Hill International, Inc.
Form 10-K
April 01, 2019

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

Form 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

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

For the transition period from to
Commission file number 001-33961
HILL INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-0953973
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Commerce Square	
2005 Market Street, 17th Floor	
Philadelphia, PA	19103
(Address of principal executive offices)	(Zip Code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value $0.0001 per share	New York Stock Exchange

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

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

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

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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No ý

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months

(or for such shorter period that the registrant was required to submit such files).
Yes o No ý

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

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

Large Accelerated Filer o	Accelerated Filer x
Non-Accelerated Filer o	Smaller reporting company o
	Emerging growth company o

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

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2018 was approximately $325,297,432. As of March 28, 2019, there were 55,659,356 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its 2019 Annual Meeting of Stockholders ("2019 Proxy Statement") are incorporated by reference in Part III.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements may concern, among other things:

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

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

- The risks set forth in Item 1A, “Risk Factors,” herein;
- Unfavorable global economic conditions may adversely impact our business;
- Our backlog, which is subject to unexpected adjustments and cancellations, may not be fully realized as revenue;
- Our expenses may be higher than anticipated;
- Modifications and termination of client contracts;
- Control and operational issues pertaining to business activities that we conduct pursuant to joint ventures with other parties; and
- The need to retain and recruit key technical and management personnel.

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

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

We do not intend, and undertake no obligation, to update any forward-looking statement. In accordance with the Reform Act, Item 1A of this Report entitled “Risk Factors” contains cautionary statements that accompany those forward-looking statements. You should carefully review such cautionary statements as they identify certain important factors that could cause actual results to differ materially from those in the forward-looking statements and from historical trends. Those cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Form 10-K, in our other filings with the Securities and Exchange Commission (the "SEC") or in materials incorporated therein by reference.

Item 1. Business.

General

Hill International, Inc., with approximately 2,700 professionals in more than 50 offices worldwide, provides project management, construction management and other consulting services primarily to the building, transportation, environmental, energy and industrial markets. The terms “Hill”, the “Company”, “we”, “us” and “our” refer to Hill International, Inc.

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

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

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

Amounts throughout the remainder of this document are in thousands unless otherwise noted.

Our Strategy

Our strategy emphasizes the following key elements:

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

Reporting Segments

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

Clients

Our clients consist primarily of the United States federal, state and local governments, other national governments, and the private sector. The following table sets forth our breakdown of revenue attributable to these categories of clients for the years ended December 31, 2018, 2017 and 2016:

Revenue By Client Type

	2018		2017		2016	
U.S. federal government	$16,610	3.9 %	$15,105	3.1 %	$12,050	2.3 %
U.S. state, regional and local governments	136,904	31.9 %	156,183	32.3 %	155,976	30.2 %
Foreign governments	117,361	27.4 %	133,655	27.6 %	170,567	33.1 %
Private sector	157,804	36.8 %	178,793	37.0 %	177,419	34.4 %
Total	$428,679	100.0%	$483,736	100.0%	$516,012	100.0%

The following table sets forth the percentage of our revenue contributed by each of our five largest clients for the years ended December 31, 2018, 2017 and 2016:

	2018	2017	2016
Largest client	6.0 %	6.0 %	9.0 %
2nd largest client	5.0 %	6.0 %	5.0 %
3rd largest client	4.0 %	4.0 %	5.0 %
4th largest client	3.0 %	3.0 %	4.0 %
5th largest client	3.0 %	3.0 %	4.0 %
Top 5 largest clients	21.0%	22.0%	27.0%

Business Development

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

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

Doing business with governments is complex and requires the ability to comply with intricate regulations and satisfy periodic audits. We believe that the ability to understand these requirements and to successfully conduct business with government agencies is a barrier to entry for smaller, less experienced competitors. Most government contracts, including those with foreign governments, are subject to termination by the government, to government audits and to continued appropriations. For the years ended December 31, 2018, 2017 and 2016, revenue from U.S. and foreign government contracts represented approximately 63.2%, 63.0% and 65.6% of our total revenue, respectively.

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

Contracts

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

The price provisions of our customer contracts can be grouped into two broad categories: Time and materials and fixed price. Under the time and materials (“T&M”) arrangements, contract fees are based upon time and materials incurred. The contracts may be structured as basic time and materials, cost plus a margin or time and materials subject to a maximum contract value (the "cap value"). Under fixed price contracts, the Company’s clients pay an agreed upon amount negotiated in advance for a specified scope of work. The Company is guaranteed to receive the consideration to the extent that the Company delivers under the contract. The Company recognizes revenue over a period of time on fixed price contracts using the input method based upon direct costs incurred to date, which are compared to total projected direct costs. See Note 4 in Part II item 8 "Financial Statements and Supplementary Data ," in this Form 10-K for more information

Consulting Fee Revenue

We believe an important performance measure is consulting fee revenue (“CFR”). The professionals we deploy to execute contracts are occasionally subcontractors. We generally bill our clients the actual cost of these subcontractors and recognize this cost as both revenue and direct expense. CFR refers to our revenue excluding amounts paid or due to subcontractors. We believe CFR is an important measure because it represents the revenue on which we earn gross profit, whereas total revenue includes subcontractors on which we generally pass through the cost and earn minimal or no gross profit.

Backlog

We believe an important 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 recognize as CFR in future periods. Our backlog is evaluated by management on a project-by-project basis and is reported for each period shown based upon the binding nature of the underlying contract, commitment or letter of intent, and other factors, including the economic, financial and regulatory viability of the project and the likelihood of the contract being extended, renewed or canceled.

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 ("U.S. GAAP"), and our methodology for determining backlog may not be comparable to the methodology used by other companies in determining their backlog.

Although backlog reflects business that we consider to be firm, cancellations or scope adjustments may occur. Further, substantially all of our contracts with our clients may be terminated at will, in which case the client would only be obligated to us for services provided through the termination date. Reductions of our backlog as a result of contract terminations and modifications may be offset by additions to the backlog.

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

The following tables show our backlog by geographic region:

	Total Backlog	12-Month Backlog

As of December 31, 2018						
United States	$429,237	58.0	%	$110,012	42.4	%
Latin America	22,495	3.0	%	11,871	4.6	%
Europe	83,974	11.3	%	32,489	12.5	%
Middle East	116,913	15.9	%	71,267	27.5	%
Africa	69,941	9.4	%	26,710	10.3	%
Asia/Pacific	17,713	2.4	%	7,134	2.7	%
Total	$740,273	100.0	%	$259,483	100.0	%

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	Total Backlog		12-Month Backlog	
As of December 31, 2017				
United States	$449,621	53.2 %	116,975	37.5 %
Latin America	13,350	1.6 %	8,789	2.8 %
Europe	45,446	5.4 %	29,887	9.6 %
Middle East	250,956	29.6 %	126,965	40.6 %
Africa	67,491	8.0 %	23,111	7.4 %
Asia/Pacific	18,935	2.2 %	6,500	2.1 %
Total	$845,799	100.0 %	$312,227	100.0 %

At December 31, 2018, our backlog was $740,273, compared to $845,799 at December 31, 2017. The reduction in backlog is primarily due to execution of the prior backlog and the cancellation or substantial reduction of scope of work for certain projects, primarily in the Middle East. All of these projects were initially contracted in years prior to 2018.

Competition

The project management industry is highly competitive. We compete for contracts, primarily on the basis of technical capability, with numerous entities, including other construction management companies, design or engineering firms, general contractors, management consulting firms and other entities. Compared to us, many of these competitors are larger, well-established companies that have broader geographic scope and greater financial and other resources. During 2018, some of our largest project management competitors included: AECOM, ARCADIS N.V., Jacobs Engineering Group, Inc., WSP Parsons Brinckerhoff, Inc., Turner Construction Co., HNTB, and Dar Group.

Insurance

We maintain insurance covering general and professional liability, involving bodily injury and property damage. We have historically enjoyed a favorable loss ratio in all lines of insurance and our management considers our present limits of liability, deductibles and reserves to be adequate. We endeavor to reduce or eliminate risk through the use of quality assurance/control, risk management, workplace safety and similar methods to eliminate or reduce the risk of losses on a project.

Management

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

Executive Officers

Name	Age	Position
Raouf S. Ghali	57	Chief Executive Officer
Michael V. Griffin	65	Regional President, Americas
William H. Dengler, Jr.	52	Executive Vice President and Chief Administrative Officer
Todd Weintraub	55	Chief Financial Officer
Abdo E. Kardous	59	Regional President, Middle East
J. Charles Levergood	57	Senior Vice President of Business Development, Americas

RAOUF S. GHALI has been a member of our Board of Directors since August 2016 and our Chief Executive Officer since October 2018. Prior to that, he was our Chief Operating Officer from January 2015 to October 2018, President of our Project Management Group (International) from January 2005 to January 2015, Senior Vice President in charge of project management operations in Europe, North Africa and the Middle East from 2001 to 2004, and Vice President from 1993 to 2001. Prior to joining us, he worked for Walt Disney Imagineering from 1988 to 1993. Mr. Ghali earned both a B.S. in business administration and economics and an M.S. in business organizational management from the University of LaVerne.

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

WILLIAM H. DENGLER, JR. has been our Executive Vice President and Chief Administrative Officer since November 2018. Prior to that, he was Executive Vice President and General Counsel from August 2016 to November 2016, Senior Vice President and General Counsel from 2007 to 2016, Vice President and General Counsel from 2002 to 2007, and Corporate Counsel from 2001 to 2002. Mr. Dengler also serves as corporate secretary to Hill and its subsidiaries. Prior to joining Hill, Mr. Dengler served as Assistant Counsel to former New Jersey Governors Donald DiFrancesco and Christine Todd Whitman from 1999 to 2001. Mr. Dengler earned his B.A. in political science from McDaniel College and his J.D. from Rutgers University School of Law at Camden. He is licensed to practice law in New Jersey, as well as before the U.S. Court of Appeals for the Third Circuit and the U.S. Supreme Court.

TODD WEINTRAUB has been our Chief Financial Officer since November 2018. Mr. Weintraub has nearly 30 years of experience, including serving as CFO, Corporate Controller, Director of Accounting and Accounting Manager for six publicly traded companies. In addition, Mr. Weintraub has served on the Board of Directors for multiple companies, including International Matex Tank Terminals, Atlantic Aviation, Macquarie Renewable Energy Holdings, Hawaii Gas and Parking Company of America, where he was Chair. As CFO, Mr. Weintraub has been a key contributor whose companies have produced above market shareholder returns. He has a proven track record of implementing effective financial controls and operational improvements, deploying growth capital, executing mergers and acquisitions, managing a portfolio of operating businesses, optimizing capital structure and performing capital markets activities and investor relations. Mr. Weintraub graduated Magna Cum Laude from Siena College in 1990.

ABDO E. KARDOUS assumed the post of Regional President, Middle East in April 2018. Mr. Kardous joined Hill in 1997 as part of the Grand Mosque team, was promoted to Vice President in our Dubai office, and then named SVP Middle East. He was key to establishing Hill’s presence across the Gulf Cooperation Council before serving as Hill’s Senior Vice President and Managing Director for the Asia/Pacific Region. Mr. Kardous is a member of both the Chartered Institute of Building (CIOB) and Association for Project Management (API), and has recently served on the Advisory Board of the Chicago based Council of Tall Buildings and Urban Habitat (CTBUH). He holds a B.S., Magna Cum Laude, in Civil Engineering, from the University of Maryland and an M.S. in Civil Engineering from the University of California, Berkley. Mr. Kardous brings more than 30 years of experience to the Middle East region, with expertise in the design, procurement, construction, and delivery of multi-billion-dollar projects in the residential, hospitality, energy, infrastructure, and marine sectors, among others. He was also named Hill Internationals' Project Manager of the Year in 2001.

J CHARLES LEVERGOOD is our Senior Vice President of Business Development, Americas. Mr. Levergood brings 32 years of experience in strategic business development, marketing and sales, consulting services, and construction management for multi-billion-dollar pursuits. Prior to joining Hill, he worked for 13 years at Jacobs Engineering Group in a variety of positions, most recently as Vice President of Mega Sales and Global Strategy for Jacobs’ Global Buildings and Infrastructure group. Mr. Levergood also served as Vice President with Parsons Brinckerhoff and earlier as Director of Marketing with HNTB. Mr. Levergood earned his B.S.C.E. in Civil Engineering from Bucknell University and his M.S.C.E. in Civil Engineering from Purdue University. He is a registered professional engineer in Indiana, Maryland, Virginia, and the District of Columbia.

Employees

At February 28, 2019, we had 2,664 professionals. Of these professionals, 2,570 worked in our Project Management Group and 94 worked in our Corporate offices. Our personnel included 2,304 full-time employees, 107 part-time employees, 199 independent external contractors and 54 external contractors provided by third-party agencies. We are not a party to any collective bargaining agreements.

Access to Company Information

We electronically file our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports with the United States Securities and Exchange Commission (the “SEC”). The SEC maintains an Internet site at www.sec.gov that contains periodic reports, proxy statements, information statements and other information regarding issuers that file electronically.

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

Item 1A. Risk Factors.

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

Risks Affecting the Business

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

Acts of terrorism, political, governmental and social upheaval and threats of armed conflicts in or around various areas in which we operate could limit or disrupt markets and our operations, including disruptions resulting from the evacuation of personnel, cancellation of contracts or the loss of personnel, and may affect timing and collectability of our accounts receivable. Such events may cause further disruption to financial and commercial markets and may generate greater political and economic instability in some of the geographic areas in which we operate.

We may be unable to collect amounts owed to us, which could have a material adverse effect on our liquidity, results of operations and financial condition.

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

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

Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond our control. Significant drops in oil or gas prices have led, and could lead to further slowdowns, in construction in oil and gas producing regions, which has had and could continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

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

The markets that we serve are subject to fluctuation based on general global economic conditions and other factors. Unfavorable global economic conditions could adversely affect our business and results of operations, primarily by limiting our access to credit and disrupting our clients' businesses. The reduction in financial institutions' willingness or ability to lend has increased the cost of capital and reduced the availability of credit. Although we currently believe that the financial institutions with which we do business will be able to fulfill their commitments to us, there is no assurance that those institutions will be able or willing to continue to do so, which could have a material adverse impact on our business. Changes in general market conditions in the locations where we work may adversely affect our clients' level of spending, ability to obtain financing, and ability to make timely payments to us for our services, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding, results of operations and liquidity.

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

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

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

There are risks inherent in doing business internationally, including:

- Lack of developed legal systems to enforce contractual rights;
- Foreign governments may assert sovereign or other immunity if we seek to assert our contractual rights thus depriving us of any ability to seek redress against them;
- Greater difficulties in managing and staffing foreign operations;
- Differences in employment laws and practices which could expose us to liabilities for payroll taxes, pensions and other expenses;
- Inadequate or failed internal controls, processes, people, and systems associated with foreign operations;
- Increased logistical complexity;
- Increased selling, general and administrative expenses associated with managing a larger and more global business;
- Greater risk of uncollectible accounts and longer collection cycles;
- Currency exchange rate fluctuations;
- Restrictions on the transfer of cash from certain foreign countries;
- Imposition of governmental controls;
- Political and economic instability;
- Changes in U.S. and other national government policies affecting the markets for our services and our ability to do business with certain foreign governments or their political leaders;
- Conflict between U.S. and non-U.S. law;
- Changes in regulatory practices, tariffs and taxes;
- Less established bankruptcy and insolvency procedures;
- Potential non-compliance with a wide variety of non-U.S. laws and regulations; and
- General economic, political and civil conditions in these foreign markets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We are required to provide Performance Guarantees to our clients on some of our projects. If claims are made by our clients on the Performance Guarantees, the result could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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

Brexit may impact our business in Europe.

The June 2016 referendum result in the United Kingdom to exit the European Union (commonly known as “Brexit”), and the subsequent commencement of the official withdrawal process by the United Kingdom government in March

2017, has created uncertainties affecting business operations in the United Kingdom and the European Union. Until the terms of the United Kingdom's potential exit from the European Union in 2019 are determined, including any transition period, it is difficult to predict its impact. It is possible that the withdrawal could, among other things, affect the legal and regulatory environments to which our businesses are subject, impact trade between the United Kingdom and the European Union and other parties, and create economic and political uncertainty in the region.

New legal requirements in connection with climate change could adversely affect our operating results.

Our business and results of operations could be adversely affected by the passage of new climate change, defense, environmental, infrastructure and other laws, policies and regulations. Growing concerns about climate change and greenhouse gases, such as those adopted under the United Nations COP-21 Paris Agreement or the EPA Clean Power Plan, may result in the imposition of additional environmental regulations for our clients' projects in the buildings, transportation, environmental, energy and industrial markets worldwide. For example, legislation, international protocols, regulation or other restrictions on emissions regulations could increase the costs of projects for our clients or, in some cases, prevent a project from going forward, thereby potentially reducing the need for our services. We cannot predict when or whether any of these various proposals may be enacted or what their effect will be on us or on our customers.

Risks Related to Ownership of Our Common Stock

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

Our management is responsible for establishing and maintaining adequate disclosure controls and procedures and internal control over our financial reporting, as defined in Rules 13a-15(e) and 13a-15(f), respectively, under the Securities Exchange Act of 1934, as amended. As disclosed in Item 9A of this Annual Report on Form 10-K, management has identified several material weaknesses in our internal control over financial reporting and has determined that our disclosure controls and procedures were not effective. A material weakness is defined as a deficiency, or combination of significant deficiencies, in internal control over financial reporting, such that there is a more than a remote likelihood that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of these material weaknesses, our management concluded that the Company did not maintain effective disclosure controls and procedures and internal control over financial reporting as of December 31, 2018.

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

The NYSE could suspended trading of our common stock and may delist our common stock from trading on its exchange, which could limit investors' ability to make transactions in our common stock and subject us to additional trading restrictions.

On August 13, 2018, the NYSE announced the suspension of trading of our common stock due to non-compliance with Section 802.01E of the NYSE's Listed Company Manual and announced that it was initiating proceedings to delist our common stock. As a result of the suspension, our common stock began trading on August 14, 2018 under the symbol "HILI" on the OTC Pink, which is operated by OTC Markets Group Inc. The Company filed a Request for Review (the "Review Request") to a Committee of the Board of Directors of NYSE Regulation (the "Committee") with respect to the NYSE's determination to initiate delisting proceedings. The Company expected that the Committee would hold a hearing on the Review Request on or after 25 business days from the date of filing the Review Request. The Company became current in its periodic reports filed with the Securities and Exchange Commission on October

12, 2018 and as a result, the New York Stock Exchange lifted its suspension on the trading of the Company's common stock. Trading of the Company's common stock resumed effective Thursday, October 18, 2018, under the Company's previous ticker symbol, "HIL," and delisting proceedings against the Company ceased.

If the NYSE were to delists our common stock from listing on its exchange and we are not able to list our common stock on another national securities exchange, we expect our common stock would be quoted on an over-the-counter market, such as the OTC Pink. If this were to occur, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our common stock;
- reduced liquidity for our common stock;
- a determination that our common stock is a "penny stock" which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities;
- a limited amount of news and analyst coverage; and

- a decreased ability to issue additional securities or obtain additional financing in the future.

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

As of March 28, 2019, there were 55,659 shares of our common stock outstanding. An additional 1,943 shares of our common stock may be issued upon the exercise of options held by employees, management and directors. We also have the authority, as determined by our Board of Directors, to issue up to 1,000 shares of preferred stock and additional options to purchase 3,321 shares of our common stock without stockholder approval. Future issuances or sales of our common stock could have an adverse effect on the market price of our common stock.

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

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

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

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

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

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

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

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

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

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

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

This concentration of ownership could significantly influence matters requiring stockholder approval and could delay, deter or prevent a change in control of the Company or other business combinations that might otherwise be beneficial to our other stockholders. Accordingly, this concentration of ownership may impact the market price of our common stock. In addition, the interest of our significant stockholders may not always coincide with the interest of the Company’s other stockholders. In deciding how to vote on such matters, they may be influenced by interests that conflict with our other stockholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our executive and certain operating offices are currently located at One Commerce Square, 2005 Market Street, 17th Floor, Philadelphia, Pennsylvania 19103. We lease all of our office space and do not own any real property. The telephone number at our executive office is (215) 309-7700. In addition to our executive offices, we have approximately 60 operating leases for office facilities throughout the world.

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

United States	Europe	Middle East
Boston, MA	Amsterdam, Netherlands	Abu Dhabi, UAE
Cleveland, OH	Athens, Greece	Doha, Qatar
Columbus, OH	Belgrade, Serbia	Dubai, UAE
Hartford, CT	Bucharest, Romania	Jeddah, Saudi Arabia
Houston, TX	Dusseldorf, Germany	Manama, Bahrain
Irvine, CA	Frankfurt, Germany	Muscat, Oman
Irving, TX	Istanbul, Turkey	Riyadh, Saudi Arabia
Jacksonville, FL	Lisbon, Portugal	
Miami, FL	London, UK	Africa
New York, NY	Madrid, Spain	Algiers, Algeria
New Orleans, LA	Pristina, Kosovo	Cairo, Egypt
Ontario, CA	Warsaw, Poland	Casablanca, Morocco
Orlando, FL	Wroclaw, Poland	Tripoli, Libya
Philadelphia, PA (Headquarters)		
Phoenix, AZ	Latin America	Asia/Pacific
Pittsburgh, PA	Bogota, Colombia	Astana City, Kazakhstan
San Francisco, CA	Mexico City, Mexico	Gurgaon, India
San Jose, CA	Sao Paulo, Brazil	Hong Kong, China
Seattle, WA		Mumbai, India
Spokane, WA		
Toledo, OH		
Woodbridge, NJ		
Washington, DC		

Item 3. Legal Proceedings.

