

**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, 2020

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
(State or other jurisdiction of
incorporation or organization)

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

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

PA

19103
(Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered	
Common Stock, par value \$0.0001	HIL	New York Stock Exchange	(NYSE)

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 No

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 No

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

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 56,227,924 shares of the Registrant's Common Stock outstanding at October 29, 2020.

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 (the “Reform Act”), and it is Hill International, Inc.’s (the “Company”) 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, 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 regarding the impact and effect of the COVID-19 pandemic;
- 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 10-K;
- Unfavorable global economic conditions may adversely impact its 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 the Company conducts pursuant to joint ventures with other parties; and
- The ability 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;
- Risks related to the effect of the COVID-19 pandemic on the Company, including its employees and related costs and including any project cancellations, delays and modifications;
- 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 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 governments 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, Part II, 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 Securities and Exchange Commission (“SEC”) or in materials incorporated therein by reference.

PART I — FINANCIAL INFORMATION**Item 1. Financial Statements.**

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

	September 30, 2020	December 31, 2019
	(Unaudited)	
Assets		
Cash and cash equivalents	\$ 33,270	\$ 15,915
Cash - restricted	4,680	4,666
Accounts receivable, net	104,764	103,892
Current portion of retainage receivable	12,540	16,459
Accounts receivable - affiliates	25,070	18,776
Prepaid expenses and other current assets	12,148	9,340
Income tax receivable	1,822	2,256
Total current assets	194,294	171,304
Property and equipment, net	9,485	11,895
Cash - restricted, net of current portion	4,155	4,401
Operating lease right-of-use assets	14,022	17,451
Financing lease right-of-use assets	271	—
Retainage receivable	6,113	5,695
Acquired intangibles, net	165	232
Goodwill	45,253	48,024
Investments	3,055	1,711
Deferred income tax assets	3,104	3,800
Other assets	2,520	5,038
Total assets	\$ 282,437	\$ 269,551
Liabilities and Stockholders' Equity		
Current maturities of notes payable and long-term debt	\$ 3,261	\$ 1,792
Accounts payable and accrued expenses	68,452	65,172
Income taxes payable	1,951	3,152
Current portion of deferred revenue	9,180	10,773
Current portion of operating lease liabilities	5,025	5,736
Current portion of financing lease liabilities	70	—
Other current liabilities	7,999	4,876
Total current liabilities	95,938	91,501
Notes payable and long-term debt, net of current maturities	54,362	41,150
Retainage payable	823	1,551
Deferred income taxes	418	419
Deferred revenue	1,887	3,041
Non-current operating lease liabilities	14,141	17,030
Non-current financing lease liabilities	274	—
Other liabilities	4,082	4,631
Total liabilities	171,925	159,323
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, 62,916 shares and 62,708 shares issued at September 30, 2020 and December 31, 2019, respectively	6	6
Additional paid-in capital	214,596	212,759
Accumulated deficit	(77,781)	(71,360)
Accumulated other comprehensive income (loss)	1,673	(3,817)
Less treasury stock of 6,807 and 6,546 at September 30, 2020 and December 31, 2019, respectively	(29,056)	(28,231)
Hill International, Inc. share of equity	109,438	109,357
Noncontrolling interests	1,074	871
Total equity	110,512	110,228
Total liabilities and stockholders' equity	\$ 282,437	\$ 269,551

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Consulting fee revenue	\$ 71,543	\$ 75,747	\$ 224,453	\$ 231,782
Reimbursable expenses	17,109	19,923	51,956	60,828
Total revenue	\$ 88,652	\$ 95,670	\$ 276,409	\$ 292,610
Direct expenses	59,998	64,086	190,078	198,288
Gross profit	\$ 28,654	\$ 31,584	\$ 86,331	\$ 94,322
Selling, general and administrative expenses	25,588	27,422	80,543	86,163
Foreign currency exchange (benefit) loss	(694)	1,839	3,622	1,824
Plus: Share of profit of equity method affiliates	983	780	2,021	1,911
Operating profit	\$ 4,743	\$ 3,103	\$ 4,187	\$ 8,246
Interest and related financing fees, net	1,275	1,485	3,870	4,408
Other (loss) income, net	(152)	549	(3,654)	549
Earnings (loss) before income taxes	\$ 3,316	\$ 2,167	\$ (3,337)	\$ 4,387
Income tax expense (benefit)	1,071	(340)	2,776	2,248
Net (loss) earnings	\$ 2,245	\$ 2,507	\$ (6,113)	\$ 2,139
Less: net earnings - noncontrolling interests	131	26	308	176
Net earnings (loss) attributable to Hill International, Inc.	\$ 2,114	\$ 2,481	\$ (6,421)	\$ 1,963
Basic earnings (loss) per common share - Hill International, Inc.	\$ 0.04	\$ 0.04	\$ (0.11)	\$ 0.03
Basic weighted average common shares outstanding	56,702	56,549	56,551	56,178
Diluted earnings (loss) per common share - Hill International, Inc.	\$ 0.04	\$ 0.04	\$ (0.11)	\$ 0.03
Diluted weighted average common shares outstanding	56,702	56,549	56,551	56,178

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Net earnings (loss)	\$ 2,245	\$ 2,507	\$ (6,113)	\$ 2,139
Foreign currency translation adjustment, net of tax	639	(237)	5,385	(1,111)
Comprehensive earnings (loss)	2,884	2,270	(728)	1,028
Less: Comprehensive earnings attributable to noncontrolling interests	376	32	203	246
Comprehensive earnings (loss) attributable to Hill International, Inc.	<u>\$ 2,508</u>	<u>\$ 2,238</u>	<u>\$ (931)</u>	<u>\$ 782</u>

