

Hill International, Inc.  
Form 10-Q  
August 05, 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 June 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 50,602,975 shares of the Registrant's Common Stock outstanding at August 1, 2015.

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**HILL INTERNATIONAL, INC. AND SUBDISIARIES**

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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)**

|  | June 30, 2015<br>(unaudited) | December 31, 2014 |
|--|------------------------------|-------------------|
| <b>Assets</b>  |                              |                   |
| Cash and cash equivalents  | \$ 31,571                    | \$ 30,124         |
| Cash - restricted  | 14,276                       | 8,851             |
| Accounts receivable, less allowance for doubtful accounts of \$10,526 and \$11,142 | 237,501                      | 194,256           |
| Accounts receivable - affiliate  | 8,935                        | 3,993             |
| Prepaid expenses and other current assets  | 14,486                       | 15,854            |
| Income taxes receivable  | 3,840                        | 2,833             |
| Deferred income tax assets   | 1,055                        | 1,188             |
| <b>Total current assets</b>  | <b>311,664</b>               | <b>257,099</b>    |
| Property and equipment, net  | 21,440                       | 11,643            |
| Cash - restricted, net of current portion  | 306                          | 7,156             |
| Accounts receivable - Libya  | 49,759                       | 49,659            |
| Retainage receivable   | 2,932                        | 3,300             |
| Acquired intangibles, net  | 19,075                       | 19,282            |
| Goodwill   | 79,990                       | 80,437            |
| Investments  | 3,927                        | 5,083             |
| Deferred income tax assets   | 16,260                       | 15,426            |
| Other assets   | 16,812                       | 15,899            |
| <b>Total assets</b>  | <b>\$ 522,165</b>            | <b>\$ 464,984</b> |
| <b>Liabilities and Stockholders Equity</b>   |                              |                   |
| Current maturities of notes payable  | \$ 4,806                     | \$ 6,361          |
| Accounts payable and accrued expenses  | 116,463                      | 92,068            |
| Income taxes payable   | 9,865                        | 8,689             |
| Deferred revenue   | 18,649                       | 20,542            |
| Deferred income taxes  | 203                          | 279               |
| Other current liabilities  | 14,141                       | 9,996             |
| <b>Total current liabilities</b>   | <b>164,127</b>               | <b>137,935</b>    |
| Notes payable, net of current maturities   | 148,280                      | 121,875           |
| Retainage payable  | 2,901                        | 2,448             |
| Deferred income taxes  | 13,967                       | 14,654            |
| Deferred revenue   | 15,267                       | 12,193            |
| Other liabilities  | 18,454                       | 13,093            |
| <b>Total liabilities</b>   | <b>362,996</b>               | <b>302,198</b>    |
| Commitments and contingencies  |                              |                   |
| Stockholders equity:   |                              |                   |

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|   |                   |            |
|---|-------------------|------------|
| Preferred stock, \$.0001 par value; 1,000 shares authorized, none issued  |                   |            |
| Common stock, \$.0001 par value; 100,000 shares authorized, 57,217 shares and 56,920 shares issued at June 30, 2015 and December 31, 2014, respectively | <b>6</b>          | <b>6</b>   |
| Additional paid-in capital  | <b>178,163</b>    | 179,912    |
| Retained earnings   | <b>41,649</b>     | 36,159     |
| Accumulated other comprehensive loss  | <b>(36,960)</b>   | (33,661)   |
|   | <b>182,858</b>    | 182,416    |
| Less treasury stock of 6,614 shares and 6,546 shares at June 30, 2015 and December 31, 2014, respectively, at cost                                      | <b>(28,665)</b>   | (28,304)   |
| Hill International, Inc. share of equity  | <b>154,193</b>    | 154,112    |
| Noncontrolling interests  | <b>4,976</b>      | 8,674      |
| Total equity  | <b>159,169</b>    | 162,786    |
| Total liabilities and stockholders' equity  | <b>\$ 522,165</b> | \$ 464,984 |

See accompanying notes to consolidated financial statements.

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

|  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|--|-----------------------------|------------|---------------------------|------------|
|  | 2015                        | 2014       | 2015                      | 2014       |
| Consulting fee revenue                                       | \$ 159,738                  | \$ 144,515 | \$ 312,191                | \$ 281,764 |
| Reimbursable expenses  | 21,910                      | 15,124     | 41,037                    | 27,888     |
| Total revenue  | 181,648                     | 159,639    | 353,228                   | 309,652    |
| Cost of services   | 92,400                      | 83,246     | 179,089                   | 161,836    |
| Reimbursable expenses  | 21,910                      | 15,124     | 41,037                    | 27,888     |
| Total direct expenses  | 114,310                     | 98,370     | 220,126                   | 189,724    |
| Gross profit   | 67,338                      | 61,269     | 133,102                   | 119,928    |
| Selling, general and administrative expenses                 | 56,652                      | 52,614     | 116,217                   | 105,273    |
| Equity in losses of affiliate                                | 34                          |            | 217                       |            |
| Operating profit   | 10,652                      | 8,655      | 16,668                    | 14,655     |
| Interest expense and related financing fees, net             | 3,531                       | 5,646      | 7,105                     | 10,722     |
| Earnings before income taxes                                 | 7,121                       | 3,009      | 9,563                     | 3,933      |
| Income tax expense   | 2,586                       | 993        | 3,749                     | 1,624      |
| Net earnings   | 4,535                       | 2,016      | 5,814                     | 2,309      |
| Less: net earnings - noncontrolling interests                | 140                         | 498        | 324                       | 738        |
| Net earnings attributable to Hill International, Inc.        | \$ 4,395                    | \$ 1,518   | \$ 5,490                  | \$ 1,571   |
| Basic earnings per common share - Hill International, Inc.   | \$ 0.09                     | \$ 0.04    | \$ 0.11                   | \$ 0.04    |
| Basic weighted average common shares outstanding             | 50,483                      | 40,568     | 50,429                    | 40,184     |
| Diluted earnings per common share - Hill International, Inc. | \$ 0.09                     | \$ 0.04    | \$ 0.11                   | \$ 0.04    |
| Diluted weighted average common shares outstanding           | 51,495                      | 42,591     | 51,010                    | 41,570     |

See accompanying notes to consolidated financial statements.

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

(In thousands)

(Unaudited)

|  | Three Months Ended June 30, |          | Six Months Ended June 30, |          |
|--|-----------------------------|----------|---------------------------|----------|
|  | 2015                        | 2014     | 2015                      | 2014     |
| Consolidated net earnings  | \$ 4,535                    | \$ 2,016 | \$ 5,814                  | \$ 2,309 |
| Foreign currency translation adjustment, net of tax                    | 2,244                       | 1,090    | (7,186)                   | 2,549    |
| Other, net   | (76)                        | 383      | (135)                     | 422      |
| Comprehensive earnings (loss)  | 6,703                       | 3,489    | (1,507)                   | 5,280    |
| Comprehensive (loss) earnings attributable to noncontrolling interests | (2,572)                     | 407      | (3,698)                   | 925      |
| Comprehensive earnings attributable to Hill International, Inc.        | \$ 9,275                    | \$ 3,082 | \$ 2,191                  | \$ 4,355 |

See accompanying notes to consolidated financial statements.

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

|  | <b>Six Months Ended June 30,</b> |             |
|--|----------------------------------|-------------|
|  | <b>2015</b>                      | <b>2014</b> |
| <b>Cash flows from operating activities:</b>   |                                  |             |
| Net earnings   | \$ 5,814                         | \$ 2,309    |
| <b>Adjustments to reconcile net earnings to net cash used in operating activities:</b> |                                  |             |
| Depreciation and amortization  | 5,423                            | 4,864       |
| Provision for bad debts  | 2,441                            | 442         |
| Interest accretion on term loan  |                                  | 4,247       |
| Deferred tax expense   | (1,455)                          | 307         |
| Share based compensation   | 1,461                            | 1,927       |
| <b>Changes in operating assets and liabilities, net:</b>                               |                                  |             |
| Restricted cash  | 229                              | 1,726       |
| Accounts receivable  | (53,246)                         | (19,403)    |
| Accounts receivable - affiliate  | (3,564)                          | (566)       |
| Prepaid expenses and other current assets  | 576                              | (655)       |
| Income taxes receivable  | (1,347)                          | 49          |
| Retainage receivable   | 368                              | (134)       |
| Other assets   | (937)                            | (2,232)     |
| Accounts payable and accrued expenses  | 31,431                           | 9,331       |
| Income taxes payable   | 948                              | (4,610)     |
| Deferred revenue   | 3,654                            | (2,614)     |
| Other current liabilities  | (763)                            | (790)       |
| Retainage payable  | 458                              | 14          |
| Other liabilities  | 1,040                            | (1,842)     |
| Net cash used in operating activities  | (7,469)                          | (7,630)     |
| <b>Cash flows from investing activities:</b>   |                                  |             |
| Purchase of business, net of cash acquired   | (4,384)                          |             |
| Payments for purchase of property and equipment  | (9,059)                          | (2,372)     |
| Net cash used in investing activities  | (13,443)                         | (2,372)     |
| <b>Cash flows from financing activities:</b>   |                                  |             |
| Net borrowings on revolving loans  | 24,245                           | 4,626       |
| Proceeds from Philadelphia Industrial Development Corporation loan                     | 750                              |             |
| Payments on Philadelphia Industrial Development Corporation loan                       | (13)                             |             |
| Payments on notes payable  |                                  | (1,160)     |
| Dividends paid to noncontrolling interests   | (130)                            |             |
| Due to bank  |                                  | (2)         |
| Proceeds from stock issued under employee stock purchase plan                          | 32                               | 54          |
| Proceeds from exercise of stock options  | 137                              | 879         |
| Net cash provided by financing activities  | 25,021                           | 4,397       |
| Effect of exchange rate changes on cash  | (2,662)                          | 2,071       |
| Net increase (decrease) in cash and cash equivalents                                   | 1,447                            | (3,534)     |
| Cash and cash equivalents beginning of period  | 30,124                           | 30,381      |
| Cash and cash equivalents end of period  | \$ 31,571                        | \$ 26,847   |



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See accompanying notes to consolidated financial statements.

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**HILL INTERNATIONAL, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Note 1 - 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 2 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 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.