General Litigation

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

In 2013, M.A. Angeliades, Inc. (“Plaintiff”) filed a complaint with the Supreme Court of New York against the Company and the New York City Department of Design and Construction (“DDC”) regarding payment of approximately $8,771 for work performed as a subcontractor to the Company plus interest and other costs. On October 5, 2015, pursuant to a settlement agreement, Hill paid Plaintiff approximately $2,596, including interest amounting to $1,056, of which $448 had been previously accrued and $608 was charged to expense for the year ended December 31, 2015. The Plaintiff resolved its remaining issues regarding change orders and compensation for delay with DDC. On January 16, 2016, Plaintiff filed a Motion to amend its complaint against the Company claiming that the amounts paid by the Company do not reconcile with the amounts Plaintiff believes the Company received from DDC despite DDC’s records reflecting the same amount as the Company’s. On August 8, 2016, the Plaintiff’s Motion was granted and the parties resolved the matter and entered into a confidential settlement and general release on August 17, 2018. The settlement was accrued for and reflected in the Company's balance sheet and the statement of operations as of and for the year ended December 31, 2017.

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

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

Loss on Performance Bond

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

On February 8, 2018, the Company received notice from the First Abu Dhabi Bank ("FAB", formerly known as the National Bank of Abu Dhabi) that Public Authority of Housing Welfare of Kuwait submitted a claim for payment on a Performance Guarantee issued by the Company for approximately $7,927 for a project located in Kuwait. FAB subsequently issued, on behalf of the Company, a payment on February 15, 2018. The Company is taking legal action to recover the full Performance Guarantee amount. On September 20, 2018 the Kuwait First Instance Court dismissed the Company's case. The Company has filed an appeal before the Kuwait Court of Appeals. As a result of the First Instance Court decision, the Company fully reserved the performance guarantee payment above in the first quarter of 2018 and it is presented as "Loss on Performance Bond" on the consolidated statements of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common stock has historically been traded on the New York Stock Exchange (“NYSE”) under the trading symbol “HIL.” On August 13, 2018, the NYSE suspended the trading of our common stock and commenced proceedings to delist our common stock due to our failure to be current in our periodic reporting obligations with the SEC. As a result, on August 14, 2018, our common stock commenced trading on the OTC Pink Marketplace under the symbol “HILI”. As a result of becoming current in periodic reports filed with the Securities Exchange Commission, the New York Stock Exchange lifted its suspension on the trading of the Company’s common stock, and the Company’s common stock resumed trading on Thursday, October 18, 2018, under the Company’s previous ticker symbol, “HIL,” and the New York Stock Exchange is no longer pursuing delisting proceedings against the Company.

Stockholders

As of December 31, 2018, there were approximately 63 holders of record of our common stock. However, a single record stockholder account may represent multiple beneficial owners, including owners of shares in street name accounts. There are approximately 2,400 beneficial owners of our common stock.

Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

The table setting forth this information is included in Part III — Item 12 ("Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters") of this Form 10-K.

Recent Sales of Unregistered Securities

None.

Performance Graph

The performance graph and table below compare the cumulative total return of our common stock for the period from December 31, 2013 to 2018 with the comparable cumulative total returns of the Russell 2000 Index (of which the Company was a component stock) and a peer group which consists of the following eight companies: AECOM (ACM), Fluor Corporation (FLR), Granite Construction Incorporated (GVA), Jacobs Engineering Group Inc. (JEC), KBR, Inc. (KBR), NV5 Global, Inc. (NVEE), Tutor Perini Corporation (TPC), and Tetra Tech, Inc. (TTEK).

	2013	2014	2015	2016	2017	2018
Hill International, Inc.	$100.00	$97.22	$98.23	$110.10	$137.89	$78.03
Russell 2000 Index	100.00	103.52	97.62	116.59	131.88	115.85
Peer Group	100.00	95.28	104.84	147.03	187.14	174.98

Item 6. Selected Financial Data.

The following is selected financial data from our audited consolidated financial statements for each of the last five years. This data should be read in conjunction with our consolidated financial statements (and related notes) appearing in Item 8 of this report and with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” On January 1, 2018, the Company adopted Accounting Standards Update 2014-09 on a modified retrospective basis, which allowed revenue for 2018 to be recognized according to the new Accounting Standards Codification ("ASC") 606 and previous years reported revenue to remain in accordance with the standard that was replaced, ASC 605. See Note 4 - "Revenue from Contracts with Clients" to our consolidated financial statements for additional information. On May 5, 2017, the sale of the Construction Claims Group was finalized, which is reported as discontinued operations for each year presented. See Note 5 - "Discontinued Operations" to our consolidated financial statements for additional information. The data presented below is in thousands, except for (loss) earnings per share data.

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Income Statement Data:					
Total revenue	$428,679	$483,736	$516,012	$544,760	$489,348
Direct expenses	297,988	336,883	358,943	373,544	322,733
Gross profit	130,691	146,853	157,069	171,216	166,615
Selling, general and administrative expenses	148,038	151,186	170,682	172,649	146,265
Share of (profit) loss of equity method affiliates	(4,322)	(3,777)	37	237	—
Less: Loss on performance bond	7,938	—	—	—	—
Operating profit (loss)	(20,963)	(556)	(13,650)	(1,670)	20,350
Interest and related financing fees, net	5,310	3,031	2,355	3,611	3,099
(Loss) earnings before income taxes	(26,273)	(3,587)	(16,005)	(5,281)	17,251
Income tax expense	4,239	3,103	5,955	5,833	9,997
(Loss) earnings from continuing operations	(30,512)	(6,690)	(21,960)	(11,114)	7,254
Discontinued Operations:					
Loss from discontinued operations	(863)	(14,479)	(11,776)	(2,564)	(18,627)
Gain on disposal of discontinued operations , net of tax	—	48,713	—	—	—
Total gain (loss) from discontinued operations	(863)	34,234	(11,776)	(2,564)	(18,627)
Net earnings (loss)	(31,375)	27,544	(33,736)	(13,678)	(11,373)
Less: net earnings - noncontrolling interests	86	178	76	823	1,304
Net earnings (loss) attributable to Hill International, Inc.	$(31,461)	$27,366	$(33,812)	$(14,501)	$(12,677)
Basic (loss) earnings per common share from continuing operations	$(0.56)	$(0.13)	$(0.43)	$(0.24)	$0.13
Basic loss per common share from discontinued operations	(0.01)	(0.28)	(0.22)	(0.05)	(0.42)
Basic gain on disposal of discontinued operation, net of tax	—	0.93	—	—	—
Basic earnings (loss) per common share - Hill International, Inc.	$(0.57)	$0.52	$(0.65)	$(0.29)	$(0.29)
Basic weighted average common shares outstanding	54,769	52,175	51,724	50,874	44,370
Diluted (loss) earnings per common share from continuing operations	$(0.56)	$(0.13)	$(0.43)	$(0.24)	$0.13
Diluted loss per common share from discontinued operations	(0.01)	(0.28)	(0.22)	(0.05)	(0.42)
Diluted gain on disposal of discontinued operation, net of tax	—	0.93	—	—	—
Diluted earnings (loss) per common share - Hill International, Inc.	$(0.57)	$0.52	$(0.65)	$(0.29)	$(0.29)
Diluted weighted average common shares outstanding	54,769	52,175	51,724	50,874	44,370

	Years Ended December 31,				
	2018	2017	2016	2015	2014
Discontinued Operations Data:					
Revenue	$—	$62,149	$169,252	$168,029	$153,839
Operating (loss) profit	(863)	(4,975)	3,970	10,753	9,842
Interest and related financing fees, net	—	8,858	11,271	11,053	27,386
Gain (Loss) before income taxes	(863)	47,610	(7,301)	(300)	(17,544)
Gain (Loss) from discontinued operations	$(863)	$34,234	$(11,776)	$(2,564)	$(18,627)

	As of December 31,				
	2018	2017	2016	2015	2014
Selected Balance Sheet Data:					
Cash and cash equivalents	$18,711	$21,353	$25,637	$24,089	$30,124
Accounts receivable, net	117,469	128,133	164,844	187,721	146,035
Current assets held for sale	—	—	54,651	60,092	53,393
Current assets	183,095	198,411	266,461	295,723	257,294
Assets held for sale	—	—	32,091	36,199	37,649
Total assets	264,769	293,295	400,075	426,455	396,072
Current liabilities held for sale	—	—	25,888	27,350	28,779
Current liabilities	109,039	125,874	139,525	144,596	139,968
Liabilities held for sale	—	—	5,087	6,730	3,787
Total debt	47,951	37,782	144,103	144,983	121,524
Stockholders' equity:					
Hill International, Inc. share of equity	$93,840	$109,075	$74,358	$101,577	$106,710
Noncontrolling interests	605	1,595	1,994	2,360	9,944
Total equity	$94,445	$110,670	$76,352	$103,937	$116,654

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Introduction

The following discussion should be read in conjunction with the other sections of this report, including the Financial Statements and supplementary Data, contained in Part II, Item 8 of this Annual Report on Form 10-K. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in Part I, "Cautionary Note Regarding Forward-Looking Statements" and Part I, Item 1A."Risk Factors." We assume no obligation to update any of these forward-looking statements.

Overview

We earn revenue by deploying professionals to provide services to our clients, including project management, construction management and related consulting. These services are primarily delivered on a "cost plus" or "time and materials" basis in which we bill negotiated hourly or monthly rates or a negotiated multiple of the direct cost of these professionals, plus actual out-of-pocket expenses. Our direct expenses are the actual cost of these professionals, including payroll and benefits. We also provide services under fixed price contracts or time and materials contracts with a cap.

The professionals we deploy are occasionally subcontractors. We generally bill the actual cost of these subcontractors and recognize this cost as both revenue and direct expense. CFR refers to our revenue excluding amounts paid or due to subcontractors. We believe CFR is an important measure because it represents the revenue on which we earn gross profit, whereas total revenue includes subcontractors on which we generally pass through the cost and earn minimal or no gross profit.

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

Selling, general and administrative expenses (“SG&A”) consist primarily of personnel costs that are not billable and corporate or regional costs such as sales, business development, proposals, operations, finance, human resources, legal, marketing, management and administration.

Discontinued operations includes the results of our former Construction Claims Group, which was sold on May 5, 2017.

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

Critical Accounting Policies and Estimates

Our consolidated financial statements contained in this Annual Report on Form 10-K were prepared in accordance with U.S. GAAP. While there are a number of accounting policies, methods and estimates that affect the consolidated financial statements as described in Note 3 to the consolidated financial statements, areas that are particularly significant are discussed below. We believe our assumptions are reasonable and appropriate, however actual results may be materially different than estimated.

Revenue Recognition

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

Time and Materials Contracts

Under the time and materials (“T&M”) arrangements, contract fees are based upon time and materials incurred. The contracts may be structured as basic time and materials, cost plus a margin or time and materials subject to a maximum contract value (the "cap value"). Due to the potential limitation of the cap value, the economic factors of the contracts subject to a cap value differ from the economic factors of basic T&M and cost plus contracts.

The majority of our contracts are for consulting projects where we bill the client monthly at hourly billing rates. The hourly billing rates are determined by contract terms. Under cost plus contracts, we charge our clients for our costs, including both direct and indirect costs, plus a fixed fee or rate.

Under time and materials contracts with a cap value, we charge our clients for time and materials based upon the work performed subject to a cap or a not to exceed value. There are often instances that a contract is modified to extend the contract value past the cap. As the consideration is variable depending on the outcome of the contract renegotiation, we estimate the total contract price in accordance with the variable consideration guidelines and only include consideration we expect to receive. When we expect to reach the cap value, we generally renegotiate the contract or cease work when the maximum contract value is reached. We continue to work if it is probable that the contract will be extended. We only include consideration on contract renegotiations to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. If we continue to work and are uncertain that a contract change order will be processed, the variable consideration will be constrained until it is probable that the contract will be renegotiated. We are only entitled to consideration for the work we have performed, and the cap value is not a guaranteed contract value.

Fixed Price Contracts

Under fixed price contracts, our clients pay an agreed amount negotiated in advance for a specified scope of work. We are guaranteed to receive the consideration to the extent that we deliver under the contract. We recognize revenue over a period of time on fixed price contracts using the input method based upon direct costs incurred to date, which are compared to total projected direct costs. Costs are the most relevant measure to determine the transfer of the service to the client. We assess contracts quarterly and may recognize any expected future loss before actually incurring the loss. When we expect to reach the total consideration under the contract, we begin to negotiate a change order.

Change Orders and Claims

Change orders are modifications of an original contract that effectively change the provisions of the contract without adding new provisions. Either we or our client may initiate change orders. They may include changes in specifications or design, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Management evaluates when a change order is probable based upon its experience in negotiating change orders, the client’s written approval of such changes or separate documentation of change order costs that are identifiable. Change orders may take time to be formally documented and terms of such change orders are agreed with the client before the work is performed. Sometimes circumstances require that work progresses before an agreement is reached with the client. If we are having difficulties in renegotiating the change order, we will stop work if possible, record all costs incurred to date, and determine, on a project by project basis, the appropriate final revenue recognition.

Claims are amounts in excess of the agreed contract price that we seek to collect from clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs. Costs related to change orders and claims are recognized when they are incurred.

Allowance for Doubtful Accounts

We make ongoing estimates relating to the collectability of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our clients to make required payments. Estimates used in determining accounts receivable allowances are based on our evaluation of specific client accounts and contracts involved and the financial condition of our clients. The factors we consider in our evaluations include, but are not limited to, client type (U.S. federal and other national governments, state and local governments or private sector), historical contract performance, historical collection and delinquency trends, client credit worthiness, and general economic and political conditions. At December 31, 2018 and 2017, the allowance for doubtful accounts was $71,277 and $72,850, respectively. The allowance for doubtful accounts balance included approximately $42,758 and $46,191 related to our receivables in Libya at December 31, 2018 and 2017, respectively.

Goodwill and Acquired Intangible Assets

Goodwill represents the excess of the consideration paid over the fair value of identifiable net assets acquired. Goodwill is not amortized, but instead is subject to impairment testing on an annual basis, and between annual tests whenever events or changes in circumstances indicate that the fair value may be below its carrying amount. We test goodwill annually for impairment during the third fiscal quarter. To determine the fair value of our reporting unit, we use the discounted cash flow method and the quoted price method, weighting the results of each method.

Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth, the period over which cash flows will occur, and determination of the weighted average cost of capital, among other things. Based on the valuation as of July 1, 2018, the fair value of the Company exceeded its carrying value. Changes in these estimates and assumptions could materially affect our determination of fair value and/or goodwill impairment. Changes in future market conditions, our business strategy, or other factors could impact upon the future value of our project management operations, which could result in future impairment charges.

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

Income Taxes

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

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

Stock Options

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

Contingencies

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

2018 Business Overview

Consolidated Results
(In thousands)

	Years Ended December 31,		
	2018	2017	2016
Income Statement Data:			
Revenue	$428,679	$483,736	$516,012
Direct expenses	297,988	336,883	358,943
Gross profit	130,691	146,853	157,069
Selling, general and administrative expenses	148,038	151,186	170,682
Plus: Share of (profit) loss of equity method affiliates	(4,322)	(3,777)	37
Less: Loss on performance bond	7,938	—	—
Operating profit (loss)	(20,963)	(556)	(13,650)
Interest and related financing fees, net	5,310	3,031	2,355
Loss before income taxes	(26,273)	(3,587)	(16,005)
Income tax expense	4,239	3,103	5,955
Loss from continuing operations	(30,512)	(6,690)	(21,960)
Discontinued operations:			
Loss from discontinued operations	(863)	(14,479)	(11,776)
Gain on disposal of discontinued operations, net of tax	—	48,713	—
Total gain (loss) from discontinued operations	(863)	34,234	(11,776)
Net income (loss)	(31,375)	27,544	(33,736)
Less: net earnings - noncontrolling interests	86	178	76
Net income (loss) attributable to Hill International, Inc.	$(31,461)	$27,366	$(33,812)

Results of Operations

Year Ended December 31, 2018 Compared to
Year Ended December 31, 2017

Total Revenue:

	2018		2017		Change	
United States	$205,149	47.9 %	$227,581	47.1 %	$(22,432)	(9.9)%
Latin America	11,503	2.7 %	11,772	2.4 %	(269)	(2.3)%
Europe	41,259	9.6 %	43,179	8.9 %	(1,920)	(4.4)%
Middle East	133,690	31.2 %	169,964	35.1 %	(36,274)	(21.3)%
Africa	26,600	6.2 %	23,100	4.8 %	3,500	15.2 %
Asia/Pacific	10,478	2.4 %	8,140	1.7 %	2,338	28.7 %
Total	$428,679	100.0%	$483,736	100.0%	$(55,057)	(11.4)%

CFR was $337,244 and $383,495 of the total revenue for the twelve months ended December 31, 2018 and 2017, respectively, which was approximately 78.7% and 79.3% of total revenues, respectively.

The decrease in revenue and the corresponding decrease in CFR for the twelve months ended December 31, 2018 compared to the same period in 2017 was primarily due to the following:

United States:

The Northeast United States had a decline in revenue of approximately $16,955 due to the slowdown of a large University project and a project related to Hurricane Sandy as these projects close out. The Mid-Atlantic United States had a decline in revenue of approximately $7,676 mostly due to certain roadway projects coming to an end. These declines were partially offset by the addition of some new work and increased scope of work for ongoing projects in other areas of the United States.

Middle East:

Saudi Arabia had a decline of revenue of approximately $21,830 primarily due to the slow down of King Abdullah project as it nears completion and the close out of Jabal Omar project. Also, Oman had a decline in revenue of approximately $13,768 primarily due to the slow down of a major airport project as it nears completion and the closeout of a major hotel project.

Gross Profit:

	2018			2017			Change	
			Gross Margin % of Total Revenue			Gross Margin % of Total Revenue		
United States	$60,237	46.1 %	29.4 %	$66,117	45.1 %	29.1 %	$(5,880)	(8.9)%
Latin America	4,799	3.7 %	41.7 %	4,723	3.2 %	40.1 %	76	1.6 %
Europe	15,083	11.5 %	36.6 %	13,524	9.2 %	31.3 %	1,559	11.5 %
Middle East	36,046	27.6 %	27.0 %	48,221	32.8 %	28.4 %	(12,175)	(25.2)%
Africa	10,997	8.4 %	41.3 %	10,284	7.0 %	44.5 %	713	6.9 %
Asia/Pacific	3,529	2.7 %	33.7 %	3,984	2.7 %	48.9 %	(455)	(11.4)%
Total	$130,691	100.0%	30.5 %	$146,853	100.0%	30.4 %	$(16,162)	(11.0)%

The change in gross margin as a percentage of revenue for the twelve months ended December 31, 2018 compared to the same period in 2017 was primarily due to the following:

Europe:
The Increase in gross margin percent of revenue is primarily related to the cancellation of a large project in Germany at the end of 2017. The project had relied on subcontractors to perform the work which lowered the margins in 2017.

Middle East:
The gross margin percent of revenue decrease was mostly attributable to the Oman airport project which experienced a slight reduction in overall projected margins in 2018.

Asia/Pacific
The gross margin percent of revenue decrease in 2018 is attributable to using subcontractors to complete work on a large project in Afghanistan.

Selling, General and Administrative Expenses:

2018 contained significant costs related to our profit improvement plan and restatement of approximately $19,800. We believe these costs are largely behind us and will have a minimal impact going forward. Our selling, general and administrative expense for 2018 excluding these items, on a proforma basis, would have been approximately $120 million. This estimate excludes any gain or loss on foreign exchange activity. We believe this level of selling, general and administrative costs is sustainable going forward.

The decrease from 2017 to 2018 was mostly the result of $6,177 decrease in indirect labor costs due to staff reductions related to the our profit improvement plan, an approximately $4,823 decrease in unapplied labor costs in the Middle East and United States, and a net bad debt recovery in Libya due to the reversal of a previously written off account receivable of approximately $3,248. The bad debt reversal was due to our client in Libya paying the Libyan taxing authority on our behalf. These reductions were largely offset by increases in foreign currency translation losses of approximately $6,033 due to a weakened Euro, Turkish Lira and Brazilian Real when compared to last year, a $3,140 expense related to a former executive and, approximately $2,140 due to increased resources utilized to bring the Company current with its SEC financial filings and other profit improvement plan costs. SG&A expenses represented approximately 34.4% and 31.3% of revenue for the years ended December 31, 2018 and 2017, respectively.

Interest and related financing fees, net

Interest and related financing fees, net, included interest expense of $5,642, net of $(333) in interest income, and interest expense of $3,614, net of $(583) in interest income, respectively for the years ended December 31, 2018 and 2017. The increase in interest expense in 2018 as compared with 2017 is mainly due to expense related to debt that was paid off as part of the Construction Claims Group sale being allocated to discontinued operations during the twelve months ended December 31, 2017. All interest charges in 2018 have been recorded within continuing operations.