See accompanying notes to consolidated financial statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Hill Share of Stockholders' Equity	Non-controlling Interests	Total Stockholders' Equity
	Shares	Amount				Shares	Amount			
Balance - December 31, 2019	62,708	\$ 6	\$ 212,759	\$ (71,360)	\$ (3,817)	6,546	\$ (28,231)	\$ 109,357	\$ 871	\$ 110,228
Net earnings (loss)	—	—	—	(8,535)	—	—	—	(8,535)	177	(8,358)
Other comprehensive income (loss)	—	—	—	—	5,096	—	—	5,096	(350)	4,746
Share-based compensation expense	—	—	1,201	—	—	—	—	1,201	—	1,201
Shares issued under employee stock purchase plan	162	—	201	—	—	—	—	201	—	201
Transfer of shares pledged as collateral ⁽¹⁾	(261)	—	—	—	—	261	(825)	(825)	—	(825)
Balance - June 30, 2020	62,609	\$ 6	\$ 214,161	\$ (79,895)	\$ 1,279	6,807	\$ (29,056)	\$ 106,495	\$ 698	\$ 107,193
Net income (loss)	—	—	—	2,114	—	—	—	2,114	131	2,245
Other comprehensive income (loss)	—	—	—	—	394	—	—	394	245	639
Shares issued to Board of Directors	291	—	—	—	—	—	—	—	—	—
Share-based compensation expense	—	—	415	—	—	—	—	415	—	415
Shares issued under employee stock purchase plan	16	—	20	—	—	—	—	20	—	20
Balance - September 30, 2020	62,916	\$ 6	\$ 214,596	\$ (77,781)	\$ 1,673	6,807	\$ (29,056)	\$ 109,438	\$ 1,074	\$ 110,512
Balance - December 31, 2018	62,181	\$ 6	\$ 210,084	\$ (85,444)	\$ (2,575)	6,546	\$ (28,231)	\$ 93,840	\$ 605	\$ 94,445
Net income (loss)	—	—	—	(518)	—	—	—	(518)	150	(368)
Other comprehensive income (loss)	—	—	—	—	(938)	—	—	(938)	64	(874)
Shares issued to Board of Directors	24	—	—	—	—	—	—	—	—	—
Share-based compensation expense	—	—	1,042	—	—	—	—	1,042	—	1,042
Shares issued under employee stock purchase plan	57	—	113	—	—	—	—	113	—	113
Balance - June 30, 2019	62,262	\$ 6	\$ 211,239	\$ (85,962)	\$ (3,513)	6,546	\$ (28,231)	\$ 93,539	\$ 819	\$ 94,358
Net income (loss)	—	—	—	2,481	—	—	—	2,481	26	2,507
Other comprehensive income (loss)	—	—	—	—	(243)	—	—	(243)	6	(237)
Shares issued to Board of Directors	104	—	—	—	—	—	—	—	—	—
Share-based compensation expense	322	—	1,212	—	—	—	—	1,212	—	1,212
Shares issued under employee stock purchase plan ⁽²⁾	17	—	42	—	—	—	—	42	—	42
Balance - September 30, 2019	62,705	\$ 6	\$ 212,493	\$ (83,481)	\$ (3,756)	6,546	\$ (28,231)	\$ 97,031	\$ 851	\$ 97,882

(1) Reflects 261 shares of the Company's common stock pledged as collateral under the terms of a secured promissory note payable to the Company. During the three months ended March 31, 2020, the Company exercised its right to retain the shares upon the note holder's agreement to relinquish the shares upon the promissory note maturity date.

(2) Included \$21 of proceeds related to ESPP shares issued during the three months ended September 30, 2019 that were received in the subsequent period, but were excluded in Hill International, Inc.'s (the "Company") consolidated statements of cash flows.

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
Cash flows from operating activities:		
Net (loss) income	\$ (6,113)	\$ 2,139
Adjustments to reconcile net (loss) income to net cash provided by (used in):		
Depreciation and amortization	3,380	2,435
(Recovery) provision for bad debts	(1,306)	(2,946)
Amortization of deferred loan fees	521	539
Deferred tax expense (benefit)	500	659
Share-based compensation	1,616	2,254
Operating lease right-of-use assets	3,163	3,936
Loss on liquidation of subsidiary	4,064	—
Foreign currency remeasurement losses	3,622	104
Deferred payroll tax payments	2,711	—
Changes in operating assets and liabilities:		
Accounts receivable	4,686	13,988
Accounts receivable - affiliate	(6,294)	(6,306)
Prepaid expenses and other current assets	(2,418)	(2,136)
Income taxes receivable	39	(748)
Retainage receivable	(416)	(2,559)
Other assets	(2,643)	920
Accounts payable and accrued expenses	1,641	(5,463)
Income taxes payable	(1,161)	(1,286)
Deferred revenue	(2,451)	(2,235)
Operating lease liabilities	(3,259)	(4,361)
Other current liabilities	3,426	(264)
Retainage payable	(730)	624
Other liabilities	688	1,422
Net cash provided by operating activities	3,266	716
Cash flows from investing activities:		
Purchase of property and equipment	(1,101)	(2,958)
Net cash used in investing activities	(1,101)	(2,958)
Cash flows from financing activities:		
Proceeds from term loans	1,291	—
Repayment of term loans	(666)	(795)
Proceeds from revolving loans	38,486	10,070
Repayment of revolving loans	(24,268)	(4,977)
Proceeds from stock issued under employee stock purchase plan	221	167
Net cash provided by financing activities	15,064	4,465
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(97)	(170)
Deconsolidated cash	9	—
Net increase in cash, cash equivalents and restricted cash	17,123	2,053
Cash, cash equivalents and restricted cash — beginning of period	24,982	23,107
Cash, cash equivalents and restricted cash — end of period	\$ 42,105	\$ 25,160
	Nine Months Ended September 30,	
	2020	2019
Supplemental disclosures of cash flow information:		
Interest and related financing fees paid	\$ 2,722	\$ 4,113
Income taxes paid	2,018	2,484
Transfer of proceeds from shares pledged as collateral to treasury stock	825	—
Cash paid for amounts included in the measurement of lease liabilities	5,914	6,062
Right-of-use assets obtained in exchange for operating lease liabilities ⁽¹⁾	288	19,340
Right-of-use assets obtained in exchange for finance lease liabilities	475	—

(1) Amount for the nine months ended September 30, 2019 relates to the Company's January 1, 2019 adoption of Accounting Standards Update 2016-2, Leases (Topic 842). See Note 14 - Leases to the Company's Consolidated Financial Statements.

