United States. At closing, the sellers received \$2,450,000 in the form of 678,670 shares of the Company's common stock priced at \$3.61 per share. On March 7, 2014, the sellers received 171,308 shares of common stock with a value of \$618,000 representing CPI's common equity in excess of \$600,000. On December 23, 2014, the sellers were to receive, subject to potential offset, an additional \$350,000 ("holdback") in shares of common stock; the number of shares was determined based on the average closing price of the common stock for the ten trading days ending on December 18, 2014. The Agreement also provided that should the price of the Company's common

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Acquisitions (Continued)

stock not increase by 50% to \$5.42 on December 23, 2014, the Company will issue additional shares to the sellers representing the difference between \$5.42 and the price on December 23, 2014 and (2) the sellers are entitled to receive additional shares of the Company's common stock for (i) 50% of the operating profit of CPI in excess of \$1,000,000 for the first 12-month period after closing, but in no event more than \$500,000, and (ii) 5% of the net revenue backlog in excess of \$10,000,000 on the date 60 days after closing. The Company estimated and accrued \$2,697,000 for the potential additional consideration which was included in other current liabilities in the consolidated balance sheet at December 31, 2013. In April 2014, the portion of the liability attributable to the change in the common stock price was waived by the sellers and the liability was eliminated by a credit of \$1,225,000 to selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2014. In addition, a portion of the liability attributable to the holdback in shares was not paid and \$215,000 was credited to selling, general and administrative expense in the consolidated statement of operations for the year ended December 31, 2014. In May 2015, the Company paid the final installment to the sellers by issuing 148,460 shares of its common stock valued at approximately \$530,000.

Binnington Copeland & Associates (Pty.) Ltd.

On May 30, 2013, Hill International N.V., the Company's wholly-owned subsidiary, acquired all of the outstanding common stock of Binnington Copeland & Associates (Pty.) Ltd. and BCA Training (Pty.) Ltd. (together "BCA"). BCA, with 34 professionals, has offices in Johannesburg and Cape Town, South Africa. The acquisition provides the Company's claims business access to Africa's large infrastructure and mining projects and allows for expansion into the rest of sub-Saharan Africa. Consideration consisted of \$2,000,000 plus a potential earn-out, both payable in shares of the Company's common stock. The purchase price is payable as follows: \$1,072,400 (the "Closing Date Payment") on the closing date, \$927,600 (the "Second Tranche Payment") on July 31, 2013 and an earn-out (the "Third Tranche Payment") to be determined in the third quarter of 2014. The Company issued 379,655 shares of its common stock in satisfaction of the Closing Date Payment; the number of shares was determined by dividing the Closing Date Payment by the average closing price of our common stock for the thirty trading days ending on May 17, 2013. On July 31, 2013, the Company issued 331,444 shares of its common stock in satisfaction of the Second Tranche Payment. The number of shares was determined by dividing the Second Tranche Payment by the average closing price of our common stock for the thirty trading days ending on July 19, 2013. BCA's average net profit before taxes for the two years ended July 31, 2014 was not sufficient to earn any of the Third Tranche payment, which had been estimated to be approximately \$902,000 at the date of acquisition. Since no amount was due to the selling shareholders, the liability was eliminated by a credit of \$893,000 to selling, general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2014.

Engineering S.A.

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3 Acquisitions (Continued)

services throughout Brazil. Total consideration will not exceed 42,000,000 Brazilian Reais ("BRL") (approximately \$25,336,000 at the date of acquisition) consisting of an initial cash payment of BRL22,200,000 (approximately \$13,392,000) plus minimum additional payments of BRL7,400,000 (approximately \$4,464,000) due on each of April 30, 2012 and 2013 and a potential additional payment of BRL5,000,000 (\$3,016,000). Also, ESA's shareholders entered into an agreement whereby the minority shareholders have a right to compel ("ESA Put Option") Hill Spain to purchase any or all of their shares during the period from February 28, 2014 to February 28, 2021. Hill Spain also has the right to compel ("ESA Call Option") the minority shareholders to sell any or all of their shares during the same time period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA's most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed. In April 2014, two of the minority shareholders exercised their ESA Put Option whereby Hill Spain paid approximately 7,838,000 Brazilian Reais (approximately \$3,556,000) in October 2014. After the transaction, Hill Spain owned approximately 72% of ESA. In accordance with the guidance in ASC 810-10-45-23, under *Changes in the Parent's Ownership Interest in a Subsidiary When There Is No Change in Control*, the Company has accounted for this transaction as an equity transaction. Accordingly, Hill Spain reduced noncontrolling interests by BRL5,839,000 (approximately \$2,649,000), and reduced additional paid in capital by approximately BRL1,999,000 (approximately \$907,000) which represents the excess of the fair value over the amount of the adjustment to noncontrolling interests.

The Company estimated the fair value of the potential additional payments to total approximately BRL17,200,000 (approximately \$10,376,000) and discounted that amount using an interest rate of 4.72%, the weighted average interest rate on the outstanding borrowings under the Company's credit agreement at the acquisition date. The Company paid the first installment amounting to BRL6,624,000 (approximately \$3,508,000) on April 30, 2012 and paid the second installment amounting to BRL11,372,000 (approximately \$5,095,000) on July 23, 2013.

In April 2015, two shareholders who owned approximately 19% of ESA exercised their ESA Put Options claiming an aggregate value of BRL10,645,000. As an incentive to the sellers to receive Hill's common stock as payment, the Company offered the sellers a 25% premium. The sellers countered the Company's offer by requesting payment in common stock at the U.S. dollar value on April 4, 2015 (approximately \$4,374,000) as well as a price guarantee upon the sale of the stock during a 30-day period after closing. The Company agreed to the counter offer and paid the liability with 924,736 shares of its common stock in August 2015. In November 2015, the Company paid approximately \$580,000 to the selling shareholders to repurchase 129,648 shares of its common stock. The Company now owns approximately 91% of ESA.

Gerens Management Group, S.A.

On February 15, 2008, the Company's subsidiary, Hill International N.V. (formerly Hill International S.A.), acquired 60% of the outstanding capital stock of Gerens Management Group, S.A., whose name was subsequently changed to Hill International (Spain), S.A. ("Hill Spain"). In connection with the acquisition, Hill Spain's shareholders entered into an agreement whereby the minority shareholders have a right to compel ("Gerens Put Option") Hill International N.V. to purchase any or

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3 Acquisitions (Continued)**

all of their shares during the period from March 31, 2010 to March 31, 2020. The purchase price for such shares shall be the greater of (a) €18,000,000 increased by the General Price Index (capped at 3.5% per annum) or (b) ten times Hill Spain's earnings before interest and income taxes for the prior fiscal year, multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase. Such amount may be adjusted for increases in equity subsequent to the acquisition date, and can be paid in cash or shares of the Company's common stock at the option of the sellers.

During late 2011 through late 2012, ten minority shareholders, who owned approximately 23.9% of the outstanding common stock of Hill Spain, exercised their Gerens Put Options. On January 3, 2013, the Company paid for the additional interest by paying approximately €7,051,000 (approximately \$9,325,000).

During 2013, the remaining minority shareholders, who owned approximately 6.8% of the outstanding common stock of Hill Spain, exercised their Gerens Put Options. The Company now owns 100% of Hill Spain. The aggregate consideration plus interest was paid on December 4, 2013 in the amount of €2,031,000 (approximately \$2,793,000). The balance included interest of approximately €42,000 (approximately \$56,000). In connection with the transactions, the Company reduced noncontrolling interests by €828,000 (approximately \$1,094,000), increased goodwill by €348,000 (approximately \$460,000) and increased intangible assets by approximately €1,161,000 (approximately \$1,534,000).

Note 4 Accounts Receivable

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

	December 31,	
	2015	2014
Billed	\$ 267,592	\$ 210,460
Retainage, current portion	13,660	12,700
Unbilled	25,913	32,739
	307,165	255,899
Allowance for doubtful accounts	(63,748)	(60,801)
Total	\$ 243,417	\$ 195,098

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

The increase in accounts receivable in 2015 is attributable to the slowdown of collections primarily in the Middle East, primarily Oman.

Included in billed receivables are \$761,000 and \$1,562,000 of the amounts due from various branches of the U.S. federal government and \$136,972,000 and \$100,773,000 of receivables from foreign governments at December 31, 2015 and December 31, 2014, respectively.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 4 Accounts Receivable (Continued)**

Bad debt expense of \$9,079,000, (\$2,344,000) and \$1,317,000 is included in selling, general and administrative expenses in the consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013, respectively. The increase in bad debt expense in 2015 is related to certain accounts receivable, primarily in the Middle East.