Income Taxes

The effective income tax rates for 2018, and 2017 were (16.1)% and (86.5)% respectively. The differences between the federal statutory rate and the effective tax rate are caused by several items including the Tax Cuts and Jobs Act of 2017, the difference between the U.S. federal statutory rates and the foreign tax rates, the impact of losses in jurisdictions that cannot be benefited and the impact of miscellaneous expense items that are not deductible for tax purposes.

Year Ended December 31, 2017 Compared to
Year Ended December 31, 2016

Total Revenues:

	2017		2016		Change	
United States	$227,581	47.1 %	$204,035	39.5 %	$23,546	11.5 %
Latin America	11,772	2.4 %	18,775	3.6 %	(7,003)	(37.3)%
Europe	43,179	8.9 %	41,062	8.0 %	2,117	5.2 %
Middle East	169,964	35.1 %	213,613	41.4 %	(43,649)	(20.4)%
Africa	23,100	4.8 %	24,037	4.7 %	(937)	(3.9)%
Asia/Pacific	8,140	1.7 %	14,490	2.8 %	(6,350)	(43.8)%
Total	$483,736	100.0%	$516,012	100.0%	$(32,276)	(6.3)%

The decrease in revenue for the twelve months ended December 31, 2017 compared to the same period in 2016 was primarily due to the decrease in the Middle East as a result of the closeout of projects in United Arab Emirates of $26,564 and Saudi Arabia of $6,167 and a decrease in activity of the Muscat International Airport project in Oman. In addition, Asia Pacific had a decrease of $6,350 primarily from a decrease in activity of large projects in Afghanistan and India. Latin America had a revenue decline primarily due to weaker economic conditions in Brazil. These reductions were partially offset by increases in the United States primarily in the Western region, were revenue increased approximately $16,759 due to the addition of new projects.

Gross Profit:

	2017		% of Revenue	2016		% of Revenue	Change	
United States	$66,117	45.1 %	29.1 %	$60,464	38.4 %	29.6 %	$5,653	9.3 %
Latin America	4,723	3.2 %	40.1 %	7,304	4.7 %	38.9 %	(2,581)	(35.3)%
Europe	13,524	9.2 %	31.3 %	13,465	8.6 %	32.8 %	59	0.4 %
Middle East	48,221	32.8 %	28.4 %	60,079	38.3 %	28.1 %	(11,858)	(19.7)%
Africa	10,284	7.0 %	44.5 %	8,770	5.6 %	36.5 %	1,514	17.3 %
Asia/Pacific	3,984	2.7 %	48.9 %	6,987	4.4 %	48.2 %	(3,003)	(43.0)%
Total	$146,853	100.0%	30.4 %	$157,069	100.0%	30.4 %	$(10,216)	(6.5)%

The decrease in gross profit was primarily due to the winding down of major projects in the Middle East, Asia Pacific and Latin America regions. These decreases were partially offset by increases in gross profit in the United States related to new work in the Western Region.

Selling, General and Administrative (“SG&A”) Expenses

SG&A expenses represented 31.3% and 33.1% of revenues in 2017 and 2016, respectively.

SG&A expenses decreased $19,496 from $170,682 in 2016 to $151,186 in 2017. The decrease was primarily due to decreases in the Middle East as a result of a $10,696 decrease in bad debt expense due to the large increase in reserves for certain accounts receivable in the Middle East during 2016 and a $3,663 decrease primarily due to non productive labor costs reduction related to the closeout of projects. In addition, there was a $10,336 decrease in Europe and a $4,207 decrease in Africa primarily related to a reduction in foreign currency translation expense. Partially offsetting these decreases were cost increases primarily due to expenses related to the Company’s profit improvement plan of approximately $5,019, increased severance costs of approximately $7,078 and restatement expenses of approximately $1,440.

Operating Profit (Loss):

	2017	% of Revenue	2016	% of Revenue	Change	
United States	$23,191	10.2 %	$17,742	8.7 %	$5,449	30.7 %
Latin America	(3,190)	(27.1)%	1,702	9.1 %	(4,892)	—
Europe	3,221	7.5 %	(8,285)	(20.2)%	11,506	—
Middle East	21,096	12.4 %	15,992	7.5 %	5,104	31.9 %
Africa	(752)	(3.3)%	(7,083)	(29.5)%	6,331	(89.4)%
Asia/Pacific*	(1,378)	(16.9)%	1,097	7.6 %	(2,475)	—
Corporate	(42,744)	—	(34,815)	—	(7,929)	22.8 %
Total	$(556)	(0.1)%	$(13,650)	(2.6)%	$13,094	—

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

Operating loss decreased primarily due to an increase in operating profit in the United States as a result of increased revenues in the Western region from new work. The Middle East contributed to the decrease in the operating loss primarily from decreases in unapplied labor, bad debt and foreign currency translation expense. Europe also contributed to the decrease in operating loss due to a decrease in foreign currency translation expense. The decrease was partially offset by an increase in Corporate expenses primarily due to the profit improvement plan, restatement expenses and increased severance costs. Corporate expenses increased by $7,929, and represented 8.8% of total revenue in 2017 compared to 6.7% of total revenue in 2016.

Interest and related financing fees, net

Net interest and related financing fees increased $676 to $3,031 in 2017 as compared with $2,355 in 2016 due to the establishment of new credit facilities and long term financing after the Construction Claims Group sale.

Income Taxes

In 2017, income tax expense was $3,103 compared to $5,955 in 2016. The effective income tax rates for 2017 and 2016 were (86.5)% and (37.2)%, respectively. The differences between the federal statutory rate and the effective tax rate are caused by several items including the difference between the U.S. federal statutory rates and the foreign tax rates, the impact of the Tax Cuts
and Jobs Act of 2017, the interaction of losses between continuing and discontinuing operation and other miscellaneous items.

In 2016, the Company's effective tax rate differed from the U.S. federal statutory rate primarily as a result of the inability to record an income tax benefit related to the U.S. net operating loss and increases caused by various foreign withholding taxes.

Net Income (Loss) Attributable to Hill

Net income attributable to Hill International, Inc. for 2017 was $27,366, or $0.52 per diluted common share as compared to a 2016 loss of $33,812, or $0.65 per diluted common share. Net loss from continuing operations for 2017 was $6,690, or $0.13 per diluted share, compared to net loss from continuing operations of $21,960, or $0.43 per diluted share, in 2016.

Liquidity and Capital Resources

Our primary cash obligations are our payroll and our project subcontractors. Our primary source of cash is receipts from clients. We generally pay our employees semi-monthly in arrears and invoice our clients monthly in arrears. Our clients generally remit payment approximately two months, on average, after invoice date. This creates a lag between the time we pay our employees and the time we receive payment from our clients. We bill our clients for any subcontractors used and pay those subcontractors after receiving payment from our clients, so no such timing lag exists for the payments we make to subcontractors.
We utilize cash on hand and our revolving credit facilities to fund the working capital requirement caused by the lag discussed above and other operating needs. We believe our expected cash receipts from clients, together with current cash on hand and revolving credit facilities, are sufficient to support the reasonably anticipated cash needs of our operations over the next twelve months.

The Company believes that it has sufficient liquidity to support the reasonably anticipated cash needs of its operations over the next twelve months from the date of this filing. Concurrent with the 2017 sale of the Company's claims business, management recognized the need to significantly reduce its selling, general and administrative costs given the reduced scale of the remaining business. Management developed and announced a Profit Improvement Plan ("PIP") to address this need. Management recognized that the Company would incur costs during 2017 and 2018 to execute this plan, including consulting fees, severance and retention costs. The Company also experienced significantly higher costs in both years due to the financial restatement and in 2018 due to a performance bond being called. The combination of these events resulted in over $25 million of expenses in 2018 in excess of what management would consider typical. The operating loss and cash used in 2018 were primarily due to these expenses.

As of the date of these financial statements the PIP has been fully implemented and the associated expenses are substantially completed. The financial restatement was completed in 2018. With significantly reduced selling, general and administrative expenses already implemented, the financial restatement completed and the absence of expenses related to these items, as well as management’s expectation that performance bonds will not be called, management believes that cash provided by operations will be sufficient to meet its cash obligations over the next twelve months.

At December 31, 2018, our primary sources of liquidity consisted of $18,711 cash and cash equivalents, of which $17,184 was on deposit in foreign locations, and $3,880 of available borrowing capacity under our various credit facilities. We also have relationships with other foreign banks for the issuance of letters of credit, letters of guarantee and performance bonds in a variety of foreign currencies. At December 31, 2018, we had approximately $68,946 of availability under these arrangements.

Sources of Additional Capital

A significant increase in our current backlog may require us to obtain additional financing. If additional financing is required in the future due to an increase in backlog or changes in strategic or operating plans, 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 Flows

	Years ended December 31,				
	2018	Change	2017 [(1)]	Change	2016 [(1)]
Net cash (used in) provided by operating activities	$(25,897)	$(14,886)	$(11,011)	$(19,840)	$8,829
Net cash (used in) provided by investing activities	(3,072)	(129,396)	126,324	130,374	(4,050)
Net cash provided by (used in) financing activities	21,427	137,245	(115,818)	(113,210)	(2,608)
Effect of foreign exchange rate changes on cash	3,729	6,566	(2,837)	(2,145)	(692)
Net (decrease) increase in cash,cash equivalents and restricted cash	$(3,813)		$(3,342)		$1,479

(1) Net cash (used in)/provided by operating activities includes reclassification of the aggregated restricted cash balances under total current assets and total assets as a result of the adoption of ASU 2016-18, Restricted Cash, which addresses the classification and presentation of changes in restricted cash on the consolidated statement of cash flows.

Operating Activities

The decrease in cash from operations during 2018 was due primarily to payment of a performance bond as discussed in Section 3, “Legal Proceedings”, an increase in cash paid to vendors, an increase in taxes paid and a decrease in cash collected from clients, net of cash paid to billable employees and subcontractors.

The increase in cash paid to vendors was due primarily to a higher level of non-recurring costs in 2018 related to our profit improvement plan and our financial restatement. The increase in taxes paid resulted mostly from tax paid to Libya following an audit. This tax payment was largely offset by collection of a portion of an account receivable from Libya. See Item 8, “Financial Statements and Supplementary Data”, note 6 for further information on this arrangement. The decreases in cash collected from clients and cash paid to billable employees and subcontractors was due to a lower revenue level as discussed in “Results of Operations.”

Cash used by discontinued operations was $863, $12,634 and $7,943 in 2018, 2017 and 2016, respectively.

Cash held in restricted accounts primarily as collateral for the issuance of performance and advance payment bonds, letters of credit and escrow remained relatively unchanged at December 31, 2018 and 2017 was $4,396 and $4,407, respectively.

We manage our operating cash flows by managing the working capital accounts in total. The primary elements of our working capital are accounts receivable, prepaid and other current assets, accounts payable and deferred revenue.

From year to year, the components of our working capital accounts may reflect significant changes. The changes are due primarily to the timing of cash receipts and payments with our working capital accounts combined with changes in our receivables and payables relative to the changes in our overall business.

Investing Activities

During 2018, cash was used in investing activities for the purchase of fixed assets as well as the purchase of the final interests in Engineering S.A. in Brazil. Net cash provided by investing activities in 2017 was $126,324 as a result of the disposition of the discontinued operations during the second quarter of 2017 (see item 8, "Financial Statements and Supplementary Data," Note 5).

Financing Activities

Net cash provided by financing activities during 2018 was primarily from $10,609 of net borrowings on revolving loans and $11,720 of proceeds from stock issued due to the exercise of stock option during the year. Net cash used in financing activities during 2017 was primarily due to the $117,494 pay-off of our 2014 term loan, $25,940 in net payments against our revolving credit facilities and payments of $4,038 for fees associated with our 2017 Credit Facility. These payments were partially offset by $30,000 of proceeds from our new term loans.

New Accounting Pronouncements

For information with respect to new accounting pronouncements and the impact of these pronouncements on our consolidated financial statements, see Note 3 to the consolidated financial statements in Item 8 hereof.

Quarterly Fluctuations

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

Inflation

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

Off-Balance Sheet Arrangements

The following table provides information with respect to off-balance sheet arrangements with domestic and foreign banks for the issuance of performance bonds, advance payment guarantees and other letters of credit that are scheduled to expire in 2019 and beyond. The total amount of these arrangements in the following table includes amounts issued in various foreign currencies and are based on the foreign currency exchange rates as of December 31, 2018, where applicable.

	Total (1)	2019	2020-2021	2022-2023	2024 and later
Performance bonds (2)	$38,350	$20,413	$ 13,349	$ 2,378	$2,210
Advance payment guarantee (2)	13,499	5,572	2,855	5,072	—
Bid or tender bonds (3)	8,405	8,309	96	—	—
Letters of credit (4)	3,750	3,750	—	—	
Other (5)	3,668	2,540	1,128	—	—
	$67,672	$40,584	$ 17,428	$ 7,450	$2,210

(1) At December 31, 2018, the Company had provided cash collateral amounting to $2,945 for certain of these items. That collateral is reflected in restricted cash on the consolidated balance sheet. See Note 15 to our consolidated financial statements for further information regarding these arrangements.

(2) Represents guarantee of service performance bonds and advance payments through domestic and international banks required under certain client contracts.

(3) Represents tender and bid bonds issued through international banks as part of the bidding process for new work to assure our client that we will enter into the service contract.

(4) Comprised of an indemnity escrow required as part of the Construction Claims Group sale.

(5) Includes a $1.0 rental bond for a tenant improvement obligation we will be required to fund as part of our arrangement with the sublessee for a portion of our space in Corporate Headquarters. The sublease agreement was executed during the year ended December 31, 2018, but has not yet commenced.

Contractual Obligations

The following table reflects contractual debt obligations under our notes payable and credit facilities, fees paid on our off-balance sheet arrangements and minimum cash rental payments due for our operating lease obligations over the next five years and thereafter as of December 31, 2018:

	Total	2019	2020-2021	2022-2023	2024 and thereafter
Principal and repayment of notes payable and credit facilities (1)	$47,951	$3,364	$ 1,438	$ 42,921	$ 228
Interest expense on notes payable and credit facilities (2) (5)	16,033	4,109	7,966	3,947	11
Fees paid on off-balance sheet arrangements (3) (5)	2,127	1,170	700	220	37
Operating lease obligations (4) (5)	26,476	5,755	8,552	5,337	6,832
	$92,587	$14,398	$ 18,656	$ 52,425	$ 7,108

(1) Reduced by the amortization of deferred financing costs related to our term loan debt. Balances due partially include amounts payable in various foreign currencies and are reflected based on foreign currency exchange rates as of December 31, 2018, where applicable.

(2) Estimated using the weighted average effective interest rates as of December 31, 2018 on our notes payable and credit facilities. Includes the amortization of deferred financing costs related to our term loan and revolving credit facilities.

(3) Fees paid on our off-balance sheet arrangements are included in interest and related financing fees, net, in our consolidated statements of operations.

(4) Represents future minimum rental commitments under non-cancelable lease terms. Amounts exclude contingent rental payments, where applicable, that may be payable based on lease provisions where annual rent increases are based on certain economic indexes, among other items. We expect to fund these commitments with existing cash and cash flow from operations.

(5) Amounts presented are partially payable in various foreign currencies and are based on the average foreign currency exchange rates for the month ended December 31, 2018.

The liability for unrecognized tax benefits is not included in the table above due to the subjective nature of the costs and timing of anticipated payments.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Exchange Rates

We are exposed to foreign currency exchange rate risk resulting from our operations outside of the U.S., which are denominated, primarily in Euros, the Turkish Lira, the Brazilian Real, as well as other currencies. We do not comprehensively hedge our exposure to currency rate changes; however, we limit exposure to foreign currency fluctuations in most of our contracts through provisions that require client payments to be in currencies corresponding to the currency in which costs are incurred. We currently do not hedge foreign currency cash flows for contract work performed, although we may do so in the future. The functional currency of our significant foreign operations is the respective local currency.

Interest Rates

Our borrowings under our term loan and revolving credit facilities with Société Générale and other U.S. Loan Parties, along with our other revolving credit facilities, bear interest at variable rates. If market interest rates had changed by

100 basis points, our interest expense and cash flows for the twelve months ended December 31, 2018 would have changed by approximately $457.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Hill International, Inc. and Subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and the financial statement schedule identified in Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated March 29, 2019 expressed an adverse opinion.

Change in Accounting Principle

As discussed in Note 4 to the financial statements, the Company changed the manner in which it accounts for revenue recognition upon the adoption of Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers, effective January 1, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ EisnerAmper LLP

We have served as the Company's auditor since 2010.

EISNERAMPER LLP
Iselin, New Jersey
March 29, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Internal Control over Financial Reporting

We have audited Hill International, Inc. and Subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2018, based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, because of the effect of the material weaknesses described in the following paragraph on the achievement of the objectives of the control criteria, Hill International, Inc. and Subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in the Internal Control - Integrated Framework (2013) issued by COSO.

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 9A. The Company did not maintain effective controls over:

(1) Information technology general controls related to granting, restricting and removing access privileges including segregation of duties;

(2) financial reporting process, including the application of relevant accounting standards due to an inappropriate complement of personnel with the necessary level of accounting knowledge, experience, and training in the application of U.S. GAAP commensurate with its financial reporting requirements and the complexity of the Company's operations and transactions;

(3) maintaining, documenting, applying and communicating accounting policies and procedures consistent with the requirements of U.S. GAAP in accounting for assets held for sale, investments in joint ventures, impairment of long-lived assets, employee benefit obligations, uncollectible accounts receivables, foreign currency transactions and translations, and recognition of revenue under long-term construction contracts;

(4) income taxes including ensuring compliance with certain tax laws and employment regulations of the jurisdictions in which the Company operates and accounting for uncertain tax positions and the tax effect of balances recorded within other comprehensive income;

(5) preparation and review of the statement of cash flows including the proper determination of components of operating, investing and financing cash flow activities;

(6) monitoring of employee termination dates relative to the Company's stock option program resulting in terminated employees exercising vested stock options subsequent to their respective termination dates; and

(7) monitoring and review activities including communicating deficiencies in a timely manner to those parties responsible for taking corrective action.