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. ("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.

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

Note 2 — Liquidity

At September 30, 2020 and December 31, 2019, the Company's principal sources of liquidity consisted of \$33,270 and \$15,915 of cash and cash equivalents, respectively, \$1,573 and \$9,052 of available borrowing capacity under the Domestic Revolving Credit Facility, respectively, \$1,012 and \$3,145 of available borrowing capacity under the International Revolving Credit Facility, respectively, and \$738 and \$2,538 under other foreign credit agreements, respectively. Additional information regarding the Company's credit facilities is set forth in Note 9 - Notes Payable and Long-Term Debt.

In December 2019, COVID-19 was identified in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a global pandemic as a result of the further spread of the virus into all regions of the world, including those regions where the Company's primary operations occur. The effects of this global pandemic on the Company includes anticipated lower gross and operating margins, as well as temporary delays in certain accounts receivable collections. These effects may continue in the foreseeable future. The Company is focused on preserving its principal sources of liquidity and managing its cash flow and will continue to evaluate the potential short-term and long-term implications of COVID-19 on its consolidated statements of operations. The Company now expects to achieve \$11,000 - \$13,000 in corporate cost reductions in 2020, an increase in savings over the \$10,000 previously disclosed on Form 10-Q for the period ended June 30, 2020. The Company believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19 for the next 12 months from November 9, 2020, the date of this filing. Additional disclosure on the impact of COVID-19 on the Company is included in Item 2 Management's Discussion and Analysis within the Overview section of this Form 10-Q.

Note 3 — Basis of Presentation

Summary

The accompanying unaudited interim consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") pertaining to reports on Form 10-Q and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. In the opinion of management, these statements include all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial statements. The consolidated financial statements include the accounts of Hill and its wholly and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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

Reclassification

Certain back-office expenses and foreign currency translation gains and losses that had previously been included in the individual regions in the operating profit/(loss) table presentation are currently being included within the corporate costs line item on the operating profit/(loss) tables herein. The related 2019 prior period operating profit (loss) by geographic region and corporate costs have been recast to reflect this change. This change only affects the presentation in the operating profit/(loss) tables and has no impact on total operating profit/(loss) reported.

Foreign currency transaction gains and losses that in previously periods had been included in selling, general and administrative expenses line item on the Consolidated Statements of Operations are presented as a separate line item on the Consolidated Statements of Operations for the three and nine months ended September 30, 2020. The related foreign currency transaction gains and losses for the three and nine months ended September 30, 2019 have been recast to reflect this change. This change has no impact on the total operating profit/(loss) reported.

Certain accrued agency fees that had previously been included in accrued payroll and related expenses in the components of accounts payable and accrued expenses table in Note 8 - Accounts Payable and Accrued Expenses are currently being included within the accrued agency fees line item. The related amounts at December 31, 2019 have been recast to reflect this change.

Other (Loss) Income, net

During the nine months ended September 30, 2020, a loss of \$4,064 was recognized due to the bankruptcy filing and deconsolidation of our operating subsidiary in Brazil (see Note 15), net of other non-operating income of \$65. An additional \$345 of other income was recognized during the three months ended March 31, 2020, representing the cancellation of a loan agreement made with the PIDC-Local Development Corporation that was funded to the Company on October 24, 2014 as part of the city of Philadelphia's (the "City") Economic Stimulus Program. In February 2020, the City agreed to cancel this loan as a result of the Company satisfying all obligations upon which cancellation of such debt was conditioned in the Loan Agreement.

During the three months ended September 30, 2019, the Company recognized \$649 of income in Other (Loss) Income, net, related to the settlement of a \$1,000 grant received from the Pennsylvania Department of Community and Economic Development (the "PADCED") in May 2015 (the "Grant"), net of \$100 of expense related to other non-operating activity. The Grant was used as part of the relocation of Hill's corporate headquarters to the city of Philadelphia where partial or full repayment of the Grant is required if specific conditions were not met, which included maintaining a minimum number of employees throughout 2018, among other conditions, with the possibility of extension at the PADCED's discretion. In July 2019, the PADCED concluded that the Company is required to repay \$351 of the Grant since the Company failed to meet its employment commitment. In July 2020, the PADCED agreed to further reduce the required repayment to \$324 payable in four installments of \$81 with the last installment due May 1, 2021.

Summary of Significant Accounting Policies

(a) Foreign Currency Translations and Transactions

Assets and liabilities of all foreign operations are translated at period-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 the Company's consolidated statements of operations. The impact of foreign exchange on long-term intercompany loans, for which repayment has not been scheduled or planned and permanent equity has been elected, are recorded in accumulated other comprehensive loss on the Company's consolidated balance sheets.

(b) Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents 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.

No single client accounted for 10% or more of total revenue for the three and nine months ended September 30, 2020 or 2019.

There was one client in Africa who represents 10% or more to gross accounts receivable at September 30, 2020 and December 31, 2019, respectively, which represents 15% and 17% of the gross accounts receivable balance at September 30, 2020 and December 31, 2019, respectively.

(c) 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 on a quarterly basis and adjustments are recorded as deemed necessary.

(d) Retainage Receivable

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

(e) 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 operations. The Company has recorded a valuation allowance to reduce the deferred income tax assets to an amount that is more likely than not to be realized in future years. If the Company determines in the future that it 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, 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 that the benefit will be ultimately realized. 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.

(f) 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 Note 4 - Revenue from Contracts with Clients for more detail regarding how the Company recognizes revenue under each type of its contractual arrangements.

(g) 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:

	September 30, 2020	December 31, 2019
Cash and cash equivalents	\$ 33,270	\$ 15,915
Cash - restricted	4,680	4,666
Cash - restricted, net of current portion	4,155	4,401
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 42,105</u>	<u>\$ 24,982</u>

(h) Earnings (loss) per Share

Basic earnings (loss) per common share have been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share incorporates the incremental shares issuable upon the assumed exercise of stock options, the assumed vesting of stock and deferred and restricted stock unit awards using the treasury stock method, if dilutive.