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

*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 has 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 (\$2,255,000), 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 June 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

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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, 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, £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 (\$1,150,000), of which £519,000 (approximately \$816,000 at June 30, 2015) is included in other current liabilities and £200,000 (approximately \$315,000 at June 30, 2015) is included in other liabilities in the consolidated balance sheet at June 30, 2015. Two of the selling shareholders may receive an earn-out in five annual installments of up to £100,000 (\$157,000 at June 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 (\$623,000).

***Collaborative Partners, Inc.***

In May 2015, the Company paid the final installment to the sellers by issuing 148,460 shares of its common stock valued at \$530,000.

**Note 4 Accounts Receivable**

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

|                                 | June 30, 2015 |    | December 31, 2014 |
|---------------------------------|---------------|----|-------------------|
| Billed                          | \$ 194,955    | \$ | 159,959           |
| Retainage, current portion      | 11,991        |    | 12,700            |
| Unbilled                        | 41,081        |    | 32,739            |
|                                 | 248,027       |    | 205,398           |
| Allowance for doubtful accounts | (10,526)      |    | (11,142)          |
|                                 | \$ 237,501    | \$ | 194,256           |

***Libyan Receivable***

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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. From that time until 2013, there was no activity on the contracts and the Company did not receive any payments for the work performed prior to March 2011. During late 2013 and early 2014, Hill received payments of approximately \$9,900,000 from ODAC who also posted a letter of credit of approximately \$14,000,000 in Hill's favor which expired on June 30, 2014. Management believed that this progress was a positive indication that ODAC intends to fulfill its obligations to Hill.

In June 2014, a new parliament, the Council of Representatives ( CoR ), was elected and is the internationally recognized government of Libya. Subsequently, fighting broke out between forces loyal to the outgoing General National Congress ( GNC ) and the new CoR. The GNC reconvened, selected a Prime Minister and seized control of the capital city of Tripoli. The GNC controls Libya's ministries, central bank and state oil company. In September 2014, the United

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Nations began talks to reconcile the two factions, but management is not aware that any progress has been made as of July 2015. It is our understanding that government agencies such as ODAC have not been delegated any authority to make payments other than payroll.

Management has continued its dialogue with representatives of ODAC and understands that ODAC has obtained approval to facilitate immediate payment to Hill once the political situation normalizes. Additionally, upon ODAC's request in early 2014, Hill submitted new contracts for additional work.

The Company currently believes that recovery of its receivable from ODAC through continued communications, rather than legal action, remains appropriate, however, the Company has continued to explore its legal options, including discussions with outside legal counsel. In the event that the military and political environment changes significantly in Libya and its surrounding geopolitical regions or there are indications that the Company's continued efforts to negotiate amicably with ODAC are determined to have been unsuccessful, the Company will evaluate its options to pursue legal claims and/or assess the carrying amount of this receivable, which could have a significant adverse impact on our consolidated results of operations and consolidated financial position.

Currently, management believes that it has good relationships with the ODAC authorities. However due to the lack of a formal timetable for further payments of Hill's accounts receivable from ODAC or a return to work on Hill's existing contracts, management has classified the remaining accounts receivable amounting to \$49,759,000 as a non-current asset to reflect the uncertainty surrounding the timing of the collection of the receivable. Additionally, management has classified the accruals for certain taxes and agency fees related to the ODAC contracts amounting to approximately \$9,161,000 as part of other liabilities.

**Note 5 Intangible Assets**

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

|                          | June 30, 2015         |                          | December 31, 2014     |                          |
|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                          | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Client relationships     | \$ 37,034             | \$ 21,891                | \$ 36,412             | \$ 20,758                |
| Acquired contract rights | 12,553                | 10,398                   | 11,387                | 9,717                    |
| Trade names              | 2,922                 | 1,145                    | 3,023                 | 1,065                    |
| Total                    | \$ 52,509             | \$ 33,434                | \$ 50,822             | \$ 31,540                |
| Intangible assets, net   | \$ 19,075             |                          | \$ 19,282             |                          |

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

Three Months Ended June 30,

Six Months Ended June 30,

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|    |       |    |       |    |       |    |       |
|----|-------|----|-------|----|-------|----|-------|
|    | 2015  |    | 2014  |    | 2015  |    | 2014  |
| \$ | 1,611 | \$ | 1,546 | \$ | 3,031 | \$ | 3,132 |

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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<br>Amortization<br>Expense |
|---------------------------|--------------------------------------|
| 2015 (remaining 6 months) | \$ 3,110                             |
| 2016                      | 4,646                                |
| 2017                      | 3,273                                |
| 2018                      | 2,145                                |
| 2019                      | 1,872                                |

**Note 6 Goodwill**

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

|                                | Project<br>Management | Construction<br>Claims | Total            |
|--------------------------------|-----------------------|------------------------|------------------|
| Balance, December 31, 2014     | \$ 53,669             | \$ 26,768              | \$ 80,437        |
| <b>Additions</b>               | <b>3,522</b>          |                        | <b>3,522</b>     |
| <b>Translation adjustments</b> | <b>(3,752)</b>        | <b>(217)</b>           | <b>(3,969)</b>   |
| <b>Balance, June 30, 2015</b>  | <b>\$ 53,439</b>      | <b>\$ 26,551</b>       | <b>\$ 79,990</b> |

**Note 7 Accounts Payable and Accrued Expenses**

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

|                                     | June 30, 2015     | December 31, 2014 |
|-------------------------------------|-------------------|-------------------|
| Accounts payable                    | \$ 46,408         | \$ 32,701         |
| Accrued payroll                     | 47,396            | 39,845            |
| Accrued subcontractor fees          | 6,933             | 3,930             |
| Accrued agency fees                 | 6,589             | 6,920             |
| Accrued legal and professional fees | 3,149             | 968               |
| Other accrued expenses              | 5,988             | 7,704             |
|                                     | <b>\$ 116,463</b> | <b>\$ 92,068</b>  |



Table of Contents**Note 8 Notes Payable and Long-Term Debt**

Outstanding debt obligations are as follows (in thousands):

|  | June 30, 2015  | December 31, 2014 |
|--|----------------|-------------------|
| Term Loan Facility   | \$ 119,100     | \$ 119,700        |
| Domestic Revolving Credit Facility   | 16,000         | 200               |
| International Revolving Credit Facility  | 10,434         | 2,554             |
| Borrowings under revolving credit facilities with a consortium of banks in Spain | 4,624          | 5,037             |
| Borrowing under unsecured credit facility with Ibercaja Bank in Spain            | 392            | 745               |
| Borrowing under revolving credit facility with the National Bank of Abu Dhabi    | 1,574          |                   |
| Borrowing from Philadelphia Industrial Development Corporation                   | 737            |                   |
| Other notes payable  | 225            |                   |
|  | <b>153,086</b> | 128,236           |
| Less current maturities  | 4,806          | 6,361             |
| Notes payable and long-term debt, net of current maturities                      | \$ 148,280     | \$ 121,875        |

**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 \$13,199,000 at June 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. 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 June 30, 2015, foreign accounts receivable did not exceed the limits set forth above.



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

| Not to exceed | Actual       |
|---------------|--------------|
| 3.50 to 1.00  | 3.36 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:

- 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; provided, however that upon the occurrence of prepayments relating to certain repricing transactions within the first year following closing, a 1.0% prepayment premium will be payable. The Company is required to make mandatory prepayments of the Term Loan Facility, without premium or penalty, (i) with net proceeds of any issuance or incurrence of indebtedness (other than that permitted under the Term Loan Facility) by the Company after the closing, (ii) with net proceeds from certain asset sales outside the ordinary course of business, and (iii) with 50% of the excess cash flow (as defined in the agreement) for each fiscal year of the Borrowers commencing with the first full fiscal year ending after closing (which percentage would be reduced to 25% if the Consolidated Net Leverage Ratio is equal to or less than 2.25 to 1.00 or reduced to 0% if the Consolidated Net Leverage Ratio is equal to or less than 1.50 to 1.00).

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

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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 \$6,183,000 and \$6,772,000 are included in other assets in the consolidated balance sheets at June 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.

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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 June 30, 2015, the domestic borrowing base was \$30,000,000 and the international borrowing base was 11,765,000 (approximately \$13,199,000 at June 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, 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 \$2,550,000 and \$2,850,000 are included in other assets in the consolidated balance sheet at June 30, 2015 and December 31, 2014, respectively.

At June 30, 2015, the Company had \$11,670,000 of outstanding letters of credit and \$2,330,000 of available borrowing capacity under the U.S. Revolver.

At June 30, 2015, the Company had \$2,655,000 of outstanding letters of credit and \$2,410,000 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 June 30, 2015, the total facility was approximately 4,005,000 (approximately \$4,494,000) and borrowings outstanding were 3,987,000 (approximately

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\$4,473,000). The amount being financed ( Credit Contracts ) by each Financing Entity is between 284,000 (approximately \$319,000) and 1,154,000 (approximately \$1,295,000). 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 maintains an unsecured credit facility with the Ibercaja Bank in Spain for 350,000 (approximately \$392,000) at June 30, 2015. The availability is being reduced by 175,000 at the end of each calendar quarter. At June 30, 2015, total borrowings outstanding were 350,000. The interest rate at June 30, 2015 was 6.75%. The facility expires on December 31, 2015.

Hill Spain also maintains an ICO (Official Credit Institute) loan with Bankia Bank in Spain for 135,000 (approximately \$151,000) at June 30, 2015. The availability is reduced by 15,000 on a quarterly basis. At June 30, 2015, total borrowings outstanding were 135,000. The interest rate at June 30, 2015 was 5.91%. 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 June 30, 2015) collateralized by certain overseas receivables. At June 30, 2015, total borrowings outstanding were AED 5,782,000 (approximately \$1,574,000). The interest rate is the one-month Emirates InterBank Offer Rate plus 3.50% (or 4.84% at June 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 \$54,457,000 at June 30, 2015) of which AED 106,802,000 (approximately \$29,078,000) was outstanding at June 30, 2015. The credit facility will expire on May 7, 2016.

Engineering S.A. maintains four unsecured revolving credit facilities with two banks in Brazil aggregating 2,250,000 Brazilian Reais (BRL) (approximately \$722,000 at June 30, 2015), with a weighted average interest rate of 3.11% per month at June 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 June 30, 2015, the maximum U.S. dollar equivalent of the commitments was \$70,229,000 of which \$29,055,000 is outstanding.