The Company has open but inactive contracts with the Libyan Organization for the Development and Administrative Centres ("ODAC"). Due to the civil unrest which commenced in Libya in February 2011, the Company suspended its operations in and demobilized substantially all of its personnel from Libya. At December 31, 2015, the Libya Receivable was approximately \$48,975,000 which continues to be fully reserved. It is management's intention to continue to pursue collection of monies owed to the Company by ODAC and, if subsequent payments are received, the Company will reflect such receipts, net of any third party obligations related to the collections, as reductions of SG&A expenses.

The Company has recently seen further slowing of collections from its clients in the Middle East, primarily Oman. In 2012, the Company commenced operations on the Oman Airport project with the MOTC in Oman. Throughout the original term of the contract, the Company was paid timely and regularly in accordance with the terms of the contract. The original contract term was to expire in November 2014. In October 2014, the Company applied for a twelve-month extension of time amendment ("first extension") (which was subsequently approved in March 2016). The Company continued to work on the Oman Airport project. During the early part of the first extension, MOTC paid the Company on account for work performed. The Company began to experience delays in payment during the second quarter of 2015 when MOTC commenced its formal review and certification of the Company's invoices. In October 2015, the MOTC paid the Company for work performed in April and May 2015. In December 2015, the Company began discussions with the MOTC on a second extension of time amendment (which was approved in March 2016) and has since commenced additional work, which management expects to last approximately 18 months. Accounts receivable from Oman totaled \$35,184,000 at December 31, 2015. In March 2016, the MOTC resumed payments, and the Company received \$15,000,000 against the accounts receivable from the first extension. Management expects to collect the remaining past-due accounts receivable in the second quarter of 2016.

Any additional delays in payments from MOTC or other foreign governments may have a negative impact on the Company's liquidity, financial covenants, financial position and results of operations.

Note 5 Property and Equipment

	December 31,	
	2015	2014
	(In thousands)	
Furniture and equipment	\$ 15,245	\$ 12,163
Leasehold improvements	11,443	4,196
Automobiles	1,418	1,696
Computer equipment and software	28,999	24,088
	57,105	42,143
Less accumulated depreciation and amortization	(33,354)	(30,500)
Property and equipment, net	\$ 23,751	\$ 11,643

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 5 Property and Equipment (Continued)**

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

	Years Ended December 31,		
	2015	2014	2013
Total depreciation expense	\$ 4,918	\$ 3,643	\$ 4,166

Portion charged to cost of services	\$ 1,251	\$ 1,293	\$ 1,227
-------------------------------------	----------	----------	----------

Portion charged to selling, general and administrative expense	\$ 3,667	\$ 2,350	\$ 2,939
--	----------	----------	----------

Note 6 Intangible Assets

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

	December 31,			
	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$ 34,891	\$ 22,668	\$ 36,412	\$ 20,758
Acquired contract rights	12,256	11,287	11,387	9,717
Trade names	2,704	1,237	3,023	1,065
Total	\$ 49,851	\$ 35,192	\$ 50,822	\$ 31,540

Intangible assets, net	\$ 14,659	\$ 19,282
------------------------	-----------	-----------

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

	Years Ended December 31,		
	2015	2014	2013
	\$ 6,086	\$ 6,180	\$ 6,590

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

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

Years Ending December 31,	Estimated Amortization Expense
2016	\$ 4,287
2017	3,037
2018	1,947
2019	1,676
2020	1,190

71

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7 Goodwill**

The addition to goodwill in 2014 is due to the acquisition of Cadogans (\$865,000) and the addition in 2015 is due to the acquisition of IMS (\$3,783,000) (see Note 3 for further information).

The following table summarizes the changes in the Company's carrying value of goodwill during 2015 and 2014 (in thousands):

	Project Management	Construction Claims	Total
Balance, December 31, 2013	\$ 58,448	\$ 27,405	85,853
Additions		865	865
Translation adjustments	(4,779)	(1,502)	(6,281)
Balance, December 31, 2014	53,669	26,768	80,437
Additions	3,783		3,783
Translation adjustments	(7,713)	(1,614)	(9,327)
Balance, December 31, 2015	\$ 49,739	\$ 25,154	\$ 74,893

Note 8 Accounts Payable and Accrued Expenses

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

	December 31,	
	2015	2014
Accounts payable	\$ 44,200	\$ 32,701
Accrued payroll and related expenses	50,724	41,205
Accrued subcontractor fees	5,905	3,930
Accrued agency fees	6,564	6,920
Accrued legal and professional fees	1,186	1,099
Other accrued expenses	3,878	7,782
	\$ 112,457	\$ 93,637

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Notes Payable and Long-Term Debt**

Outstanding debt obligations are as follows (in thousands):

	December 31,	
	2015	2014
2014 Term Loan Facility	\$ 112,906	\$ 112,988
2014 Domestic Revolving Credit Facility	17,500	200
2014 International Revolving Credit Facility	10,715	2,554
Borrowings under revolving credit facilities with a consortium of banks in Spain	3,013	5,037
Borrowings under unsecured credit facility with Ibercaja Bank in Spain		745
Borrowing from Philadelphia Industrial Development Corporation	710	
Other notes payable	139	
	144,983	121,524
Less current maturities	4,357	6,361
Notes payable and long-term debt, net of current maturities	\$ 140,626	\$ 115,163

Refinancing

On June 12, 2014, the Company and its subsidiary Hill International N.V. (the "Subsidiary") entered into a Commitment Letter with Société Générale (the "Agent") and SG Americas Securities, LLC, (the "Arranger") pursuant to which the Arranger and the Agent committed to provide secured debt facilities to the Company in an aggregate principal amount of \$165,000,000 which would be used to pay off and terminate the Company's then-existing senior credit facility with a bank group led by Bank of America, N.A. and its then-existing second lien term loan with funds managed by Tennenbaum Capital Partners, LLC.

Effective as of September 26, 2014 (the "Closing Date"), the Company, entered into a credit agreement with the Agent as administrative agent and collateral agent, TD Bank, N.A., as syndication agent and HSBC Bank USA, N.A., as documentation agent, (collectively, the "U.S. Lenders") consisting of a term loan facility of \$120,000,000 (the "Term Loan Facility") and a \$30,000,000 U.S. dollar-denominated facility available to the Company (the "U.S. Revolver," together with the Term Loan Facility, the "U.S. Credit Facilities") and a credit agreement with the Agent as administrative agent and collateral agent, (the "International Lender") providing a facility of €11,765,000 (\$15,000,000 at closing and \$12,863,000 at December 31, 2015) which is available to the Subsidiary (the "International Revolver" and together with the U.S. Revolver, the "Revolving Credit Facilities" and, together with the U.S. Credit Facilities, the "Secured Credit Facilities"). The U.S. Revolver and the International Revolver include sub-limits for letters of credit amounting to \$25,000,000 and \$10,000,000, respectively.

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

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Notes Payable and Long-Term Debt (Continued)**

of (a) consolidated total debt (minus cash of up to \$10,000,000 held in the aggregate) to consolidated earnings before interest, taxes, depreciation, amortization, non-cash items and share-based compensation for the trailing twelve months. The Excess Account Concentration covenant permits the U. S. Lenders and the International Lender to increase the interest rates by 2.0% if, as of the last day of any fiscal quarter, either (a) the accounts receivable from any country not listed as a Permitted Country as defined in the Secured Credit Facilities (other than the United Arab Emirates) that are more than 120 days old (relative to the invoice date) constitute more than 10% of the total outstanding accounts receivable or (b) accounts receivable from any individual client located in the United Arab Emirates that are more than 120 days old (relative to the invoice date) constitute more than 14% of the total outstanding accounts receivable; provided that, in each case, the accounts receivable due from clients located in Libya that exist as of the Closing Date shall be excluded for all purposes of this covenant. The interest rate will be reset as soon as the accounts receivable over 120 days decline below the 10% or 14% levels. At December 31, 2015, no client's accounts receivable exceeded the proscribed limits.

In connection with the restatement of its consolidated financial statements as of and for the year ended December 31, 2014 and as of and for the periods ended March 31, 2015 and June 30, 2015, the Company became in technical default of its Secured Credit Facilities due to certain misrepresentations, reporting and affirmative covenant breaches. On November 3, 2015, the Company received a waiver of the default. The Company paid \$81,900 and other out-of-pocket expenses incurred by the Administrative Agent.

The following tables set forth the Maximum Consolidated Net Leverage Ratio requirements for all reporting periods and the Company's actual ratio at December 31, 2015:

Period ending	Not to exceed	Actual
December 31, 2015	3.25	2.60
March 31, 2016	3.00	
June 30, 2016	3.00	
September 30, 2016	2.75	
December 31, 2016	2.75	
March 31, 2017	2.50	
June 30, 2017	2.50	
September 30, 2017	2.25	
December 31, 2017	2.25	
March 31, 2018	2.00	
June 30, 2018	2.00	
September 30, 2018	2.00	
December 31, 2018	2.00	
Thereafter	1.75	

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.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Notes Payable and Long-Term Debt (Continued)

In connection with the Refinancing, the Company wrote off deferred financing fees amounting to \$1,482,000 by a charge to interest expense and related financing fees, net for the year ended December 31, 2014.