The Company has outstanding options to purchase approximately 1,589 shares and 1,879 shares at September 30, 2020 and 2019, respectively. In addition, the Company had 715 and 511 restricted and deferred stock units outstanding at September 30, 2020 and 2019, respectively. These awards were excluded from the calculation of diluted loss per share for the three and nine months ended September 30, 2020 and 2019 because they were anti-dilutive.

The following table provides a reconciliation to net income (loss) used in the numerator for loss per share attributable to Hill:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net earnings (loss)	\$ 2,245	\$ 2,507	\$ (6,113)	\$ 2,139
Less: net earnings - noncontrolling interests	131	26	308	176
Net earnings (loss) attributable to Hill International, Inc.	<u>\$ 2,114</u>	<u>\$ 2,481</u>	<u>\$ (6,421)</u>	<u>\$ 1,963</u>
Basic weighted average common shares outstanding	56,702	56,549	56,551	56,178
Effect of dilutive securities:				
Stock options	—	—	—	—
Unvested share-based compensation units	—	—	—	—
Diluted weighted average common shares outstanding	<u>56,702</u>	<u>56,549</u>	<u>56,551</u>	<u>56,178</u>
Basic and diluted earnings (loss) per common share - Hill International, Inc.	<u>\$ 0.04</u>	<u>\$ 0.04</u>	<u>\$ (0.11)</u>	<u>\$ 0.03</u>

(i) 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.

For additional 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 of Form 10-K for the year ended December 31, 2019 filed with the SEC on March 26, 2020. See update below.

Recently Adopted Accounting Pronouncements

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 adopted this guidance on January 1, 2020 and it did not materially impact its 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 adopted this guidance on January 1, 2020 on a prospective basis and will begin to capitalize certain implementation costs that may have been previously expensed as incurred. There was no impact on the Company’s consolidated financial statements on the date of implementation.

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 adopted this guidance in January 1, 2020. There was no impact on the Company’s consolidated 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 adopted this guidance in January 1, 2020. There was no impact on the Company’s consolidated financial statements.

Recently Issued Accounting Pronouncements

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, 2022. The Company is in the process of assessing the impact of this ASU on our consolidated financial statements and disclosures.

Note 4 — Revenue from Contracts with Clients

The Company recognizes revenue to depict the transfer of promised goods or services to clients 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 a margin contracts, the Company charges its clients for its 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 client. 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 re-negotiations 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 to the cap 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 client. The Company assesses contracts quarterly and will recognize any expected future loss before actually incurring the loss. When the Company is expecting to reach the total value of the contract, the Company will begin to negotiate a change order.

Change Orders and Claims

Change orders are modifications of an original contract. 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 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 the Company is having difficulties in renegotiating the change order, the Company will stop work, 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 client.

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 12 - 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 client, 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 client 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 three and nine months ended September 30, 2020 and 2019 are as follows:

	Three Months Ended September 30, 2020				Three Months Ended September 30, 2019			
	Fixed Price	T&M	Total	Percent of Total Revenue	Fixed Price	T&M	Total	Percent of Total Revenue
United States	\$ 4,574	\$ 43,147	\$ 47,721	53.9 %	\$ 4,043	\$ 45,893	\$ 49,936	52.3 %
Latin America	472	2	474	0.5 %	1,662	7	1,669	1.7 %
Europe	7,387	4,078	11,465	12.9 %	5,741	4,815	10,556	11.0 %
Middle East	7,655	13,369	21,024	23.7 %	7,567	17,880	25,447	26.6 %
Africa	(75)	6,338	6,263	7.1 %	388	6,617	7,005	7.3 %
Asia/Pacific	—	1,705	1,705	1.9 %	435	622	1,057	1.1 %
Total	\$ 20,013	\$ 68,639	\$ 88,652	100.0 %	\$ 19,836	\$ 75,834	\$ 95,670	100.0 %

	Nine Months Ended September 30, 2020				Nine Months Ended September 30, 2019			
	Fixed Price	T&M	Total	Percent of Total Revenue	Fixed Price	T&M	Total	Percent of Total Revenue
United States	\$ 13,797	\$ 129,729	\$ 143,526	52.0 %	\$ 11,156	\$ 138,218	\$ 149,374	51.1 %
Latin America	1,939	365	2,304	0.8 %	5,651	363	6,014	2.1 %
Europe	25,566	11,868	37,434	13.5 %	17,094	15,418	32,512	11.1 %
Middle East	16,481	50,644	67,125	24.3 %	27,797	51,933	79,730	27.2 %
Africa	201	20,617	20,818	7.5 %	1,559	19,325	20,884	7.1 %
Asia/Pacific	—	5,202	5,202	1.9 %	1,164	2,932	4,096	1.4 %
Total	\$ 57,984	\$ 218,425	\$ 276,409	100.0 %	\$ 64,421	\$ 228,189	\$ 292,610	100.0 %

The Company recognizes revenue when it transfers promised goods or services to clients 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 client 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 client 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 client regarding acknowledgment and/or agreement with the modification, as well as historical experience with the client 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 client. 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 clients 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 client 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 client. 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.

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 sheets. 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 client payments. The amount of revenue recognized during the three and nine months ended September 30, 2020 that was included in the deferred revenue balance at the beginning of the periods was \$579 and \$9,159, respectively. The amount of revenue recognized during the three and nine months ended September 30, 2019 that was included in the deferred revenue balance at the beginning of the periods was \$571 and \$13,199, respectively.

Remaining Performance Obligations

The remaining performance obligations represent the aggregate transaction price of executed contracts with clients 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 September 30, 2020 and December 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was \$91,008 and \$113,592, respectively. During the following 12 months, approximately 50.1% of the remaining performance obligations are expected to be recognized as revenue with the remaining balance recognized over 1 to 5 years.