Table of Contents**Note 9 Supplemental Cash Flow Information**

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

|  | <b>Six Months Ended June 30,</b> |             |
|--|----------------------------------|-------------|
|  | <b>2015</b>                      | <b>2014</b> |
| Interest and related financing fees paid   | \$ 6,174                         | \$ 7,097    |
| Income taxes paid  | \$ 1,258                         | \$ 6,616    |
| Increase in property and equipment from a tenant improvement allowance related to the relocation of corporate headquarters | \$ 3,894                         |             |
| Reduction of noncontrolling interests in connection with acquisition of an additional interest in Engineering S.A.         | \$                               | \$ (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 10 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 1,012,000 shares for the three months ended June 30, 2015 and by approximately 581,000 shares for the six months ended June 30, 2015. Options to purchase 3,198,000 shares and 3,871,000 shares were excluded from the calculation of diluted earnings per common share for the three and six months ended June 30, 2015 because they were antidilutive. Dilutive stock options increased the average common shares outstanding by approximately 2,023,000 shares for the three months ended June 30, 2014 and by approximately 1,386,000 shares for the six months ended June 30, 2014. Options to purchase 1,355,000 shares and 2,034,000 shares were excluded from the calculation of diluted earnings per common share for the three and six months ended June 30, 2014 because they were antidilutive.

**Note 11 Share-Based Compensation**

At June 30, 2015, the Company had approximately 7,841,000 options outstanding with a weighted average exercise price of \$4.39. During the six months ended June 30, 2015, the Company granted 1,025,000 options which vest over a five-year period. The options have a weighted-average exercise price of \$3.97 and a weighted average contractual life of 7.0 years. The aggregate fair value of the options was \$2,097,000 calculated using the Black-Scholes valuation model. The weighted average assumptions used to calculate fair value were: expected life 5.0 years; volatility 59.9% and risk-free interest rate 1.48%. During the first six months of 2015, options for approximately 139,000 shares with a weighted average exercise price of \$3.59 were exercised, options for approximately 377,000 shares with a weighted average exercise price of \$6.94 lapsed and options for 28,000 shares with a weighted average exercise price of \$4.40 lapsed.



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During the six months ended June 30, 2015, employees purchased approximately 10,000 common shares, for an aggregate purchase price of \$32,000, 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 \$700,000 and \$1,129,000 for the three months ended June 30, 2015 and 2014, respectively, and \$1,461,000 and \$1,927,000 for the six months ended June 30, 2015 and 2014, respectively.

Table of Contents**Note 12 Stockholders Equity**

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

|   | Total      | Hill International,<br>Inc. Stockholders | Noncontrolling<br>Interests |
|---|------------|--|-----------------------------|
| Stockholders' equity, December 31, 2014 | \$ 162,786 | \$ 154,112                               | \$ 8,674                    |
| Net earnings                            | 5,814      | 5,490                                    | 324                         |
| Other comprehensive (loss)              | (7,321)    | (3,299)                                  | (4,022)                     |
| Comprehensive earnings (loss)           | (1,507)    | 2,191                                    | (3,698)                     |
| Additional paid in capital              | 1,991      | 1,991                                    |                             |
| Acquisition of treasury stock           | (361)      | (361)                                    |                             |
| Adjustment related to ESA Put Option    | (4,270)    | (4,270)                                  |                             |
| Stock issued for acquisition of CPI     | 530        | 530                                      |                             |
| Stockholders' equity, June 30, 2015     | \$ 159,169 | \$ 154,193                               | \$ 4,976                    |

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

During the six months ended June 30, 2015, the Company received cash proceeds of \$137,000 from the exercise of stock options.

In April 2015, two shareholders who own approximately 19% of ESA exercised their ESA Put Options. The Company intends to pay the liability in shares of its common stock. See Note 16 for further information.

On May 4, 2015, the Company's Board of Directors approved the adoption of a stockholder rights plan and, on June 9, 2015, they rescinded that plan.

**Note 13 Income Taxes**

The effective tax rates for the three months ended June 30, 2015 and 2014 were 36.3% and 33.0%, respectively, and 39.2% and 41.3% for the six months ended June 30, 2015 and 2014, respectively. The Company's effective tax rate represents the Company's effective tax rate for the year based on projected income and mix of income among the various foreign tax jurisdictions, adjusted for discrete transactions occurring during the period. The Company recognized an income tax expense (benefit) related to an increase (decrease) in the reserve for uncertain tax positions totaling \$245,000 and (\$2,514,000) for the three- and six-month periods ended June 30, 2015 and 2014, respectively. In addition, the Company recognized an income tax expense (benefit) resulting from adjustments to true up prior year's book amounts to the amounts per the tax returns totaling (\$85,000) and \$44,000 for the three months ended June 30, 2015 and 2014, respectively, and \$0 and \$44,000 for the six months ended June 30, 2015 and 2014, respectively. For both years, the Company's effective tax rate is significantly higher than it otherwise would be

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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.

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

| (in thousands)                      | Three Months Ended June 30, 2015 |           |          | Three Months Ended June 30, 2014 |           |          |
|-------------------------------------|----------------------------------|-----------|----------|----------------------------------|-----------|----------|
|                                     | U.S.                             | Foreign   | Total    | U.S.                             | Foreign   | Total    |
| Earnings (loss) before income taxes | \$ (6,191)                       | \$ 13,312 | \$ 7,121 | \$ (10,791)                      | \$ 13,800 | \$ 3,009 |
| Income tax expense, net             | \$                               | \$ 2,586  | \$ 2,586 | \$                               | \$ 993    | \$ 993   |

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|                                     | Six Months Ended June 30, 2015 |           |          | Six Months Ended June 30, 2014 |           |          |
|-------------------------------------|--------------------------------|-----------|----------|--------------------------------|-----------|----------|
|                                     | U.S.                           | Foreign   | Total    | U.S.                           | Foreign   | Total    |
| Earnings (loss) before income taxes | \$ (16,921)                    | \$ 26,484 | \$ 9,563 | \$ (21,672)                    | \$ 25,605 | \$ 3,933 |
| Income tax expense, net             | \$                             | \$ 3,749  | \$ 3,749 | \$                             | \$ 1,624  | \$ 1,624 |

The reserve for uncertain tax positions amounted to \$1,220,000 and \$975,000 at June 30, 2015 and December 31, 2014, respectively, and is included in "Other liabilities" in the consolidated balance sheet at those dates. During the three- and six-month periods ended June 30, 2015, the reserve for uncertain tax positions was increased by \$245,000 and was due to certain tax positions taken in foreign jurisdictions. During the three months ended June 30, 2014, the reserve for uncertain tax positions was reduced by \$2,514,000 based on management's assessment that these items were effectively settled with the appropriate foreign tax authorities. During the six months ended June 30, 2014, the Company also reclassified \$420,000 from "Income taxes payable" to the reserve for uncertain tax positions primarily taken in foreign jurisdictions.

The Company's policy is to record income tax related interest and penalties in income tax expense. At both June 30, 2015 and December 31, 2014, potential interest and penalties related to uncertain tax positions amounting to \$520,000 was included in the balance above.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Management evaluates the need for valuation allowances on the deferred tax assets according to the provisions of ASC740, *Income Taxes*. They consider both positive and negative evidence. In making this determination, management assesses all of the evidence available at the time including recent earnings, internally-prepared income projections, and historical financial performance.

## **Note 14 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 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.

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

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

*Consulting Fee Revenue ( CFR )*

|                     | Three Months Ended June 30, |         |        |    |         |        |
|---------------------|-----------------------------|---------|--------|----|---------|--------|
|                     | 2015                        |         | 2014   |    |         |        |
| Project Management  | \$                          | 116,464 | 72.9%  | \$ | 108,521 | 75.1%  |
| Construction Claims |                             | 43,274  | 27.1   |    | 35,994  | 24.9   |
| Total               | \$                          | 159,738 | 100.0% | \$ | 144,515 | 100.0% |

*Total Revenue:*

|                     | Three Months Ended June 30, |         |        |    |         |        |
|---------------------|-----------------------------|---------|--------|----|---------|--------|
|                     | 2015                        |         | 2014   |    |         |        |
| Project Management  | \$                          | 137,052 | 75.4%  | \$ | 122,044 | 76.4%  |
| Construction Claims |                             | 44,596  | 24.6   |    | 37,595  | 23.6   |
| Total               | \$                          | 181,648 | 100.0% | \$ | 159,639 | 100.0% |

*Operating Profit:*

|   | Three Months Ended June 30, |         |      |    |         |  |
|---|-----------------------------|---------|------|----|---------|--|
|   | 2015                        |         | 2014 |    |         |  |
| Project Management before equity in loss of affiliate | \$                          | 15,041  |      | \$ | 13,218  |  |
| Equity in loss of affiliate                           |                             | (34)    |      |    |         |  |
| Total Project Management                              |                             | 15,007  |      |    | 13,218  |  |
| Construction Claims                                   |                             | 4,772   |      |    | 3,054   |  |
| Corporate   |                             | (9,127) |      |    | (7,617) |  |
| Total   | \$                          | 10,652  |      | \$ | 8,655   |  |

*Depreciation and Amortization Expense:*

|                     | Three Months Ended June 30, |       |      |    |       |  |
|---------------------|-----------------------------|-------|------|----|-------|--|
|                     | 2015                        |       | 2014 |    |       |  |
| Project Management  | \$                          | 2,077 |      | \$ | 1,720 |  |
| Construction Claims |                             | 802   |      |    | 663   |  |
| Subtotal segments   |                             | 2,879 |      |    | 2,383 |  |
| Corporate           |                             | 104   |      |    | 54    |  |

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|       |    |       |    |       |
|-------|----|-------|----|-------|
| Total | \$ | 2,983 | \$ | 2,437 |
|-------|----|-------|----|-------|

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|               | Three Months Ended June 30, |         |        |    |         |        |
|---------------|-----------------------------|---------|--------|----|---------|--------|
|               | 2015                        |         | 2014   |    |         |        |
| U.S./Canada   | \$                          | 39,909  | 25.0%  | \$ | 31,708  | 21.9%  |
| Latin America |                             | 6,855   | 4.3    |    | 11,064  | 7.7    |
| Europe        |                             | 21,317  | 13.3   |    | 18,948  | 13.1   |
| Middle East   |                             | 75,857  | 47.5   |    | 68,867  | 47.7   |
| Africa        |                             | 7,041   | 4.4    |    | 6,020   | 4.2    |
| Asia/Pacific  |                             | 8,759   | 5.5    |    | 7,908   | 5.4    |
| Total         | \$                          | 159,738 | 100.0% | \$ | 144,515 | 100.0% |
| U.S.          | \$                          | 39,159  | 24.5%  | \$ | 30,846  | 21.3%  |
| Non-U.S.      |                             | 120,579 | 75.5   |    | 113,669 | 78.7   |
| Total         | \$                          | 159,738 | 100.0% | \$ | 144,515 | 100.0% |

During the second quarter ended June 30, 2015, consulting fee revenue for the United Arab Emirates amounted to \$26,683,000 representing 16.7% of the total and Saudi Arabia's consulting fee revenue amounted to \$15,939,000 representing 10.0% of the total. No other country other than the United States accounted for 10% or more of consolidated consulting fee revenue.