Term Loan Facility

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

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

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

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

The Company has the right to prepay the Term Loan Facility in full or in part at any time without premium or penalty. The Company is required to make mandatory prepayments of the Term Loan Facility, without premium or penalty, (i) with net proceeds of any issuance or incurrence of indebtedness (other than that permitted under the Term Loan Facility) by the Company, (ii) with net proceeds from certain asset sales outside the ordinary course of business, and (iii) with 50% of the excess cash flow (as defined in the agreement) for each fiscal year of the Borrowers commencing with the year ending December 31, 2015 (which percentage would be reduced to 25% if the Consolidated Net Leverage Ratio is equal to or less than 2.25 to 1.00 or reduced to 0% if the Consolidated Net Leverage Ratio is equal to or less than 1.50 to 1.00).

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

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

The Company incurred fees and expenses related to the Term Loan Facility aggregating \$7,066,000 which were deferred. The deferred fees are being amortized on a straight-line basis, which approximates the effective interest method, to interest and related financing fees, net over a six-year period which ends on September 30, 2020. Unamortized balances of \$5,594,000 and \$6,712,000 are reflected as reductions of the term loan in the consolidated balance sheets at December 31, 2015 and 2014, respectively.

Revolving Credit Facilities

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Notes Payable and Long-Term Debt (Continued)

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

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

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

The Company or the Subsidiary, as applicable, will be required to make mandatory prepayments under their respective Revolving Credit Facilities to the extent that the aggregate outstanding amount thereunder exceeds the then-applicable borrowing base, which payments will be made without penalty or premium. At December 31, 2015, the domestic borrowing base was \$30,000,000 and the international borrowing base was €11,765,000 (approximately \$12,863,000 at December 31, 2015).

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

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

The Company incurred fees and expenses related to the Revolving Credit Facilities aggregating \$3,000,000 which was deferred. The deferred fees are being amortized on a straight-line basis, which approximates the effective interest method, to interest expense and related financing fees, net over a five-year period which ends on September 30, 2019. Unamortized balances of \$2,250,000 and \$2,850,000 are included in other assets in the consolidated balance sheet at December 31, 2015 and 2014, respectively.

At December 31, 2015, the Company had \$9,360,000 of outstanding letters of credit and \$3,140,000 of available borrowing capacity under the U.S. Revolver.

At December 31, 2015, the Company had \$1,827,000 of outstanding letters of credit and \$321,000 of available borrowing capacity under the International Revolver and its other foreign credit agreements (See "Other Debt Arrangements" below for more information).

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9 Notes Payable and Long-Term Debt (Continued)

Other Debt Arrangements

In connection with the move of its corporate headquarters to Philadelphia, Pennsylvania, the Company received a loan from the Philadelphia Industrial Development Corporation in the amount of \$750,000 which bears interest at 2.75%, is repayable in 144 equal monthly installments of \$6,121 and matures on May 1, 2027. At December 31, 2015, total borrowings outstanding were \$710,000.

The Company's subsidiary, Hill International (Spain) S.A. ("Hill Spain"), maintains a revolving credit facility with six banks (the "Financing Entities") in Spain which initially provided for total borrowings of up to €5,340,000 with interest at 6.50% on outstanding borrowings. Total availability under this facility was reduced to 50.0% of the initial limit at December 31, 2015. At December 31, 2015, the total facility was approximately €2,670,000 (approximately \$2,919,000) and borrowings outstanding were €2,650,000 (approximately \$2,898,000). The amount being financed ("Credit Contracts") by each Financing Entity is between €189,000 (approximately \$207,000) and €769,000 (approximately \$841,000). To guarantee Hill Spain's obligations resulting from the Credit Contracts, Hill Spain provided a guarantee in favor of each one of the Financing Entities, which, additionally, and solely in the case of unremedied failure to make payment, and at the request of each of the Financing Entities, shall grant a first ranking pledge over a given percentage of corporate shares of Hill International Brasil Participacoes Ltda. for the principal, interest, fees, expenses or any other amount owed by virtue of the Credit Contracts, coinciding with the percentage of credit of each Financing Entity with respect to the total outstanding borrowings under this facility. The facility expires on December 17, 2016.

Hill Spain also maintains an ICO (Official Credit Institute) loan with Bankia Bank in Spain for €105,000 (approximately \$115,000) at December 31, 2015. The availability is reduced by €15,000 on a quarterly basis. At December 31, 2015, total borrowings outstanding were €105,000 (\$115,000). The interest rate at December 31, 2015 was 6.50%. The ICO loan expires on August 10, 2017.

The Company maintains a credit facility with the National Bank of Abu Dhabi which provides for total borrowings of up to AED 11,500,000 (approximately \$3,131,000 at December 31, 2015) collateralized by certain overseas receivables. At December 31, 2015, there were no borrowings outstanding. The interest rate is the one-month Emirates InterBank Offer Rate plus 3.00% (or 5.50% at December 31, 2015) but no less than 5.50%. This facility was modified in June 2015 to increase availability under Letters of Guarantee to allow for up to AED 200,000,000 (approximately \$54,451,000 at December 31, 2015) of which AED 84,778,000 (approximately \$23,081,000) was outstanding at December 31, 2015. The credit facility will expire on May 7, 2016. The Company intends to renew this facility.

Engineering S.A. maintains four unsecured revolving credit facilities with two banks in Brazil aggregating BRL2,380,000 (approximately \$601,000 at December 31, 2015), with a weighted average interest rate of 4.91% per month at December 31, 2015. There were no borrowings outstanding on any of these facilities which are renewed automatically every three months.

The Company also maintains relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At December 31, 2015, the maximum U.S. dollar equivalent of the commitments was \$90,047,000 of which \$39,290,000 is outstanding.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 9 Notes Payable and Long-Term Debt (Continued)**

Scheduled maturities of long term debt are as follows (in thousands):

Years Ending December 31,	
2016	\$ 4,357
2017	1,305
2018	1,258
2019	29,474
2020	108,167
Thereafter	422
Total	\$ 144,983

Note 10 Supplemental Cash Flow Information

The Company issues shares of its common stock to its non-employee directors as partial compensation for services on the Company's Board through the next annual stockholders meeting. See Note 11 for further information with respect to this plan.

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

	Years Ended December 31,		
	2015	2014	2013
Interest and related financing fees paid	\$ 13,180	\$ 22,753	\$ 13,372
Income taxes paid	\$ 6,719	\$ 11,903	\$ 8,601
Increase in property and equipment from a tenant improvement allowance related to the relocation of the corporate headquarters	\$ 3,894	\$	\$
Reduction of noncontrolling interest in connection with acquisitions of additional interests in Engineering S.A.	\$ (4,374)	\$ (2,649)	
Increase in additional paid in capital from issuance of shares of common stock in connection with the acquisition of an additional interest in ESA	\$ 4,374	\$	\$

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

Increase in additional paid in capital from issuance of shares of common stock related to purchase of CPI	\$	530	\$	618
---	----	------------	----	-----

Increase in additional paid in capital from issuance of shares of common stock from cashless exercise of stock options	\$	361	\$	538
--	----	------------	----	-----

Increase in intangible assets and goodwill in connection with acquisitions of Cadogans in 2014 and BCA and CPI in 2013	\$		\$	3,993	\$	7,161
--	----	--	----	-------	----	-------

Increase in deferred income taxes in connection with the acquisition of additional interest in Hill Spain	\$		\$		\$	460
---	----	--	----	--	----	-----

Common stock issued for acquisitions of BCA and CPI	\$		\$		\$	4,450
---	----	--	----	--	----	-------

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Share-Based Compensation*****2009 Non-Employee Director Stock Grant Plan***

The 2009 Non-Employee Director Stock Grant Plan covers 400,000 shares of the Company's common stock. Only the Company's Non-Employee Directors are eligible to receive grants under the plan. Information with respect to the plan's activity follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Shares issued	25	26	52
Compensation expense	\$ 115	\$ 175	\$ 150

2008 Employee Stock Purchase Plan

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

	Years Ended December 31,		
	2015	2014	2013
Shares purchased	43	55	51
Aggregate purchase price	\$ 126	\$ 197	\$ 162
Compensation expense	\$ 22	\$ 35	\$ 24