These material weaknesses were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the December 31, 2018 financial statements, and this report does not affect our report dated March 29, 2019, on those financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of Hill International, Inc. and Subsidiaries as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive loss, stockholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes and the financial statement schedule identified in Item 15, and our report dated March 29, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control over Financial Reporting

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

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

/s/ EisnerAmper LLP

EISNERAMPER LLP
Iselin, New Jersey
March 29, 2019

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

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$18,711	$21,353
Cash - restricted	2,945	4,407
Accounts receivable, less allowance for doubtful accounts of $70,617 and $72,190, respectively	117,469	128,133
Current portion of retainage receivable	18,397	9,249
Accounts receivable - affiliates, less allowance for doubtful accounts of $660 and $660, respectively	19,261	24,077
Prepaid expenses and other current assets	5,554	9,053
Income taxes receivable	758	2,139
Total current assets	183,095	198,411
Property and equipment, net	10,787	12,004
Cash - restricted, net of current portion	1,451	1,160
Retainage receivable	5,895	13,095
Acquired intangibles, net	1,316	3,908
Goodwill	48,869	52,658
Investments	3,015	3,639
Deferred income tax assets	4,521	4,052
Other assets	5,820	4,368
Total assets	$264,769	$293,295
Liabilities and Stockholders' Equity		
Current maturities of notes payable and long-term debt	$3,364	$3,241
Accounts payable and accrued expenses	80,036	83,221
Income taxes payable	8,826	16,494
Current portion of deferred revenue	11,169	13,945
Other current liabilities	5,644	8,973
Total current liabilities	109,039	125,874
Notes payable and long-term debt, net of current maturities	44,587	34,541
Retainage payable	927	599
Deferred income tax liabilities	418	933
Deferred revenue	5,105	7,212
Other liabilities	10,248	13,466
Total liabilities	170,324	182,625
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.0001 par value; 1,000 shares authorized, none issued	—	—
Common stock, $0.0001 par value; 100,000 shares authorized, 62,181 and 59,389 shares issued at December 31, 2018 and 2017, respectively	6	6
Additional paid-in capital	210,084	197,104
Accumulated deficit	(85,444)	(53,983)
Accumulated other comprehensive loss	(2,575)	(4,011)
Treasury stock of 6,546 and 6,977 at December 31, 2018 and 2017, respectively	(28,231)	(30,041)
Hill International, Inc. share of equity	93,840	109,075
Noncontrolling interests	605	1,595

Total equity	94,445	110,670
Total liabilities and stockholders’ equity	$264,769	$293,295

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2018	2017	2016
Revenue	$428,679	$483,736	$516,012
Direct expenses	297,988	336,883	358,943
Gross profit	130,691	146,853	157,069
Selling, general and administrative expenses	148,038	151,186	170,682
Plus: Share of (profit) loss of equity method affiliates	(4,322)	(3,777)	37
Less: Loss on performance bond	7,938	—	—
Operating loss	(20,963)	(556)	(13,650)
Interest and related financing fees, net	5,310	3,031	2,355
Loss before income taxes	(26,273)	(3,587)	(16,005)
Income tax expense	4,239	3,103	5,955
Loss from continuing operations	(30,512)	(6,690)	(21,960)
Discontinued operations:			
Loss from discontinued operations	(863)	(14,479)	(11,776)
Gain on disposal of discontinued operations, net of tax	—	48,713	—
Total (loss) earnings from discontinued operations	(863)	34,234	(11,776)
Net (loss) earnings	(31,375)	27,544	(33,736)
Less: net earnings - noncontrolling interests	86	178	76
Net (loss) earnings attributable to Hill International, Inc.	$(31,461)	$27,366	$(33,812)
Basic loss per common share from continuing operations - Hill International Inc.	$(0.56)	$(0.13)	$(0.43)
Basic loss per common share from discontinued operations	(0.01)	(0.28)	(0.22)
Basic gain on disposal of discontinued operation, net of tax	—	0.93	—
Basic (loss) earnings per common share - Hill International, Inc.	$(0.57)	$0.52	$(0.65)
Basic weighted average common shares outstanding	54,769	52,175	51,724
Diluted loss per common share from continuing operations - Hill International Inc.	$(0.56)	$(0.13)	$(0.43)
Diluted loss per common share from discontinued operations	(0.01)	(0.28)	(0.22)
Diluted gain on disposal of discontinued operation, net of tax	—	0.93	—
Diluted (loss) earnings per common share - Hill International, Inc.	$(0.57)	$0.52	$(0.65)
Diluted weighted average common shares outstanding	54,769	52,175	51,724

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2018	2017	2016
Net (loss) earnings	$(31,375)	$27,544	$(33,736)
Foreign currency translation adjustments	983	1,125	5,062
Other, net of tax	—	—	585
Comprehensive (loss) earnings	(30,392)	28,669	(28,089)
Comprehensive (loss) earnings attributable to noncontrolling interests	(367)	703	(255)
Comprehensive (loss) earnings attributable to Hill International, Inc.	$(30,025)	$27,966	$(27,834)

See accompanying notes to consolidated financial statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2018, 2017, and 2016
(In thousands)

	Common Stock		Additional Paid-in	Retained Earnings	Accumulated Other Comprehensive	Treasury Stock		Hill Share of Stockholders'	Non-controlling	Total Stockholders'
	Shares	Amount	Capital	(Deficit)	(Loss)	Shares	Amount	Equity	Interests	Equity
Balance - December 31, 2015	58,335	$ 6	$ 189,198	$ (47,793)	$ (10,589)	6,743	$ (29,245)	$ 101,577	$ 2,360	$ 103,937
Net (loss) earnings	—	—	—	(33,812)	—	—	—	(33,812)	76	(33,736)
Other comprehensive earnings (loss)	—	—	—	—	5,978	—	—	5,978	(331)	5,647
Stock issued to Board of Directors	3	—	10	—	—	—	—	10	—	10
Stock-based compensation expense	—	—	2,486	256	—	—	—	2,742	—	2,742
Stock issued under employee stock purchase plan	59	—	182	—	—	—	—	182	—	182
Exercise of stock options	117	—	351	—	—	—	—	351	—	351
Cashless exercise of stock options	321	—	796	—	—	234	(796)	—	—	—
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	(111)	(111)
Acquisition of additional interest in subsidiary	—	—	(2,670)	—	—	—	—	(2,670)	—	(2,670)
Balance - December 31, 2016	58,835	6	190,353	(81,349)	(4,611)	6,977	(30,041)	74,358	1,994	76,352
Net (loss) earnings	—	—	—	27,366	—	—	—	27,366	178	27,544
Other comprehensive earnings (loss)	—	—	—	—	600	—	—	600	525	1,125
Stock-based compensation expense	—	—	3,012	—	—	—	—	3,012	—	3,012

Stock issued under employee stock purchase plan	36	—	139	—	—	—	—	139	—	139
Exercise of stock options	518	—	1,914	—	—	—	—	1,914	—	1,914
Change in estimate of ESA[(1)] put option price	—	—	777	—	—	—	—	777	—	777
Dividends paid to noncontrolling interests	—	—	—	—	—	—	—	—	(193)	(193)
Acquisition of additional interest in ESA	—	—	(190)	—	—	—	—	(190)	—	(190)
Reversal of accrual for portion of ESA put option	—	—	1,099	—	—	—	—	1,099	(909)	190
Balance - December 31, 2017	59,389	6	197,104	(53,983)	(4,011)	6,977	(30,041)	109,075	1,595	110,670
Net (loss) earnings	—	—	—	(31,461)	—	—	—	(31,461)	86	(31,375)
Other comprehensive earnings (loss)	—	—	—	—	1,436	—	—	1,436	(453)	983
Stock issued to Board of Directors	30	—	—	—	—	—	—	—	—	—
Stock-based compensation expense [(2)]	263	—	2,303	—	—	—	—	2,303	—	2,303
Stock issued under employee stock purchase plan	43	—	144	—	—	—	—	144	—	144
Exercise of stock options	2,386	—	9,708	—	—	(467)	2,012	11,720	—	11,720
Cashless exercise of stock options	70	—	202	—	—	36	(202)	—	—	—
Reversal of accrual for portion of ESA put	—	—	745	—	—	—	—	745	—	745
Acquisition of additional interest in ESA	—	—	(122)	—	—	—	—	(122)	(623)	(745)

Balance - December 31, 2018	62,181	$ 6	$ 210,084	$ (85,444)	$ (2,575)	6,546	$ (28,231)	$ 93,840	$ 605	$ 94,445

(1) Engineering S.A. ("ESA") now known as Hill International Brasil S.A.
(2) Includes $681 for issuance of shares related to stock-based compensation expense previously recognized during the year ended December 31, 2017 (Note 12 - Share-Based Compensation).

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net (loss) income	$(31,375)	$27,544	$(33,736)
Loss from discontinued operations	863	14,479	11,776
Gain on sale of discontinued operations, net of taxes	—	(48,713)	—
Loss from continuing operations	(30,512)	(6,690)	(21,960)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,430	6,523	7,265
Provision for bad debts	(196)	6,908	14,454
Amortization of deferred loan fees	710	961	1,778
Deferred tax benefit	(1,509)	(1,815)	(692)
Loss on sale of assets	—	184	—
Stock based compensation	1,622	2,893	2,496
Unrealized foreign exchange losses on inter-company balances	6,022	855	11,532
Changes in operating assets and liabilities (net of acquisitions):			
Accounts receivable	14,627	6,586	5,284
Accounts receivable - equity method affiliates	827	1,120	3,345
Prepaid expenses and other current assets	2,140	(699)	(808)
Income taxes receivable	547	1,794	(1,058)
Retainage receivable	(2,051)	6,725	(14,982)
Other assets	139	(4,131)	5,970
Accounts payable and accrued expenses	(5,169)	(7,587)	(2,805)
Income taxes payable	(7,611)	2,025	(3,337)
Deferred revenue	(4,876)	(17,038)	9,989
Other current liabilities	(1,935)	692	(84)
Retainage payable	338	(370)	(968)
Other liabilities	(3,577)	2,687	1,353
Net cash (used in) provided by continuing operations	(25,034)	1,623	16,772
Net cash used in discontinued operations	(863)	(12,634)	(7,943)
Net cash (used in) provided by operating activities	(25,897)	(11,011)	8,829
Cash flows from investing activities:			
Purchase of additional interest in Engineering S.A.	(745)	(1,099)	—
Payments for purchase of property and equipment	(2,327)	(1,884)	(2,363)
Proceeds from sale of assets	—	60	—
Net cash used in investing activities of continuing operations	(3,072)	(2,923)	(2,363)
Net cash provided by (used in) investing activities of discontinued operations	—	129,247	(1,687)
Net cash (used in) provided by investing activities	(3,072)	126,324	(4,050)
Cash flows from financing activities:			
Payments on term loans	(933)	(206)	(1,390)
Proceeds from term loan borrowing	—	30,000	—
Payoff and termination of term loan	—	(117,494)	—
Net payments on revolving credit facility	—	(25,940)	(109)
Payment of financing fees	—	(4,038)	—
Net borrowings on revolving loans	10,609	—	—
Payments on Philadelphia Industrial Development Corporation loan	(57)	—	—

Payment of holdback purchase price	—	—	(1,531)
Dividends paid to noncontrolling interest	—	(193)	(111)
Proceeds from stock issued under employee stock purchase plan	88	139	182
Proceeds from exercise of stock options	11,720	1,914	351
Net cash provided by (used in) financing activities	21,427	(115,818)	(2,608)
Effect of foreign exchange rate changes on cash	3,729	(2,837)	(692)
Net (decrease) increase in cash,cash equivalents and restricted cash	(3,813)	(3,342)	1,479
Cash, cash equivalents and restricted cash — beginning of year	26,920	30,262	28,783
Cash, cash equivalents and restricted cash — end of year	$23,107	$26,920	$30,262

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	Years Ended December 31,		
	2018	2017	2016
Supplemental disclosures of cash flow information:			
Interest and related financing fees paid	$4,927	$6,853	$12,004
Income taxes paid	12,397	8,299	9,523
Increase (decrease) in additional paid-in capital related to estimated accrual for ESA Put Options	—	777	(2,670)
Increase in additional paid in capital from issuance of shares of common stock from cashless exercise of stock options	202	—	796

See accompanying notes to consolidated financial statements.

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

Note 1 — The Company

Hill International, Inc. (including, as required by its context, its subisidiaries, “Hill” or the “Company”) is a professional services firm that provides program management, project management, construction management and other consulting services primarily to the buildings, transportation, environmental, energy and industrial markets worldwide. Hill’s clients include the U.S. federal government, U.S. state and local governments, foreign governments and the private sector. The Company had approximately 2,700 professionals in more than 50 offices worldwide as of December 31, 2018.

The Company was incorporated on June 28, 2006 upon merging with Arpeggio Acquisition Corp in the state of Delaware. Prior to the merger, Arpeggio Acquisition Corp. completed its final public offering on June 30, 2004. Hill's common stock is traded on the New York Stock Exchange (“NYSE”) under the trading symbol “HIL.”

All amounts included in the following Notes to the Consolidated Financial Statements are in thousands, except per share data.

Note 2 - Liquidity

At December 31, 2018 and 2017, the Company's principal sources of liquidity consisted of $18,711 and $21,353, respectively, of cash and cash equivalents; $2,951 and $6,292, respectively of available borrowing capacity under its international revolving credit facility with Société Générale and $928 and $1,534, respectively, under other foreign credit agreements. Under the Company's domestic revolving credit facility with Société Générale, there was no availability at December 31, 2018. The available borrowing capacity was $11,943 as of December 31, 2017. Additional information regarding the Company's credit facilities is set forth in Note 11 - Notes Payable and Long-Term Debt.

The Company believes that it has sufficient liquidity to support the reasonably anticipated cash needs of its operations over the next twelve months from the date of this filing. The Company's net cash used in operations during 2018 was primarily due to a number of costs related to the financial statement restatement, restructuring and a performance bond that was called. We do not expect these costs to reoccur.

Note 3 — Summary of Significant Accounting Policies

(a) Basis of Presentation and Principles of Consolidation

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

Reclassification

Reclassifications were made in the presentation of the consolidated balance sheet as of December 31, 2017. The Company adjusted the classification of current portion of retainage receivable from accounts receivable, less allowance for doubtful accounts to a new line item on the balance sheet, "current portion of retainage receivable." The current portion of retainage receivable is reported separately as a result of the Company's adoption of accounting standards update 2014-09, Revenue from Contracts with Customers (Topic 606). As a result, $9,249 was reclassified from accounts receivable, less allowance for doubtful accounts to current portion of retainage receivable to conform with current period reporting. Additionally, the Company reclassified $19,478 in accounts receivable due from joint venture affiliates from accounts receivable, less allowance for doubtful accounts, to accounts receivable - affiliates, less allowance for doubtful accounts.

The presentation of the Company's consolidated statement of cash flows for the twelve months ended December 31, 2017 also included a reclassification as a result of the adoption of ASU 2016-18, Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which addresses classification and presentation of changes in restricted cash on the statement of cash flows. This classification included the aggregated restricted cash amounts under total current assets and total assets in the opening and closing "cash, cash equivalents and restricted cash" balance in this filing on the consolidated statement of cash flows for the twelve months ended December 31, 2017.

(b) Foreign Currency Translations and Transactions

Assets and liabilities of all foreign operations are translated at year-end rates of exchange while revenues and expenses are translated at the average monthly exchange rates. Gains or losses resulting from translating foreign currency financial statements are accumulated in a separate component of stockholders' equity titled accumulated other comprehensive loss until the entity is sold or substantially liquidated. Gains or losses arising from foreign currency transactions (transactions denominated in a currency other than the entity's local currency), including those resulting from intercompany transactions, are reflected in selling, general and administrative expenses in the consolidated statements of operations. The impact of foreign exchange on long-term intercompany loans, for which repayment has not been scheduled or planned, are recorded in accumulated other comprehensive loss on the consolidated balance sheet.

(c) Use of Estimates and Assumptions

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

(d) Fair Value Measurements

The fair value of financial instruments, which primarily consists of cash and cash equivalents, accounts receivable and accounts payable, approximates carrying value due to the short-term nature of the instruments. The carrying value of a significant portion of our credit facilities approximates fair value as the interest rates are variable and approximates current market levels.

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

Non-financial assets and liabilities, such as goodwill and long lived assets that are initially recorded at fair value, will be assessed for impairment, if deemed necessary. During the years ended December 31, 2018 and 2017, the Company did not record any impairment to any financial or non-financial assets or liabilities.

(e) Cash and Cash Equivalents

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

(f) Restricted Cash

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

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the balance sheets that sum to the total of the same such amounts shown in the statements of cash flows:

	2018	2017
Cash and cash equivalents	$18,711	$21,353
Cash - restricted	2,945	4,407
Cash - restricted, net of current portion	1,451	1,160
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	23,107	26,920

(g) Concentrations of Credit Risk

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

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

The Company provides professional services, under contractual arrangements, to domestic and foreign governmental units, institutions and the private sector. To reduce credit risk, the Company performs ongoing credit evaluations of its clients and requires customary retainers where appropriate.

No single client contributed 10% or more to revenue for the years ended December 31, 2018, 2017 and 2016.

The following table presents the number of clients comprised of 10% or more of the Company's billed accounts receivable:

	December 31,	
	2018	2017
Number of 10% clients	1	2
Percentage of billed accounts receivable	17 %	34 %

(h) Allowance for Doubtful Accounts

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

(i) Property and Equipment

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

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

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

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

(j) Retainage Receivable

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

(k) Long-Lived Assets

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

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

(l) Goodwill

Goodwill represents the excess of the consideration paid over the fair value of identifiable net assets acquired. Goodwill is not amortized, but instead is subject to impairment testing on an annual basis, and between annual tests whenever events or changes in circumstances indicate that the fair value may be below its carrying amount. The Company tests goodwill annually for impairment during the third fiscal quarter. To determine the fair value of our reporting unit, we use the discounted cash flow method and the quoted price method, weighting the results of each method.

Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of the Company’s weighted average cost of capital. The Company’s changes in estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment. The Company performed its annual impairment test effective July 1, 2018. Based on the valuation as of July 1, 2018, the fair value of the Company substantially exceeded its carrying value. The Company determined that no impairment existed at December 31, 2018 and December 31, 2017. In the future, the Company will continue to perform the annual test during its fiscal third quarter unless events or circumstances indicate an impairment may have occurred before that time.

(m) Investments

The Company will, in the ordinary course of business, form joint ventures for specific projects. These joint ventures have historically required limited or no investment and simply provide a pass-through for the Company's billings. Any distributions in excess of the Company's billings are accounted for as income when received. The Company's investments at December 31, 2018 and 2017 are as follows:

	December 31,	
	2018	2017
RAMPED Metro Joint Venture (1)(3)	$651	$675
Concessia, Cartera y Gestion de Infrastructuras S.A. (2)	2,219	2,870
Other (3)(4)	145	94
	$3,015	$3,639

(1) The Company has a 45.0% interest in this joint venture, which was formed for construction management of the Riyadh Metro system in Saudi Arabia.

(2) The Company has a 5.7% interest in this entity, which invests in the equity of companies that finance, construct and operate various public and private infrastructure projects in Spain. The practicability exception to fair value measurement was elected due to the fact that there is no readily determinable fair value for this investment. Therefore, the investment is measured at cost, less impairment, plus or minus observable price changes (in orderly transactions) of an identical or similar investment of the same issuer. There have been no impairments of and no observable price changes in the investment.

(3) Includes investments accounted for under the equity method since the Company's interest in the joint ventures was 50.0% or less.

(n) Deferred Financing Costs, Net

Net deferred financing costs include debt discount and debt issuance costs associated with obtaining commitments for financing transactions. Deferred financing costs related to revolving-debt arrangements are reflected in other assets in the consolidated balance sheet and are amortized on a straight-line basis over the term of the loan. Deferred financing costs related to any term debt that requires scheduled repayments are recorded as a direct deduction from the Company's notes payable and other long-term debt and are amortized over the term of the respective financing agreement using the effective interest method. The amortization of such costs are included in interest expense on the accompanying consolidated statements of operations and comprehensive loss.

If the associated debt is modified, refinanced or repaid before the scheduled maturity date, the remaining unamortized deferred financing costs are expensed.

(o) Deferred Revenue

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

(p) Deferred Rent

Rent expense for operating leases is determined by expensing the total amount of cash rent due over the life of the operating lease on a straight-line basis. The difference between the rent paid under the terms of the lease and the rent expensed on a straight-line basis is recorded as a liability. The deferred rent at December 31, 2018 and 2017 was $3,250 and $3,211, respectively, and is included in other current liabilities and other liabilities in the consolidated balance sheet.

(q) Income Taxes

The Company estimates income taxes in each of the jurisdictions in which it operates. This process involves estimating its actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the Company’s consolidated balance sheets. The Company assesses the likelihood that the deferred tax assets will be recovered from future taxable income and to the extent it believes recovery is not likely, the Company establishes a valuation allowance. To the extent the Company establishes a valuation allowance in a period, it must include an expense within the tax provision in the consolidated statements of earnings. The Company has recorded a valuation allowance to reduce the deferred tax asset to an amount that is “more likely than not” (i.e., a likelihood greater than 50 percent) to be realized in future years. If the Company determines in the future that it is more likely than not to be allowed by the tax jurisdiction based solely on the technical merits of the position, that the deferred tax assets subject to the valuation allowance will be realized, then the previously provided valuation allowance will be adjusted.

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

(r) Revenue Recognition

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

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

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

(s) Share-Based Compensation

For equity-classified awards, the Company uses the Black-Scholes option-pricing model to measure the estimated fair value of the awards, which is generally comprised of options to purchase the Company’s common stock. The compensation expense is recognized over the service period on a straight-line basis. Forfeitures reduce compensation expense in the period they occur. The Company’s policy is to primarily use newly issued shares to satisfy the exercise of stock options.

Any liability-classified awards are recorded at fair value based on the closing stock price of the Company's common stock and are re-measured each period until settlement of the award.

(t) Advertising Costs

Advertising costs are expensed as incurred and are reflected in selling, general and administrative expenses in the Company's consolidated statement of operations. These costs incurred were as follows:

Years Ended December 31,		
2018	2017	2016
$ 312	$ 379	$ 556

(u) Earnings (loss) per Share ("EPS")

Basic earnings (loss) per common share has been computed using the weighted-average number of shares of common stock outstanding during the year. Diluted earnings (loss) per common share incorporates the incremental shares issuable upon the assumed exercise of stock options using the treasury stock method and any vested equity award units, if dilutive.

Stock options, deferred stock and restricted stock units totaling 2,642 shares, 6,075 shares and 6,899 shares of the Company’s common stock were not included in the calculation of common shares outstanding for the years ended December 31, 2018, 2017 and 2016, respectively, because they were anti-dilutive due to the Company's net loss from continuing operations.

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

	Years Ended December 31,		
	2018	2017	2016
Loss from continuing operations	$(30,512)	$(6,690)	$(21,960)
Less: net earnings - noncontrolling interest	86	178	76
Net loss from continuing operations attributable to Hill	$(30,598)	$(6,868)	$(22,036)

(v) New Accounting Pronouncements

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

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) or Accounting Standards Codification 606 (“ASC 606”). This ASU supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and most industry-specific topics. The new guidance identifies how and when entities should recognize revenue. The new rules establish a core principle requiring the recognition of revenue to depict the transfer of promised goods or services to customers in an amount reflecting the consideration to which the entity expects to be entitled in exchange for such goods or services. In connection with this new standard, the FASB has issued several amendments to ASU 2014-09 to provide additional clarification and implementation instructions relating to (i) principal versus agent considerations, (ii) identifying performance obligations and licensing, (iii) narrow-scope improvements and practical expedients and (iv) technical corrections and improvements. However, none of the amendments change the core principle of the guidance in ASU 2014-09. The Company adopted this standard effective January 1, 2018. See Note 4 - Revenue from Contracts with Customers for further information regarding implementation and disclosures.

