

Hill International, Inc.  
Form 10-Q  
November 16, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended September 30, 2015**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-33961**

**HILL INTERNATIONAL, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

**19103**  
(Zip Code)

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

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

Indicate by a check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

There were 51,559,671 shares of the Registrant's Common Stock outstanding at November 11, 2015.

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**HILL INTERNATIONAL, INC. AND SUBSIDIARIES**

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

	September 30, 2015 (unaudited)	December 31, 2014
<b>Assets</b>		
Cash and cash equivalents	\$ 23,901	\$ 30,124
Cash - restricted	4,191	8,851
Accounts receivable, less allowance for doubtful accounts of \$59,282 and \$60,801	236,824	195,098
Accounts receivable - affiliate	8,201	3,993
Prepaid expenses and other current assets	17,769	14,277
Income taxes receivable	3,891	4,246
Deferred income tax assets	6,668	6,575
Total current assets	301,445	263,164
Property and equipment, net	22,565	11,643
Cash - restricted, net of current portion	739	7,156
Retainage receivable	3,150	3,300
Acquired intangibles, net	16,081	19,282
Goodwill	75,212	80,437
Investments	3,804	5,083
Deferred income tax assets	12,496	13,645
Other assets	14,064	15,899
Total assets	\$ 449,556	\$ 419,609
<b>Liabilities and Stockholders Equity</b>		
Current maturities of notes payable	\$ 2,982	\$ 6,361
Accounts payable and accrued expenses	103,310	93,637
Income taxes payable	11,173	9,306
Deferred revenue	16,194	19,896
Deferred income taxes	2,326	2,456
Other current liabilities	13,733	10,044
Total current liabilities	149,718	141,700
Notes payable, net of current maturities	140,492	121,875
Retainage payable	2,916	2,448
Deferred income taxes	13,419	15,661
Deferred revenue	14,384	12,193
Other liabilities	10,946	3,732
Total liabilities	331,875	297,609
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value; 1,000 shares authorized, none issued		

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Common stock, \$.0001 par value; 100,000 shares authorized, 58,171 shares and 56,920 shares issued at September 30, 2015 and December 31, 2014, respectively	<b>6</b>	6
Additional paid-in capital	<b>187,731</b>	179,912
Retained earnings (deficit)	<b>2,319</b>	(5,726)
Accumulated other comprehensive loss	<b>(45,694)</b>	(32,600)
	<b>144,362</b>	141,592
Less treasury stock of 6,614 shares and 6,546 shares at September 30, 2015 and December 31, 2014, respectively, at cost	<b>(28,665)</b>	(28,304)
Hill International, Inc. share of equity	<b>115,697</b>	113,288
Noncontrolling interests	<b>1,984</b>	8,712
Total equity	<b>117,681</b>	122,000
Total liabilities and stockholders' equity	<b>\$ 449,556</b>	\$ 419,609

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014 (Restated)
Consulting fee revenue	\$ 158,579	\$ 145,324	\$ 469,458	\$ 427,088
Reimbursable expenses	20,356	16,167	61,393	44,055
Total revenue	178,935	161,491	530,851	471,143
Cost of services	89,345	82,675	268,174	244,511
Reimbursable expenses	20,356	16,167	61,393	44,055
Total direct expenses	109,701	98,842	329,567	288,566
Gross profit	69,234	62,649	201,284	182,577
Selling, general and administrative expenses	57,527	51,352	173,101	151,677
Equity in losses of affiliate	14		231	
Operating profit	11,693	11,297	27,952	30,900
Interest expense and related financing fees, net	4,147	16,112	11,252	26,834
Earnings (loss) before income taxes	7,546	(4,815)	16,700	4,066
Income tax expense	4,210	3,800	7,980	5,117
Net earnings (loss)	3,336	(8,615)	8,720	(1,051)
Less: net earnings - noncontrolling interests	388	351	675	1,089
Net earnings (loss) attributable to Hill International, Inc.	\$ 2,948	\$ (8,966)	\$ 8,045	\$ (2,140)
Basic earnings (loss) per common share - Hill International, Inc.	\$ 0.06	\$ (0.19)	\$ 0.16	\$ (0.05)
Basic weighted average common shares outstanding	51,119	46,606	50,661	42,348
Diluted earnings (loss) per common share - Hill International, Inc.	\$ 0.06	\$ (0.19)	\$ 0.16	\$ (0.05)
Diluted weighted average common shares outstanding	51,803	46,606	51,274	42,348

See accompanying notes to consolidated financial statements.



Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS (LOSS)****(In thousands)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
				<b>(Restated)</b>
Consolidated net earnings (loss)	\$ <b>3,336</b>	\$ (8,615)	\$ <b>8,720</b>	\$ (1,051)
Foreign currency translation adjustment, net of tax	<b>(8,630)</b>	(2,759)	<b>(15,910)</b>	(210)
Other, net	<b>(78)</b>	(238)	<b>(213)</b>	184
Comprehensive loss	<b>(5,372)</b>	(11,612)	<b>(7,403)</b>	(1,077)
Comprehensive (loss) earnings attributable to noncontrolling interests	<b>(2,992)</b>	(598)	<b>(6,728)</b>	327
Comprehensive loss attributable to Hill International, Inc.	\$ <b>(2,380)</b>	\$ (11,014)	\$ <b>(675)</b>	\$ (1,404)

See accompanying notes to consolidated financial statements.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
		<b>(Restated)</b>
<b>Cash flows from operating activities:</b>		
Net earnings (loss)	\$ 8,720	\$ (1,051)
<b>Adjustments to reconcile net earnings to net cash used in operating activities:</b>		
Depreciation and amortization	8,286	7,276
Provision for bad debts	2,540	1,501
Interest accretion on term loan		15,526
Deferred tax expense	(1,585)	(2,623)
Share based compensation	2,360	2,712
<b>Changes in operating assets and liabilities, net:</b>		
Restricted cash	10,658	3,716
Accounts receivable	(57,690)	(15,779)
Accounts receivable - affiliate	(2,830)	(1,648)
Prepaid expenses and other current assets	(4,556)	2,381
Income taxes receivable	25	589
Retainage receivable	150	(1,132)
Other assets	2,342	1,065
Accounts payable and accrued expenses	15,194	(3,524)
Income taxes payable	1,455	(2,603)
Deferred revenue	589	(7,610)
Other current liabilities	7,398	(2,711)
Retainage payable	474	1,166
Other liabilities	2,878	(3,599)
Net cash used in operating activities	(3,592)	(6,348)
<b>Cash flows from investing activities:</b>		
Purchase of business, net of cash acquired	(4,384)	(2,393)
Payments for purchase of property and equipment	(11,447)	
Net cash used in investing activities	(15,831)	(2,393)
<b>Cash flows from financing activities:</b>		
Due to bank		(2)
Net borrowings on revolving loans	14,252	(14,793)
Proceeds from Philadelphia Industrial Development Corporation loan	750	
Payments on Philadelphia Industrial Development Corporation loan	(27)	
Net proceeds from secondary public offering of common stock		38,078
Net proceeds from new term loan and revolving credit facilities		120,000
Pay off and termination of term loan		(100,000)
Pay off and termination of revolving credit facility		(25,500)
Payment of financing fees		(9,484)
Dividends paid to noncontrolling interest	(130)	(173)
Proceeds from stock issued under employee stock purchase plan	57	158
Proceeds from exercise of stock options	137	1,032
Net cash provided by financing activities	15,039	9,316
Effect of exchange rate changes on cash	(1,839)	(2,431)

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Net increase (decrease) in cash and cash equivalents		<b>(6,223)</b>		(1,856)
Cash and cash equivalents beginning of period		<b>30,124</b>		30,381
Cash and cash equivalents end of period		<b>\$ 23,901</b>	<b>\$</b>	28,525

See accompanying notes to consolidated financial statements.

Table of Contents**HILL INTERNATIONAL, INC. AND SUBSIDIARIES****Notes to Consolidated Financial Statements****(Unaudited)****Note 1 Restatement and Revision of Previously Reported Consolidated Financial Statements**