Note 5 — Accounts Receivable

The components of accounts receivable and accounts receivable - affiliates reflected in the Company's consolidated balance sheets are as follows:

Accounts Receivable	September 30, 2020	December 31, 2019
Billed ⁽¹⁾	\$ 122,033	\$ 132,339
Unbilled ⁽²⁾	35,252	30,026
	157,285	162,365
Allowance for doubtful accounts ⁽¹⁾	(52,521)	(58,473)
Accounts receivable, net	<u>\$ 104,764</u>	<u>\$ 103,892</u>
Accounts Receivable - Affiliates		
Billed ⁽³⁾	\$ 16,331	\$ 12,546
Unbilled ⁽²⁾	9,390	6,888
	\$ 25,721	\$ 19,434
Allowance for doubtful accounts	(651)	(658)
Accounts receivable - affiliates, net	<u>\$ 25,070</u>	<u>\$ 18,776</u>

(1) Includes \$32,591 and \$32,864 related to amounts due from a client in Africa as of September 30, 2020 and December 31, 2019, respectively.

(2) Amounts are net of unbilled reserves.

(3) Includes \$1,158 and \$397 of retainage receivables due from affiliates as of September 30, 2020 and December 31, 2019, respectively.

Note 6 — Intangible Assets

The following table summarizes the Company's acquired intangible assets:

	September 30, 2020		December 31, 2019	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	\$ 509	\$ 344	\$ 1,080	\$ 848
Total	\$ 509	\$ 344	\$ 1,080	\$ 848
Intangible assets, net	\$ 165		\$ 232	

The Company amortizes client relationship intangible assets over the estimated useful life of ten years. Such amortization expense was \$13 and \$113 for the three months ended September 30, 2020 and 2019, respectively, and \$67 and \$347 for the nine months ended September 30, 2020 and 2019, respectively.

The following table presents the estimated amortization expense for the next five years:

Year ending December 31,	Estimated Amortization Expense
2020 (remaining 3 months)	\$ 12
2021	51
2022	51
2023	51
2024	—

Note 7 — Goodwill

The following table summarizes the changes in the Company's carrying value of goodwill during the nine months ended September 30, 2020:

Balance, December 31, 2019	\$ 48,024
Translation adjustments ⁽¹⁾	(2,771)
Balance, September 30, 2020	\$ 45,253

(1) The translation adjustment was calculated based on the foreign currency exchange rates as of September 30, 2020.

The Company performed its 2020 annual impairment test effective July 1, 2020, and noted no impairment. Based on the valuation as of July 1, 2020, the fair value of the Company exceeded its carrying value. The Company performs its annual impairment test during the second half of each year unless events or circumstances indicate an impairment may have occurred before that time.

The Company's changes in estimates and assumptions, including decreases in stock price and market capitalization, could materially affect the determination of fair value and/or conclusions on goodwill impairment. As a result of recent events, including market volatility and the impact on the global economy, it is at least reasonably possible that changes in one or more of those assumptions could result in impairment of our goodwill in future periods.

Note 8 — Accounts Payable and Accrued Expenses

Below are the components of accounts payable and accrued expenses:

	September 30, 2020	December 31, 2019
Accounts payable	\$ 21,650	\$ 22,102
Accrued payroll and related expenses*	26,685	24,718
Accrued subcontractor fees	9,439	9,405
Accrued agency fees*	4,458	4,395
Accrued legal and professional fees	3,460	2,169
Other accrued expenses	2,760	2,383
	<u>\$ 68,452</u>	<u>\$ 65,172</u>

* \$4,156 in accrued agency fees at December 31, 2019 that were previously included in accrued payroll and related expenses, are now reflected in accrued agency fees.

Note 9 — 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⁾		Balance Outstanding as of	
			September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Secured Credit Facilities						
Hill International, Inc. - Société Générale 2017 Term Loan Facility	06/20/2023	Variable	7.73%	7.92%	\$ 29,025	\$ 29,250
Hill International, Inc. - Société Générale Domestic Revolving Credit Facility ⁽²⁾	05/04/2022	Variable	5.68%	6.27%	20,400	9,400
Hill International N.V. - Société Générale International Revolving Credit Facility ⁽³⁾	05/04/2022	Variable	4.12%	4.16%	3,869	2,302
Unsecured Credit Facilities						
Hill International, Inc. - First Abu Dhabi Bank ("FAB") PJSC Overdraft Credit Facility ⁽⁴⁾	04/18/2021	Variable	5.74%	5.81%	2,393	593
Hill International Brasil S.A. - Revolving Credit Facility ⁽⁵⁾	06/12/2020	Fixed	N/A	3.24%	—	498
Unsecured Notes Payable and Long-Term Debt						
Hill International Spain S.A.-Bankia S.A. & Bankinter S.A.(6)	12/31/2021	Fixed	2.21%	2.21%	694	1,054
Philadelphia Industrial Development Corporation Loan	03/31/2027	Fixed	2.79%	2.79%	437	486
Hill International Spain S.A. - Bankinter S.A. 2020 Term Loan (6)(7)	05/04/2024	Variable	2.23%	N/A	351	—
Hill International Spain S.A. - Banco Santander, S.A. Term Loan (6)(7)	05/30/2025	Fixed	3.91%	N/A	351	—
Hill International Spain S.A. - BBVA, S.A. P.P. Term Loan (6)(7)	06/19/2025	Variable	2.28%	N/A	351	—
Hill International Spain S.A. - Bankia, S.A. 2020 Term Loan (6)(7)	06/05/2025	Variable	2.54%	N/A	290	—
Total notes payable and long-term debt, gross					\$ 58,161	\$ 43,583
Less: unamortized discount and deferred financing costs related to Société Générale 2017 Term Loan Facility					(538)	(641)
Notes payable and long-term debt					<u>\$ 57,623</u>	<u>\$ 42,942</u>
Current portion of notes payable					\$ 3,449	1,972
Current portion of unamortized debt discount and deferred financing costs					\$ (188)	\$ (180)
Current maturities of notes payable and long-term debt					<u>\$ 3,261</u>	<u>\$ 1,792</u>
Notes payable and long-term debt, net of current maturities					<u>\$ 54,362</u>	<u>\$ 41,150</u>

Footnotes to the Notes Payable and Long-Term Debt Table above:

(1) Interest rates for variable interest rate debt are reflected on a weighted average basis through September 30, 2020 since the loan origination or modification date.