In January 2016, the FASB issued ASU 2016-1, Financial Instruments — Overall (Topic 825-10), which requires all equity investments to be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this ASU also require an entity to (1) present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments and (2) provide separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements. In addition, the amendments in this pronouncement eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. This ASU was effective for the Company commencing January 1, 2018. The adoption of this ASU did not have a significant impact on the Company's financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. This ASU's amendments add or clarify guidance on eight cash flow issues: debt prepayment, settlement of zero-coupon debt instruments, contingent consideration payments, insurance claim proceeds, life insurance proceeds, distributions from equity method investees, beneficial interests in securitization transactions and separately identifiable cash flows and application of the predominance principle. The Company adopted this ASU effective January 1, 2018 and elected the cumulative interest approach for distributions received from equity method investments. The adoption of this ASU did not have a significant impact on the Company's financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. Under the new standard, an entity is required to recognize the income tax consequences of an intra-entity transfer of an asset (with the exception of inventory) when the transfer occurs. Under previous U.S. GAAP, entities were prohibited from recognizing current and deferred income taxes for an intra-entity transfer until the asset were sold to a third party. Examples of assets affected by the new guidance are intellectual property and property, plant, and equipment. The Company's adoption of this ASU on January 1, 2018 did not have a material effect on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash (a consensus of the FASB Emerging Issues Task Force), which addresses classification and presentation of changes in restricted cash on the statement of cash flows. The ASU requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash and restricted cash equivalents. The ASU does not define restricted cash or restricted cash equivalents. The Company defines restricted cash as collateral for letters of credit, bonds or guarantees on projects. The Company adopted this ASU on January 1, 2018 which resulted in restricted cash being included in the opening and closing balance of cash and cash equivalents on the cash flow statements.

In January 2017, the FASB issued ASU 2017-1, Business Combinations (Topic 805): Clarifying the Definition of a Business, to clarify the definition of a business with the objective of providing a more robust framework to assist management when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted the amendments of this ASU on January, 1 2018 and will apply its provisions prospectively to future business combinations.

In May 2017, the FASB issued ASU 2017-9, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The Company adopted this ASU on January 1, 2018 and will prospectively apply its provisions to any award modifications after the date of adoption.

In February 2018, the FASB issued ASU No. 2018-3, Technical Corrections and Improvements to Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, that clarifies the guidance in ASU No. 2016-1, Financial Instruments—Overall (Subtopic 825-10) relate to: Equity Securities without a Readily Determinable Fair Value— Discontinuation, Equity Securities without a Readily Determinable Fair Value— Adjustments, Forward Contracts and Purchased Options, Presentation Requirements for Certain Fair Value Option Liabilities, Fair Value Option Liabilities Denominated in a Foreign Currency and Transition Guidance for Equity Securities without a Readily Determinable Fair Value. The Company adopted this ASU on January 1, 2018 and it did not have a significant impact on its financial statements.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-2, Leases (Topic 842), which will require the Company to recognize lease assets and lease liabilities (related to leases previously classified as operating under previous U.S. GAAP) on its consolidated balance sheet for all leases in excess of one year in duration. The ASU will be effective for the Company commencing January 1, 2019. The adoption of this ASU will materially impact the Company's financial statements in that all existing leases will be recorded as right-of-use assets and liabilities and the timing and classification of associated lease expenses will change.

The Company has substantially completed its assessment of the new standard and plans to adopt it on the effective date of January 1, 2019 through a cumulative-effect adjustment. Additionally, the Company will elect the "package of practical expedients" which provides: (1) An entity need not reassess whether any expired or existing contracts are or contain leases; (2) An entity need not reassess the lease classification for any expired or existing leases; (3) An entity need not reassess initial direct costs for any existing leases; and (4) an entity need not separate lease and non-lease components. Furthermore, the Company will elect the optional transition method and continue to apply the guidance in ASC 840, including its disclosure requirements, in the comparative prior periods.

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

In January 2017, the FASB issued ASU 2017-4, Intangibles - Goodwill and Other (Topic 350), which removes step 2 from the goodwill impairment test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units' fair value. The guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for annual or interim goodwill impairment tests performed on testing dates after January 1, 2017, and the prospective transition method should be applied. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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

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

In October 2018, the FASB issued ASU 2018-17, Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities ("VIE"). The amendments in this ASU for determining whether a decision-making fee is a variable interest require reporting entities to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety (as currently required by GAAP). These amendments will create alignment between determining whether a decision-making fee is a variable interest and determining whether a reporting entity within a related party group is the primary beneficiary of a VIE. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019 for public companies. Early adoption is permitted. The Company is currently determining the impact that adoption of this guidance will have on the financial statements.

In November 2018, the FASB issued ASU 2018-18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606. This ASU provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606, specifically when the collaborative arrangement participant is a customer in the context of a unit-of-account. It provides more comparability in the presentation of revenues for certain transactions between collaborative arrangement participants, including adding unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 (that is, a distinct good or service) when an entity is assessing whether the collaborative arrangement or a part of the arrangement is within the scope of Topic 606. The standard is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2019 for public companies. Early adoption is permitted. The Company is currently determining the impact that adoption of this guidance will have on the financial statements.

Note 4 — Revenue from Contracts with Clients

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

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

Time and Materials Contracts

Under the time and materials (“T&M”) arrangements, contract fees are based upon time and materials incurred. The contracts may be structured as basic time and materials, cost plus a margin or time and materials subject to a maximum contract value (the "cap value"). Due to the potential limitation of the cap value, the economic factors of the contracts subject to a cap value differ from the economic factors of basic T&M and cost plus contracts. The majority of the Company’s contracts are for consulting projects where it bills the client monthly at hourly billing rates. The hourly billing rates are determined by contract terms. Under cost plus contracts, the Company charges its clients for its costs, including both direct and indirect costs, plus a fixed fee or rate. Under time and materials contracts with a cap value, the Company charges the clients for time and materials based upon the work performed however there is a cap or a not to exceed value. There are often instances that a contract is modified to extend the contract value past the cap. As the consideration is variable depending on the outcome of the contract renegotiation, the Company will estimate the total contract price in accordance with the variable consideration guidelines and will only include consideration that it expects to receive from the customer. When the Company is reaching the cap value, the contract will be renegotiated, or Hill ceases work when the maximum contract value is reached. The Company will continue to work if it is probable that the contract will be extended. The Company will only include consideration or contract renegotiations to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. If the Company continues to work and is uncertain that a contract change order will be processed, the variable consideration will be constrained until it is probable that the contract will be renegotiated. The Company is only entitled to consideration for the work it has performed, and the cap value is not a guaranteed contract value.

Fixed Price Contracts

Under fixed price contracts, the Company’s clients pay an agreed amount negotiated in advance for a specified scope of work. The Company is guaranteed to receive the consideration to the extent that the Company delivers under the contract. The Company recognizes revenue over a period of time on fixed price contracts using the input method based upon direct costs incurred to date, which are compared to total projected direct costs. Costs are the most relevant measure to determine the transfer of the service to the customer. The Company assess contracts quarterly and may recognize any expected future loss before actually incurring the loss. When the Company is expecting to reach the total consideration under the contract, the Company will begin to negotiate a change order.

Change Orders and Claims

Change orders are modifications of an original contract that effectively change the provisions of the contract without adding new provisions. Either the Company or its client may initiate change orders. They may include changes in specifications or design, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Management evaluates when a change order is probable based upon its experience in negotiating change orders, the customer’s written approval of such changes or separate documentation of change order costs that are identifiable. Change orders may take time to be formally documented and terms of such change orders are agreed with the client before the work is performed. Sometimes circumstances require that work progresses before an agreement is reached with the client. If the Company is having difficulties in renegotiating the change order, the Company will stop work if possible, record all costs incurred to date, and determine, on a project by project basis, the appropriate final revenue recognition.

Claims are amounts in excess of the agreed contract price that the Company seeks to collect from its clients or others for client-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs. Costs related to change orders and claims are recognized when they are incurred. The Company evaluates claims on an individual basis and recognizes revenue it believes is probable to collect.

U.S. Federal Acquisition Regulations

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

Federal government contracts that are subject to the FAR and that are required by state and local governmental agencies to be audited are performed, for the most part, by the Defense Contract Audit Agency ("DCAA"). The DCAA audits the Company's overhead rates, cost proposals, incurred government contract costs and internal control systems. During the course of its audits, the DCAA may question incurred costs if it believes the Company has accounted for such costs in a manner inconsistent with the requirements of the FAR or Cost Accounting Standards and recommend that its U.S. government corporate administrative contracting officer disallow such costs. Historically, the Company has not incurred significant disallowed costs because of such audits. However, the Company can provide no assurance that the DCAA audits will not result in material disallowances of incurred costs in the future. The Company provides for a refund liability to the extent that it expects to refund some of the consideration received from a customer.

Disaggregation of Revenues

The Company has one operating segment, the Project Management Group, which reflects how the Company is being managed. Additional information related to the Company's operating segment is provided in Note 18 - Segment and Related Information. The Project Management Group provides extensive construction and project management services to construction owners worldwide. The Company considered the type of customer, type of contract and geography for disaggregation of revenue. The Company determined that disaggregating by (1) contract type; and (2) geography would provide the most meaningful information to understand the nature, amount, timing, and uncertainty of its revenues. The type of customer does not influence the Company's revenue generation. Ultimately, the Company is supplying the same services of program management, project management, construction management, project management oversight, troubled project turnaround, staff augmentation, project labor agreement consulting, commissioning, estimating and cost management, labor compliance services and facilities management services. The Company's contracts are generally long term contracts that are either based upon time and materials incurred or provide for a fixed price. The contract type will determine the level of risk in the contract related to revenue recognition. For purposes of disaggregation of revenue, the contract types have been grouped into: (1) Fixed Price - which include fixed price projects; and, (2) T&M - which include T&M contracts, T&M with a cap and cost plus contracts. The geography of the contracts will depict the level of global economic factors in relation to revenue recognition.

The components of the Company's revenue by contract type and geographic region for the twelve months ended December 31, 2018:

	Twelve Months Ended December 31, 2018			
	Fixed Price	T&M	Total	Percent of revenue
United States	$13,186	$191,963	$205,149	47.9 %
Latin America	7,993	3,510	11,503	2.7 %
Europe	19,581	21,678	41,259	9.6 %
Middle East	55,477	78,213	133,690	31.2 %
Africa	1,590	25,010	26,600	6.2 %
Asia/Pacific	5,100	5,378	10,478	2.4 %
Total	$102,927	$325,752	$428,679	100.0 %

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

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

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

Accounts Receivable

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

Contract Assets and Liabilities

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

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

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing of the Company's performance and customer payments. The amount of revenue recognized during the twelve months ended December 31, 2018 that was included in the deferred revenue balance at the beginning of the period was $15,965.

Remaining Performance Obligations

The remaining performance obligations represent the aggregate transaction price of executed contracts with customers for which work has partially been performed or not started as of the end of the reporting period. The Company's remaining performance obligations include projects that have a written award, a letter of intent, a notice to proceed or an agreed upon work order to perform work on mutually accepted terms and conditions. T&M contracts are excluded from the remaining performance obligation as these contracts are not fixed price contracts and the consideration expected under these contracts is variable as it is based upon hours and costs incurred in accordance with the variable consideration optional exemption. As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was $97,725. During the following 12 months, approximately 60% of the remaining performance obligations are expected to be recognized as revenue with the remaining balance recognized over 1 to 5 years.

Note 5 — Discontinued Operations

The Construction Claims Group sale closed on May 5, 2017 for a total purchase price of $140,000 in cash less: (1) an estimated working capital adjustment at closing amounting to approximately $8,449; and (2) approximately $2,187 of assumed indebtedness. In addition, the Company was required to provide a $3,750 letter of credit into escrow in order to secure certain of the Company's indemnification obligations for 12 months following closing. The funds provided by the sale of the Construction Claims Group and the cash received upon the draw down under the 2017 Term Loan Facility and the amended Revolving Credit Facilities (described below) were required to be used as follows: (a) $117,000 to pay off the 2014 Term Loan Facility; (b) approximately $8,793 to pay down the International Revolver; and (c) approximately $1,214 to pay accrued interest and certain bank fees. The remaining proceeds, along with a portion of the proceeds from the 2017 Term Loan, were used to pay down the $25,000 U.S. Revolver.

The Company and the purchasers of the Construction Claims Group were unable to agree upon a final net working capital amount. After agreeing to a reduction in the proceeds of $3,203 and pursuant to the terms of the agreement, the Company participated in a dispute resolution process by which independent accounting experts determined in June 2018 that the final net working capital should be reduced by an additional $1,876. The total reduction in the proceeds from the buyer of $5,079 was completed and finalized in June 2018 and was included in calculating the gain during the second quarter of 2017.

The Company entered into a transition services agreement (the "TSA") and certain other agreements with the Purchasers that govern the relationships between the Purchasers and the Company following the Construction Claims Group sale. Pursuant to the TSA, the Company provided the Purchasers with certain specified services on a transitional basis following the Construction Claims Group sale, including support in areas such as facilities, finance, human resources, legal, marketing, technology and treasury. In addition, the Company granted the Purchasers a license to use certain office premises as specified in the TSA. The TSA also outlined the services that the Purchasers provided to the Company following the Construction Claims Group sale, including support in areas such as finance, legal and treasury. The charges for the transition services and licensed premises generally allowed the providing company recovery of incremental costs and expenses it actually incurred in connection with providing the services and premises apart from the provision of certain services that are provided at no cost for terms specified in the TSA.

The assets and liabilities of the Construction Claims Group are reflected as held for sale in the Company's Consolidated Balance Sheets, and the operating results and cash flows of the Construction Claims Group are reflected as discontinued operations in the Company's Consolidated Statements of Operations, Consolidated Statements of Comprehensive Earnings, and Consolidated Statements of Cash Flows for all periods presented.

The carrying amounts of assets and liabilities of the discontinued operations which were classified as held for sale are as follows:

	At Closing	December 31, 2016
Accounts receivable, net	$47,611	$ 50,892
Prepaid expenses and other current assets	3,153	3,064
Income taxes receivable	17	695
Total current assets classified as held for sale	$50,781	$ 54,651
Property and equipment, net	5,786	4,617
Acquired intangibles, net	3,289	3,397
Goodwill	23,454	23,461
Investments	5	6
Other assets	2,860	610
Total non-current assets classified as held for sale	$35,394	$ 32,091
Accounts payable and accrued expenses	15,960	21,539
Income taxes payable	—	92
Deferred revenue	—	1,562
Other current liabilities	15,867	2,695
Total current liabilities classified as held for sale	$31,827	$ 25,888
Deferred income taxes	—	385
Deferred revenue	92	1,012
Retained Earnings	—	457
Other liabilities	1,257	3,233
Total non-current liabilities classified as held for sale	$1,349	$ 5,087
Net Assets	$52,999	$ 55,767

The line items constituting earnings from discontinued operations consist of the following:

	Years Ended December 31,		
	2018	2017 (1)	2016
Revenue	$—	$62,149	$169,252
Direct expenses	—	31,339	78,688
Gross profit	—	30,810	90,564
Selling, general and administrative expenses (2)	863	35,785	86,594
Operating (loss) profit	(863)	(4,975)	3,970
Interest and related financing fees, net (3)	—	8,858	11,271
Loss before income taxes	(863)	(13,833)	(7,301)
Pretax gain on disposal of discontinued operations (4)	—	61,443	—
(Loss) earnings before income taxes	(863)	47,610	(7,301)
Income tax expense (5)	—	13,376	4,475
Net (loss) earnings from discontinued operations	$(863)	$34,234	$(11,776)

In connection with the sale of the Construction Claims Group, the Company was required to pay off the 2014 Term Loan Facility (See Note 11). Accordingly, the Company has allocated to discontinued operations all interest expense related to the 2014 Term Loan Facility.

(1) Results of operations for the Construction Claims Group are reflected through April 30, 2017, the effective closing date of the Construction Claims Group sale.

(2) No amortization or depreciation expense was recorded by the Company in 2017 as the Construction Claims Group's assets were held for sale as of December 31, 2016.

(3) In connection with the sale of the Construction Claims Group, the Company was required to pay off its existing term loan facility and amend and pay down its existing revolving credit facilities (See Note 11). Interest expense and debt issuance costs attributable to the Construction Claims Group were charged to discontinued operations.

(4) The pretax gain on the sale of the Construction Claims Group was calculated as follows:

Adjusted purchase price	$129,364
Cash transferred to buyer	4,041
Net proceeds from Purchaser	125,323
Less net assets held for sale	52,999
Less other adjustments *	10,881
Pretax gain on disposal	$61,443

* $5,079 represents the net working capital settlement, $2,793 represents corporate costs related to the finalization of the sale and $3,009 represent other sales costs.

(5) The effective tax rates on pretax income from discontinued operations were 0.0%, 28.1% and (61.3)% for the years ended December 31, 2018, 2017 and 2016, respectively. The 2017 rate differs from the U.S. federal statutory rate of 35% primarily due to the taxability of the gain on the sale in the U.S and foreign jurisdictions.

Note 6 — Accounts Receivable

The components of accounts receivable as reflected in the Company's consolidated balance sheets for the periods below are as follows:

	December 31,	
	2018	2017
Billed	$155,540	$168,660
Unbilled (1)	32,546	31,663
	188,086	200,323
Allowance for doubtful accounts (2)	(70,617)	(72,190)
Total	$117,469	$128,133

(1) Amount is net of unbilled reserves.
(2) See Schedule II-Valuation and Qualifying Accounts for breakdown of allowance for doubtful accounts for amounts added/(recovered), net of charge-offs for amounts determined to be uncollectible, for the years ended December 31, 2018, 2017 and 2016.

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

The Company determines its allowance for doubtful accounts based on the aging of amounts that have been billed to-date, the client's history, credit, concentration and current economic changes.The allowance for doubtful accounts is reviewed at a minimum on a quarterly basis and adjustments are recorded as deemed necessary.

In September 2018, a client directly paid the Libyan government approximately $4,100 in taxes that the Company owed and, in return, the Company reduced the client's outstanding accounts receivable balance for the amount paid. The outstanding accounts receivable balance of the client had been fully reserved in the Company's allowance for doubtful accounts and, therefore, a portion of that reserve was reversed by the $4,100 payment. The impact of such reversal was recorded in the second quarter of 2018 and is reflected in the Company's consolidated statement of operations.

Bad debt (recovery) expense of $(196), $6,908 and $14,454 is included in selling, general and administrative expenses in the consolidated statements of operations for the years ended December 31, 2018, 2017 and 2016, respectively.

Note 7 — Property and Equipment

The components of property and equipment are as follows:

	December 31,	
	2018	2017
Furniture and equipment	$10,259	$10,267
Leasehold improvements	8,587	8,567
Automobiles	1,381	738
Computer equipment and software	28,630	27,889
	48,857	47,461
Less accumulated depreciation and amortization	(38,070)	(35,457)
Property and equipment, net	$10,787	$12,004

The Company's depreciation expense for the related balances were recorded as follows to the Company's consolidated statements of operations:

	Years Ended December 31,		
	2018	2017	2016
Total depreciation expense	$ 3,379	$ 4,482	$ 4,347
Portion charged to direct expenses	$ 764	$ 980	$ 890
Portion charged to selling, general and administrative expense	$ 2,616	$ 3,502	$ 3,457

Note 8 — Intangible Assets

The following table represents acquired intangible assets as a result of the Company's acquisition history and the client contracts that were attained at the time of the acquisition:

	December 31,			
	2018		2017	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	$4,591	$ 3,275	$16,397	$ 12,862
Acquired contract rights	—	—	1,007	1,007
Trade names	—	—	877	504
Total	$4,591	$ 3,275	$18,281	$ 14,373
Intangible assets, net	$1,316		$3,908	

The Company's intangible assets are amortized over the estimated lives, which range from three to fifteen years based on the intangible asset type and the terms of the client contracts that were acquired.

The total amortization expense related to these intangible assets, which includes the write-off of the remaining client relationships and trade name related to ESA:

Years Ended December 31,		
2018	2017	2016
$ 2,051	$ 2,041	$ 2,918

The following table presents the estimated amortization expense based on our remaining intangible assets for the next five years:

Years Ending December 31,	Estimated [1] Amortization Expense
2019	$ 474
2020	213
2021	184
2022	184
2023	184

(1) The estimated amortization expense is calculated based on the average foreign currency exchange rates for the month ended December 31, 2018, as applicable.

Note 9 — Goodwill

The following table summarizes the changes in the carrying value of goodwill that were allocated as a result of the Company's historical acquisition activity throughout 2018 and 2017:

Balance, December 31, 2016	$50,665
Translation adjustments [1]	1,993
Balance, December 31, 2017	52,658
Translation adjustments [1]	(3,789)
Balance, December 31, 2018	$48,869

(1) The translation adjustments are calculated based on the foreign currency exchange rates as of December 31, 2018 and 2017, where applicable.

The Company performed its annual impairment test effective July 1, 2018 and noted no impairment. Based on the valuation as of July 1, 2018, the fair value of the Company substantially exceeded its carrying value. The Company also determined that no impairment existed at December 31, 2018 and December 31, 2017. In the future, the Company will continue to perform the annual test during its fiscal third quarter unless events or circumstances indicate an impairment may have occurred before that time.