During the second quarter ended June 30, 2014, consulting fee revenue for the United Arab Emirates amounted to \$17,229,000 representing 11.9% of the total and Oman's consulting fee revenue amounted to \$18,420,000 representing 12.7% of the total. No other country other than the United States accounted for 10% or more of consolidated consulting fee revenue.

*Total Revenue by Geographic Region:*

|               | Three Months Ended June 30, |         |        |    |         |        |
|---------------|-----------------------------|---------|--------|----|---------|--------|
|               | 2015                        |         | 2014   |    |         |        |
| U.S./Canada   | \$                          | 56,275  | 31.0%  | \$ | 42,693  | 26.7%  |
| Latin America |                             | 6,881   | 3.8    |    | 11,126  | 7.0    |
| Europe        |                             | 22,306  | 12.3   |    | 20,058  | 12.6   |
| Middle East   |                             | 79,232  | 43.6   |    | 70,629  | 44.2   |
| Africa        |                             | 8,040   | 4.4    |    | 6,940   | 4.3    |
| Asia/Pacific  |                             | 8,914   | 4.9    |    | 8,193   | 5.2    |
| Total         | \$                          | 181,648 | 100.0% | \$ | 159,639 | 100.0% |
| U.S.          | \$                          | 55,466  | 30.5%  | \$ | 41,761  | 26.2%  |
| Non-U.S.      |                             | 126,182 | 69.5   |    | 117,878 | 73.8   |
| Total         | \$                          | 181,648 | 100.0% | \$ | 159,639 | 100.0% |

During the second quarter ended June 30, 2015, total revenue for the United Arab Emirates amounted to \$29,461,000 representing 16.2% of the total. No other country except for the United States accounted for 10% or more of consolidated total revenue.



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During the second quarter ended June 30, 2014, total revenue for the United Arab Emirates amounted to \$17,539,000 representing 11.0% of the total and Oman's total revenue amounted to \$18,804,000 representing 11.8% of the total. No other country except for the United States accounted for 10% or more of consolidated total revenue.

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*Consulting Fee Revenue By Client Type:*

|  | Three Months Ended June 30, |         |        |    |         |        |
|--|-----------------------------|---------|--------|----|---------|--------|
|  | 2015                        |         | 2014   |    |         |        |
| U.S. federal government                    | \$                          | 2,310   | 1.4%   | \$ | 3,242   | 2.2%   |
| U.S. state, regional and local governments |                             | 22,200  | 13.9   |    | 18,698  | 12.9   |
| Foreign governments                        |                             | 53,699  | 33.6   |    | 57,527  | 39.8   |
| Private sector                             |                             | 81,529  | 51.1   |    | 65,048  | 45.1   |
| Total                                      | \$                          | 159,738 | 100.0% | \$ | 144,515 | 100.0% |

*Total Revenue By Client Type:*

|  | Three Months Ended June 30, |         |        |    |         |        |
|--|-----------------------------|---------|--------|----|---------|--------|
|  | 2015                        |         | 2014   |    |         |        |
| U.S. federal government                    | \$                          | 2,837   | 1.6%   | \$ | 4,018   | 2.5%   |
| U.S. state, regional and local governments |                             | 35,454  | 19.5   |    | 24,729  | 15.5   |
| Foreign governments                        |                             | 57,587  | 31.7   |    | 59,919  | 37.5   |
| Private sector                             |                             | 85,770  | 47.2   |    | 70,973  | 44.5   |
| Total                                      | \$                          | 181,648 | 100.0% | \$ | 159,639 | 100.0% |

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

|               | June 30, 2015 |        | December 31, 2014 |        |
|---------------|---------------|--------|-------------------|--------|
| U.S./Canada   | \$            | 11,496 | \$                | 3,358  |
| Latin America |               | 1,254  |                   | 1,101  |
| Europe        |               | 2,702  |                   | 2,191  |
| Middle East   |               | 4,022  |                   | 3,428  |
| Africa        |               | 1,011  |                   | 901    |
| Asia/Pacific  |               | 955    |                   | 664    |
| Total         | \$            | 21,440 | \$                | 11,643 |
| U.S.          | \$            | 11,496 | \$                | 3,358  |
| Non-U.S.      |               | 9,944  |                   | 8,285  |
| Total         | \$            | 21,440 | \$                | 11,643 |

*Consulting Fee Revenue ( CFR )*

|                    | Six Months Ended June 30, |         |       |    |         |       |
|--------------------|---------------------------|---------|-------|----|---------|-------|
|                    | 2015                      |         | 2014  |    |         |       |
| Project Management | \$                        | 229,893 | 73.6% | \$ | 210,309 | 74.6% |

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|                     |                   |               |                   |               |
|---------------------|-------------------|---------------|-------------------|---------------|
| Construction Claims | <b>82,298</b>     | <b>26.4</b>   | 71,455            | 25.4          |
| Total               | <b>\$ 312,191</b> | <b>100.0%</b> | <b>\$ 281,764</b> | <b>100.0%</b> |

Table of Contents**Total Revenue**

|                     | Six Months Ended June 30, |         |        |            |        |
|---------------------|---------------------------|---------|--------|------------|--------|
|                     | 2015                      |         | 2014   |            |        |
| Project Management  | \$                        | 268,359 | 76.0%  | \$ 235,213 | 76.0%  |
| Construction Claims |                           | 84,869  | 24.0   | 74,439     | 24.0   |
| Total               | \$                        | 353,228 | 100.0% | \$ 309,652 | 100.0% |

**Operating Profit:**

|                             | Six Months Ended June 30, |          |      |           |  |
|-----------------------------|---------------------------|----------|------|-----------|--|
|                             | 2015                      |          | 2014 |           |  |
| Project Management          | \$                        | 28,239   |      | \$ 24,161 |  |
| Equity in loss of affiliate |                           | (217)    |      |           |  |
| Total Project Management    |                           | 28,022   |      | 24,161    |  |
| Construction Claims         |                           | 7,105    |      | 5,672     |  |
| Corporate                   |                           | (18,459) |      | (15,178)  |  |
| Total                       | \$                        | 16,668   |      | \$ 14,655 |  |

**Depreciation and Amortization Expense:**

|                     | Six Months Ended June 30, |       |      |          |  |
|---------------------|---------------------------|-------|------|----------|--|
|                     | 2015                      |       | 2014 |          |  |
| Project Management  | \$                        | 3,713 |      | \$ 3,419 |  |
| Construction Claims |                           | 1,562 |      | 1,337    |  |
| Subtotal segments   |                           | 5,275 |      | 4,756    |  |
| Corporate           |                           | 148   |      | 108      |  |
| Total               | \$                        | 5,423 |      | \$ 4,864 |  |

**Consulting Fee Revenue by Geographic Region:**

|               | Six Months Ended June 30, |         |        |            |        |
|---------------|---------------------------|---------|--------|------------|--------|
|               | 2015                      |         | 2014   |            |        |
| U.S./Canada   | \$                        | 75,166  | 24.1%  | \$ 60,999  | 21.6%  |
| Latin America |                           | 14,664  | 4.7    | 21,812     | 7.7    |
| Europe        |                           | 41,429  | 13.3   | 39,387     | 14.0   |
| Middle East   |                           | 151,443 | 48.5   | 132,002    | 46.8   |
| Africa        |                           | 14,104  | 4.5    | 12,284     | 4.4    |
| Asia/Pacific  |                           | 15,385  | 4.9    | 15,280     | 5.5    |
| Total         | \$                        | 312,191 | 100.0% | \$ 281,764 | 100.0% |

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|          |    |                |               |    |         |        |
|----------|----|----------------|---------------|----|---------|--------|
| U.S.     | \$ | <b>73,582</b>  | <b>23.6%</b>  | \$ | 59,224  | 21.0%  |
| Non-U.S. |    | <b>238,609</b> | <b>76.4</b>   |    | 222,540 | 79.0   |
| Total    | \$ | <b>312,191</b> | <b>100.0%</b> | \$ | 281,764 | 100.0% |

During the six months ended June 30, 2015, consulting fee revenue for the United Arab Emirates amounted to \$53,971,000 representing 17.3% of the total and Saudi Arabia's consulting fee revenue amounted to \$32,999,000 representing 10.6% of the total. No other country except the United States accounted for 10% or more of consolidated consulting fee revenue.

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During the six months ended June 30, 2014, consulting fee revenue for the United Arab Emirates amounted to \$33,719,000 representing 12.0% of the total and Oman's consulting fee revenue amounted to \$34,077,000 representing 12.1% of the total. No other country except the United States accounted for 10% or more of consolidated consulting fee revenue.

**Total Revenue by Geographic Region:**

|               | Six Months Ended June 30, |         |        |    |         |        |
|---------------|---------------------------|---------|--------|----|---------|--------|
|               | 2015                      |         | 2014   |    |         |        |
| U.S./Canada   | \$                        | 105,615 | 29.9%  | \$ | 78,323  | 25.3%  |
| Latin America |                           | 14,694  | 4.2    |    | 22,042  | 7.1    |
| Europe        |                           | 43,720  | 12.4   |    | 41,894  | 13.5   |
| Middle East   |                           | 157,306 | 44.5   |    | 137,473 | 44.4   |
| Africa        |                           | 16,239  | 4.6    |    | 14,096  | 4.6    |
| Asia/Pacific  |                           | 15,654  | 4.4    |    | 15,824  | 5.1    |
| Total         | \$                        | 353,228 | 100.0% | \$ | 309,652 | 100.0% |
| U.S.          | \$                        | 103,941 | 29.4%  | \$ | 76,502  | 24.7%  |
| Non-U.S.      |                           | 249,287 | 70.6   |    | 233,150 | 75.3   |
| Total         | \$                        | 353,228 | 100.0% | \$ | 309,652 | 100.0% |

During the six months ended June 30, 2015, total revenue for the United Arab Emirates amounted to \$54,988,000 representing 15.6% of the total. No other country except for the United States accounted for 10% or more of consolidated total revenue.