2006 Employee Stock Option Plan

The 2006 Employee Stock Option Plan, as amended, covers 10,000,000 shares of the Company's common stock. Under its terms, directors, officers and employees of the Company and its subsidiaries are eligible to receive non-qualified and incentive stock options. Options granted to non-employee directors vest immediately and have a five year contractual term. Options granted to officers and employees vest over five years and have a seven-year contractual term. Generally, each option has an exercise price equal to the closing quoted market price of a share of the Company's common stock on the date of grant. For grants of incentive stock options, if the grantee owns, or is deemed to own, 10% or more of the total voting power of the Company, then the exercise price shall be 110% of the closing quoted market price on the date of grant and the option will have a five-year contractual term. Options that are forfeited or expire are available for future grants. At December 31, 2015, a total of 1,431,000 shares of common stock were reserved for future issuance under the plan.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Share-Based Compensation (Continued)**

The Black-Scholes option valuation model is used to estimate the fair value of the options. The following table summarizes the fair value of options granted during 2015, 2014 and 2013 and the assumptions used to estimate the fair value:

	December 31,		
	2015	2014	2013
Average expected life (years)	4.86	4.59	4.29
Forfeiture range	0 - 5.0%	0 - 5.0%	0 - 5.0%
Weighted average forfeiture rate	0.3%	0.9%	0.9%
Dividends	0%	0%	0%
Volatility range	46.9 - 59.9%	61.5 - 65.5%	67.8 - 73.5%
Weighted average volatility	58.9%	62.9%	71.7%
Range of risk-free interest rates	1.07 - 1.61%	0.86 - 1.74%	0.50 - 1.36%
Weighted average risk-free interest rate	1.45%	1.67%	0.77%
Weighted average fair value at grant date	\$2.01	\$2.28	\$1.95

The expected term of the options is estimated based on the "simplified method" as permitted by SAB No. 110. Expected volatility was calculated using the average historical volatility of similar public companies through June 30, 2011 and of the Company thereafter. The risk-free interest rate is based on U.S. Treasury yields for securities in effect at the time of grants with terms approximating the term of the grants. The assumptions used in the Black-Scholes option valuation model are highly subjective, particularly as to stock price volatility of the underlying stock, which can materially affect the resulting valuation.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Share-Based Compensation (Continued)**

A summary of the Company's stock option activity and related information for the years ended December 31, 2015, 2014 and 2013 is as follows (in thousands, except exercise price and remaining life data):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, December 31, 2012	4,644	5.22		
Granted	2,076	3.80		
Exercised	(8)	2.45		
Expired	(101)	12.42		
Forfeited	(37)	4.02		
Outstanding, December 31, 2013	6,574	\$ 4.67		
Granted	1,849	4.57		
Exercised	(524)	3.00		
Expired	(496)	7.66		
Forfeited	(44)	4.37		
Outstanding, December 31, 2014	7,359	4.57		
Granted	1,117	4.02		
Exercised	(274)	3.03		
Expired	(405)	7.11		
Forfeited	(86)	4.50		
Outstanding, December 31, 2015	7,711	4.41	2.94	\$
Exercisable, December 31, 2015	4,057	\$ 5.12	1.68	\$

Aggregate intrinsic value represents the difference between the exercise prices and the closing stock price on December 31, 2015. At December 31, 2015, the weighted average exercise price of the outstanding options was \$4.41 and the closing stock price was \$3.88.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Share-Based Compensation (Continued)**

For various price ranges, weighted average characteristics of outstanding stock options at December 31, 2015 are as follows:

Options Outstanding			Options Exercisable		
Exercise Prices	Number Outstanding at December 31, 2015	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at December 31, 2015	Weighted Average Exercise Price
\$ 2.45	364,489	0.19	\$ 2.45	364,489	\$ 2.45
2.85	90,908	1.45	2.85	90,908	2.85
2.89	116,280	2.43	2.89	116,280	2.89
3.12	10,000	4.60	3.12	4,000	3.12
3.46	13,274	4.87	3.46	13,274	3.46
3.55	5,000	6.79	3.55		
3.67	852,000	4.06	3.67	345,000	3.67
3.91	500,000	6.01	3.91		
3.95	500,000	5.01	3.95	100,000	3.95
4.03	525,000	6.08	4.03		
4.04	1,000,000	2.06	4.04	500,000	4.04
4.19	25,000	0.13	4.19	25,000	4.19
4.35	500,000	3.01	4.35	125,000	4.35
4.37	10,000	0.68	4.37	10,000	4.37
4.84	63,290	4.61	4.84	63,290	4.84
4.90	10,000	6.59	4.90		
4.92	5,000	0.59	4.92	5,000	4.92
4.95	715,000	5.19	4.95	151,000	4.95
5.31	20,000	1.07	5.31	20,000	5.31
5.47	880,200	1.18	5.47	660,150	5.47
5.73	8,000	2.84	5.73	6,000	5.73
5.83	265,000	1.25	5.83	265,000	5.83
6.31	261,725	2.85	6.31	221,725	6.31
6.61	63,870	3.45	6.61	63,870	6.61
7.32	907,336	0.07	7.32	907,336	7.32
	7,711,372	2.94	\$ 4.41	4,057,322	\$ 5.12

In the years ended December 31, 2015, 2014 and 2013, the Company recorded share-based compensation related to stock options of approximately \$2,960,000, \$3,292,000 and \$2,787,000, respectively, which is included in selling, general and administrative expenses.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 11 Share-Based Compensation (Continued)**

The following table summarizes the Company's non-vested stock option activity and related information for the years ended December 31, 2015, 2014 and 2013 (in thousands, except weighted average grant date fair value):

	Options	Weighted Average Grant Date Fair Value Per Share
Non-vested options at December 31, 2012	2,483	2.39
Granted	2,076	1.95
Vested	(981)	2.14
Forfeited	(37)	2.17
Non-vested options at December 31, 2013	3,541	2.20
Granted	1,849	2.28
Vested	(1,289)	2.19
Forfeited	(44)	2.33
Non-vested options at December 31, 2014	4,057	2.24
Granted	1,117	2.01
Vested	(1,434)	2.26
Forfeited	(86)	2.48
Non-vested options at December 31, 2015	3,654	\$ 2.15

At December 31, 2015, total unrecognized compensation cost related to non-vested options was \$5,430,000 which will be recognized over the remaining weighted-average service period of 1.93 years.

Note 12 Stockholders' Equity***Stock Repurchase Program***

Under its stock repurchase program, the Company is authorized to purchase shares of its common stock up to a total purchase price of \$60,000,000. To date, the Company has purchased 5,964,017 shares of its common stock for an aggregate purchase price of \$25,018,000, or an average of approximately \$4.19 per share. Under the terms of its Secured Credit Facilities (see Note 9), the Company may make additional purchases up to \$1,000,000 per year with an aggregate of \$3,000,000 as long as immediately before and after giving effect to the purchase, no event of default shall have occurred and be continuing at the time.

Other

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

During May 2015, four of the Company's directors exercised an aggregate of 84,868 options with an exercise price of \$4.25 through the Company on a cashless basis. The Company withheld 67,400

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 12 Stockholders' Equity (Continued)

shares as payment for the options and placed those shares in treasury. The directors received a total of 17,468 shares from this transaction.

During the year ended December 31, 2015, the Company received cash proceeds of \$ 468,000 from the exercise of stock options.

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

In April 2015, two shareholders who owned approximately 19% of ESA exercised their ESA Put Options. On August 12, 2015, the Company paid the \$4,374,000 liability with 924,736 shares of its common stock, of which it repurchased 129,648 shares for an aggregate price of \$580,000. See Note 3 for further information.

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

We have an effective registration statement on Form S-4 on file with the SEC which registered 20,000,000 shares of our common stock, which includes 6,438,923 shares of our common stock registered under a previous Form S-4, for use in future acquisitions. During 2013, we issued 1,389,769 shares in connection with our acquisitions of BCA and CPI. During 2014, we issued 171,308 shares in connection with certain additional consideration for CPI. In 2015, we issued 148,460 shares of our common stock for additional consideration for CPI. See Note 3 for further information.

Note 13 Income Taxes

The effective tax rates for the years ended December 31, 2015, 2014 and 2013 were 52.2%, 240.4% and 53.7%, respectively. For all the years presented, the Company's effective tax rate is significantly higher than it otherwise would be primarily as a result of not being able to record an income tax benefit related to the U.S. net operating loss and various foreign withholding taxes. This was partially offset in 2013 and 2014 by approximately \$2,500,000 of reversal for uncertain tax positions based on management's assessment that those items were effectively settled with a foreign jurisdiction.