Note 10 — Accounts Payable and Accrued Expenses

The table below reflects the Company's breakdown of the amounts in accounts payable and and other accrued expenses by cost category as of the periods presented below:

	December 31,	
	2018	2017
Accounts payable	$30,005	$32,345
Accrued payroll and related expenses	28,915	29,569
Accrued subcontractor fees	13,447	10,814
Accrued agency fees	237	1,671
Accrued legal and professional fees	2,277	2,983
Other accrued expenses	5,155	5,839
	$80,036	$83,221

Note 11 — Notes Payable and Long-Term Debt

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

Loan	Maturity	Interest Rate Type	Interest Rate [(1)] December 31, 2018	Interest Rate [(1)] December 31, 2017	Balance Outstanding as of December 31, 2018	Balance Outstanding as of December 31, 2017
Secured Credit Facilities						
Hill International, Inc. - Société Générale 2017 Term Loan Facility	06/20/2023	Variable	7.62%	7.32%	$29,550	$ 29,850
Hill International, Inc. - Société Générale Domestic Revolving Credit Facility	05/04/2022	Variable	6.31%	5.25%	14,400	3,300
Hill International N.V.. - Société Générale International Revolving Credit Facility	05/04/2022	Variable	N/A	4.10%	—	—
Unsecured Credit Facilities						
Hill International, Inc. - First Abu Dhabi Bank PJSC Overdraft Credit Facility (2)	04/18/2019	Variable	5.58%	5.50%	2,461	2,316
Engineering SA Services Technicos - Consortium of Brazilian Credit Facilities (3)	04/30/2019	Fixed	3.35%	4.76%	—	—
Unsecured Notes Payable and Long-Term Debt						
Hill International Spain SA-Bankia S.A. & Bankinter S.A.(4)	12/31/2021	Fixed	2.17%	2.17%	1,594	2,202
Hill International Spain SA - IberCaja Banco. S.A. (4)	12/31/2019	Variable	3.41%	3.37%	198	407
Philadelphia Industrial Development Corporation Loan	04/01/2027	Fixed	2.75%	2.75%	542	599
Total notes payable and long-term debt, gross					$48,745	$ 38,674
Less: unamortized discount and deferred financing costs related to Société Générale 2017 Term Loan Facility					(794)	(892)
Notes payable and long-term debt					$47,951	$ 37,782
Current portion of notes payable					3,538	3,406
Current portion of unamortized debt discount and deferred financing costs					(174)	(165)
Current maturities of notes payable and long-term debt					$3,364	$ 3,241
Notes payable and long-term debt, net of current maturities					44,587	34,541

(1) Interest rates for variable interest rate debt are reflected on a weighted average basis through December 31, 2018 since inception.

(2) Credit facility lender was formerly known as National Bank of Abu Dhabi. There is no stated maturity date, however, the loan is subject to annual review by the bank in April. Therefore, the amount outstanding is reflected

within the current maturities of notes payable and long-term debt. Balances outstanding are reflected in U.S. dollars based on the conversion rates from AED as of December 31, 2018 and 2017.
(3) The unsecured Engineering SA Services revolving credit facilities were held with two banks in Brazil under four separate arrangements and were subject to automatic renewal on a monthly basis with varying terms as of December 31, 2017 and September 30, 2018. In October 2018, three of the credit facilities were not renewed. The borrowing availability is based on conversion rates from Brazilian Real.
(4) Balances outstanding are reflected in U.S. dollars based on the conversion rates from Euros as of December 31, 2018 and 2017.

Secured Credit Facilities

On May 5, 2017 the Company entered into a credit agreement with Société Générale (the “Agent”) and other U.S. Loan Parties (the “U.S. Lenders”) consisting of (1) a $30,000 term loan (the "2017 Term Loan Facility"); (2) a $25,000 U.S. dollar-denominated revolving credit facility (the “Domestic Revolving Credit Facility”, together with the 2017 Term Loan Facility, the “U.S. Credit Facilities”); and (3) a credit agreement with the Agent (the “International Lender”) providing a €9,156 ($10,000 at closing) revolving credit facility (the “International Revolving Credit Facility” and together with the Domestic Revolving Credit Facility, the “Revolving Credit Facilities” and, together with the U.S. Credit Facilities, the “Secured Credit Facilities”) which is available to Hill International N.V. The Domestic Revolving Credit Facility and the International Revolving Credit Facility include sub-limits for letters of credit amounting to $20,000 and €8,000 ($9,130 at closing), respectively.

The Secured Credit Facilities contain customary default provisions, representations and warranties, and affirmative and negative covenants, and require the Company to comply with certain financial and reporting covenants. The financial covenant is comprised of a maximum Consolidated Net Leverage Ratio of 3.00 to 1.00 for any fiscal quarter ending on or subsequent to March 31, 2017 for the trailing twelve months then-ended. The Consolidated Net Leverage Ratio is the ratio of (a) consolidated total debt (minus unrestricted cash and cash equivalents) to consolidated earnings before interest, taxes, depreciation, amortization, share-based compensation and other non-cash charges, including bad debt expense, certain one-time litigation and transaction related expenses, and restructuring charges for the trailing twelve months. In the event of a default, the U.S. Lender and the International Lender may increase the interest rates by 2%. The Company was in compliance with this financial covenant calculation as of December 31, 2018.

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

2017 Term Loan Facility

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

The 2017 Term Loan Facility (along with interest thereon) is generally secured by a first-priority security interest in substantially all assets of the Company and certain of the Company’s U.S. subsidiaries other than accounts receivable and cash proceeds thereof, as to which the 2017 Term Loan Facility (and the interest thereon) is secured by a second-priority security interest.

Revolving Credit Facilities

The Revolving Credit Facilities require payment of interest only during the term and may be repaid in whole or in part at any time, without premium or penalty, subject to certain customary limitations, and will be available to be re-borrowed from time to time through the maturity date.

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

The interest rate on borrowings under the International Revolving Credit Facility will be the European Inter-Bank Offered Rate, or “EURIBOR,” for the relevant interest period (or at a substitute rate to be determined to the extent EURIBOR is not available) plus 4.50% per annum. On June 21, 2017, borrowings under the International Revolving Credit Facility were paid in full and there have not been any subsequent borrowings through December 31, 2018.

Commitment fees are paid quarterly and are calculated at 0.50% per annum based on the daily unused portion of the Domestic Revolving Credit Facility and at 0.75% per annum based on the daily unused portion of the International Revolving Credit Facility.

The unamortized debt issuance costs of $1,879 and $2,400 are included in other assets in the Company's consolidated balance sheet at December 31, 2018 and December 31, 2017, respectively.

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

At December 31, 2018, the Company had $10,853 of outstanding letters of credit, which resulted in no available borrowing capacity under the Domestic Revolving Credit Facility. At December 31, 2018, the Company had $2,644 of outstanding letters of credit and $2,952 of available borrowing capacity under the International Revolving Credit Facility.

At December 31, 2018, contractually scheduled maturities of current and long-term debt, net of the amortization of the deferred financing costs related to the 2017 Term Loan Facility, were as follows:

Years Ending December 31,	Total Scheduled Maturities (1)
2019	$ 3,364
2020	711
2021	727
2022	14,587
2023	28,334
Thereafter	228
Total	$ 47,951

(1) Amounts are estimated based on the foreign currency exchange rates as of December 31, 2018 and 2017, where applicable.

Other Financing Arrangements

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

As of December 31, 2018, the balances payable to AFCO for these arrangements was $474 and is reflected in other current liabilities on the Company's consolidated balance sheets.

Note 12 — Share-Based Compensation

2017 Equity Compensation Plan (the "2017 Plan")

The 2017 Equity Compensation Plan covers 4,250 shares of the Company's common stock. Awards of the plan may take the form of shares of the Company's common stock, stock options, including stock appreciation rights, restricted stock, deferred stock units ("DSU"), restricted stock units ("RSU"), dividend equivalents rights and other forms of equity-based awards. Eligible participants include employees, non-employee directors, officer, advisor, consultant or other personnel expected to provide services for the Company and joint venture affiliates of the Company.

RSU's Issued under the 2017 Plan:

RSU's issued under the 2017 Plan entitle each participant to receive one unit of restricted stock. In March 2018, certain employees under the Company's executive management team were awarded units of restricted stock that are subject to cliff vesting on the three year anniversary of the date the units were awarded in March 2021 (the "Cliff Vesting Date"). Such awards will vest on the conditions that each employee remain with the Company during the three-year period until the cliff vesting date and that specified performance goals are achieved. The number of RSU's that may be granted are also subject to performance level ranges that are based on the Compound Annual Growth Rate (or "CAGR") that will be measured based on the Company's EPS with the filings of the 10-K for the years ended December 31, 2018, 2019 and 2020, with the final determination of the number of units to be made on the Cliff Vesting Date. The Company was not current with its SEC filings on the date that the RSU's were originally approved. In accordance with the terms of these grants, the RSU's could not be granted to the participants until the Company became current in its filings with the SEC. Therefore, these RSU's were granted and the value of the awards were estimated on October 12, 2018, the date the Company became current with its SEC filings.

Because the Company did not estimate that the conditions under any of the performance level ranges would be met, there was no such compensation expense recorded for the year ended December 31, 2018. The total number of units issued under the awards totaled between 226 and 678, had the Company estimated that the performance conditions could be met.

DSU's Issued under the 2017 Plan:

DSU's issued under the 2017 Plan entitle each participant to receive one share of the Company's common stock for each DSU that will vest immediately upon separation from the Company. The compensation expense related to these units was determined based on the stock price of the Company's common stock on the grant date of the DSU's.

In November and December 2018, DSU's were issued to employees of the Company for their executive officer appointments. These DSU awards vest over a three-year period at 33.3% per annum and have service period requirements for each year that the DSU's vest.

In December 2018, DSU's were issued to the Company's board of directors (the "Board") as a portion of their annual retainer and entitle them to receive one share of the Company's common stock for each DSU that will vest immediately upon separation from the Company.

The total compensation expense related to the DSU's issued under the 2017 Plan was $756 for the year ended December 31, 2018, which includes $1 of expense related to unvested DSU's as of December 31, 2018.

The following table reflects the DSU activity related to the 2017 Plan.

	Number of Units	Weighted Average Issue Price per Share
Total DSU's granted	265	$ 3.05
Total DSU's vested	(245)	3.05
Total DSU's unvested, December 31, 2018	20	$ 3.05

As of December 31, 2018, the Company had $61 of unrecognized compensation cost related to unvested DSU's granted under the 2017 Plan, which is expected to be recognized over a weighted-average period of 3.0 years.

2009 Non-Employee Director Stock Grant Plan

The 2009 Non-Employee Director Stock Grant Plan (the "Non-Employee Plan"), as amended, covers 400 shares of the Company’s common stock. Awards under the plan may take the form of shares of the Company’s DSU's which entitle the participants to receive one share of common stock for each DSU upon retirement from the Board of Directors. Only the Company’s Non-Employee Directors are eligible to receive awards under the plan and expires on June 9, 2019. No awards were granted in 2017.

The information with respect to the plan's activity follows:

	Years Ended December 31,		
	2018	2017	2016
Shares issued	30	—	3
Compensation expense	$ —	$ —	$ 10
DSU's issued (1)	—	—	96
Compensation expense	$ —	$ —	$ 350

(1) As of December 31, 2018 and 2017 all outstanding deferred stock units were fully vested.

2008 Employee Stock Purchase Plan

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

	Years Ended December 31,		
	2018	2017	2016
Shares purchased	43	36	59
Aggregate purchase price	$ 122	$ 139	$ 182
Compensation expense	$ 22	$ 25	$ 32

2006 Employee Stock Option Plan

The 2006 Employee Stock Option Plan, as amended, covers 10,000 shares of the Company's common stock. Under its terms, directors, officers and employees of the Company and its subsidiaries are eligible to receive non-qualified and incentive stock options. Options granted to non-employee directors vest immediately and have a five-year contractual term. Options granted to officers and employees vest over five years and have a seven-year contractual term. Generally, each option has an exercise price equal to the closing quoted market price of a share of the Company's common stock on the date of grant. For grants of incentive stock options, if the grantee owns, or is deemed to own, 10% or more of the total voting power of the Company, then the exercise price shall be 110% of the closing quoted market price on the date of grant and the option will have a five-year contractual term. Options that are forfeited or expire are available for future grants. At December 31, 2018, a total of 3,321 shares of common stock were reserved for future issuance under the plan.

The Black-Scholes option valuation model is used to estimate the fair value of the options. The following table summarizes the fair value of options granted during 2018, 2017 and 2016 and the assumptions used to estimate the fair value:

	December 31,		
	2018	2017	2016
Average expected life (years)	N/A *	5.00	4.98
Forfeiture range	N/A *	0	0
Weighted average forfeiture rate	N/A *	0 %	0.0 %
Dividends	N/A *	0 %	0 %
Volatility range	N/A *	48.3 %	47.4% - 57.5%
Weighted average volatility	N/A *	48.3 %	56.5 %
Range of risk-free interest rates	N/A *	2.08 %	0.97% -

			1.46%
Weighted average risk-free interest rate	N/A *	2.08 %	1.22 %
Weighted average fair value at grant date	N/A *	$1.97	$1.52

* There were no stock options granted during the year ended December 31, 2018.

The expected term of the options is management's estimates based on the Company's option exercise history. Expected volatility was calculated using the average historical volatility of the Company's stock price. The risk-free interest rate is based on U.S. Treasury yields for securities in effect at the time of grants with terms approximating the term of the grants. The assumptions used in the Black-Scholes option valuation model are highly subjective, particularly as to stock price volatility of the underlying stock, which can materially affect the resulting valuation.

A summary of the Company's stock option activity and related information for the years ended December 31, 2018, 2017 and 2016 is as follows (in thousands, except exercise price and remaining life data):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Outstanding, December 31, 2015	7,711	$ 4.41		
Granted	1,025	4.40		
Exercised	(438)	2.66		
Expired	(1,154)	6.81		
Forfeited	(82)	4.24		
Outstanding, December 31, 2016	7,062	4.45		
Granted	716	4.98		
Exercised	(518)	3.84		
Expired	(813)	5.22		
Forfeited	(349)	4.49		
Outstanding, December 31, 2017	6,098	4.45		
Granted	—	—		
Exercised	(2,924)	4.08		
Expired	(940)	5.75		
Forfeited	(291)	4.67		
Outstanding, December 31, 2018	1,943	$ 4.36	2.40	$ 2,481
Exercisable, December 31, 2018	1,349	$ 4.33	1.53	$ 1,688

Aggregate intrinsic value represents the difference between the exercise prices and the closing stock price on December 31, 2018. At December 31, 2018, the weighted average exercise price of the outstanding options was $4.36 and the closing stock price was $3.08.

The weighted average characteristics of outstanding stock options by exercise price at December 31, 2018 are as follows:

	Options Outstanding		Options Exercisable	
Exercise Prices	Number Outstanding at December 31, 2018	Weighted Average Remaining Contractual Life (in years)	Number Exercisable at December 31, 2018	Weighted Average Remaining Contractual Life (in years)
$3.12	5	1.60	5	1.60
3.67	263	1.06	263	1.06
4.00	250	4.26	100	4.26
4.03	225	3.08	135	3.08
4.31	12	4.45	5	4.45
4.35	500	0.01	500	0.01
4.46	25	4.77	10	4.77
4.65	348	5.19	70	5.19
4.84	38	1.61	38	1.61
4.90	5	3.59	3	3.59
4.95	221	2.19	177	2.19

5.17	13	4.45	5	4.45
6.61	38	0.45	38	0.45
	1,943	2.40	1,349	1.53

In the years ended December 31, 2018, 2017 and 2016, the Company recorded share-based compensation related to stock options of approximately $445, $2,990 and $2,360, respectively, which is included in selling, general and administrative expenses.

At December 31, 2018, total unrecognized compensation cost related to non-vested options was $793 which will be recognized over the remaining weighted-average service period of 2.37 years.

On May 10, 2017, the Company's Board of Directors approved a monthly grant of Company stock valued at $80 per month to the Interim Chief Executive Officer ("ICEO") during his term of service which ended on September 30, 2018. At the end of each month during this period, the ICEO was entitled to $80 worth of Company stock based on the closing price of the Company's common stock on the last trading day of the month. The ICEO accumulated approximately 138 and 125 shares during the years ended December 31, 2018 and 2017, respectively, for such service compensation, aggregating approximately 263 shares. The aggregate shares earned was delivered to the ICEO on his last day of service. The Company recorded compensation expense of $399 and $681 for the years ended December 31, 2018 and 2017 related to his services.

Note 13 — Stockholders' Equity

During the year ended December 31, 2018, the Company received cash proceeds of $11,720 from the exercise of stock options.

Engineering S.A.

On February 28, 2011, the Company's subsidiary, Hill Spain, indirectly acquired 60% of the outstanding common stock of Engineering S.A., now known as Hill International do Brasil, S.A. ("ESA") with approximately 400 professionals. Engineering S.A., headquartered in Sao Paulo, provides project management, construction management and engineering consulting services throughout Brazil. ESA's shareholders entered into an agreement whereby the minority shareholders had 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 had 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 the percentage which the shares to be purchased were in proportion 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.

In April 2015, two shareholders who owned approximately 19% of ESA exercised their ESA Put Options claiming an aggregate value of BRL 10,645 ($3,416). As an incentive to the sellers to receive Hill's common stock as payment, the Company offered the sellers a 25% premium. The sellers countered the Company's offer by requesting payment in common stock at the U.S. dollar value on April 4, 2015 ($4,374) as well as a price guarantee upon the sale of the stock during a 30-day period after closing. The Company agreed to the counter offer and paid the liability with 925 shares of its common stock in August 2015. In November 2015, the Company paid approximately $580 to the selling shareholders to repurchase 130 shares of its common stock, which increased the Company's ownership to approximately 91% of ESA.

On June 17, 2016, the three remaining minority shareholders exercised their ESA Put Option claiming a value of BRL 8,656 (approximately $2,670) at December 31, 2016. The Company accrued the liability which is included in other current liabilities and as an adjustment to additional paid-in capital in the consolidated balance sheet at December 31, 2016. The transaction was finalized during 2017 with agreement from the minority shareholders to a reduced total payment of BRL 6,084 (approximately $1,893), at which time the Company revised its previous estimate and recorded a reduction to the liability and increase to additional paid in capital. In November 2017, the Company settled with one minority shareholder, acquiring their remaining interest in ESA. The Company reflected such acquisition of additional interest in ESA in its consolidated balance sheet at December 31, 2017. In February 2018, the Company settled with the two remaining minority shareholders acquiring their remaining interests in ESA, which increased the its ownership to 100% of ESA.

Cashless Exercise of Stock Options

During 2018, certain officers exercised seventy thousand options with an exercise price of $2.89 through the Company. The Company withheld thirty-six thousand shares as payment for the options and placed those shares in treasury. The officers received thirty-four thousand shares from these transactions. There were no such exercises during 2017.

Note 14 - Income Taxes
On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as The Tax Cuts and Jobs Act of 2017 (the “Act”). The Act makes broad and complex changes to the U.S. tax code and includes significant provisions impacting the Company's 2017 and 2018 effective tax rate. The changes include, but are not limited to, a reduction in the U.S. federal corporate tax rate from 35% to 21% effective for tax years beginning after December 31, 2017, a one-time deemed repatriation (“Transition Tax”) on earnings of certain foreign subsidiaries that were previously tax deferred, and the creation of new taxes that may apply on certain foreign sourced earnings. As of December 31, 2017, we had not yet completed our accounting for the enactment-date income tax effects of the Act under ASC 740 for the re-measurement of deferred tax assets and liabilities, the one-time transition tax, and our position on the tax on global intangible low-taxed income.
For the year ended December 31, 2017 and the first nine months of 2018, by applying the guidance within Staff Accounting Bulletin No. 118 (“SAB 118”), the Company made reasonable estimates and recorded provisional amounts for enactment-date effects of the Act. As of December 31, 2017, we recorded a discrete tax expense related to the Transition Tax in the amount of $371. We also remeasured our existing deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future. There was no income statement impact resulting from this re-measurement, as the U.S. entities were in a full valuation allowance position as of the enactment date. These amounts represented the Company's best estimate of the impact of the Tax Cuts and Jobs act, at that time.
As of December 31, 2018, we have completed our accounting for all the enactment-date income tax effects of the Act which resulted in an immaterial impact to income tax expense. It is expected that the United States Treasury will continue to issue regulations that could have a material financial statement impact on the Company's effective tax rate in future periods. In addition, to the extent there are settlements in the future for certain foreign unrecognized tax benefits, the Transition Tax may also be revised in a future period. We will continue to monitor these changes and assess the financial statement impacts that result.

The Act also subjects a U.S. shareholder to tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. We have elected to recognize the resulting tax on GILTI as a period expense in the period the tax is incurred. For the year ended December 31, 2018, there was no tax incurred as a result of the period inclusion.

The effective tax rates for the years ended December 31, 2018, 2017 and 2016 were (16.1)%, (86.5)% and (37.2)% respectively. The Company’s effective tax rate is significantly different than the U.S. federal statutory rate, for the year ended December 31, 2018, primarily from the inability to record an income tax benefit related to net operating losses in certain jurisdictions, differences in statutory tax rates between foreign and U.S. jurisdictions, as well as certain expenses not allowable as deductions under statutory tax rules. The Company’s effective tax rate, for the years ended December 31, 2017 and December 31, 2016, is significantly different than the U.S. federal statutory rate primarily as a result of the inability to record an income tax benefit related to net operating losses in certain jurisdictions, differences in statutory tax rates between foreign and U.S jurisdictions, and tax impacts related to 2017 tax reform.