(2) As of September 30, 2020 and December 31, 2019, the Company had \$6,527 and \$6,548 of outstanding letters of credit, respectively, in addition to the balances outstanding above, which resulted in \$1,573 and \$9,052 of available borrowing capacity under the Domestic Revolving Credit Facility, respectively. The amounts available were based on the maximum borrowing capacity of \$28,500 and \$25,000 as of September 30, 2020 and December 31, 2019, respectively. See 'Secured Credit Facilities' section below for further information.

(3) As of September 30, 2020 and December 31, 2019, the Company had \$2,126 and \$3,145 of outstanding letters of credit, respectively, in addition to the balances outstanding above, which resulted in \$1,012 and \$2,232 of available borrowing capacity under the International Revolving Credit Facility, respectively. The amounts available were based on the Company's borrowing capacity of \$7,007 and \$7,679 as of September 30, 2020 and December 31, 2019, respectively. See "Secured Credit Facilities" section below for further information.

(4) FAB 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 in April of each year, or at any other time as determined by FAB. 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 September 30, 2020 and December 31, 2019. The Company had \$738 and \$2,538 of availability under the credit facility as of September 30, 2020 and December 31, 2019, respectively.

(5) See Note 15 - Deconsolidation of Controlling Interest in Subsidiary related to the bankruptcy and liquidation of Hill International Brasil S.A. (the "borrower"), which resulted in the deconsolidation of the borrower from the Company's consolidated financial statements. This unsecured revolving credit facility was subject to automatic renewals on a monthly basis. Effective with the November 2019 renewal of the unsecured revolving credit facility, the interest rate was reduced by the credit facility lender from 3.30% to 2.80%. The Company had no availability under the unsecured credit facility as of December 31, 2019. The amounts outstanding are based on conversion rates from Brazilian Real as of December 31, 2019.

(6) Balances outstanding are reflected in U.S. dollars based on the conversion rates from Euros as of September 30, 2020 and December 31, 2019.

(7) Includes loan agreements, through a subsidiary of the Company, entered into between April and June 2020, where the respective loan agreements require interest-only monthly payments during grace periods that last from six months or one year from the date of the agreements. The variable interest loans are subject to either semi-annual or annual review by the respective lenders thereof and the respective interest rates in respect thereof are determined based on 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 a margin, as set by the respective lender.

Secured Credit Facilities

The Company's secured credit facilities with Société Générale (the "International Lender") and other U.S. Loan Parties (the "U.S. Lenders") under a 2017 Term Loan of \$30,000 (the "2017 Term Loan Facility"), a \$25,000 U.S.-denominated revolving credit facility (the "Domestic Revolving Credit Facility"; together with the 2017 Term Loan Facility, the "U.S. Credit Facilities") and a €9,156 (\$10,000 at closing) Euro-denominated revolving credit facility (the "International Revolving Credit Facility"; together with the U.S. Credit Facilities, 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 2.0%. The Company was in compliance with this financial covenant at September 30, 2020.

On April 1, 2020, the Company amended its Secured Credit Facilities, which increased the credit commitment with one of the U.S. Lenders under the Domestic Revolving Credit Facility by \$3,500 from \$25,000 to \$28,500 and simultaneously decreased the credit commitment with the International Lender under the International Revolving Credit Facility by €3,179 (approximately \$3,500 at closing) from €9,156 (approximately \$10,000) to €5,977 (approximately \$6,536 at closing).

The aggregate unamortized debt issuance costs under the Domestic Revolving Credit Facility and International Revolving Credit Facility were \$896 and \$1,317 at September 30, 2020 and December 31, 2019, respectively, and were included in prepaid expenses and other current assets and other assets in the consolidated balance sheets.

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 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.

Commitment fees are calculated at 0.50% annually on the average daily unused portion of the Domestic Revolving Credit Facility, and are calculated at 0.75% annually on the average daily unused portion of the International Revolving Credit Facility.

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 (as defined in the Domestic Revolving Credit Facility), 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 (as defined in the International Revolving Credit Facility) 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.

Other Financing Arrangements

On May 1, 2020, subsequent to the maturity of the Company's previous commercial premium financing arrangement in April 30, 2020 with AFCO Premium Credit LLC ("AFCO"), the Company entered into a new financing agreement for the renewal of its corporate insurance policies with AFCO for \$3,391. The terms of the arrangement include a \$509 down payment, followed by monthly payments to be made over a ten-month period at a 3.04% interest rate through March 31, 2021.

At September 30, 2020 and December 31, 2019, the balance payable of \$1,738 and \$768 to AFCO was reflected in other current liabilities on the Company's consolidated balance sheets, respectively.

Note 10 — Share-Based Compensation

The Company recognized total share-based compensation expense in selling, general and administrative expenses in the consolidated statement of operations of \$415 and \$1,212 for the three months ended September 30, 2020 and 2019, respectively, and \$1,616 and \$2,254 for the nine months ended September 30, 2020 and 2019, respectively. The Company's related share-based compensation is comprised of the following:

Restricted Stock Units

During the nine months ended September 30, 2020 and 2019, the Company granted certain employees and executive officers equity awards in the form of restricted stock units ("RSU") that are subject to a combination of time and performance-based conditions under the 2017 Equity Compensation Plan (the "2017 Plan"), totaling 723 and 758 RSUs, respectively. No RSU's were granted during the three months ended September 30, 2020 and 2019. Each RSU entitles the grantee to one unit of the Company's common stock. The time-based RSUs vest annually over a three-year period on the anniversary date of each grant. Unvested time-based RSUs will be forfeited if the grantee separates from the Company prior to its vesting date. During the nine months ended September 30, 2020 and 2019, the related compensation expense was recorded based on a weighted average price per share of \$3.28 and \$3.23, respectively.

The number of common shares to be issued under the performance-based RSUs will be determined based on three levels of performance metrics based on the Company's earnings and will be assessed on an annual basis for the years ended December 31, 2020, 2021 and 2022 for the RSUs granted during the nine months ended September 30, 2020 and for the years ended December 31, 2019, 2020 and 2021 for the RSUs granted during three months ended September 30, 2019. If the Company meets the performance metrics for any one of the measurement periods, such units will vest on the next anniversary date of the grant date. All vested RSUs will be settled on the third anniversary of the grant date. Unvested RSUs are subject to forfeiture if the grantee separates from the Company prior to its vesting date. During the three and nine months ended September 30, 2020 and 2019, the Company determined it was not probable that the target performance metric would be met for each of the RSU grants and, therefore, did not record any share-based compensation expense related to such RSUs.

