

Hill International, Inc.
Form 10-Q
July 12, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

For the quarterly period ended September 30, 2017

or

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

For the transition period

from _____ to _____

Commission File Number: 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 20-0953973

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

One Commerce Square

2005 Market Street, 17th Floor 19103

Philadelphia, PA

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

Emerging Growth Company

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

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

There were 55,135,158 shares of the Registrant's Common Stock outstanding at July 6, 2018.

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Explanatory Note

On May 8, 2018, the Hill International Inc. (the "Company") filed its Annual Report on Form 10-K/A Amendment No. 2 which amended and restated the Company's financial statements as of December 31, 2016, and for each of the three years in the period ended December 31, 2016 and the related notes thereto originally filed on Form 10-K with the SEC on March 31, 2017. This Form 10-Q amends the Company's unaudited consolidated financial statements for the three and nine months ended September 30, 2016 and the related notes thereto, included on Form 10-Q filed on August 14, 2016 and Form 10-Q/A filed on August 15, 2016 ("Prior Filings").

This restatement in this Form 10-Q ("Restatement") reflects the correction of the following errors identified subsequent to the filing of the Prior Filings:

A. The Company determined that it had not previously accounted for certain foreign currency gains/losses on intercompany balances and transactions in accordance with U. S. generally accepted accounting principles ("US GAAP"). The Company improperly accounted for the foreign currency effect of certain transactions as if they were long-term investments by including the foreign currency effect in accumulated other comprehensive income instead of properly recording the effect as operating expenses as required under Accounting Standard Codification (ASC) 830 "Foreign Currency Matters."

B. The Company identified departures from US GAAP under ASC 605-35 "Construction-Type and Production-Type Contracts" in its historical accounting for revenue recognition on six long-term customer contracts with fee constraints (e.g., fixed fee, lump sum, maximum contract value). The Company enters into agreements for construction management and consulting services with customers, and the guidance of ASC 605-35 states that contracts for construction consulting services, such as under agency contracts or construction management agreements, fall within the scope of the standard and should follow either Percentage of Completion or Completed Contract methods of accounting. Historically, the Company had not consistently applied the percentage of completion method of revenue recognition.

C. The Company discovered that it had not properly performed the required impairment testing of amortizable intangible assets in accordance with US GAAP in that an asset that was no longer in use as of July 2013 was not identified and impaired. In addition, an improper useful life was used for some of the Company's internally developed software assets resulting in an improper amount of amortization expense being recorded in previous periods.

D. The Company discovered that the amounts of liabilities pertaining to the obligation for end of service benefits in six foreign countries were improperly accounted for under the guidance in ASC 715 "Compensation — Retirement Benefits".

E. The Company determined the accrual for uncertain tax benefits taken with respect to income tax matters in Libya had been improperly released during 2013 and 2014 prior to the expiration of the statute of limitations on the Libyan tax authority's right to audit the related tax years.

F. During the restatement process, the Company identified other transactions that had been recorded to incorrect accounts and/or in improper amounts.

G. Some of the corrections noted above impacted earnings (loss) before taxes which, in turn, required a calculation of the tax impact.

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This Form 10-Q does not reflect adjustments for events occurring after the filing of the Prior Filings except to the extent they are otherwise required to be included and discussed herein and did not substantively modify or update the disclosures herein other than as required to reflect the adjustments described above. See Note 1 to the accompanying consolidated financial statements, set forth in Item 1 of this Form 10-Q, for additional information.

See “Item 9A — Controls and Procedures” to the Company’s Amended Form 10-K/A filed on May 8, 2018 that discloses additional material weaknesses in the Company’s internal controls associated with the restatement, as well as management’s restated conclusion that the Company’s internal controls over financial reporting were not effective as of December 31, 2016. As disclosed therein, management is currently developing and implementing the changes needed in the Company’s internal control over financial reporting to remediate these material weaknesses. These changes are still in process.

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

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

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

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

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

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

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

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

by the government and reimbursement obligations to the government for funds previously received.