During the six months ended June 30, 2014, total revenue for the United Arab Emirates amounted to \$34,240,000 representing 11.1% of the total and Oman's total revenue amounted to \$36,813,000 representing 11.9% of the total. No other country except for the United States accounted for 10% or more of consolidated total revenue.

**Consulting Fee Revenue By Client Type:**

|  | Six Months Ended June 30, |         |        |    |         |        |
|--|---------------------------|---------|--------|----|---------|--------|
|  | 2015                      |         | 2014   |    |         |        |
| U.S. federal government                    | \$                        | 4,766   | 1.5%   | \$ | 6,607   | 2.3%   |
| U.S. state, regional and local governments |                           | 42,291  | 13.5   |    | 35,040  | 12.4   |
| Foreign governments                        |                           | 109,557 | 35.1   |    | 110,964 | 39.4   |
| Private sector                             |                           | 155,577 | 49.9   |    | 129,153 | 45.9   |
| Total                                      | \$                        | 312,191 | 100.0% | \$ | 281,764 | 100.0% |

**Total Revenue By Client Type:**

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Six Months Ended June 30,

2015 2014

|  |    |         |        |    |         |        |
|--|----|---------|--------|----|---------|--------|
| U.S. federal government                    | \$ | 5,849   | 1.7%   | \$ | 7,870   | 2.5%   |
| U.S. state, regional and local governments |    | 66,609  | 18.9   |    | 45,829  | 14.8   |
| Foreign governments                        |    | 117,038 | 33.1   |    | 117,665 | 38.0   |
| Private sector                             |    | 163,732 | 46.3   |    | 138,288 | 44.7   |
| Total                                      | \$ | 353,228 | 100.0% | \$ | 309,652 | 100.0% |

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**Note 15 Client Concentrations**

The Company had no clients that accounted for 10% or more of consulting fees during the three- and six-month periods ended June 30, 2015 and one client located in Oman that accounted for 12% and 11% of consulting fees during the three- and six-month periods ended June 30, 2014, respectively.

The Company had no clients that accounted for 10% or more of total revenue during the three months ended June 30, 2015 and 2014. The Company had no clients that accounted for 10% or more of total revenue during the six months ended June 30, 2015 and one client, located in Oman, that accounted for 11% of total revenue during the six months ended June 30, 2014.

One client, located in Libya, accounted for 17.3% and 20.4% of total accounts receivable at June 30, 2015 and December 31, 2014.

The Company has numerous contracts with U.S. federal government agencies that collectively accounted for 1.6% and 2.5% of total revenue during each of the three-month periods ended June 30, 2015 and 2014 and 1.7% and 2.5% of total revenue during the six-month periods ended June 30, 2015 and 2014.

The Company has numerous contracts with U.S. federal government agencies that collectively accounted for 1.4% and 2.2% of consulting fee revenue during the three-month periods ended June 30, 2015 and 2014 and 1.5% and 2.3% of consulting revenue during the six-month periods ended June 30, 2015 and 2014.

**Note 16 Commitments and Contingencies**

***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 cost. The Company has accrued approximately \$2,340,000, including interest of approximately \$500,000, based on invoices received from Plaintiff who has refused to provide invoices for additional work that Plaintiff claims to have performed. Until such time as the Company obtains invoices for the additional work and is able to provide those invoices to DDC for reimbursement or there is a full resolution of the litigation, it has no intention of paying Plaintiff. The Company believes that its position is defensible, however, there can be no assurance that it will receive a favorable verdict should this case proceed to trial.

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 for end of service remuneration. The Company filed a counterclaim against Plaintiff for breach of employment contract and filed a



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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 (\$200,000) pursuant to an executed a settlement agreement. During the three months ended June 30, 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.

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*Acquisition-Related Contingencies*

At June 30, 2015, our subsidiary, Hill International (Spain), S.A. ( Hill Spain ), owned an indirect 72% 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.

In April 2015, two shareholders who own approximately 19% of ESA exercised their ESA Put Options claiming an aggregate value of BRL 10,645,000 (approximately \$3,416,000 at June 30, 2015). The Company intends to pay the liability in shares of its common stock. As an incentive to the sellers to receive Hill s common stock as payment, the Company has offered the sellers a 25% premium. The sellers have 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. At June 30, 2015, the Company has accrued a liability for the amount of its offer, including the premium, amounting to BRL 13,306,000 (approximately \$4,270,000) which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet. Any adjustment to the accrued liability will be recorded upon the completion of the transaction at which time the Company will own approximately 91% of ESA.

The Company is committed to pay additional consideration for the purchase of Cadogans in the amount of £519,000 (approximately \$816,000) to be paid in cash on October 31, 2015 and 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 nor more than £200,000). See Note 3.

**Note 17 Move of Headquarters**

In connection with the move of its corporate headquarters to Philadelphia, Pennsylvania, the Company received the following from the Commonwealth of Pennsylvania, the City of Philadelphia and the Philadelphia Industrial Development Corporation:

- a \$1,000,000 grant received on July 13, 2015. The terms of the grant require the Company to spend at least \$6,425,000 on capital expenditures for leasehold improvements and equipment for its new headquarters, remain at One Commerce Square for at least seven years and employ at least 359 persons no later than April 1, 2018. The Company has met the capital expenditure requirement and has a twelve year lease for its corporate headquarters. Upon receipt of the funds, the Company recorded a deferred credit which, assuming the employment requirement is met, will be reflected in income in the second quarter of 2018;

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- a low interest loan amounting to \$750,000. See Note 8;
- a loan amounting to \$345,000 which is forgivable if the Company achieves and maintains certain employment levels within the City of Philadelphia by April 30, 2020. The Company is accounting for this item in a manner similar to the grant and has included the deferred credit in other liabilities in the consolidated balance sheet at June 30, 2015. Assuming the employment levels are met, the Company will reflect the item in income in the second quarter of 2020; and
- certain job creation tax credits amounting to \$666,000 from the Commonwealth of Pennsylvania.

The landlord for the new headquarters provided the Company with a tenant improvement allowance amounting to approximately \$3,894,000. The tenant improvement allowance has been deferred, is included in other liabilities in the consolidated balance sheet at June 30, 2015 and is being amortized on a straight-line basis against rent expense over the term of the twelve-year lease commencing on May 1, 2015.

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**Item 2. 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.

CFR increased \$15,223,000, or 10.5%, to \$159,738,000 during the second quarter of 2015 from \$144,515,000 during the second quarter of 2014. CFR for the Project Management segment increased \$7,943,000, principally due to increased work in the United States and the Middle East, partially offset by decreases in Latin America. CFR for the Construction Claims segment increased by \$7,280,000, or 20.2%, due primarily to increases in the Middle East, the United Kingdom and the United States.

CFR increased \$30,427,000, or 10.8%, to \$312,191,000 during the six months ended June 30, 2015 from \$281,764,000 during the six months ended June 30, 2014. CFR for the Project Management segment increased \$19,584,000, principally due to increased work in the Middle East and the United States, partially offset by decreases in Latin America. CFR for the Construction Claims segment increased by \$10,843,000, or 15.2%, due primarily to increases in the Middle East, the United Kingdom and the United States.

Net earnings attributable to Hill were \$4,395,000 during the second quarter of 2015, an increase of 189.5%, from \$1,518,000 during the second quarter of 2014. The increase was due to higher operating profit from the increase in CFR and lower interest expense. Diluted earnings per common share were \$0.09 during the second quarter of 2015 based upon 51,495,000 diluted common shares outstanding compared to diluted earnings per common share of \$0.04 during the second quarter of 2014 based upon 42,591,000 diluted common shares outstanding.

Net earnings attributable to Hill were \$5,490,000 during the six months ended June 30, 2015, an increase of 294.4%, from \$1,571,000 during the six months ended June 30, 2014. The increase was due to higher operating profit from the increase in CFR and lower interest expense. Diluted earnings per common share were \$0.11 during the six months ended June 30, 2015 based upon 51,010,000 diluted common shares outstanding compared to diluted earnings per common share of \$0.04 during the six months ended June 30, 2014 based upon 41,570,000 diluted common shares outstanding.

We have 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, we suspended our operations in and demobilized substantially all of our personnel from Libya. From that time until 2013, there was no activity on the contracts and we did not receive any payments for the work performed prior to March 2011. During late 2013 and early 2014, we received payments of approximately \$9,900,000 from ODAC who also posted a letter of credit of approximately \$14,000,000 in our favor which expired on June 30, 2014. We believed that this progress was a positive indication that ODAC intends to fulfill its obligations to us.

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In June 2014, a new parliament, the Council of Representatives ( CoR ), was elected and is the internationally recognized government of Libya. Subsequently, fighting broke out between forces loyal to the outgoing General National Congress ( GNC ) and the new CoR. The GNC reconvened, selected a Prime Minister and seized control of the capital city of Tripoli. The GNC controls Libya s ministries, central bank and state oil company. In September 2014, the United Nations began talks to reconcile the two factions, but we are not aware that any progress has been made as of July 2015. It is our understanding that government agencies such as ODAC have not been delegated any authority to make payments other than payroll.

We have continued our discussions with representatives of ODAC regarding the timing of payment of the \$49,759,000 balance and understand that ODAC has obtained approval to facilitate immediate payment to us once the political situation normalizes. Additionally, upon ODAC s request in early 2014, we submitted new contracts for additional work and are in the process of finalizing a contract extension for one of the existing contracts, as well as finalizing the award letter of another.

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We currently believe that recovery of our receivable from ODAC through continued communications, rather than legal action, remains appropriate, however, we have continued to explore our legal options, including discussions with outside legal counsel. In the event that the military and political environment changes significantly in Libya and its surrounding geopolitical regions or there are indications that our continued efforts to negotiate amicably with ODAC are determined have been unsuccessful, we will evaluate our options to pursue legal claims and/or assess the carrying amount of this receivable, which could have a significant adverse impact on our consolidated results of operations and consolidated financial position.

Currently, we believe that we have good relationships with the ODAC authorities. However due to the lack of a formal timetable for further payments of the accounts receivable from ODAC or a return to work on our existing contracts, management has classified the remaining accounts receivable amounting to \$49,759,000 as a non-current asset to reflect the uncertainty surrounding the timing of the collection of the receivable. Additionally, management has classified the accruals for certain taxes and agency fees related to the ODAC contracts amounting to approximately \$9,161,000 as other liabilities.