The components of earnings (loss) from continuing operations before income taxes by United States and foreign jurisdictions were as follows:

	Years Ended December 31,		
	2018	2017	2016
United States	$(20,026)	$(11,825)	$(4,595)
Foreign jurisdictions	(6,247)	8,238	(11,410)
	$(26,273)	$(3,587)	$(16,005)

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Income tax expense (benefit) consists of the following:

	Current	Deferred	Total
Year ended December 31, 2018:			
U.S. federal	$—	$71	$71
State and local	(568)	324	(244)
Foreign jurisdictions	5,938	(1,526)	4,412
	$5,370	$(1,131)	$4,239
Year ended December 31, 2017:			
U.S. federal	$(3,769)	$—	$(3,769)
State and local	(733)	—	(733)
Foreign jurisdictions	8,207	(602)	7,605
	$3,705	$(602)	$3,103
Year ended December 31, 2016:			
U.S. federal	$—	$—	$—
State and local	—	—	—
Foreign jurisdictions	6,793	(838)	5,955
	$6,793	$(838)	$5,955

Income tax expense was $4,239, $3,103 and $5,955 in 2018, 2017 and 2016, respectively. The following table summarizes the difference between an income tax expense/(benefit) at the United States statutory rate of 21% in 2018, and 35% in 2017 and 2016, respectively, and the income tax expense at effective worldwide tax rates for the respective periods:

	Years Ended December 31,		
	2018	2017	2016
Statutory federal income tax (benefit)	$(5,517)	$(1,255)	$(5,602)
Foreign tax expense	2,163	4,178	6,802
Change in the valuation allowance	5,823	(13,319)	4,269
Discontinued operations NOL adjustment	—	—	(4,206)
Tax benefit for discontinued operations use of continuing operations current year loss	—	(4,967)	—
Net liability (reductions) additions for uncertain tax positions	312	543	(40)
Excess compensation	229	911	513
State and local income taxes, net of federal income tax benefit	(125)	61	(105)
Stock options	63	418	4,354
Transition tax due to repatriation	—	14,633	—
Impact due to tax reform	—	2,534	—
Non-deductible loss on bond	1,667	—	—
Other	(376)	(634)	(30)
Total	$4,239	$3,103	$5,955

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

	December 31, 2018	2017
Deferred tax assets:		
Net operating loss carry forward - U.S. operations	$9,374	$8,625
Amortization of intangibles	—	1,891
Net operating loss carry forward - foreign operations	10,157	8,951
Compensated absences	866	1,033
Foreign income taxes on currency translation	7,456	6,611
Share based compensation	272	153
Allowance for uncollectible accounts	13,491	14,545
Bonus Accrual	788	—
Labor contingencies	203	187
Deferred income	188	813
Foreign tax credit	1,201	17,374
Accrued expenses	283	—
Other	609	407
Total gross deferred tax assets	44,888	60,590
Valuation allowances	(37,591)	(52,410)
Net deferred tax assets	7,297	8,180
Deferred tax liabilities:		
Intangible assets	(2,095)	(3,070)
Depreciation	(311)	(135)
Prepaid expenses	(788)	(837)
Accrued expenses	—	(1,019)
Total gross deferred tax liabilities	(3,194)	(5,061)
Net deferred tax assets	$4,103	$3,119

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

Deferred tax asset	$4,521	$4,052
Deferred tax liability	(418)	(933)
Net deferred tax assets	$4,103	$3,119

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

As of December 31, 2017, the Company was able to fully utilize its federal net operating loss carry forward in the United States due to the sale of the Claims business coupled with the deemed repatriation of historical unremitted earnings discussed above. These losses were historically valued by the Company, so the valuation allowance was released related to the federal net operating loss carry forward, which resulted in a zero impact to the effective tax rate. During the year ended December 31, 2018, the Company continued to generate net operating losses, which under the Act now have an unlimited life, and recorded additional valuation allowance to materially offset, as management had determined that it was more likely than not that the Company would not be able to utilize a significant portion of its U.S. deferred tax assets. The gross cumulative federal net operating loss as of December 31, 2018 was $8,744 with no expiration. The cumulative state net operating losses at December 31, 2018 were $116,926, which will begin to expire in 2025.

At December 31, 2018 and 2017, there were approximately $43,843 and $35,946, respectively, of gross foreign net operating loss carry forwards. The majority of these net operating loss carry forwards have an unlimited carry forward period. It is anticipated that these losses will not be utilized due to continuing losses in these jurisdictions. Foreign valuation allowances of $25,199 and $26,127 were recorded at December 31, 2018 and 2017, respectively, primarily related to the foreign allowance for doubtful accounts in connection with the Libya Receivable reserve and the foreign net operating loss carry forwards.

Generally, the foreign earnings subject to the Transition Tax can be distributed without additional U.S. tax, however, any such repatriation of previously unremitted foreign earnings could incur withholding and other foreign taxes in the source and intervening foreign jurisdictions, and certain U.S. state taxes. The Company is in the process of evaluating its cash needs around its global operations and as of year-end will continue to be reinvested indefinitely in its unremitted foreign earnings. The Company has made no provision for US federal and state taxes on unremitted foreign earnings in excess of the amount imposed by the Act one-time transition tax on deferred earnings, any incremental foreign income taxes and withholding taxes payable to foreign jurisdictions related to any distributions. Determination of the amount of the unrecognized deferred foreign tax liability for these amounts is not practicable because of the complexities associated with its hypothetical calculation.

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

The following table indicates the changes to the Company's uncertain tax positions for the years ended December 31, 2018 and 2017 including interest and penalties:

	Years Ended December 31,	
	2018	2017
Balance, beginning of year	$ 2,676	$ 6,735
Reductions based on tax positions related to prior years	(684)	(243)
Reduction due to settlements with taxing authorities	—	(4,773)
Additions based on tax positions related to prior years	996	957
Balance, end of year	$ 2,988	$ 2,676

The Company files income tax returns in the U.S. federal jurisdiction and in various state and foreign jurisdictions. The Company generally is no longer subject to U.S. or state examinations by tax authorities for taxable years prior to 2014. However, net operating losses utilized from prior years in subsequent years' tax returns are subject to examination until three years after the filing of subsequent years' tax returns. The statute of limitations expiration in foreign jurisdictions for corporate tax returns generally ranges between two and five years depending on the jurisdiction.

The Company's policy is to record estimated interest and penalties related to uncertain tax positions in income tax expense. At December 31, 2018 and 2017, the Company's consolidated balance sheet reflects cumulative provisions for interest and penalties of $420 and $390, respectively, related to potential interest and penalties.

The Company's income tax returns are based on calculations and assumptions that are subject to examination by the Internal Revenue Service and other tax authorities. While the Company believes it has appropriate support for the positions taken on its tax returns, the Company regularly assesses the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of its provision for income taxes.

As part of its assessment of potential adjustments to its tax returns, the Company increases its current tax liability to the extent an adjustment would result in a cash tax payment or decreases its deferred tax assets to the extent an adjustment would not result in a cash tax payment. The Company continually assesses the likelihood and amount of potential adjustments and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Note 15 — Commitments and Contingencies

General Litigation

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

In 2013, M.A. Angeliades, Inc. ("Plaintiff") filed a complaint with the Supreme Court of New York against the Company and the New York City Department of Design and Construction ("DDC") regarding payment of approximately $8,771 for work performed as a subcontractor to the Company plus interest and other costs. On October 5, 2015, pursuant to a settlement agreement, Hill paid Plaintiff approximately $2,596, including interest amounting to $1,056. The Plaintiff resolved its remaining issues regarding change orders and compensation for delay with DDC. On January 16, 2016, Plaintiff filed a Motion to amend its complaint against the Company claiming that the amounts paid by the Company do not reconcile with the amounts Plaintiff believes the Company received from DDC despite DDC's records reflecting the same amount as the Company's. On August 8, 2016, the Plaintiff's Motion was granted and the parties resolved the matter and entered into a confidential settlement and general release on August 17, 2018. The settlement was accrued for and reflected in the Company's balance sheet and the statement of operations as of and for the year ended December 31, 2017 and was paid in full during the year ended December 31, 2018.

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

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

Loss on Performance Bond

On February 8, 2018, the Company received notice from the First Abu Dhabi Bank ("FAB", formerly known as the National Bank of Abu Dhabi) that Public Authority of Housing Welfare of Kuwait submitted a claim for payment on a Performance Guarantee issued by the Company for approximately $7,927 for a project located in Kuwait. FAB subsequently issued, on behalf of the Company, a payment on February 15, 2018. The Company is taking legal action to recover the full Performance Guarantee amount. On September 20, 2018 the Kuwait First Instance Court dismissed the Company's case. The Company has filed an appeal before the Kuwait Court of Appeals. As a result of the First Instance Court decision, the Company fully reserved the performance guarantee payment above in the first quarter of 2018 and it is presented as "Loss on Performance Bond" on the consolidated statements of operations.

Off-Balance Sheet Arrangements

The Company enters into agreements with banks for the banks to issue bonds and letters of guarantee to clients, potential clients and other third parties generally for three separate purposes as follows:

(1) The Company and certain of the Company's subsidiaries have entered into contracts for the performance of construction management services that provide that the Company receive advance payment of some of the management fee from the client prior to commencement of the construction project. However, the clients require a guarantee of service performance in the form of an advance payment bond. These bonds are evidenced by Letters of Guarantee issued by the subsidiaries' banks in favor of the clients. In some cases, these clients also require a parent company guarantee. The average term the Company entered into such arrangements was 4.1 years at December 31, 2018.

(2) The Company may also enter into certain contracts that require a performance bond to be issued by a bank in favor of the client for a portion of the value of the contract. These bonds may be exercised by the client in instances where the Company fails to provide the contracted services. The average term the Company entered into such arrangements was 4.5 years at December 31, 2018.

(3) Certain clients may require bonds as part of the bidding process for new work. Bid bonds are provided to demonstrate the financial strength of the companies seeking the work and are usually outstanding for short periods. If the bid is rejected, the bond is canceled and if the bid is accepted, the Company may be required to provide a performance bond. The average term of these arrangements were 1.8 years at December 31, 2018.

The maximum potential future payment under these arrangements at December 31, 2018 and 2017 was $63,923 and $70,859, which partially includes credit facility arrangements that are denominated in foreign currencies. These balances partially reduced the Company's available borrowing capacity on the Domestic and International Revolving Credit Facilities by a total of $13,497, as reflected in Note 11 - Notes Payable and Long-Term Debt.

Cash held in restricted accounts as collateral for the issuance of performance and advance payment bonds, letters of credit and escrow at December 31, 2018 and 2017 was $4,396 and $4,407, respectively.

Off-balance sheet arrangements also included a $3,750 irrevocable standby letter of credit as of December 31, 2018 and 2017 that the Company was required to provide as part of the May 5, 2017 sale of the Construction Claims Group in order to secure certain of the Company's indemnification obligations for twelve months following the sale. This amount was an additional reduction to the Company's available borrowing capacity under the Domestic Revolving Credit Facility as of December 31, 2018 and 2017. The Company believes that it has met all of its obligations under the terms of the Stock Purchase Agreement and is working the Purchaser in having this full amount released during the year ended December 31, 2019.

Other

The Company has identified a potential tax liability related to certain foreign subsidiaries' failure to comply with laws and regulations of the jurisdictions, outside of their home country, in which their employees provided services. The Company has estimated the potential liability to be approximately $997 which is reflected in other liabilities in the consolidated balance sheet, $35 of which was expensed in selling, general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2018.

Note 16 — Operating Leases

The Company's leases are primarily comprised of office space for its corporate and project-based locations throughout the world and have been classified as operating leases, including any subleases where the Company is the sublessor. Rent expense/(income) for operating leases are recognized on a straight-line basis over the lease term from the lease commencement date through the scheduled expiration date. The lease term may also include any renewal options exercisable by the Company, at the Company's sole discretion. The determination of whether to include any renewal options is made by the Company at lease inception when establishing the term of the lease.

Some of the Company's lease arrangements require periodic increases in the Company's base rent that may be subject to certain economic indexes, among other items. In addition, these leases may require the Company to pay property taxes, utilities and other costs related to several of its leased office facilities. Rent expense was approximately $8,881, $8,940 and $9,208 for the years ended December 31, 2018, 2017 and 2016, respectively, which is included in selling, general and administrative and direct expenses in the consolidated statements of operations.

At December 31, 2018, approximate future minimum cash payments under these leases that have remaining non-cancelable lease terms in excess of one year are as follows:

Years Ending December 31,	Rent Expense from Operating Leases	Rental (Income) from Operating Leases (1)	Total Operating Lease Rent, Net
2019	$ 5,755	$ (579)	$ 5,176
2020	4,846	(1,085)	3,761
2021	3,706	(1,043)	2,663
2022	2,893	(953)	1,940
2023	2,444	(978)	1,466
Thereafter	6,832	(3,295)	3,537
Total (2)	$ 26,476	$ (7,933)	$ 18,543

(1) Includes sublease agreement executed during the year ended December 31, 2018, but not yet commenced.
(2) Partially includes rent expense and rental income amounts payable/(receivable) in various foreign currencies and and are based on the average foreign currency exchange rates for the month ended December 31, 2018, where applicable.

Note 17 - Benefit Plans

401(k) Retirement Savings Plan

The Company maintains a 401(k) Retirement Savings Plan (the “401(k) Plan”) for qualified employees. The terms of the 401(k) Plan define qualified employees as those over 21 years of age who have completed at least one month of service. The Company matches $0.50 on the dollar of employee contributions up to a maximum of 6.0% of the employee's salary. For the years ended December 31, 2018, 2017 and 2016, the Company recognized expense amounting to $2,122, $1,363 and $1,005, respectively, which is included in selling, general and administrative expenses in the consolidated statements of operations.

End of Service Benefits

The Company maintains several End of Service Benefit plans (the “EOSB Plans”) that provide lump sum termination benefits to certain employees in the United Arab Emirates, Saudi Arabia, Qatar, Oman, Bahrain and Kuwait. The EOSB Plans are calculated based on tenure of service and may vary depending on the circumstances surrounding the separation. Generally, the plans provide for a lump sum benefit that is based on the employee's salary, years of service and statutory requirements that exist within the employee's office location. The Company calculated the present value of the expected future payments using the Projected Unit Credit Method, which estimates the fair value of the projected benefits that current plan participants will earn and was used to assess the Company's liabilities as of December 31, 2018 and 2017. The baseline assumptions used for the calculation included a discount rate of 4.0%, a salary increase of 2.0% per annum and an employee turnover rate of 25% per annum. The Company recorded liabilities of $12,767 and $13,940 for the EOSB Plans as of December 31, 2018 and 2017, respectively, which are included in accrued payroll and related expenses. For the years ended December 31, 2018, 2017 and 2016, the Company recognized expense for the EOSB Plans of $5,563, $4,861 and $4,327 respectively, which is included in direct expense and selling, general and administrative expense in the consolidated statements of operations.

Note 18 —Segment and Related Information

The Company has one reporting segment, the Project Management Group, which reflects how the Company is managed. The Project Management Group provides construction and project management services to construction owners worldwide. Such services include program management, project management, construction management, project management oversight, troubled project turnaround, staff augmentation, project labor agreement consulting, commissioning, estimating and cost management, labor compliance services (collectively, "integrated project management") and facilities management services.

The following tables present certain information for the Company's operations:

Total Revenue by Geographic Region:

	2018		2017		2016	
United States	$205,149	47.9 %	$227,581	47.1 %	$204,035	39.5 %
Latin America	11,503	2.7 %	11,772	2.4 %	18,775	3.6 %
Europe	41,259	9.6 %	43,179	8.9 %	41,062	8.0 %
Middle East	133,690	31.2 %	169,964	35.1 %	213,613	41.4 %
Africa	26,600	6.2 %	23,100	4.8 %	24,037	4.7 %
Asia/Pacific	10,478	2.4 %	8,140	1.7 %	14,490	2.8 %
Total	$428,679	100.0%	$483,736	100.0%	$516,012	100.0%

For the twelve months ended December 31, 2018, total revenue for the United Arab Emirates amounted to $47,064, which made up 11.0% of the Company's total revenue. No other country except for the United States accounted for over 10% of total revenue.

For the twelve months ended December 31, 2017, no other country, except for the United States, accounted for over 10% of total revenue.

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

Operating Profit (Loss):

	2018	2017	2016
United States	$25,605	$23,191	$17,742
Latin America	(3,119)	(3,190)	1,702
Europe	(6,827)	3,221	(8,285)
Middle East	(5,609)	21,096	15,992
Africa	5,592	(752)	(7,083)
Asia/Pacific	3,532	(1,378)	1,097
Corporate	(40,137)	(42,744)	(34,815)
Total	$(20,963)	$(556)	$(13,650)

Depreciation and Amortization Expense:

	2018	2017	2016
Project Management	$4,775	$5,663	$6,635
Corporate	655	860	630
Total	$5,430	$6,523	$7,265

Revenue By Client Type:

	2018		2017		2016	
U.S. federal government	$16,610	3.9 %	$15,105	3.1 %	$12,050	2.3 %
U.S. state, regional and local governments	136,904	31.9 %	156,183	32.3 %	155,976	30.2 %
Foreign governments	117,361	27.4 %	133,655	27.6 %	170,567	33.1 %
Private sector	157,804	36.8 %	178,793	37.0 %	177,419	34.4 %
Total	$428,679	100.0%	$483,736	100.0%	$516,012	100.0%

Property, Plant and Equipment, Net by Geographic Location:

	December 31,	
	2018	2017
United States	$8,416	$9,434
Latin America	692	546
Europe	503	675
Middle East	962	1,164
Africa	105	105
Asia/Pacific	109	80
Total	$10,787	$12,004

Quarterly Results (Unaudited)

The following is a summary of certain quarterly financial information for fiscal years 2018 and 2017 (in thousands except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2018:				
Revenue	$113,897	$112,148	$101,935	$100,699
Gross profit	34,685	33,202	33,124	29,680
Operating profit (loss)	(5,240)	(3,525)	(7,669)	(4,529)
Earnings (loss) from continuing operations	(7,669)	(7,064)	(8,484)	(7,295)
Loss from discontinued operations	(482)	(381)	—	—
Net (loss) earnings attributable to Hill	(8,149)	(7,483)	(8,544)	(7,285)
Basic earnings (loss) per common share from continuing operations	$(0.14)	$(0.13)	$(0.15)	$(0.13)
Basic (loss) per common share from discontinued operations	(0.01)	(0.01)	—	—
Basic (loss) earnings per common share - Hill International, Inc.	$(0.15)	$(0.14)	$(0.15)	$(0.13)
Diluted earnings (loss) per common share from continuing operations	$(0.14)	$(0.13)	$(0.15)	$(0.13)
Diluted loss per common share from discontinued operations	(0.01)	(0.01)	—	—
Diluted (loss) earnings per common share - Hill International, Inc.	$(0.15)	$(0.14)	$(0.15)	$(0.13)
Year Ended December 31, 2017:				
Revenue	$116,120	$125,436	$123,192	$118,988
Gross profit	37,611	38,629	37,317	33,296
Operating profit (loss)	4,114	(1,363)	(1,628)	(1,679)
Earnings (loss) from continuing operations	2,016	(996)	(1,595)	(6,115)
Loss from discontinued operations	(4,251)	(7,301)	(752)	(2,175)
Gain on disposal of discontinued operations, net of tax	—	52,195	(1,892)	(1,590)
Net earnings (loss) attributable to Hill	(2,354)	43,897	(4,294)	(9,883)
Basic earnings (loss) per common share from continuing operations	$0.04	$(0.02)	$(0.03)	$(0.12)
Basic loss per common share from discontinued operations	(0.09)	(0.14)	(0.01)	(0.04)
Basic gain on disposal of discontinued operations, net of tax	$—	$1.00	$(0.04)	$(0.03)
Basic earnings (loss) per common share - Hill International, Inc.	$(0.05)	$0.84	$(0.08)	$(0.19)
Diluted earnings (loss) per common share from continuing operations	$0.04	$(0.02)	$(0.03)	$(0.12)
Diluted loss per common share from discontinued operations	(0.09)	(0.14)	(0.01)	(0.04)
Diluted gain on disposal of discontinued operations, net of tax	$—	$1.00	$(0.04)	$(0.03)
Diluted earnings (loss) per common share - Hill International, Inc.	$(0.05)	$0.84	$(0.08)	$(0.19)

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

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

Based upon its evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, because of the material weaknesses in its internal controls over financial reporting described below, the Company's disclosure controls and procedures were not effective as of December 31, 2018.

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

As a result of the material weaknesses identified, we performed additional analysis, substantive testing and other post-closing procedures intended to ensure our consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"). Accordingly, management believes the consolidated financial statements and related notes hereto included in this Annual Report on Form 10-K fairly presents in all material respects the Company's financial position, results of operations and cash flows for the periods presented.

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

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

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

Management, under the supervision of our Chief Executive Officer, and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting and, based on the criteria established in the applicable "Internal Control-Integrated Framework" issued by the COSO (2013), determined that the Company had not maintained effective internal control over financial reporting as of December 31, 2018 due to the material weaknesses described below.

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

Material Weaknesses

Information & Communication

1. The Company did not maintain effective controls over certain information technology ("IT") systems and processes that are relevant to the preparation of our consolidated financial statements. Specifically, the company did not maintain effective monitoring controls for the periodic review of access to financial systems and data, for user access to segregate duties within financial applications; and for decommissioning of access privileges following changes in employment status.