The Company adopted, on a retrospective basis, the guidance in ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, which resulted in the reclassification of \$6,575,000 of current deferred tax assets and \$2,456,000 of current deferred tax liabilities to non-current as of December 31, 2014.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Income Taxes (Continued)**

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

	Years Ended December 31,		
	2015	2014	2013
United States	\$ (19,912)	\$ (39,729)	\$ (26,460)
Foreign jurisdictions	36,093	43,182	38,294
	\$ 16,181	\$ 3,453	\$ 11,834

Income tax expense (benefit) consists of the following:

	Current	Deferred	Total
Year ended December 31, 2015:			
U.S. federal	\$	\$	\$
State and local			
Foreign jurisdictions	8,697	(255)	8,442
	\$ 8,697	\$ (255)	\$ 8,442

Year ended December 31, 2014:

U.S. federal	\$	\$	\$
State and local			
Foreign jurisdictions	10,655	(2,355)	8,300
	\$ 10,655	\$ (2,355)	\$ 8,300

Year ended December 31, 2013:

U.S. federal	\$	\$	\$
State and local			
Foreign jurisdictions	7,245	(895)	6,350
	\$ 7,245	\$ (895)	\$ 6,350

The increase in tax expense in 2015 compared to 2014 results from the mix of income and tax rates in the various foreign jurisdictions. In 2014, approximately \$2,500,000 of reversal for uncertain tax positions was recorded based on management's assessment that those items were effectively settle with a foreign jurisdiction.

The increase in expense in 2014 compared to 2013 results from increased pretax profits from foreign operations, the mix of tax rates in those jurisdictions and no offsetting tax benefits arising from the Company's U.S. net operating losses which management believes the Company

will not be able to utilize.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Income Taxes (Continued)**

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

	Years Ended December 31,		
	2015	2014	2013
Statutory federal income tax	\$ 5,663	\$ 1,174	\$ 4,024
Foreign tax benefit for earnings taxed at lower rates	(4,290)	(4,801)	(3,957)
Change in the valuation allowance	7,569	16,230	10,378
Net liability (reductions) additions for uncertain tax positions	21	(2,379)	(2,314)
Excess compensation	485	646	204
State and local income taxes, net of federal income tax benefit	(937)	(2,076)	(1,476)
Stock options	266	224	230
Purchase accounting reversal		(490)	
Reversal of interest allocations to foreign entities			(1,014)
Other	(335)	(228)	275
Total	\$ 8,442	\$ 8,300	\$ 6,350

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Income Taxes (Continued)**

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

	December 31,	
	2015	2014
Deferred tax assets:		
Net operating loss carry forward U.S. operations	\$ 46,493	\$ 40,065
Amortization of intangibles	7,734	7,329
Net operating loss carry forward foreign operations	7,057	8,634
Compensated absences	2,461	2,458
Foreign income taxes on currency translation	2,465	1,013
Share based compensation	3,764	3,026
Allowance for uncollectible accounts	13,179	13,106
Bonus accrual	881	1,087
Deferred income		485
Foreign tax credit	982	982
Other	1,078	836
Total gross deferred tax assets	86,094	79,021
Valuation allowances	(66,370)	(58,801)
Net deferred tax assets	19,724	20,220
Deferred tax liabilities:		
Intangible assets	(12,319)	(13,205)
Depreciation	(2,707)	(1,297)
Prepaid expenses	(1,125)	(1,159)
Change in tax method	(190)	(279)
Accrued expenses		(2,177)
Total gross deferred tax liabilities	(16,341)	(18,117)
Net deferred tax assets	\$ 3,383	\$ 2,103

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Management evaluates the need for valuation allowances on the deferred tax assets according to the provisions of ASC 740, *Income Taxes*. They consider both positive and negative evidence. In making this determination, management assesses all of the evidence available at the time including recent earnings, internally-prepared income projections, and historical financial performance.

Due to recurring net operating losses in the United States, management has determined that it is more likely than not that the Company will not be able to utilize its U.S. deferred tax assets. The Company continues to generate U.S. net operating losses and has recorded additional valuation allowances of \$7,569,000 and \$15,319,000 at December 31, 2015 and 2014, respectively. U.S. valuation allowances of \$49,670,000 and \$42,087,000 were recorded at December 31, 2015 and 2014, respectively,

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 13 Income Taxes (Continued)**

primarily related to the U.S. net operating loss carryforwards. As a result, the U.S. deferred tax assets, net of U.S. deferred tax liabilities, are fully reserved at December 31, 2015. Cumulative U.S. federal and state net operating losses at December 31, 2015 are \$117,367,000 and \$120,270,000, respectively.

At December 31, 2015 and 2014, there were approximately \$29,016,000 and \$33,933,000, respectively, of gross foreign net operating loss carry forwards. The majority of these net operating loss carry forwards have an unlimited carry forward period. It is anticipated that these losses will not be utilized due to continuing losses in these jurisdictions. Foreign valuation allowances of \$16,700,000 and \$16,713,000 were recorded at December 31, 2015 and 2014, respectively, primarily related to the foreign allowance for doubtful accounts in connection with the Libya Receivable reserve and the foreign net operating loss carryforwards.

The Company has made no provision for U.S. taxes on \$131,147,000 of cumulative earnings of foreign subsidiaries as those earnings are intended to be reinvested for an indefinite period of time and are not intended to be distributed to the U.S. Upon distribution of these earnings in the form of dividends or otherwise, the Company may be subject to U.S. income taxes and foreign withholding taxes. It is not practical, however, to estimate the amount of taxes that may be payable on the eventual repatriation of these earnings.

In 2013, deferred tax assets and additional paid in capital were reduced by \$583,000 to record the differential between book expense and tax expense related to the vesting of restricted stock.

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

The following table indicates the changes to the Company's uncertain tax positions for the years ended December 31, 2015 and 2014 including interest and penalties (in thousands):

	Years Ended December 31,	
	2015	2014
Balance, beginning of year	\$ 975	\$ 2,933
Reductions based on tax positions related to prior years	(281)	(2,683)
Additions based on tax positions related to prior years	302	725
Balance, end of year	\$ 996	\$ 975

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company generally is no longer subject to U.S. or state examinations by tax authorities for taxable years prior to 2012. However, net operating losses utilized from prior years in subsequent years' tax returns are subject to examination until three years after the filing of subsequent years' tax returns. The statute of limitations expiration in foreign jurisdictions for corporate tax returns generally ranges between two and five years depending on the jurisdiction.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 13 Income Taxes (Continued)

The Company's policy is to record income tax related interest and penalties in income tax expense. At December 31, 2015, 2014 and 2013, the Company has accrued \$500,000, \$520,000 and \$172,000, respectively, related to potential interest and penalties.

The Company's income tax returns are based on calculations and assumptions that are subject to examinations by the Internal Revenue Service and other tax authorities. While the Company believes it has appropriate support for the positions taken on its tax returns, the Company regularly assesses the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of its provision for income taxes. As part of its assessment of potential adjustments to its tax returns, the Company increases its current tax liability to the extent an adjustment would result in a cash tax payment or decreases its deferred tax assets to the extent an adjustment would not result in a cash tax payment. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Note 14 Commitments and Contingencies

General Litigation

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

A former executive of the Company ("Plaintiff") resigned and filed a labor dispute with the Company in the Dubai Labour Court seeking AED 4,536,239 (approximately \$1,210,000) for end of service remuneration. The Company filed a counterclaim against Plaintiff for breach of employment contract and filed a complaint against Plaintiff's new employer, Driver Group plc, in the UK for breach of non-solicitation and non-compete obligations in Plaintiff's employment agreement. On June 15, 2015, the Company paid Plaintiff AED 750,000 (approximately \$200,000) pursuant to an executed settlement agreement. During year ended December 31, 2015, the Company recorded an additional \$100,000 associated with the settlement payment and \$834,000 of related legal costs.

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

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Commitments and Contingencies (Continued)

Off-Balance Sheet Arrangements

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

- (1)

Certain of the Company's subsidiaries (Hill International N.V., Hill International (UK) Ltd. and Hill International (Middle East) Ltd.) have entered into contracts for the performance of construction management services which provide that the Company receive advance payment of some of the management fee from the client prior to commencement of the construction project. However, the clients require a guarantee of service performance in the form of an advance payment bond. These bonds are evidenced by Letters of Guarantee issued by the subsidiaries' banks in favor of the clients. In some cases these clients also require a parent company guarantee.
- (2)

The Company may also enter into certain contracts which require a performance bond to be issued by a bank in favor of the client for a portion of the value of the contract. These bonds may be exercised by the client in instances where the Company fails to provide the contracted services.
- (3)

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

The maximum potential future payment under these arrangements at December 31, 2015 was \$73,558,000.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and letters of credit at December 31, 2015 and 2014 were \$4,696,000 and \$16,007,000, respectively.