We remain optimistic about maintaining our current growth strategy to pursue new business development opportunities, continue to take advantage of organic growth opportunities, continue to pursue acquisitions and strengthen our professional resources. In addition, we have completed a review of our global overhead cost structure and we are in the process of reducing more than \$25,000,000 in annual overhead costs. The areas most affected are personnel and related benefits and expenses. We believe these efforts combined with continued revenue growth should significantly improve profitability and shareholder value. Our total backlog was \$983,000,000 as of June 30, 2015, a decrease of \$56,000,000 from March 31, 2015. Our 12-month backlog was \$431,000,000 as of June 30, 2015, a decrease of \$14,000,000 from March 31, 2015. These decreases are primarily related to reductions in the Middle East, Europe and Latin America.

*Critical Accounting Policies*

We operate through two segments: the Project Management Group and the Construction Claims Group. Reimbursable expenses are reflected in equal amounts in both total revenue and total direct expenses. Because these revenues/costs are subject to significant fluctuations from year to year, we measure the performance of many of our key operating metrics as a percentage of consulting fee revenue ( CFR ), as we believe that this is a better and more consistent measure of operating performance than total revenue.

The Company's interim financial statements were prepared in accordance with United States generally accepted accounting principles, which require management to make subjective decisions, assessments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the judgment increases such judgments become even more subjective. While management believes its assumptions are reasonable and appropriate, actual results may be materially different than estimated. The critical accounting estimates and assumptions have not materially changed from those identified in the Company's 2014 Annual Report.

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**Three Months Ended June 30, 2015 Compared to  
Three Months Ended June 30, 2014**

**Results of Operations****Consulting Fee Revenue ( CFR )**

|                     | Three Months Ended June 30, |        | 2014                   |        | Change    |       |
|---------------------|-----------------------------|--------|------------------------|--------|-----------|-------|
|                     | 2015                        |        | (dollars in thousands) |        |           |       |
| Project Management  | \$ 116,464                  | 72.9%  | \$ 108,521             | 75.1%  | \$ 7,943  | 7.3%  |
| Construction Claims | 43,274                      | 27.1   | 35,994                 | 24.9   | 7,280     | 20.2  |
| Total               | \$ 159,738                  | 100.0% | \$ 144,515             | 100.0% | \$ 15,223 | 10.5% |

The increase in CFR included an organic increase of 9.0% primarily in the Middle East and the United States and an increase of 1.5% due to the acquisitions of Cadogans in October 2014 and IMS in April 2015.

The increase in Project Management CFR included an organic increase of 6.2% and an increase of 1.1% due to the acquisition of IMS. The increase included a \$6,500,000 increase in domestic projects and an increase of \$1,443,000 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 an increase of \$10,281,000 in the United Arab Emirates, partially offset by decreases in Brazil, Oman and Iraq.

The increase in Construction Claims CFR was comprised of an organic increase of 17.5% and a 2.7% increase from the acquisition of Cadogans. The organic increase was primarily due to increases in the Middle East and the United States.

**Reimbursable Expenses**

|                     | Three Months Ended June 30, |        | 2014                   |        | Change   |        |
|---------------------|-----------------------------|--------|------------------------|--------|----------|--------|
|                     | 2015                        |        | (dollars in thousands) |        |          |        |
| Project Management  | \$ 20,588                   | 94.0%  | \$ 13,523              | 89.4%  | \$ 7,065 | 52.2%  |
| Construction Claims | 1,322                       | 6.0    | 1,601                  | 10.6   | (279)    | (17.4) |
| Total               | \$ 21,910                   | 100.0% | \$ 15,124              | 100.0% | \$ 6,786 | 44.9%  |

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

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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.

### Cost of Services

|                     | 2015 |        | Three Months Ended June 30, |       |                        |        | 2014   |       | Change |       |       |
|---------------------|------|--------|-----------------------------|-------|------------------------|--------|--------|-------|--------|-------|-------|
|                     |      |        |                             |       | (dollars in thousands) |        |        |       |        |       |       |
|                     |      |        | % of                        |       |                        |        | % of   |       |        |       |       |
|                     |      |        | CFR                         |       |                        |        | CFR    |       |        |       |       |
| Project Management  | \$   | 73,375 | 79.4%                       | 63.0% | \$                     | 67,298 | 80.8%  | 62.0% | \$     | 6,077 | 9.0%  |
| Construction Claims |      | 19,025 | 20.6                        | 44.0  |                        | 15,948 | 19.2   | 44.3  |        | 3,077 | 19.3  |
| Total               | \$   | 92,400 | 100.0%                      | 57.8% | \$                     | 83,246 | 100.0% | 57.6% | \$     | 9,154 | 11.0% |



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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 increases 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 cost in the Middle East and the United States.

**Gross Profit**

|                     | 2015      |        | Three Months Ended June 30, |           | 2014   |       | Change   |      |
|---------------------|-----------|--------|-----------------------------|-----------|--------|-------|----------|------|
|                     |           |        | (dollars in thousands)      |           |        |       |          |      |
|                     |           | % of   | % of                        |           | % of   | % of  |          |      |
|                     |           | CFR    | CFR                         |           | CFR    | CFR   |          |      |
| Project Management  | \$ 43,089 | 64.0%  | 37.0%                       | \$ 41,223 | 67.3%  | 38.0% | \$ 1,866 | 4.5% |
| Construction Claims | 24,249    | 36.0   | 56.0                        | 20,046    | 32.7   | 55.7  | 4,203    | 21.0 |
| Total               | \$ 67,338 | 100.0% | 42.2%                       | \$ 61,269 | 100.0% | 42.4% | \$ 6,069 | 9.9% |

The increase in Project Management gross profit included an increase of \$3,263,000 from domestic operations, primarily in the Northeast, Mid-Atlantic and Western regions. This was partially offset by a decrease of \$1,397,000 in foreign operations primarily in Brazil, Oman and Iraq.

The increase in Construction Claims gross profit was driven by increases in the Middle East, the United Kingdom and the United States.

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

|               | 2015      |       | Three Months Ended June 30, |           | 2014  |      | Change   |      |
|---------------|-----------|-------|-----------------------------|-----------|-------|------|----------|------|
|               |           |       | (dollars in thousands)      |           |       |      |          |      |
|               |           | % of  | % of                        |           | % of  | % of |          |      |
|               |           | CFR   | CFR                         |           | CFR   | CFR  |          |      |
| SG&A Expenses | \$ 56,652 | 35.5% |                             | \$ 52,614 | 36.4% |      | \$ 4,038 | 7.7% |

The increase in SG&A expense included \$1,057,000 due to the acquisitions of Cadogans and IMS.

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

- An increase in unapplied and indirect labor of \$1,106,000, primarily due to pay increases and the acquisitions of Cadogans and IMS. As a percentage of CFR, unapplied and indirect labor was lower in 2015 at 21.9% compared to 23.5% in 2014;
- An increase in legal fees of \$1,697,000 including \$834,000 related to an employee termination matter and \$373,000 related to the proxy dispute including litigation in Delaware;
- An increase of \$670,000 in bad debt expense primarily because the second quarter of 2014 was favorably affected by the reversal of a \$450,000 reserve for certain accounts receivable in Spain due to their collection.

Table of Contents**Operating Profit**

|                               | 2015      |             | Three Months Ended June 30,<br>2014 |             | Change   |       |
|-------------------------------|-----------|-------------|-------------------------------------|-------------|----------|-------|
|                               |           | % of<br>CFR | (dollars in thousands)              | % of<br>CFR |          |       |
| Project Management            | \$ 15,041 | 12.9%       | \$ 13,218                           | 12.2%       | \$ 1,823 | 13.8% |
| Equity in losses of affiliate | (34)      | (0.0)       |                                     |             | (34)     | 100.0 |
| Total Project Management      | 15,007    | 12.9        | 13,218                              | 12.2        | 1,789    | 13.5  |
| Construction Claims           | 4,772     | 11.0        | 3,054                               | 8.5         | 1,718    | 56.3  |
| Corporate                     | (9,127)   |             | (7,617)                             |             | (1,510)  | 19.8  |
| Total                         | \$ 10,652 | 6.7%        | \$ 8,655                            | 6.0%        | \$ 1,997 | 23.1% |

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

The increase in Construction Claims operating profit was primarily due to increases in the Middle East and the United States.

Corporate expenses increased by \$1,510,000 which was primarily due to salary increases and legal fees including \$373,000 related to the proxy dispute. Corporate expenses represented 5.7% of CFR during the second quarter ended June 30, 2015 compared to 5.3% during the second quarter ended June 30, 2014.

**Interest Expense and Related Financing Fees, net**

Net interest and related financing fees decreased \$2,115,000 to \$3,531,000 in the three months ended June 30, 2015 as compared with \$5,646,000 in the three months ended June 30, 2014, primarily due to the 2014 interest accretion related to the previous term loan agreement which was paid off and terminated in the third quarter of 2014.

**Income Taxes**

For the three months ended June 30, 2015 and 2014, the Company recognized income tax expense of \$2,586,000 and \$993,000, respectively. The income tax expense in both periods was related to the pre-tax income generated from foreign operations adjusted for discrete items during the period and without recognizing an income tax benefit related to the U.S. net operating loss which management believes the Company will not be able to utilize. For the three months ended June 30, 2015, the Company recognized a \$245,000 income tax expense related to an increase in the reserve for uncertain tax positions due to a tax position taken in a foreign jurisdiction. For the three months ended June 30, 2014,

the Company recognized a \$2,514,000 income tax benefit related to the reversal of the reserve for uncertain tax positions based on management's assessment that these items were effectively settled with the appropriate foreign tax authorities. The Company's income tax expense for the three months ended June 30, 2015 and 2014 include tax (benefit) expense of (\$85,000) and \$44,000, respectively, resulting from adjustments to agree the prior year book amount to the actual amounts per the tax return.

The effective income tax rates for the three months ended June 30, 2015 and 2014 were 36.3% and 33.0%, respectively. For both years, the Company's effective tax rate is significantly higher than it otherwise would be primarily as a result of various foreign withholding taxes and not being able to record an income tax benefit related to the U.S. net operating loss.