Deferred Stock Units

Deferred Stock Units ("DSU") issued under the 2017 Plan entitle participants to receive one share of the Company's common stock for each DSU and they 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 DSUs.

During the three months ended September 30, 2020 and 2019, 39 and 29 DSU's were granted at a weighted average price of \$1.58 and \$2.97, respectively. During the nine months ended September 30, 2020 and 2019, 334 and 245 DSU's were granted at a weighted average price of \$1.70 and \$2.74, respectively. These DSU grants were issued to the Company's board of directors (the "Board") as part of their annual service retainer.

Stock Options

At September 30, 2020 and 2019, the Company had approximately 1,589 and 1,879 stock options outstanding, respectively, with a weighted average exercise price of \$4.02 and \$3.98, respectively. 500 stock options were granted during the three and nine months ended September 30, 2019. No stock options were granted during the three and nine months ended September 30, 2020. During the nine months ended September 30, 2020 and 2019, options lapsed for approximately 281 and 564 shares, respectively, with a weighted average exercise price of \$3.71 and \$4.53, respectively. During the nine months ended September 30, 2020, options for 10 shares were forfeited at a weighted average exercise price of \$4.46. No options were forfeited during nine months ended September 30, 2019.

Note 11 — Income Taxes

The Company calculates the interim tax expense based on an annual effective tax rate ("AETR"). The AETR represents the Company's estimated effective tax rate for the year based on full year projection of tax expense, divided by the projection of full year pretax book income/(loss) among the various foreign tax jurisdictions, adjusted for discrete transactions occurring during the period. The effective tax rates were 32.3% and (15.7)% for the three months ended September 30, 2020 and 2019, respectively, and (83.2)% and 51.2% for the nine months ended September 30, 2020 and 2019, respectively.

The change in the Company's effective tax rate for the three and nine months ended September 30, 2020 from the three and nine months ended September 30, 2019 was primarily due to the mix of pretax earnings in jurisdictions with different jurisdictional tax rates, as well as not having the ability to benefit from losses in jurisdictions that have a history of negative earnings.

The reserve for uncertain tax positions amounted to \$5,018 and \$4,615 at September 30, 2020 and December 31, 2019, respectively.

The Company's policy is to record income tax related interest and penalties in income tax expense. The Company recorded expense for any tax-related interest and penalties of \$70 and \$158 for the three months ended September 30, 2020 and 2019, respectively. Income tax expense related to these interest and penalties were \$68 and \$140 for the nine months ended September 30, 2020, and 2019, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that all, or some portion, 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. In making this determination, management assesses all available evidence, both positive and negative, at the balance sheet date. This includes, but is not limited to, recent earnings, internally-prepared income projections, and historical financial performance.

Note 12 —Segment and Related Information

The Company operates as one reporting segment which reflects how the Company is managed, which 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 operations:

Total Revenue by Geographic Region:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
United States	\$ 47,721	53.9 %	\$ 49,936	52.3 %	\$ 143,526	52.0 %	\$ 149,374	51.1 %
Latin America	474	0.5 %	1,669	1.7 %	2,304	0.8 %	6,014	2.1 %
Europe	11,465	12.9 %	10,556	11.0 %	37,434	13.5 %	32,512	11.1 %
Middle East	21,024	23.7 %	25,447	26.6 %	67,125	24.3 %	79,730	27.2 %
Africa	6,263	7.1 %	7,005	7.3 %	20,818	7.5 %	20,884	7.1 %
Asia/Pacific	1,705	1.9 %	1,057	1.1 %	5,202	1.9 %	4,096	1.4 %
Total	\$ 88,652	100.0 %	\$ 95,670	100.0 %	\$ 276,409	100.0 %	\$ 292,610	100.0 %

Consulting Fee Revenue by Geographic Region:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
United States	\$ 33,223	46.5 %	\$ 33,442	44.1 %	\$ 101,957	45.4 %	\$ 100,236	43.2 %
Latin America	474	0.7 %	1,668	2.2 %	2,304	1.1 %	6,011	2.6 %
Europe	10,549	14.7 %	9,989	13.2 %	32,197	14.3 %	31,073	13.4 %
Middle East	20,817	29.1 %	23,328	30.8 %	65,869	29.3 %	71,663	30.9 %
Africa	5,588	7.8 %	6,421	8.5 %	18,754	8.4 %	19,198	8.3 %
Asia/Pacific	892	1.2 %	899	1.2 %	3,372	1.5 %	3,601	1.6 %
Total	\$ 71,543	100.0 %	\$ 75,747	100.0 %	\$ 224,453	100.0 %	\$ 231,782	100.0 %

For the three and nine months ended September 30, 2020, the United States and the United Arab Emirates were the only countries to account for 10% or more of total revenue. For the three and nine months ended September 30, 2019, the United States was the only country to account for 10% or more of total revenue.

Operating Profit (Loss) by Geographic Region:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019 ⁽³⁾	2020	2019 ⁽³⁾
United States ⁽¹⁾	\$ 9,073	\$ 8,306	\$ 26,340	\$ 22,459
Latin America	(189)	(563)	(1,130)	(813)
Europe ⁽¹⁾	1,520	1,303	4,355	4,359
Middle East ⁽¹⁾	1,732	4,982	3,990	14,579
Africa	485	1,241	1,763	4,262
Asia/Pacific	(275)	216	(51)	(84)
Corporate ⁽²⁾	(7,603)	(12,382)	(31,080)	(36,516)
Total	\$ 4,743	\$ 3,103	\$ 4,187	\$ 8,246

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

(2) includes foreign exchange expense (benefit) of \$(694) and \$3,622 for the three and nine ended September 30, 2020, respectively, and \$1,839 and \$1,824 for the three and nine months ended September 30, 2019, respectively.

(3) see Reclassification paragraph in Note 3-Basis of Presentation related to the reclassification of certain back-office expenses and foreign currency translation gains and losses.