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

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2017 (unaudited)	December 31, 2016 (unaudited)
Assets		
Assets		
Cash and cash equivalents	\$ 14,933	\$ 25,637
Cash - restricted	4,534	4,312
Accounts receivable, less allowance for doubtful accounts of \$67,952 and \$71,082	155,562	164,844
Accounts receivable - affiliates	6,963	5,712
Prepaid expenses and other current assets	7,628	7,751
Income tax receivable	4,515	3,554
Current assets held for sale	—	54,651
Total current assets	194,135	266,461
Property and equipment, net	13,940	16,389
Cash - restricted, net of current portion	1,160	313
Retainage receivable	9,778	17,225
Acquired intangibles, net	4,556	6,006
Goodwill	53,041	50,665
Investments	4,469	3,501
Deferred income tax assets	3,573	3,200
Other assets	5,493	4,224
Non-current assets held for sale	—	32,091
Total assets	\$ 290,145	\$ 400,075
Liabilities and Stockholders' Equity		
Current maturities of notes payable and long-term debt	\$ 2,695	\$ 1,983
Accounts payable and accrued expenses	82,717	85,680
Income taxes payable	12,323	4,874
Current portion of deferred revenue	3,761	12,943
Other current liabilities	10,430	8,157
Current liabilities held for sale	—	25,888
Total current liabilities	111,926	139,525
Notes payable and long-term debt, net of current maturities	31,443	142,120
Retainage payable	641	961
Deferred income taxes	2,874	560
Deferred revenue	9,511	22,804
Other liabilities	14,710	12,666
Non-current liabilities held for sale	—	5,087
Total liabilities	171,105	323,723
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, 59,358 shares and 58,835 shares issued at September 30, 2017 and December 31, 2016, respectively	6	6
Additional paid-in capital	195,890	190,353

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Accumulated deficit	(44,097)	(81,349)
Accumulated other comprehensive loss	(5,150)	(4,611)
	146,649	104,399
Less treasury stock of 6,977 shares at September 30, 2017 and December 31, 2016, respectively	(30,041)	(30,041)
Hill International, Inc. share of equity	116,608	74,358
Noncontrolling interests	2,432	1,994
Total equity	119,040	76,352
Total liabilities and stockholders' equity	\$ 290,145	\$ 400,075

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016 (As restated)	2017	2016 (As restated)
Revenues	\$ 123,192	\$ 121,222	\$ 364,748	\$ 390,830
Direct expenses	85,875	82,329	251,191	267,984
Gross profit	37,317	38,893	113,557	122,846
Selling, general and administrative expenses	38,945	46,867	112,482	118,983
Share of loss (profit) of equity method affiliates	—	12	(48)	) 28
Operating profit (loss)	(1,628)	) (7,986)	) 1,123	3,835
Interest and related financing fees, net	1,035	606	2,066	1,810
(Loss) Earnings before income taxes	(2,663)	) (8,592)	) (943)	) 2,025
Income tax (benefit) expense	(1,068)	) 2,318	(368)	) 5,523
Loss from continuing operations	(1,595)	) (10,910)	) (575)	) (3,498)
Discontinued operations:				
Loss from discontinued operations, net of tax	(752)	) (540)	) (12,304)	) (2,357)
Gain (Loss) on disposal of discontinued operations, net of tax	(1,892)	) —	50,303	—
Total gain (loss) from discontinued operations	(2,644)	) (540)	) 37,999	(2,357)
Net (loss) earnings	(4,239)	) (11,450)	) 37,424	(5,855)
Less: net earnings - noncontrolling interests	55	96	175	57
Net (loss) earnings attributable to Hill International, Inc.	\$ (4,294)	) \$ (11,546)	) \$ 37,249	\$ (5,912)
Basic loss per common share from continuing operations	\$ (0.03)	) \$ (0.21)	) \$ (0.01)	) \$ (0.07)
Basic loss per common share from discontinued operations	(0.01)	) (0.01)	) (0.24)	) (0.04)
Basic gain (loss) on disposal of discontinued operations, net of tax	(0.04)	) —	0.97	—
Basic (loss) earnings per common share - Hill International, Inc.	\$ (0.08)	) \$ (0.22)	) \$ 0.72	\$ (0.11)
Basic weighted average common shares outstanding	52,371	51,753	52,065	51,704
Diluted loss per common share from continuing operations	\$ (0.03)	) \$ (0.21)	) \$ (0.01)	) \$ (0.07)
Diluted loss per common share from discontinued operations	(0.01)	) (0.01)	) (0.24)	) (0.04)
Diluted gain (loss) on disposal of discontinued operations, net of tax	(0.04)	) —	0.97	—
Diluted (loss) earnings per common share - Hill International, Inc.	\$ (0.08)	) \$ (0.22)	) \$ 0.72	\$ (0.11)
Diluted weighted average common shares outstanding	52,371	51,753	52,065	51,704

See accompanying notes to consolidated financial statements.

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