Acquisition-related

As of December 31, 2015 our subsidiary, Hill International (Spain), S.A. ("Hill Spain"), owned an indirect 91% interest in Engineering S.A. ("ESA"), a firm located in Brazil. ESA's shareholders entered into an agreement whereby the minority shareholders have a right to compel ("ESA Put Option") Hill Spain to purchase any or all of their shares during the period from February 28, 2014 to February 28, 2021. Hill Spain also has the right to compel ("ESA Call Option") the minority shareholders to sell any or all of their shares during the same time period. The purchase price for such shares shall be seven times the earnings before interest and taxes for ESA's most recently ended fiscal year, net of any financial debt plus excess cash multiplied by a percentage which the shares to be purchased bear to the total number of shares outstanding at the time of purchase, but in the event the ESA Call Option is exercised by Hill Spain, the purchase price shall be increased by five percent. The ESA Put Option and the ESA Call Option must be made within three months after the audited financial statements of ESA have been completed. See Note 3.

The sellers of Cadogans are entitled to an earn-out based upon the average earnings before interest, taxes, depreciation and amortization for the two-year period ending on October 31, 2016 (which amount shall not be less than £0 or more than £200,000). See Note 3.

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 14 Commitments and Contingencies (Continued)

The Company has accrued approximately TRY 6,100,000 (\$2,088,000) for potential future payments in connection with the acquisition of IMS. See Note 3.

Other

On December 31, 2012, the Company identified a potential employment tax liability related to certain foreign subsidiaries' treatment of certain individuals as independent contractors rather than as employees. On June 24, 2013, the Company received an indemnification from the selling shareholders for periods prior to 2013. Accordingly, the Company reversed the accrual established in 2012 and reflected approximately \$3,600,000 as a credit to selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2013. The Company believes, based upon certain professional advice that it is remote that a future liability will be established for the potential employment taxes relating to certain foreign independent contractors and, therefore, has made no accrual for such potential liability.

Note 15 Operating Leases

The Company has numerous operating leases which have various expiration dates through December, 2027. Rent expense was approximately \$14,577,000, \$13,902,000 and \$12,408,000 for the years ended December 31, 2015, 2014 and 2013, respectively, which is included in selling, general and administrative expenses in the consolidated statements of earnings. The Company is required to pay property taxes, utilities and other costs related to several of its leased office facilities.

At December 31, 2015, approximate future minimum payments under these leases that have remaining non-cancelable lease terms in excess of one year are as follows (in thousands):

Years Ending December 31,	
2016	\$ 11,148
2017	9,978
2018	8,317
2019	7,073
2020	4,929
Thereafter	16,112
Total	\$ 57,557

Note 16 Benefit Plans

The Company maintains a 401(k) Retirement Savings Plan (the "401(k) Plan") for qualified employees. The terms of the 401(k) Plan define qualified employees as those over 21 years of age. The Company matches 50% of employee contributions up to 2% of employee compensation up to a maximum \$2,650. For the years ended December 31, 2015, 2014 and 2013, the Company recognized expense amounting to \$905,000, \$801,000 and \$734,000, respectively, which is included in selling, general and administrative expenses in the consolidated statements of earnings.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 17 Business Segment Information**

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

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

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

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

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

Consulting Fee Revenue ("CFR")

	2015		2014		2013	
Project Management	\$	467,877	74.2%	\$	428,827	74.3%
Construction Claims		163,074	25.8		148,290	25.7
Total	\$	630,951	100.0%	\$	577,117	100.0%

Total Revenue

	2015		2014		2013	
Project Management	\$	552,576	76.7%	\$	487,754	76.0%
Construction Claims		168,029	23.3		153,839	24.0
Total	\$	720,605	100.0%	\$	641,593	100.0%

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 17 Business Segment Information (Continued)***Operating Profit*

	2015	2014	2013
Project Management	\$ 56,157	\$ 53,174	\$ 50,922
Equity in loss of affiliates	237		
Total Project Management	55,920	53,174	50,922
Construction Claims	11,740	10,996	12,171
Corporate	(36,816)	(30,232)	(28,395)
Total	\$ 30,844	\$ 33,938	\$ 34,698

Depreciation and Amortization Expense

	2015	2014	2013
Project Management	\$ 7,477	\$ 6,888	\$ 7,677
Construction Claims	3,095	2,719	2,852
Subtotal segments	10,572	9,607	10,529
Corporate	432	216	227
Total	\$ 11,004	\$ 9,823	\$ 10,756

Consulting Fee Revenue by Geographic Region

	2015		2014		2013	
U.S./Canada	\$ 150,096	23.8%	\$ 125,691	21.8%	\$ 121,291	23.7%
Latin America	31,189	4.9	40,844	7.1	49,188	9.6
Europe	85,293	13.5	79,009	13.7	75,398	14.7
Middle East	303,769	48.2	272,236	47.2	219,315	42.8
Africa	28,138	4.5	23,849	4.1	22,744	4.4
Asia/Pacific	32,466	5.1	35,488	6.1	24,149	4.8
Total	\$ 630,951	100.0%	\$ 577,117	100.0%	\$ 512,085	100.0%
U.S.	\$ 147,013	23.3%	\$ 122,096	21.2%	\$ 117,740	23.0%
Non-U.S.	483,938	76.7	455,021	78.8	394,345	77.0
Total	\$ 630,951	100.0%	\$ 577,117	100.0%	\$ 512,085	100.0%

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

For the year ended December 31, 2015, consulting fee revenue for the United Arab Emirates amounted to \$115,181,000 representing 18.3% of the total. No other country except for the United States accounted for over 10% of consolidated consulting fee revenue.

For the year ended December 31, 2014, consulting fee revenue for the United Arab Emirates amounted to \$73,329,000 representing 12.7% of the total and Oman's consulting fee revenue amounted to \$66,896,000 representing 11.6% of the total. No other country except for the United States accounted for over 10% of consolidated consulting fee revenue.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 17 Business Segment Information (Continued)**

For the year ended December 31, 2013, consulting fee revenue for the United Arab Emirates amounted to \$66,918,000 representing 13.1% of the total and Oman's consulting fee revenue amounted to \$51,053,000 representing 10.0% of the total. No other country except for the United States accounted for over 10% of consolidated consulting fee revenue.

Total Revenue by Geographic Region

	2015		2014		2013	
U.S./Canada	\$	215,999	30.0%	\$	170,550	26.6%
Latin America		31,304	4.3		41,106	6.4
Europe		90,070	12.5		84,335	13.1
Middle East		318,044	44.1		281,814	43.9
Africa		32,207	4.5		27,474	4.3
Asia/Pacific		32,981	4.6		36,314	5.7
Total	\$	720,605	100.0%	\$	641,593	100.0%
U.S.	\$	212,839	29.5%	\$	166,893	26.0%
Non-U.S.		507,766	70.5		474,700	74.0
Total	\$	720,605	100.0%	\$	641,593	100.0%

For the year ended December 31, 2015, total revenue for the United Arab Emirates amounted to \$118,957,000 representing 16.5% of the total. No other country except for the United States accounted for over 10% of consolidated total revenue.

For the year ended December 31, 2014, total revenue for the United Arab Emirates amounted to \$74,708,000 representing 11.6% of the total and Oman's total revenue amounted to \$70,798,000 representing 11.0% of the total. No other country except for the United States accounted for over 10% of consolidated total revenue.

For the year ended December 31, 2013, total revenue for the United Arab Emirates amounted to \$68,158,000 representing 11.8% of the total. No other country except for the United States accounted for over 10% of consolidated total revenue.

Consulting Fee Revenue By Client Type

	2015		2014		2013	
U.S. federal government	\$	9,345	1.5%	\$	13,250	2.3%
U.S. state, regional and local governments		85,135	13.5		74,921	13.0
Foreign governments		221,464	35.1		220,917	38.3
Private sector		315,007	49.9		268,029	46.4
Total	\$	630,951	100.0%	\$	577,117	100.0%

Table of Contents

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17 Business Segment Information (Continued)

Total Revenue By Client Type

	2015		2014		2013	
U.S. federal government	\$	11,485	1.6%	\$	16,459	2.6%
U.S. state, regional and local governments		141,210	19.6		104,866	16.3
Foreign governments		238,482	33.1		234,027	36.5
Private sector		329,428	45.7		286,241	44.6
					270,044	46.8
Total	\$	720,605	100.0%	\$	641,593	100.0%
					576,681	100.0%

Total Assets by Geographic Region

	December 31,	
	2015	2014
U.S./Canada	\$ 118,833	\$ 107,191
Latin America	26,350	33,757
Europe	93,900	98,106
Middle East	155,400	132,211
Africa	27,299	21,795
Asia/Pacific	20,781	19,837
Total	\$ 442,563	\$ 412,897

U.S.	\$ 117,507	\$ 105,298
Non-U.S.	325,056	307,599
	\$ 442,563	\$ 412,897

Property, Plant and Equipment, Net by Geographic Location

	December 31,	
	2015	2014
U.S./Canada	\$ 13,581	\$ 3,358
Latin America	1,031	1,101
Europe	3,084	2,191
Middle East	3,980	3,428
Africa	1,120	901
Asia/Pacific	955	664
Total	\$ 23,751	\$ 11,643

U.S.	\$	13,581	\$	3,358
Non-U.S.		10,170		8,285
Total	\$	23,751	\$	11,643

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hill International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Hill International, Inc. and Subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hill International, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hill International, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 25, 2016 expressed an adverse opinion thereon.