Due to the civil and political 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 of the political instability and economic uncertainty within Libya and because a promised payment of \$31,600,000 in 2011 never materialized, the Company determined that its previous accounting treatment for the Libya Receivable was no longer appropriate as of and for the year ended December 31, 2012. The Company has established a reserve against the entire Libya Receivable amounting to \$59,937,000 and eliminated \$11,388,000 of certain assets and net liabilities related to that receivable, consisting of sub-consultants and other contingent expenses in 2012, which are contractually owed only upon receipt of payment. These adjustments resulted in a net charge to selling, general and administrative expenses of \$48,549,000 for the year ended December 31, 2012. We received 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 \$1,638,000 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. In addition the Company recorded certain unrelated adjustments to consulting fee revenue, cost of services, selling, general and administrative expenses and income taxes for the year ended December 31, 2014 which also affected the three-month period ended March 31, 2015. In the aggregate, these unrelated adjustments decreased the net earnings by approximately \$307,000 for the nine months ended September 30, 2015. These unrelated adjustments were the direct result of the restatement because previous immaterial variances in certain accounts that were not recorded during the December 31, 2014 year end closing process became material when aggregated and assessed against the restated 2014 financial statements. The impact of correcting the misstatement on the Company's consolidated statements of earnings, comprehensive (loss) earnings and cash flows for the period ended September 30, 2014 is as follows:

	Nine Months Ended September 30, 2014		
	As Previously Reported	Adjustment	As Restated
<b>Consolidated Statement of Operations</b>			
Consulting fee revenue	\$ 427,088	\$	\$ 427,088
Reimbursable expenses	44,055		44,055
Total revenue	471,143		471,143
Cost of Services	244,511		244,511
Reimbursable expenses	44,055		44,055
Total direct costs	288,566		288,566
Gross profit	182,577		182,577
Selling, general and administrative expenses	156,625	(4,948)	151,677
Operating profit	25,952	4,948	30,900
Interest and related financing fees, net	26,834		26,834
Earnings (loss) before income taxes	(882)	4,948	4,066
Income tax expense	5,424	(307)	5,117
Net loss	(6,306)	5,255	(1,051)
Less: net earnings - noncontrolling interests	1,089		1,089
Net loss attributable to Hill International, Inc.	\$ (7,395)	\$ 5,255	\$ (2,140)
Basic loss per common share - Hill International, Inc.	\$ (0.17)	\$ 0.12	\$ (0.05)
Diluted loss per common share _ Hill International, Inc.	\$ (0.17)	\$ 0.12	\$ (0.05)



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## Nine Months Ended September 30, 2014

**Consolidated Statement of Comprehensive Loss**

Net loss	\$	(6,306)	\$	5,255	\$	(1,051)
Foreign currency translation adjustment, net		(1,651)		1,441		(210)
Other, net		184				184
Comprehensive loss		(7,773)		6,696		(1,077)
Comprehensive loss attributable to noncontrolling interests		327				327
Comprehensive loss attributable to Hill International, Inc.	\$	(8,100)	\$	6,696	\$	(1,404)

## Nine Months Ended September 30, 2014

**Consolidated Statement of Cash Flows**

Net Loss	\$	(6,306)	\$	5,255	\$	(1,051)
Depreciation and amortization		7,276				7,276
Provision for bad debts		1,501				1,501
Interest accretion on term loan		15,526				15,526
Deferred tax expense		(2,316)		(307)		(2,623)
Share based compensation		2,712				2,712
Restricted cash		3,716				3,716
Accounts receivable		(9,148)		(6,631)		(15,779)
Accounts receivable - affiliate		(1,648)				(1,648)
Prepaid expenses and other current assets		2,381				2,381
Income taxes receivable		589				589
Retainage receivable		(1,132)				(1,132)
Other assets		1,065				1,065
Accounts payable and accrued expenses		(5,207)		1,683		(3,524)
Income taxes payable		(2,603)				(2,603)
Deferred revenue		(7,610)				(7,610)
Other current liabilities		(2,711)				(2,711)
Retainage payable		1,166				1,166
Other liabilities		(3,599)				(3,599)
Net cash used in operations		(6,348)				(6,348)
Investing activities						
Net cash used in investing activities		(2,393)				(2,393)
Financing activities						
Net cash provided by financing activities		9,316				9,316
Effect of exchange rate changes on cash		(2,431)				(2,431)
Net decrease in cash and cash equivalents		(1,856)				(1,856)
Cash and cash equivalents - beginning of period		30,381				30,381
Cash and cash equivalents - end of period	\$	28,525	\$		\$	28,525

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**Note 2 - The Company**

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.