Monitoring Activities

2. The Company did not maintain effective monitoring and review activities including the timely assessment of control design gaps and their impact to the control environment.

Material Weaknesses Previously Reported

Control Environment

3. The Company did not maintain effective controls over the financial reporting process, including the application of relevant accounting standards due to an inappropriate complement of personnel with the necessary level of accounting knowledge, experience, and training in the application of US GAAP commensurate with its financial reporting requirements and the complexity of the Company's operations and transactions.

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

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

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

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

Control Activities

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

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

7. The Company did not maintain effective controls over the accurate preparation, recording, and review of foreign currency related transactions in accordance with ASC 830, Foreign Currency Matters. This control deficiency resulted in a restatement of the Company's 2017, 2016, and 2015 consolidated financial statements and specifically related to the Company's accounting for its foreign currency gains and losses on intercompany transactions. The Company did not maintain effective controls to address the following deficiencies in the Company's internal control environment:

a. The Company failed to prevent or detect instances where the assertion that intercompany balances were permanently invested was made in error or no longer applicable; therefore, the related foreign currency translation adjustments were not accurately prepared and recorded in accordance with US GAAP.
b. The Company did not ensure that all foreign currency accounts and transactions were recorded in the appropriate functional currency and re-measured in a timely manner.
c. The Company did not ensure that non-monetary transactions and retained earnings were re-measured and translated utilizing the appropriate exchange rate.
d. The Company failed to ensure that the tax effecting of balances recorded within accumulated other comprehensive income ("AOCI") was performed in accordance with US GAAP.
e. The Company did not analyze the composition of the AOCI account to ensure the completeness and accuracy of the balance.

8. The Company did not maintain effective controls to ensure the accurate preparation and review of the cash flow statement in accordance with ASC 230, Statement of Cash Flows. The Company did not maintain effective controls to ensure that the statement of cash flows was appropriately prepared first in each functional currency, translated to the reporting currency, and then consolidated. Additionally, the historical process to prepare the consolidated statement of cash flows did not fully consider the US GAAP requirements associated with the appropriate classification of activities as operating, investing, or financing activities. These deficiencies resulted in material line item adjustments to the consolidated statements of cash flows for the years ended December 31, 2017, 2016, and 2015.

9. The Company did not maintain effective policies, procedures, and controls to ensure that the revenue recognition accounting for certain customer contracts was performed in accordance with ASC 606, Revenue from Contracts with Customers, which superseded ASC 605-35, Revenue Recognition. Specifically, the Company failed to consistently use the input method to measure progress toward complete satisfaction of the performance obligation for long-term customer contracts (e.g., fixed fee, lump sum, or maximum contract value).

10. Management identified a material weakness, in the controls related to the stock option program. The company did not maintain effective controls over the monitoring of employee termination dates related to participants in the stock option program, which resulted in the exercising of stock options that had vested subsequent to individual's respective termination dates.

Risk Assessment

11.

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

EisnerAmper LLP's report on the Company's internal controls over financial reporting is included herein on page 38.

Remediation Plans

The discussion below refers to actions the Company has taken or plans to take to remediate the material weaknesses identified. The remedial actions that have been implemented in whole or in part have generally not been formally documented or tested for effectiveness. The Company plans to formally document and test for effectiveness all remediation during 2019 and the first two months of 2020.

Control Environment

Complement of Personnel

- The Company hired on November 30, 2018 a Chief Financial Officer with over 20 years of experience at publicly-held companies, approximately half during which he served as Chief Financial Officer, who prior to this experience obtained his CPA license while employed at a Big Four accounting firm.
- The Company augmented its accounting and finance staff, and in some cases, created new positions to provide additional technical accounting expertise in critical areas, including but not limited to, revenue recognition, consolidation, and income taxes. The Company will continue to recruit qualified professionals with appropriate levels of knowledge and experience to assist in resolving accounting issues in non-routine or complex transactions.
- The Company has retained and intends to continue to retain the services of outside consultants, with relevant accounting experience, skills and knowledge, working under the supervision and direction of the Company's management, to supplement the Company's existing accounting personnel.

Financial Reporting - Policies Procedures and Controls

- The Company has developed and continues to develop policies, procedures, and controls for all key processes including the specific areas identified in this material weakness. In addition, management will train personnel to ensure consistent application of these accounting principles and adherence to the Company's newly adopted policies, procedures, and controls. In conjunction with this restatement, the Company corrected the accounting errors that resulted from the non-compliance with US GAAP identified in this material weakness.
- The Company plans to review the current financial controls to assess if additional management review controls are necessary and work with all finance personnel to establish the appropriate documentation criteria for the existing controls including evidence of review, timeliness and variance thresholds.
- The Company plans to further enhance the utilization of the accounting system to increase the number of activities that are automated to reduce the chance of manual errors.

Disclosure Committee

- The Company established a Disclosure Committee which meets on a quarterly basis (or more frequently as circumstances dictate) to assure that our SEC filings and other public disclosures are complete, accurate, and otherwise comply with applicable accounting principles and regulations. The Company's Disclosure Committee is a management committee reporting to our Chief Executive Officer with oversight provided by our Audit Committee, and it will include individuals knowledgeable about, among other things, SEC rules and regulations, financial reporting, and internal control matters. The Company will also document a formal disclosure policy and procedures to govern the work of the Disclosure Committee.

Control Activities

Accounts Receivable Controls

- The Company increased accountability at the operational manager and local finance director levels to closely monitor significantly past due accounts and potential collection issues to regional or upper management on a monthly basis or more frequently, as circumstances require. Required independent and detailed documentation and contracts are provided to country or regional controllers and headquarters management who evaluate the collectability of significant and aged client account balances.

- The Company enhanced transparency and active monitoring at the executive level through monthly and quarterly meetings to review and assess the proper application of US GAAP in financial reporting and estimates. Material accruals and contingencies (including reserves for potentially uncollectible accounts receivable) are evaluated objectively by executive management with input from the business segment units prior to the conclusion of quarterly financial reporting processes.

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

- The Company plans to continue to enhance the documentation to ensure that it is detailed and supports the amounts recognized as reserves for potentially uncollectible accounts receivable.

- The Company plans to continue to enhance the follow-up process with local operations management and finance director levels to ensure that the most current information is obtained in a timely manner for financial reporting purposes.

- The Company plans to conduct training with personnel involved with the accounts receivable controls to reinforce the importance of the controls and the application of controls on a consistent basis.

- The Company plans to implement controls to ensure that accounts receivable and related balances are appropriately reviewed and reserved as necessary.

- The Company plans to implement completeness and accuracy procedures to ensure that the reports utilized to estimate the appropriate reserve balance contain all the necessary and accurate data to calculate a reasonable estimate.

Tax Law and Employment Regulations

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

Foreign Currency Related Transactions

- The Company has and will continue to develop and implement improved policies, procedures, processes and controls, as well as, conduct trainings to ensure the proper accounting for foreign currency matters in accordance with ASC 830, Foreign Currency Matters.

- The Company has adjusted the accounting system to ensure that all transactions are systematically re-measured and translated at the applicable foreign currency exchange rate and the associated gain or loss is appropriately recognized in AOCI or earnings.

- The Company is now appropriately reconciling the AOCI account, in a timely manner.

Cash Flow Statement Preparation and Review

- The Company has developed and is using a template to manually prepare the statement of cash flows on a functional currency basis, translate the individual statements to United States dollars ("USD"), and then aggregate each statement into a consolidated statement of cash flows.

- The Company has identified systematic controls within the accounting system and will automate the process of preparing the statement of cash flows for each functional currency and translating each statement at the appropriate exchange rate to USD.

-

The Company has implemented review controls to ensure that the consolidated statement of cash flows is prepared utilizing the appropriate classification of activities in accordance with ASC 230, Statement of Cash Flows.

Revenue Recognition - Policies, Procedures and Controls

- The Company has and will continue to develop policies, procedures, and controls to ensure the proper accounting for revenue recognition matters, and the Company will ensure that the appropriate personnel are effectively trained and adhere to the new policies, procedures, and controls.

- The Company plans to further utilize the accounting system to maintain and report the accounting associated with revenue recognition after setup.

Stock Option Program - Policies, Procedures and Controls

- The Company has developed policies, procedures, and controls to ensure the proper oversight of the stock option program to prevent future occurrences. Specifically, accounting now receives a regular report of terminated employees and removes these employees from the AST (stock transfer agent) system.

Risk Assessment

Income Tax Provision

- The Company has developed policies, procedures, and controls to ensure the proper recognition and de-recognition of tax liabilities is performed in accordance with ASC 740, Income Taxes, and the Company will ensure that the policies, procedures, and controls are followed by the appropriate personnel. Specifically, the Tax Director maintains a log of all tax positions, which is reviewed regularly with the International Tax Manager and the Company's tax compliance consultants, adjusted as necessary and reviewed with the Company CFO.

Information & Communication

IT Systems

- The Company has implemented and executed a review of access to the general ledger financial application and finance department share drive. This control will continue to be monitored and executed periodically.

- The Company has and will continue to review the current financial controls to assess if additional compensating controls are necessary to mitigate segregation of duty issues for all finance personnel impacted.

- The Company has and will continue to address the coordination and communication of personnel changes between the finance, human resources and IT departments to ensure timely modification or decommissioning of access.

Monitoring Activities

Assessment of Control Design Gaps

- The Company has and will continue to develop a control environment that provides for regular monitoring and assessment of the business by creating consistent and sustainable oversight of existing controls and assessment to develop additional controls, as warranted. In 2018, management's assessment of controls was behind schedule due to priorities focused on becoming current with SEC filings, impacting management's ability to remediate control deficiencies previously identified and various controls were not properly executed. In 2019, controls are being updated and executed to address all key processes including the specific areas identified in the material weaknesses.

Changes in Internal Control Over Financial Reporting

Except for the two new material weaknesses, and continued improvements resulting from progress made on the above noted remediation plans, there were no changes to the Company's internal control over financial reporting during the fourth quarter of 2018 that materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Item 9B. Other Information.

Not applicable.

Part III

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10. Directors, Executive Officers and Corporate Governance.

The information in our 2019 Proxy Statement, which will be filed with the U. S. Securities and Exchange Commission within 120 days after the close of our fiscal year, regarding directors and executive officers appearing under the headings "Proposal 1: Election of Directors" and "Other Matters—Section 16(a) Beneficial Ownership Reporting Compliance" is incorporated by reference in this section. The information under the heading "Executive Officers" in Part I, Item 1 of this Form 10-K is also incorporated by reference in this section. In addition, the information under the heading "Corporate Governance" in our 2019 Proxy Statement is incorporated by reference in this section.

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

Item 11. Executive Compensation

The information appearing in our 2019 Proxy Statement under the headings "Director Compensation," "Compensation Discussion and Analysis," "Report of the Compensation Committee", and "Executive Compensation" is incorporated by reference in this section.

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

The information appearing in our 2019 Proxy Statement under the heading “Security Ownership of Certain Beneficial Owners and Management” is incorporated by reference in this section.

Equity Compensation Plan Information

The following table provides information as of December 31, 2018 for common shares of the Company that may be issued under our 2008 Employee Stock Purchase Plan and our 2017 Equity Compensation Plan. See Note 12 Share-Based Compensation to the consolidated financial statements for further information related to these plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights A	Weighted-average exercise price of outstanding options, warrants and rights B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) (1) C
Equity compensation plans approved by security holders	2,953	$ 3.93	8,031
Equity compensation plans not approved by security holders	—	—	—
Total	2,953	$ 3.93	8,031

(1) As of December 31, 2018, the Company had 3,321 shares remaining available for future issuance under our 2006 Employee Stock Option Plan 1,195 shares remaining available for future issuance under our 2008 Employee Stock Purchase Plan, 208 shares remaining available for future issuance under our 2009 Non-Employee Director Stock

Grant Plan and 3,307 shares remaining available for future issuance under our 2017 Equity Compensation Plan. Future grants are no longer available under our 2006 Employee Stock Option Plan or our 2009 Non-Employee Director Stock Grant Plan.

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

The information appearing in our 2019 Proxy Statement under the headings "Corporate Governance" and "Certain Relationships and Related Transactions" is incorporated by reference in this section.

Item 14. Principal Accounting Fees and Services.

The table below reflects the fees and expenses for services rendered by EisnerAmper for the years ended December 31, 2018 and 2017 and for KPMG for their services rendered during the year ended December 31, 2017. The Audit Committee pre-approved all of these services.

Type of Fees	Years Ended December 31, 2018	2017 EisnerAmper	2017 KPMG	2017 Total
Audit Fees (1)	$3,170	$3,923	$ 901	$4,824
Audit - Related Fees (2)	46	—	—	—
All Other Fees and Expense Reimbursements	71	—	25	25
Total Fees	$3,287	$3,923	$ 926	$4,849

(1) Audit fees consist of fees billed and an estimate of fees to be billed for services for the audit of our financial statements and review of our financial statements included in our quarterly reports on Form 10-Q and services provided in connection with other statutory or regulatory filings. During 2017, audit fees also included amounts billed for services for the audit of the amended 10-K's for the years ended December 31, 2014, 2015 and 2016 and amended 10-Q's for the periods ended March 31, 2017 and other services related to SEC matters.

(2) Audit-related fees consist of assurance and related services rendered by EisnerAmper that are reasonably related to the performance of the audit or the review of our financial statements that are not included as audit fees. These services include consultation on accounting matters in foreign jurisdictions, due diligence related to mergers and acquisitions, consultation on financial accounting and reporting.

Pre-Approval Policy of Audit Services and Permitted Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services and are pre-approved in one of two methods. Under the first method, the engagement to render the services would be entered into pursuant to pre-approval policies and procedures established by the Audit Committee, provided (i) the policies and procedures are detailed as to the services to be performed, (ii) the Audit Committee is informed of each service, and (iii) such policies and procedures do not include delegation of the Audit Committee’s responsibilities under the Exchange Act to the Company’s management. Under the second method, the engagement to render the services would be presented to and pre-approved by the Audit Committee (subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act that are approved by the Audit Committee prior to the completion of the audit). The Chairman of the Audit Committee will have the authority to grant pre-approvals of audit and permissible non-audit services by the independent auditors, provided that all pre-approvals by the Chairman must be presented to the full Audit Committee at its next scheduled meeting. The Company will provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent registered public accounting firm and to any consultants, experts or advisors engaged by the Audit Committee.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Documents filed as part of this report:

Financial statements:

The consolidated balance sheets of the Registrant as of December 31, 2018, and 2017, the related consolidated statements of operations, comprehensive (loss) earnings, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2018, the footnotes thereto, and the report of EisnerAmper LLP, independent auditors, are filed herewith.

Financial statement schedule:

Schedule II—Valuation and Qualifying Accounts for the years ended December 31, 2018, 2017 and 2016.

(b) Exhibits

Exhibit Index

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

	herein by reference.)
10.7	International Guaranty and Security Agreement, dated as of September 26, 2014, among Hill International N.V., as borrower, Hill International, Inc., and the lenders party thereto in favor of Société Générale, as administrative agent. (Included as Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)
10.8	Intercreditor Agreement, dated as of September 26, 2014, by and among Société Générale, as collateral agent, and the loan parties thereto. (Included as Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on October 2, 2014 and incorporated herein by reference.)
10.9*	Hill International, Inc. 2009 Non-Employee Director Stock Grant Plan, as amended. (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 6, 2013 and incorporated herein by reference.)
10.10*	Hill International, Inc. 2007 Restricted Stock Grant Plan. (Included as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (No. 333-141814), filed on April 2, 2007 and incorporated herein by reference.)
10.11*	Hill International, Inc. 2008 Employee Stock Purchase Plan. (Included as Exhibit 4.4 to the Registrant's Registration Statement on Form S-8 (No. 333-152145), filed on July 3, 2008 and incorporated herein by reference.)

10.12*	Hill International, Inc. 2015 Senior Executive Retention Plan. (Included as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on February 2, 2015 and incorporated herein by reference.)
10.13	Hill International, Inc. 2010 Senior Executive Bonus Plan. (Included as Appendix A to the Registrant’s Definitive Proxy Statement on Schedule 14A filed on April 30, 2010 and incorporated herein by reference.)
10.14	Stock Purchase Agreement, dated as of December 20, 2016, by and among Hill International, Inc., Hill International N.V., Liberty Mergeco, Inc. and Liberty Bidco UK Limited. (Included as Exhibit 2.1 to the Registrant’s Current Report on Form 8-K filed on December 20, 2016 and incorporated herein by reference as amended by that Amendment of SPA included as Exhibit 2.1 to the Registrant's current report on Form 8-K filed on May 4, 2017 and incorporated by reference.)
10.15*	Employment Agreement between the Company and Raouf S. Ghali dated August 18, 2016. (Included as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on August 19, 2016 and incorporated herein by reference.)
10.16*	Hill International, Inc. 2016 Executive Retention Plan. (Included as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on November 9, 2016 and incorporated herein by reference.)
10.17*	Form of Hill International, Inc. 2016 Executive Retention Plan Participation Agreement. (Included as Exhibit 10.2 to the Registrant’s Current Report on Form 8-K filed on November 9, 2016 and incorporated herein by reference.)
10.18	Settlement Agreement among the Company, Bulldog Investors LLC and certain directors of the Company, dated September 16, 2016. (Included as Exhibit 10.2 to the Registrant’s Quarterly Report on Form 10-Q filed on November 14, 2016 and incorporated herein by reference.)
10.19	Separation Agreement and General Release of Claims (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2017 and incorporated herein by reference.)
10.20*	Hill International, Inc. 2017 Equity Compensation Plan (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 20, 2017 and incorporated herein by reference.)
10.21*	Hill International Inc. Key Employee Retention Plan (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 9, 2017 and incorporated herein by reference.)
10.22	Second Amendment to Credit Agreement (Included as Exhibits 10.1 and Exhibit 10.2 to the Registrants Current Report on Form 8-K filed on May 11, 2017 and incorporated herein by reference.)
10.23	Increased Commitment Agreement (Included as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 23, 2017 and incorporated herein by reference.)
10.24	Separation Agreement with John Fanelli, III (Included as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K filed on November 14, 2017.)
10.25	Nomination and Standstill Agreement (Included as Exhibit 10.1 to the Registrant’s Current Report on Form 8-Kfiled on March 9, 2018.)
10.26	Nomination and Standstill Agreement (Included as Exhibit 10.1 to the Registrant’s Report on Form 8-K filed on September 13, 2018.)

10.27	Hill International, Inc. 2017 Equity Compensation Plan (amended and restated through March 26, 2018)(Included as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on September 28, 2018.)
10.28	Termination Agreement (Included as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q filed on November 7, 2018.)
10.29	Form of Restricted Stock Unit Award Agreement (Included as Exhibit 10.1 to the Registrant's Report on Form 8-K filed on December 3, 2018.)
10.30	Form of Deferred Stock Unit Award Agreement (Officers) (Included as Exhibit 10.2 to the Registrant's Report on Form 8-K filed on December 3, 2018.)
10.31	Form of Deferred Stock Unit Award Agreement (Directors) (Included as Exhibit 10.3 to the Registrant's Report on Form 8-K filed on December 3, 2018.)
10.32	Board Observer and Standstill Agreement (Included as Exhibit 10.1 to the Registrant's Report on Form 8-K filed on December 10, 2018.)
21	Subsidiaries of the Registrant.
23.1	Consent of EisnerAmper LLP, Independent Registered Public Accounting Firm

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Constitutes a management contract or compensatory plan.

SIGNATURES

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

Hill International, Inc.

By: /s/ Raouf S. Ghali
Raouf S. Ghali
Chief Executive Officer
Date: March 29, 2019

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

By: /s/ David D. Sgro
David Sgro
Chairman and Director
Date: March 29, 2019

By: /s/ Raouf S. Ghali
Raouf S. Ghali
Chief Executive Officer and Director
Date: March 29, 2019

By: /s/ Todd Weintraub
Todd Weintraub
Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Date: March 29, 2019

By: /s/ Paul Evans
Paul Evans
Director
Date: March 29, 2019

By: /s/ Camille S. Andrews
Camille S. Andrews
Director
Date: March 29, 2019

By: /s/ Alan S. Fellheimer
Alan S. Fellheimer
Director
Date: March 29, 2019

By: /s/ Charles M. Gillman
Charles M. Gillman
Director
Date: March 29, 2019

By: /s/ Arnaud Ajdler
Arnaud Ajdler
Director
Date: March 29, 2019

By: /s/ Jim Chadwick
Jim Chadwick
Director
Date: March 29, 2019

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Schedule II

Hill International, Inc. and Subsidiaries

Valuation and Qualifying Accounts

(Allowance for Uncollectible Receivables — in thousands)

	Balance at Beginning of Fiscal Year	Additions (Recoveries) Charged (Credited) to Earnings	Uncollectible Receivables Written off, Net of Recoveries	Balance at End of Fiscal Year
Fiscal year ended December 31, 2018	$ 72,850	$ (196)	$ (1,377)	$ 71,277
Fiscal year ended December 31, 2017	$ 71,082	$ 6,913	$ (5,145)	$ 72,850
Fiscal year ended December 31, 2016	$ 60,535	$ 14,454	$ (3,907)	$ 71,082