In connection with our audits of the consolidated financial statements referred to above, we also audited Schedule II Valuation and Qualifying Accounts for each of the years in the three-year period ended December 31, 2015. In our opinion, this financial schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information stated therein.

/s/ EISNERAMPER LLP

Iselin, New Jersey
March 29, 2016

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Hill International, Inc. and Subsidiaries

We have audited Hill International, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

A material weakness is a 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 Company's annual or interim financial statements will not be prevented or detected on a timely basis. Management identified the following material weaknesses as of December 31, 2015: a material weakness exists related to the estimation of the potential loss on the Company's accounts receivable as of December 31, 2015 and an additional material weakness exists relating to the accounting closing process and non-routine transactions as of December 31, 2015.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2015, and this report does not affect our report on the consolidated financial statements and financial statement schedule.

In our opinion, because of the effect of the aforementioned material weaknesses on the achievement of the objectives of the control criteria, Hill International Inc. and Subsidiaries have not

Table of Contents

maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in the 2013 *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hill International, Inc. and Subsidiaries as of December 31, 2015, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated March 25, 2016 expressed an unqualified opinion thereon.

/s/ EISNERAMPER LLP

Iselin, New Jersey
March 29, 2016

[Table of Contents](#)
Quarterly Results (Unaudited)

The following is a summary of certain quarterly financial information for fiscal years 2015 and 2014 (in thousands except per share data).

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2015					
Consulting fee revenue	\$ 151,141	\$ 159,738	\$ 158,579	\$ 161,493	\$ 630,951
Total revenue	170,268	181,648	178,935	189,754	720,605
Gross profit	64,712	67,338	69,234	67,301	268,585
Operating profit	5,606	10,652	11,693	2,893(1)	30,844
Net earnings (loss)	848	4,535	3,336	(980)	7,739
Net earnings (loss) attributable to Hill	702	4,395	2,948	(1,114)	6,931
Basic earnings (loss) per common share	\$ 0.01	\$ 0.09	\$ 0.06	\$ (0.02)	\$ 0.14
Diluted earnings (loss) per common share	\$ 0.01	\$ 0.09	\$ 0.06	\$ (0.02)	\$ 0.14
2014					
Consulting fee revenue	\$ 137,249	\$ 144,515	\$ 145,324	\$ 150,029	\$ 577,117
Total revenue	150,013	159,639	161,491	170,450	641,593
Gross profit	58,659	61,269	62,649	64,785	247,362
Operating profit	10,948	8,655	11,297	3,038	33,938
Net earnings (loss)	5,548	2,016	(8,615)	(3,796)	(4,847)
Net earnings (loss) attributable to Hill	5,308	1,518	(8,966)	(4,008)	(6,148)
Basic earnings (loss) per common share	\$ 0.13	\$ 0.04	\$ (0.19)	\$ (0.08)	\$ (0.14)
Diluted earnings (loss) per common share	\$ 0.13	\$ 0.04	\$ (0.19)	\$ (0.08)	\$ (0.14)

(1)

There were significant charges totaling \$4,998,000 that adversely affected the results for the fourth quarter of 2015. These charges included the following:

\$2,247,000 of increased bad debt expense;

\$959,000 related to a write-down of a note receivable to the value of the underlying collateral;

\$832,000 of legal and other professional fees related to the shareholder proxy contest;

\$562,000 of severance costs associated with our cost optimization plan; and

\$398,000 of legal and other professional fees related to the restatement of the Company's consolidated financial statements for 2014, 2013 and 2012.

Table of Contents

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

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The Management of the Company, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of December 31, 2015.

Notwithstanding the existence of the material weaknesses described below, the Chief Executive Officer and Chief Financial Officer have concluded that the consolidated financial statements in this report fairly present, in all material respects, the Company's financial position, results of operations and cash flows as of the dates and for the periods presented, in conformity with accounting principles generally accepted in the United States of America ("GAAP").

As described below, the Company's Management has identified material weaknesses in its internal control over financial reporting. As a result of those material weaknesses, the Company's Management concluded that its disclosure controls and procedures were not effective as of December 31, 2015 to provide reasonable assurance that information required to be disclosed by the Company in this Form 10-K is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to Management, including its principle executive officer and principle financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Management's Report on Internal Control over Financial Reporting.

The Company's Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance of the reliability of financial reporting and of the preparation of financial statements for external reporting purposes, in accordance with GAAP.

Internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and disposition of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with the authorization of its Management and directors; and (3) provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on its financial statements.

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

The Company's Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, the Company's Management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework* (2013). These criteria are in the areas of control environment, risk assessment, control activities, information and communication, and monitoring. The Company's Management assessment included extensive documenting, evaluating and

Table of Contents

testing the design and operating effectiveness of its internal control over financial reporting. Based on the Company's processes and assessment, as described above, Management has concluded that, as of December 31, 2015, the Company's internal control over financial reporting was not effective because of the material weaknesses set forth below.

We have made progress implementing new control activities related to the material weaknesses discussed below under "Management's Plan for Remediation." However, not all ineffective control activities identified in the Company's Management evaluation of internal control over financial reporting as of December 31, 2014 had been remediated as of December 31, 2015 and certain controls had not operated effectively for a sufficient period of time to allow the Company's Management to conclude that the material weaknesses had been remediated. Therefore, the Company's Management concluded that there were material weaknesses in the internal control over financial reporting as of December 31, 2015. Management has identified the following deficiencies that constituted material weaknesses still exist as of December 31, 2015:

Management misapplied GAAP as it relates to the estimation of the potential loss on the Company's accounts receivable. Specifically, the Company did not have sufficient procedures and controls in place to enable the proper application of GAAP to significant, non-routine transactions.

Management did not maintain effective procedures in the areas of the accounting closing process, accounting estimates and non-routine transactions.

Management's Plan for Remediation

Management is committed to the implementation of a plan to address the material weaknesses and to ensure that each area affected by a material control weakness is adequately remediated. These remediation efforts, summarized below, portions of which are either implemented or in process, are intended to both address the identified material weaknesses and to enhance the Company's overall financial control environment.

Material Weakness related to Accounts Receivable controls: to ensure the remediation process is expedient and successful, the Company's Management under the direction of the Board of Directors has strengthened the existing controls surrounding reviews of accounts receivable and reserves for potential losses. Below are some of the key features of these enhanced controls.

Increased accountability at the operational manager and local finance director levels to closely monitor significant past due accounts and surface potential collection issues to regional or upper management on a monthly basis or sooner. Required independent and detail documentation and contracts will be provided to country or regional CFOs and headquarter management who will evaluate the collectability of significant client account balances.

Enhanced transparency and active monitoring at the executive level will be achieved through quarterly meetings to review and assess the proper application of GAAP in financial reporting and estimates. Material accruals and contingencies (including reserves for account receivable) will be evaluated objectively by the executive management with input from the business segment units prior to the conclusion of quarterly financial reporting processes.

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

Table of Contents

Material Weakness related to Accounting Close controls: We have implemented and enhanced process level policies and procedures over the financial close process to ensure reconciliations and accruals are accurate in all material respects, completed in a timely manner, and properly reviewed by the Company's Management. The Company has also implemented new and/or improved joint venture accounting controls that will provide for greater transparency and accuracy of the joint venture and its applicable accounting.

When fully implemented and operational, which we expect will occur prior to the end of 2016, the Company's Management believes the measures described above will remediate the material weaknesses identified and strengthen its internal control over financial reporting. The Company is committed to continuing to improve its internal control processes, and will continue to diligently and vigorously review its financial reporting controls and procedures. As the Company's Management continues to evaluate and work to improve its internal control over financial reporting, the Company's Management may determine to take additional measures to address the material weaknesses or determine to modify, or in appropriate circumstances not to complete, certain of the remediation measures described above.

(c) Changes in Internal Control over Financial Reporting

Other than as described above, there were no changes in the Company's internal control over financial reporting that occurred during the Company's fourth quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

EisnerAmper LLP, the independent registered public accounting firm that audited the consolidated financial statements in this Annual Report on Form 10-K for the year ended December 31, 2015, has issued a report concerning the effectiveness of our internal control over financial reporting for that year, which is included in Part II, Item 8 of this Form 10-K.

Item 9B. Other Information.

Not applicable.

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance.