**Net Earnings Attributable to Hill International, Inc.**

Net earnings attributable to Hill International, Inc. for the three months ended June 30, 2015 were \$4,395,000, or \$0.09 per diluted common share, based on 51,495,000 diluted common shares outstanding, as compared to net earnings for the three months ended June 30, 2014 of \$1,518,000, or \$0.04 per diluted common share, based upon 42,591,000 diluted common shares outstanding.

Table of Contents**Six Months Ended June 30, 2015 Compared to****Six Months Ended June 30, 2014****Results of Operations****Consulting Fee Revenue ( CFR )**

|                     | 2015 |         | Six Months Ended June 30,<br>2014 |    | Change  |        |    |        |       |
|---------------------|------|---------|-----------------------------------|----|---------|--------|----|--------|-------|
|                     |      |         |                                   |    |         |        |    |        |       |
|                     |      |         | (dollars in thousands)            |    |         |        |    |        |       |
| Project Management  | \$   | 229,893 | 73.6%                             | \$ | 210,309 | 74.6%  | \$ | 19,584 | 9.3%  |
| Construction Claims |      | 82,298  | 26.4                              |    | 71,455  | 25.4   |    | 10,843 | 15.2  |
| Total               | \$   | 312,191 | 100.0%                            | \$ | 281,764 | 100.0% | \$ | 30,427 | 10.8% |

The increase in CFR included an organic increase of 9.7% primarily in the Middle East and the United States and an increase of 1.1% due to the acquisitions of Cadogans in October 2014 and IMS in April 2015.

The increase in Project Management CFR included an organic increase of 8.7% and an increase of 0.6% due to the acquisition of IMS. The increase included an \$11,428,000 increase in domestic projects and an increase of \$8,156,000 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 projects included increases in the United Arab Emirates and Saudi Arabia, partially offset by decreases in Brazil, Oman and Iraq.

The increase in Construction Claims CFR was comprised of an organic increase of 12.4% and a 2.8% increase from the acquisition of Cadogans. The organic increase was primarily due to increases in the Middle East and the United States.

**Reimbursable Expenses**

|                     | 2015 |        | Six Months Ended June 30,<br>2014 |    | Change |        |    |        |        |
|---------------------|------|--------|-----------------------------------|----|--------|--------|----|--------|--------|
|                     |      |        |                                   |    |        |        |    |        |        |
|                     |      |        | (dollars in thousands)            |    |        |        |    |        |        |
| Project Management  | \$   | 38,466 | 93.7%                             | \$ | 24,904 | 89.3%  | \$ | 13,562 | 54.5%  |
| Construction Claims |      | 2,571  | 6.3                               |    | 2,984  | 10.7   |    | (413)  | (13.8) |
| Total               | \$   | 41,037 | 100.0%                            | \$ | 27,888 | 100.0% | \$ | 13,149 | 47.1%  |

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

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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.

### Cost of Services

|                     | 2015       |        | Six Months Ended June 30, |            |        |       | 2014      |       | Change |  |
|---------------------|------------|--------|---------------------------|------------|--------|-------|-----------|-------|--------|--|
|                     |            |        | (dollars in thousands)    |            |        |       |           |       |        |  |
|                     |            | % of   | % of                      |            |        | % of  | % of      |       |        |  |
|                     |            | CFR    | CFR                       |            |        | CFR   | CFR       |       |        |  |
| Project Management  | \$ 142,366 | 79.5%  | 61.9%                     | \$ 130,050 | 80.4%  | 61.8% | \$ 12,316 | 9.5%  |        |  |
| Construction Claims | 36,723     | 20.5   | 44.6                      | 31,786     | 19.6   | 44.5  | 4,937     | 15.5  |        |  |
| Total               | \$ 179,089 | 100.0% | 57.4%                     | \$ 161,836 | 100.0% | 57.4% | \$ 17,253 | 10.7% |        |  |

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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 increases 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 cost in the Middle East, the United States, Africa and the acquisition of Cadogans.

**Gross Profit**

|                     | 2015       |        | Six Months Ended June 30, |            | 2014   |       | Change    |       |
|---------------------|------------|--------|---------------------------|------------|--------|-------|-----------|-------|
|                     |            |        | (dollars in thousands)    |            |        |       |           |       |
|                     |            | % of   | % of                      |            | % of   | % of  |           |       |
|                     |            | CFR    | CFR                       |            | CFR    | CFR   |           |       |
| Project Management  | \$ 87,527  | 65.8%  | 38.1%                     | \$ 80,259  | 66.9%  | 38.2% | \$ 7,268  | 9.1%  |
| Construction Claims | 45,575     | 34.2   | 55.4                      | 39,669     | 33.1   | 55.5  | 5,906     | 14.9  |
| Total               | \$ 133,102 | 100.0% | 42.6%                     | \$ 119,928 | 100.0% | 42.6% | \$ 13,174 | 11.0% |

The increase in Project Management gross profit included an increase of \$5,487,000 from domestic operations, primarily due to increases in the Northeast, Mid-Atlantic and Western regions. There was an increase of \$1,781,000 from foreign operations due to 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 increases in the Middle East, Cadogans and the United States.

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

|               | 2015       |       | Six Months Ended June 30, |            | 2014  |      | Change    |       |
|---------------|------------|-------|---------------------------|------------|-------|------|-----------|-------|
|               |            |       | (dollars in thousands)    |            |       |      |           |       |
|               |            | % of  | % of                      |            | % of  | % of |           |       |
|               |            | CFR   | CFR                       |            | CFR   | CFR  |           |       |
| SG&A Expenses | \$ 116,217 | 37.2% |                           | \$ 105,273 | 37.4% |      | \$ 10,944 | 10.4% |

The increase in SG&A expense included \$1,605,000 due to the acquisitions of Cadogans and IMS.

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

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- An increase in unapplied and indirect labor of \$4,519,000 primarily due to pay increases and increases in staff in the Middle East in support of increased work. As a percentage of CFR, unapplied and indirect labor was lower in 2015 at 23.4% compared to 24.4% in 2014;
- An increase in legal fees of \$2,080,000 including \$834,000 related to an employee termination matter and \$373,000 related to the proxy dispute;
- An increase of \$1,999,000 in bad debt expense including a write-off of \$690,000 related to a litigation settlement and because the six months ended June 30, 2014 was favorably affected by the reversal of a \$741,000 reserve for certain accounts receivable in Spain due to their collection;
- SG&A was reduced in 2014 due to a \$1,225,000 reduction in an earn-out liability on the CPI acquisition.



Table of Contents**Operating Profit**

| (in thousands)                | 2015      |             | Six Months Ended June 30,<br>2014 |             | Change   |       |
|-------------------------------|-----------|-------------|-----------------------------------|-------------|----------|-------|
|                               |           | % of<br>CFR | (dollars in thousands)            | % of<br>CFR |          |       |
| Project Management            | \$ 28,239 | 12.3%       | \$ 24,161                         | 11.5%       | \$ 4,078 | 16.9% |
| Equity in losses of affiliate | (217)     | (0.1)       |                                   |             | (217)    | 100.0 |
| Total Project Management      | 28,022    | 12.2        | 24,161                            | 11.5        | 3,861    | 16.0  |
| Construction Claims           | 7,105     | 8.6         | 5,672                             | 7.9         | 1,433    | 25.3  |
| Corporate                     | (18,459)  |             | (15,178)                          |             | (3,281)  | 21.6  |
| Total                         | \$ 16,668 | 5.3%        | \$ 14,655                         | 5.2%        | \$ 2,013 | 13.7  |

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

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

Corporate expenses increased by \$3,281,000 which was primarily due to salary increases and legal fees including \$373,000 related to the proxy dispute. Corporate expenses represented 5.9% of CFR during the six months ended June 30, 2015 compared to 5.4% during the six months ended June 30, 2014.

**Interest Expense and Related Financing Fees, net**

Interest and related financing fees decreased \$3,617,000 to \$7,105,000 during the six months ended June 30, 2015 compared to \$10,722,000 during the six months ended June 30, 2014 primarily due to the 2014 interest accretion related to the previous term loan agreement which was paid off and terminated in the third quarter of 2014.

**Income Taxes**

For the six months ended June 30, 2015 and 2014, the Company recognized an income tax expense of \$3,749,000 and \$1,624,000, respectively. The income tax expense in both periods was related to the pre-tax income generated from foreign operations adjusted for discrete items during the period and without recognizing an income tax benefit related to the U.S. net operating loss which management believes the Company will not be able to utilize. For the six months ended June 30, 2015, the Company recognized a \$245,000 income tax expense related to an increase in the reserve for

uncertain tax positions due to a tax position taken in a foreign jurisdiction. For the six months ended June 30, 2014, the Company recognized a \$2,514,000 income tax benefit related to the reversal of the reserve for uncertain tax positions based on management's assessment that these items were effectively settled with the appropriate foreign tax authorities and also reclassified \$420,000 from Income taxes payable to the reserve for uncertain tax positions primarily due to tax positions taken in foreign jurisdictions. The Company also recognized an income tax expense resulting from adjustments to agree the prior year's book amounts to the actual amounts per the tax returns totaling \$0 and \$44,000 in the six months ended June 30, 2015 and 2014, respectively.

The effective income tax rates for the six months ended June 30, 2015 and 2014 were 39.2% and 41.3%, respectively. For both years, the Company's effective tax rate is significantly higher than it otherwise would be primarily as a result of various foreign withholding taxes and not being able to record an income tax benefit related to the U.S. net operating loss.

Table of Contents**Net Earnings Attributable to Hill International, Inc.**

Net earnings attributable to Hill International, Inc. for the six months ended June 30, 2015 were \$5,490,000, or \$0.11 per diluted common share, based upon 51,010,000 diluted common shares outstanding, as compared to net earnings for the six months ended June 30, 2014 of \$1,571,000, or \$0.04 per diluted common share, based upon 41,570,000 diluted common shares outstanding.