**Note 3 Basis of Presentation and Significant Accounting Policy**

*Basis of Presentation*

The accompanying unaudited interim consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K/A for the year ended December 31, 2014. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States ( GAAP ) for complete financial statements. In the opinion of management, these statements include all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial statements. The consolidated financial statements include the accounts of Hill and its wholly- and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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

*Fair Value Measurements*

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. It measures certain financial and nonfinancial assets and liabilities at fair value on a recurring and nonrecurring basis.

Nonfinancial assets and liabilities include items such as goodwill and long lived assets that are measured at fair value resulting from impairment, if deemed necessary. During the nine months ended September 30, 2015 and 2014, the Company did not record any fair value adjustments to those financial and nonfinancial assets and liabilities measured at fair value on a recurring or nonrecurring basis.

**Note 4 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 have not been presented because they are not material to the Company's consolidated results of operations, either individually or in the aggregate.

***Engineering S.A. ( ESA )***

In April 2015, two shareholders who owned approximately 19% of ESA exercised their ESA Put Options claiming an aggregate value of BRL 10,645,000 (approximately \$3,416,000 at September 30, 2015). 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. On October 6, 2015, the sellers offered 129,648 shares of Hill's common stock to the Company for a price of approximately \$580,000. The Company agreed to acquire the shares which will be placed in treasury. Settlement is expected to occur in late November 2015. The Company now owns approximately 91% of ESA.

***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

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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 (\$2,255,000), of which TRY 4,400,000 (\$1,627,000) is included in other current liabilities and TRY 1,700,000 (\$628,000) is included in other liabilities in the consolidated balance sheet at September 30, 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 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, which had 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, £519,000 (\$830,000) to be 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 £719,000 (\$1,090,000), of which £519,000 (approximately \$787,000 at September 30, 2015) is included in other current liabilities and £200,000 (approximately \$303,000 at September 30, 2015) is included in other liabilities in the consolidated balance sheet at September 30, 2015. Two of the selling shareholders may receive an earn-out in five annual installments of up to £100,000 (\$152,000 at September 30, 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 equal to or greater than £396,000 (\$600,000).

**Note 5 Accounts Receivable**

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

	September 30, 2015	December 31, 2014
Billed	\$ 240,589	\$ 210,460
Retainage, current portion	14,802	12,700
Unbilled	40,715	32,739
	<b>296,106</b>	255,899
Allowance for doubtful accounts	(59,282)	(60,801)
	<b>\$ 236,824</b>	<b>\$ 195,098</b>

*Libya Receivable*



The Company has open but inactive contracts with the Libyan Organization for the Development of 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 balance of the Libya Receivable was approximately \$59,937,000. Because of the continuing political instability in Libya, the Company established a reserve for the full amount of the receivable at December 31, 2012. During 2013, the Company received payments on the Libya Receivable of approximately \$2,880,000. In the first quarter of 2014, the Company received an additional payment of approximately \$6,631,000 against the Libya Receivable which has been reflected as a reduction of selling, general and administrative ( SG&A ) expenses for the nine-months ended September 30, 2014. At September 30, 2015, after a decrease of approximately \$1,151,000 due to the effect of foreign exchange translation losses, the Libya

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Receivable was approximately \$49,275,000 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.

**Note 6 Intangible Assets**

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

	September 30, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$ 34,966	\$ 21,906	\$ 36,412	\$ 20,758
Acquired contract rights	12,370	10,912	11,387	9,717
Trade names	2,735	1,172	3,023	1,065
Total	\$ 50,071	\$ 33,990	\$ 50,822	\$ 31,540
Intangible assets, net	\$ 16,081		\$ 19,282	

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

Three Months Ended September 30,		Nine Months Ended September 30,	
2015	2014	2015	2014
\$ 1,578	\$ 1,518	\$ 4,609	\$ 4,650

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

Year Ending December 31,	Estimated Amortization Expense
2015 (remaining 3 months)	\$ 1,455
2016	4,339
2017	3,055
2018	1,953
2019	1,679

**Note 7 Goodwill**

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The Company performs its annual goodwill impairment testing, by reporting unit, in the third quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of the Company's weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company performed its annual impairment test effective July 1, 2015. Based on a preliminary valuation, the fair value of the Project Management unit and the Construction Claims unit significantly exceeded their carrying.