The information in our 2016 Proxy Statement, which will be filed with the U. S. Securities and Exchange Commission within 120 days after the close of our fiscal year, regarding directors and executive officers appearing under the headings "Proposal 1: Election of Directors" and "Other Matters Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated by reference in this section. The information under the heading "Executive Officers" in Part I, Item 1 of this Form 10-K is also incorporated by reference in this section. In addition, the information under the heading "Corporate Governance" in our 2015 Proxy Statement is incorporated by reference in this section.

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

Item 11. Executive Compensation.

The information appearing in our 2016 Proxy Statement under the headings "Director Compensation," "Compensation Discussion and Analysis," "Report of the Compensation Committee", and "Executive Compensation" is incorporated by reference in this section.

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

The information appearing in our 2016 Proxy Statement under the heading "Security Ownership of Certain Beneficial Owners and Management" is incorporated by reference in this section.

Equity Compensation Plan Information

The following table provides information as of December 31, 2015 for common shares of the Company that may be issued under our 2006 Employee Stock Option Plan, our 2008 Employee Stock Purchase Plan and our 2009 Non-Employee Director Stock Grant Plan. See Note 11 to the consolidated financial statements for further information related to these plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights A	Weighted-average exercise price of outstanding options, warrants and rights B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) C
Equity compensation plans approved by security holders	7,711,372	\$ 4.41	2,882,553(1)
Equity compensation plans not approved by security holders			
Total	7,711,372	\$ 4.41	2,882,553

(1)

As of December 31, 2015, the Company had 1,431,410 shares remaining available for future issuance under our 2006 Employee Stock Option Plan, 1,332,623 shares remaining available for future issuance under our 2008 Employee Stock Purchase Plan and 118,520 shares remaining available for future issuance under our 2009 Non-Employee Director Stock Grant Plan.

Table of Contents

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

The information appearing in our 2016 Proxy Statement under the headings "Corporate Governance" and "Certain Relationships and Related Transactions" is incorporated by reference in this section.

Item 14. Principal Accounting Fees and Services.

The information appearing in our 2016 Proxy Statement under the headings "Independent Auditors" and "Audit Committee Report" is incorporated by reference in this section.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a)

Documents filed as part of this report:

Financial statements:

The consolidated balance sheets of the Registrant as of December 31, 2015 and December 31, 2014, the related consolidated statements of operations, comprehensive (loss) earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2015, the footnotes thereto, and the report of EisnerAmper LLP, independent auditors, are filed herewith.

Financial statement schedule:

Schedule II Valuation and Qualifying Accounts for the years ended December 31, 2015, 2014 and 2013.

Table of Contents

(b)
Exhibits

Exhibit Index

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated December 5, 2005, by and among Arpeggio Acquisition Corporation, Hill International, Inc. and certain stockholders of Hill International, Inc., as amended.(1)
3.1	Amended and Restated Certificate of Incorporation of Arpeggio Acquisition Corporation.(2)
3.2	Amended and Restated By-laws of Hill International, Inc.(3)
3.3	Certificate of First Amendment of Amended and Restated Certificate of Incorporation of Hill International, Inc.(4)
4.1	Specimen Common Stock Certificate.(5)
10.1*	Hill International, Inc. 2006 Employee Stock Option Plan (as amended through June 11, 2012).(6)
10.2*	Employment Agreement between the Company and Irvin E. Richter, dated as of December 31, 2014.(7)
10.3*	Employment Agreement between the Company and David L. Richter, dated as of December 31, 2014.(8)
10.4	Contract for Construction Management/Build Services dated February 11, 2004 between Hill International, Inc. and City of New York, Department of Design and Construction.(9)
10.5	U.S. Credit Agreement, dated as of September 26, 2014, among Hill International, Inc., as borrower, Société Générale, as administrative agent, collateral agent and lender, the other lenders party thereto, and certain subsidiaries of the Company.(10)
10.6	U.S. Guaranty and Security Agreement, dated as of September 26, 2014, among Hill International, Inc., Société Générale, as administrative agent and collateral agent and certain subsidiaries of the Company.(11)
10.7	International Credit Agreement, dated as of September 26, 2014, among Hill International N.V., as borrower, Hill International, Inc., certain of its subsidiaries party thereto, and Société Générale, as administrative agent, collateral agent and letter of credit issuer, and the lenders party thereto.(12)
10.8	International Guaranty and Security Agreement, dated as of September 26, 2014, among Hill International N.V., as borrower, Hill International, Inc., and the lenders party thereto in favor of Société Générale, as administrative agent.(13)
10.9	Intercreditor Agreement, dated as of September 26, 2014, by and among Société Générale, as collateral agent, and the loan parties thereto.(14)
10.10*	Hill International, Inc. 2009 Non-Employee Director Stock Grant Plan, as amended.(15)
10.11*	Hill International, Inc. 2007 Restricted Stock Grant Plan.(16)
10.12*	Hill International, Inc. 2008 Employee Stock Purchase Plan.(18)
10.13*	Hill International, Inc. 2015 Senior Executive Retention Plan.(18)
10.14	Hill International, Inc. 2010 Senior Executive Bonus Plan.(19)

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

Table of Contents

Exhibit No.	Description
21	Subsidiaries of the Registrant.
23.1	Consent of EisnerAmper LLP, Independent Registered Public Accounting Firm
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 Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

(1)	Included as Annex A of the Definitive Proxy Statement (No. 000-50781) filed on June 6, 2006 and incorporated herein by reference.
(2)	Included as Annex B of the Definitive Proxy Statement (No. 000-50781) filed on June 6, 2006 and incorporated herein by reference.
(3)	Included as Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 27, 2016 and incorporated herein by reference.
(4)	Included as Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2012 filed on March 18, 2013 and incorporated herein by reference.
(5)	Included as Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 (No. 333-114816) filed on April 23, 2004 and incorporated herein by reference.
(6)	Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 14, 2012 and incorporated herein by reference.
(7)	Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 31, 2014 and incorporated herein by reference.
(8)	Included as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 31, 2014 and incorporated herein by reference.
(9)	Included as Exhibit 10.10 to the Registrant's Current Report on Form 8-K filed on July 5, 2006 and incorporated herein by reference.
(10)	

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

Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.

(11)

Included as Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.

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

Table of Contents

- (12) Included as Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.
- (13) Included as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.
- (14) Included as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.
- (15) * Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 6, 2013 and incorporated herein by reference.
- (16) * Included as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (No. 333-141814), filed on April 2, 2007 and incorporated herein by reference.
- (17) * Included as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (No. 333-152145), filed on July 3, 2008 and incorporated herein by reference.
- (18) * Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 2, 2015 and incorporated herein by reference.
- (19) Included as Appendix A to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 30, 2010 and incorporated herein by reference.
- *
Constitutes a management contract or compensatory plan.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Hill International, Inc.

By: /s/ DAVID L. RICHTER

David L. Richter
President and Chief Executive Officer
Date: March 29, 2016

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

By: /s/ IRVIN E. RICHTER

Irvin E. Richter
Chairman and Director
Date: March 29, 2016

By: /s/ GARY F. MAZZUCCO

Gary F. Mazzucco
Director
Date: March 29, 2016

By: /s/ DAVID L. RICHTER

David L. Richter
President, Chief Executive Officer and Director (Principal Executive Officer)
Date: March 29, 2016

By: /s/ BRIAN W. CLYMER

Brian W. Clymer
Director
Date: March 29, 2016

By: /s/ JOHN FANELLI III

John Fanelli III
Senior Vice President and Chief Financial Officer (Principal Financial Officer)
Date: March 29, 2016

By: /s/ ALAN S. FELLHEIMER

Alan S. Fellheimer
Director
Date: March 29, 2016

By: /s/ RONALD F. EMMA

Ronald F. Emma
Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)
Date: March 29, 2016

By: /s/ STEVEN M. KRAMER

Steven M. Kramer
Director
Date: March 29, 2016

By: /s/ CAMILLE S. ANDREWS

Camille S. Andrews
Director
Date: March 29, 2016

By: /s/ CRAIG L. MARTIN

Craig L. Martin
Director
Date: March 29, 2016

By: /s/ STEVEN R. CURTS

Steven R. Curts

Director

Date: March 29, 2016

Table of Contents

Schedule II

Hill International, Inc. and Subsidiaries

Valuation and Qualifying Accounts

(Allowance for Uncollectible Receivables in thousands)

	Balance at Beginning of Fiscal Year	Additions (Recoveries) Charged (Credited) to Earnings	Other- Allowance Acquired in Business Combinations	Uncollectible Receivables Written off, Net of Recoveries	Balance at End of Fiscal Year
Fiscal year ended December 31, 2015	\$ 60,801	\$ 9,079	\$ 120	\$ (6,252)	\$ 63,748
Fiscal year ended December 31, 2014	\$ 66,856	\$ (2,344)	\$ 161	\$ (3,872)	\$ 60,801
Fiscal year ended December 31, 2013	\$ 70,205	\$ 1,317	\$ 90	\$ (4,756)	\$ 66,856