**Non-GAAP Financial Measures**

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles ( Non-GAAP ) financial measures, and other SEC regulations define and prescribe the conditions for use of certain Non-GAAP financial information. 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, capital expenditures and debt service. 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. The following table is a reconciliation of EBITDA to the most directly comparable GAAP measure in accordance with SEC Regulation S-K for the three and six months ended June 30, 2015 and 2014 (in thousands):

|                               | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|-------------------------------|-----------------------------|-----------|---------------------------|-----------|
|                               | 2015                        | 2014      | 2015                      | 2014      |
| Net earnings                  | \$ 4,395                    | \$ 1,518  | \$ 5,490                  | \$ 1,571  |
| Interest expense, net         | 3,531                       | 5,646     | 7,105                     | 10,722    |
| Income tax expense            | 2,586                       | 993       | 3,749                     | 1,624     |
| Depreciation and amortization | 2,983                       | 2,437     | 5,423                     | 4,864     |
| EBITDA                        | \$ 13,495                   | \$ 10,594 | \$ 21,767                 | \$ 18,781 |

**Liquidity and Capital Resources**

As a result of the worldwide financial situation in recent years as well as the political unrest in Libya, we have had to rely more heavily on borrowings under our various credit facilities to provide funding for our operations. See Note 8 to our consolidated financial statements for a description of our recent refinancing, credit facilities and term loan. At June 30, 2015, our primary sources of liquidity consisted of \$31,571,000 of cash and cash equivalents, of which \$28,796,000 was on deposit in foreign locations, and \$4,740,000 of available borrowing capacity under our various credit facilities. Additionally, due to reduce collateral requirements of one of our lenders, approximately \$8,326,000 of restricted cash was returned to us in July 2015. We believe that we have sufficient liquidity to support the reasonably anticipated cash needs of our operations over the next twelve months. Also, significant unforeseen events, such as termination or cancellation of major contracts, could adversely affect our liquidity and results of operations. If market opportunities exist, we may choose to undertake financing actions to further enhance our liquidity, which could include our ability to borrow additional funds under our credit agreements, obtaining new bank debt or raising funds through capital market transactions. See Sources of Additional Capital for

further information.

**Uncertainties With Respect to Operations in Libya**

We have 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, we suspended our operations in and demobilized substantially all of our personnel from Libya. From that time until 2013, there was no activity on the contracts and we did not receive any payments for the work performed prior to March 2011. During late 2013 and early 2014, we received payments of approximately \$9,900,000 from ODAC who also posted a letter of credit of approximately

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\$14,000,000 in our favor which expired on June 30, 2014. We believed that this progress was a positive indication that ODAC intends to fulfill its obligations to us.

We currently believe that recovery of the receivable from ODAC through continued communications, rather than legal action, remains appropriate, however, we have continued to explore our legal options, including discussions with outside legal counsel. In the event that the military and political environment changes significantly in Libya and its surrounding geopolitical regions or there are indications that our continued efforts to negotiate amicably with ODAC are determined to have been unsuccessful, we will evaluate our options to pursue legal claims and/or assess the carrying amount of this receivable, which could have a significant adverse impact on our consolidated results of operations and consolidated financial position.

**Additional Capital Requirements**

Our subsidiary, Hill International (Spain), S.A. ( Hill Spain ), owns an indirect 72% 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.

In April 2015, two shareholders who own approximately 19% of ESA exercised their ESA Put Options. The Company intends to pay the liability in shares of its common stock. See Note 16 to the consolidated financial statements for more information.

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. The remaining payouts consist of a cash payment of £519,000 (\$830,000) to be paid on October 31, 2015 plus 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, the Company acquired all of the equity interests of IMS Proje Yonetimi ve Danismanlik A.S. ( IMS ). Total consideration for the acquisition was 18,511,000 Turkish Lira ( TRY ) of which TRY 12,411,000 (approximately \$4,692,000) was paid in cash during the three months ended June 30, 2015. The remaining payouts consist of 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).

**Sources of Additional Capital**

We have an effective registration statement on Form S-3 on file with the U.S. Securities and Exchange Commission (the SEC ) to register 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 Facility. 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.

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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 use in future acquisitions. We cannot predict whether, in the future, we will offer these shares to potential sellers of businesses or assets we might consider acquiring or whether these shares will be acceptable as consideration by any potential sellers.

At June 30, 2015, we had \$4,740,000 of available borrowing capacity under our various credit agreements.

We also have arrangements with foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At June 30, 2015, we had approximately \$29,055,000 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 Six Months Ended June 30, 2015**

For the six months ended June 30, 2015, our cash and cash equivalents increased by \$1,447,000 to \$31,571,000. Cash used in operations was \$7,469,000, cash used in investing activities was \$13,443,000 and cash provided by financing activities was \$25,021,000. We also experienced a decrease in cash of \$2,662,000 from the effect of foreign currency exchange rate fluctuations.

***Operating Activities***

Our operations used cash of \$7,469,000 for the six months ended June 30, 2015. This compares to cash used in operating activities of \$7,630,000 for the six months ended June 30, 2014. We had a consolidated net income in the six months ended June 30, 2015 amounting to \$5,814,000 compared to a consolidated income of \$2,309,000 in the six months ended June 30, 2014. Depreciation and amortization was \$5,423,000 in the six months ended June 30, 2015 compared to \$4,864,000 in the six months ended June 30, 2014; the increase in this category is primarily due to the amortization of intangibles arising from the acquisitions of Cadogans and IMS, the increase in property and equipment primarily related to the relocation of our corporate 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.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds and letters of credit at June 30, 2015 and December 31, 2014 were \$14,582,000 and \$16,007,000, respectively. The change results primarily from a reduction in the collateral requirements due to a change in financial institutions, partially offset by increases due to new collateral issued to support certain letters of credit related to new work in the Middle East. In July 2015, approximately \$8,326,000 was released from the restricted accounts and was returned to cash and cash equivalents.

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Excluding the ODAC receivable, average days sales outstanding ( DSO ) at June 30, 2015 was 98 days compared to 87 days at June 30, 2014. 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 adversely affected by the timing of payments from our clients in the Middle East, particularly Oman, which has been slower than payments from clients in other geographic regions of our 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 engagements, including pass-through costs such as subcontractor costs. Deferred revenue consists of payments received from clients in advance of work performed.



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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 within 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.

***Investing Activities***

Net cash used in investing activities was \$13,443,000. We used \$9,059,000 for the purchase of leasehold improvements, computers, office equipment, furniture and fixtures primarily in connection with the relocation of our corporate headquarters to Philadelphia. We used \$4,384,000 for the acquisition of IMS.

***Financing Activities***

Net cash provided by financing activities was \$25,021,000. We received \$24,245,000 from borrowings under our various credit facilities and \$750,000 from a low-interest Philadelphia Industrial Development Corporation loan of which we have repaid \$13,000. We also received \$169,000 from purchases under our Employee Stock Purchase Plan and exercise of stock options. We paid \$130,000 as dividends to noncontrolling interests.

**Recent Accounting Pronouncements**

On May 28, 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 was to be effective for interim and annual periods commencing after December 15, 2016 and allows for both retrospective and prospective methods of adoption. On July 10, 2015, the FASB voted to extend the effective date by one year. Early adoption would be permitted as of the original effective date. The Company is in the process of determining the method of adoption and assessing the impact of the ASU on its consolidated financial statements.

On April 7, 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. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015 and for interim periods within those fiscal years. The Company will adopt the ASU after the effective date. The amendment will be applied on a retrospective basis, wherein the balance sheet of each individual period presented will be adjusted to reflect the period-specific effects of applying the new guidance.

### **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.

### **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 fee revenue. 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 and historical results for new

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work. 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 June 30, 2015, our backlog was \$983,000,000 compared to \$1,039,000,000 at March 31, 2015. At June 30, 2015, backlog attributable to work in Libya amounted to \$39,000,000. We estimate that \$431,000,000, or 43.8%, of the backlog at June 30, 2015 will be recognized during the twelve months subsequent to June 30, 2015.

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

We adjust backlog to reflect project cancellations, deferrals and revisions in scope and cost (both upward and downward) known at the reporting date. Future contract modifications or cancellations, however, may increase or reduce backlog and future revenue.

|                              | Total Backlog          |        | 12-Month Backlog |        |
|------------------------------|------------------------|--------|------------------|--------|
|                              | \$                     | %      | \$               | %      |
|                              | (dollars in thousands) |        |                  |        |
| <b>As of June 30, 2015:</b>  |                        |        |                  |        |
| <b>Project Management</b>    | \$ 934,000             | 95.0%  | \$ 382,000       | 88.6%  |
| <b>Construction Claims</b>   | 49,000                 | 5.0%   | 49,000           | 11.4%  |
|                              | \$ 983,000             | 100.0% | \$ 431,000       | 100.0% |
| <b>As of March 31, 2015:</b> |                        |        |                  |        |
| Project Management           | \$ 990,000             | 95.3%  | \$ 397,000       | 89.2%  |
| Construction Claims          | 49,000                 | 4.7%   | 48,000           | 10.8%  |
|                              | \$ 1,039,000           | 100.0% | \$ 445,000       | 100.0% |
| <b>As of June 30, 2014:</b>  |                        |        |                  |        |
| Project Management           | \$ 923,000             | 95.0%  | \$ 355,000       | 87.9%  |
| Construction Claims          | 49,000                 | 5.0%   | 49,000           | 12.1%  |
|                              | \$ 972,000             | 100.0% | \$ 404,000       | 100.0% |

**Item 3.****Quantitative and Qualitative Disclosures About Market Risk**

Refer to the Company's 2014 Annual Report for a complete discussion of the Company's market risk. There have been no material changes to the market risk information included in the Company's 2014 Annual Report.

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**Item 4. 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 June 30, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act 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 our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. During the quarter ended June 30, 2015, there were no changes in our internal control over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

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

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**Part II Other Information**

**Item 1. Legal Proceedings**

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 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 (\$200,000) pursuant to an executed a settlement agreement. During the three months ended June 30, 2015, the Company recorded an additional \$100,000 associated with the settlement payment and \$834,000 of related legal costs.

**Item 1A. Risk Factors**

There have been no material changes pertaining to risk factors discussed in the Company s 2014 Annual Report.

**Item 2. Unregistered Sales of Equity Securities and Use of Funds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Certification 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.

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**Signatures**

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

**Hill International, Inc.**

|                       |     |   |
|-----------------------|-----|---|
| Dated: August 5, 2015 | By: | /s/ David L. Richter<br><br>David L. Richter<br>President and Chief Executive Officer<br>(Principal Executive Officer)                |
| Dated: August 5, 2015 | By: | /s/ John Fanelli III<br><br>John Fanelli III<br>Senior Vice President and<br>Chief Financial Officer<br>(Principal Financial Officer) |
| Dated: August 5, 2015 | By: | /s/Ronald F. Emma<br><br>Ronald F. Emma<br>Senior Vice President and<br>Chief Accounting Officer<br>(Principal Accounting Officer)    |