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

	Project Management	Construction Claims	Total
Balance, December 31, 2014	\$ 53,669	\$ 26,768	\$ 80,437
<b>Additions</b>	<b>3,783</b>		<b>3,783</b>
<b>Translation adjustments</b>	<b>(7,657)</b>	<b>(1,351)</b>	<b>(9,008)</b>
<b>Balance, September 30, 2015</b>	<b>\$ 49,795</b>	<b>\$ 25,417</b>	<b>\$ 75,212</b>

**Note 8 Accounts Payable and Accrued Expenses**

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

	September 30, 2015	December 31, 2014
Accounts payable	\$ 33,640	\$ 32,701
Accrued payroll	47,450	41,205
Accrued subcontractor fees	7,642	3,930
Accrued agency fees	5,875	6,920
Accrued legal and professional fees	2,934	1,099
Other accrued expenses	5,769	7,782
	<b>\$ 103,310</b>	<b>\$ 93,637</b>

**Note 9 Notes Payable and Long-Term Debt**

Outstanding debt obligations are as follows (in thousands):

	September 30, 2015	December 31, 2014
Term Loan Facility	\$ 118,800	\$ 119,700
Domestic Revolving Credit Facility	8,500	200
International Revolving Credit Facility	10,466	2,554
Borrowings under revolving credit facilities with a consortium of banks in Spain	4,621	5,037
Borrowing under unsecured credit facility with Ibercaja Bank in Spain	197	745
Borrowing from Philadelphia Industrial Development Corporation	723	
Other notes payable	167	
	<b>143,474</b>	<b>128,236</b>
Less current maturities	<b>2,982</b>	<b>6,361</b>
Notes payable and long-term debt, net of current maturities	<b>\$ 140,492</b>	<b>\$ 121,875</b>



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**Refinancing**

Effective as of September 26, 2014 (the Closing Date), the Company, entered into a credit agreement with Société Générale, as administrative agent (the 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 approximately 11,765,000 (\$15,000,000 at the closing date and \$13,240,000 at September 30, 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 8,000,000, 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 (see Note 19). The financial covenants consist of a Maximum Consolidated Net Leverage Ratio and an Excess Account Concentration requirement. The Consolidated Net Leverage Ratio is the ratio of (a) consolidated total debt (minus cash of up to \$10,000,000 held in the aggregate) to consolidated earnings before interest, taxes, depreciation, amortization 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 total of accounts receivable from all clients within 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 September 30, 2015, non-permitted accounts receivable did not exceed the limits set forth above.

The following compares the Maximum Consolidated Net Leverage Ratio to the actual consolidated net leverage ratio at September 30, 2015:

Not to exceed	Actual
3.25 to 1.00	3.03 to 1.00

The U.S. Credit Facilities are guaranteed by certain U.S. subsidiaries of the Company, and the International Revolver is guaranteed by the Company and certain of the Company's U.S. and non-U.S. subsidiaries.

**Term Loan Facility**

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

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- 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)

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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 \$5,888,000 and \$6,772,000 are included in other assets in the consolidated balance sheets at September 30, 2015 and December 31, 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.

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.



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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 September 30, 2015, the domestic borrowing base was \$30,000,000 and the international borrowing base was 11,795,000 (approximately \$13,240,000 at September 30, 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,

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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 \$2,400,000 and \$2,850,000 are included in other assets in the consolidated balance sheet at September 30, 2015 and December 31, 2014, respectively.

At September 30, 2015, the Company had \$9,286,000 of outstanding letters of credit and \$12,214,000 of available borrowing capacity under the U.S. Revolver.

At September 30, 2015, the Company had \$1,881,000 of outstanding letters of credit and \$893,000 of available borrowing capacity under the International Revolver and its other foreign credit agreements (See Other Debt Arrangements below for more information).

**Other Debt Arrangements**

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

The Company's subsidiary, Hill International (Spain) S.A. (Hill Spain), 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 75.0% of the initial limit at December 31, 2014 and will be reduced to 50.0% at December 31, 2015. At September 30, 2015, the total facility was approximately 4,005,000 (approximately \$4,507,000) and borrowings outstanding were 3,986,000 (approximately \$4,486,000). The amount being financed (Credit Contracts) by each Financing Entity is between 284,000 (approximately \$320,000) and 1,154,000 (approximately \$1,299,000). 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 120,000 (approximately \$135,000) at September 30, 2015. The availability is reduced by 15,000 on a quarterly basis. At September 30, 2015, total borrowings outstanding were 120,000. The interest rate at September 30, 2015 was 5.91%. The ICO loan expires on August 10, 2017.

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Hill Spain maintains an unsecured credit facility with the Ibercaja Bank in Spain for 175,000 (approximately \$197,000) at September 30, 2015. The availability is being reduced by 175,000 at the end of each calendar quarter. At September 30, 2015, total borrowings outstanding were 175,000. The interest rate at September 30, 2015 was 6.75%. The facility expires on December 31, 2015.

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 September 30, 2015) collateralized by certain overseas receivables. At September 30, 2015, there were no borrowings outstanding. The interest rate is the one-month Emirates InterBank Offer Rate plus 3.00% (or 4.41% at September 30, 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 \$54,500,000 at September 30, 2015) of which AED 95,221,000 (approximately \$25,900,000) was outstanding at September 30, 2015. The credit facility will expire on May 7, 2016.

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Engineering S.A. maintains four unsecured revolving credit facilities with two banks in Brazil aggregating 2,220,000 Brazilian Reais (BRL) (approximately \$542,000 at September 30, 2015), with a weighted average interest rate of 3.69% per month at September 30, 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 September 30, 2015, the maximum U.S. dollar equivalent of the commitments was \$80,163,000 of which \$42,042,000 is outstanding.

**Note 10 Supplemental Cash Flow Information**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Interest and related financing fees paid	\$ 9,067	\$ 19,662
Income taxes paid	\$ 4,242	\$ 5,375
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 acquisition of an additional interest in Engineering S.A.	\$ (4,374)	\$ (2,649)
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

**Note 11 Earnings per Share**

Basic earnings per common share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted loss per common share incorporates the incremental shares issuable upon the assumed exercise of stock options, if dilutive. Dilutive stock options increased the average common shares outstanding by approximately 684,000 shares for the three months ended September 30, 2015 and by approximately 613,000 shares for the nine months ended September 30, 2015. Options to purchase 3,208,000 shares and 3,773,000 shares were excluded from the calculation of diluted earnings per common share for the three- and nine-month periods ended September 30, 2015 because they were antidilutive. Dilutive stock options increased the average common shares outstanding by approximately 144,000 shares for the three months ended September 30, 2014 and by approximately 186,000 shares for the nine months ended September 30, 2014. Options to purchase 7,437,000 shares and 7,460,000 shares were excluded from the

calculation of diluted (loss) earnings per common share for the three- and nine-month periods ended September 30, 2014 because they were antidilutive.

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**Note 12 Share-Based Compensation**

At September 30, 2015, the Company had approximately 7,908,000 options outstanding with a weighted average exercise price of \$4.40. During the nine months ended September 30, 2015, the Company granted 1,035,000 options which vest over a five-year period and 63,000 options which vested immediately. The options have a weighted-average exercise price of \$4.03 and a weighted average contractual life of 6.9 years. The aggregate fair value of the options was \$2,221,000 calculated using the Black-Scholes valuation model. The weighted average assumptions used to calculate fair value were: expected life 4.9 years; volatility 59.1% and risk-free interest rate 1.45%. During the nine months ended September 30, 2015, options for 139,000 shares with a weighted average exercise price of \$3.59 were exercised, options for approximately 383,000 shares with a weighted average exercise price of \$6.90 lapsed and options for 28,000 shares with a weighted average exercise price of \$4.40 were forfeited.

During the nine months ended September 30, 2015, employees purchased approximately 18,000 common shares, for an aggregate purchase price of \$57,000, pursuant to the Company's 2008 Employee Stock Purchase Plan.

The Company recognized share-based compensation expense in selling, general and administrative expenses in the consolidated statement of operations totaling \$899,000 and \$785,000 for the three months ended September 30, 2015 and 2014, respectively, and \$2,360,000 and \$2,712,000 for the nine months ended September 30, 2015 and 2014, respectively.

**Note 13 Stockholders' Equity**

The following table summarizes the changes in stockholders' equity during the nine months ended September 30, 2015 (in thousands):

	Total	Hill International, Inc. Stockholders	Noncontrolling Interests
Stockholders' equity, December 31, 2014	\$ 122,000	\$ 113,288	\$ 8,712
Net earnings	<b>8,720</b>	<b>8,045</b>	<b>675</b>
Other comprehensive (loss)	<b>(16,123)</b>		