Depreciation and Amortization Expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Project Management	\$ 341	\$ 836	\$ 1,009	\$ 2,400
Corporate ⁽¹⁾	364	14	2,371	35
Total	\$ 705	\$ 850	\$ 3,380	\$ 2,435

(1) includes \$1,582 additional depreciation charge for the write-off of leasehold improvements related to the Company subletting office space in Philadelphia to a third party for the nine months ended September 30, 2020.

Total Revenue By Client Type:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
U.S. federal government	\$ 4,552	5.1 %	\$ 4,311	4.5 %	\$ 13,084	4.7 %	\$ 13,398	4.6 %
U.S. state, regional and local governments	29,652	33.4 %	31,222	32.6 %	90,552	32.8 %	94,193	32.2 %
Foreign governments	23,149	26.1 %	24,962	26.1 %	74,118	26.8 %	74,845	25.6 %
Private sector	31,299	35.4 %	35,175	36.8 %	98,655	35.7 %	110,174	37.6 %
Total	\$ 88,652	100.0 %	\$ 95,670	100.0 %	\$ 276,409	100.0 %	\$ 292,610	100.0 %

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

	September 30, 2020	December 31, 2019
United States	\$ 7,903	\$ 9,701
Latin America	184	700
Europe	419	473
Middle East	776	803
Africa	150	139
Asia/Pacific	53	79
Total	\$ 9,485	\$ 11,895

Note 13 — Commitments and Contingencies
Legal Proceedings

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 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.

Knowles Limited (“Knowles”), a subsidiary of the Company, 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. In May 2019, Celtic issued a claim against Knowles for negligent application and a hearing was held in December 2019. The arbitration was concluded in August 2020 in Knowles’ favor. However, the Company is still evaluating the ultimate financial outcome as of September 30, 2020.

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 \$7,938 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. As a result, the Company fully reserved the performance guarantee payment above in the first quarter of 2018. The Company filed an appeal before the Kuwait Court of Appeals seeking referral of the matter to a panel of experts for determination. On April 21, 2019, the Court of Appeals ruled to refer the matter to the Kuwait Experts Department. Hearings with the Kuwait Experts Department were held during July and September 2019. A final report was issued by the panel of experts in October 2019 for the held hearings on January 7, 2020 and February 4, 2020 and reserved the case for judgment to be issued. In June 2020, the Kuwait Court of Appeal issued judgement confirming the Kuwait First Instance Court’s decision. The Company filed a pleading before the Kuwait Cassation Court in August 2020 and is awaiting a decision.

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 \$1,161, which is included in other liabilities in the consolidated balance sheet at September 30, 2020.

Note 14 — Leases

The Company leases office space, equipment and vehicles throughout the world. Many of the Company’s operating leases include one or more options to renew at the Company’s sole discretion. The lease renewal option terms generally range from 1 month to 5 years for office leases. The determination of whether to include any renewal or early termination options is made by the Company at lease inception when establishing the term of the lease. Based on the later of the lease’s commencement date or Company’s adoption of ASC-842 on January 1, 2019, the Company recognizes right-of use lease assets and lease liabilities on its consolidated balance sheet for all leases in excess of one year in duration. The lease liability represents the present value of the remaining lease payments, which only includes payments that are fixed and determinable at the time of commencement, over the lease term. The lease term may be adjusted for renewal or early termination options provided in the leases only if it is reasonably certain that the Company will exercise such options. As most of the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments.

Rent expense for operating leases is recognized on a straight-line basis over the lease term from the lease commencement date through the scheduled expiration date for rent payments that are determined to be fixed, or are determinable at the lease commencement date. 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. Typically, these amounts for such payments cannot be determined at the lease commencement date, and are identified as variable lease payment, which are recognized as incurred.

Total rent expense of \$1,875 and \$2,277 for the three months ended September 30, 2020 and 2019, respectively, and \$6,038 and \$6,636 for the nine months ended September 30, 2020 and 2019, respectively, is included in selling, general and administrative and direct expenses in the consolidated statements of operations. Total rent expense for the nine months ended September 30, 2020 and 2019 included \$1,488 and \$1,490, respectively, that was associated with leases with an initial term of 12 months or less, in addition to variable costs the Company is responsible for paying on all leases.

During the three months ended June 30, 2020, as a result of the COVID-19 pandemic, the Company received rent concessions from certain lessors primarily in the form of rent payment deferrals, where rents that were originally scheduled to be paid to such lessors during the three months ended June 30, 2020, per the terms of the leases, were agreed to not become due and payable until 2021, with the option to pay the amounts deferred in monthly installments, plus interest. In April 2020, the FASB issued a Q&A in order to simplify how ASC-842 should be applied to rent concessions received as a result of the pandemic, and provided an optional practical expedient that permits an entity to make an election to not evaluate whether concessions granted by lessors related to COVID-19 are lease modifications, under certain conditions. Entities that make this election can then apply the lease modification guidance in ASC-842 or account for the concession as if it were contemplated as part of the existing contract. The Company elected to apply such practical expedient and not apply the lease modification guidance and has accordingly continued to recognize the rent expense as if no deferral had been provided. The Company recorded a payable for these amounts reflected in accounts payable and accrued expenses in the Company's consolidated balance sheets of \$586 for such rent deferrals.

The Company subleases certain real estate to third parties. The sublease income recognized for the three and nine months ended September 30, 2020 was \$390 and \$946, respectively, and \$141 and \$427 for the three and nine months ended September 30, 2019, respectively.

The following is a schedule of maturities of lease liabilities by year as of September 30, 2020:

	Total Operating Lease Payments	Total Finance Lease Payments
2020 (excluding the nine months ended September 30, 2020)	\$ 1,968	\$ 19
2021	5,572	75
2022	4,354	75
2023	3,600	75
2024	2,715	40
Thereafter	4,863	—
Total minimum lease payments ^{(1) (2)}	23,072	284
Less amount representing imputed interest	3,549	—
Present value of lease obligations	\$ 19,523	\$ 284
Weighted average remaining lease term (years)	4.73	3.79
Weighted average discount rate	6.96 %	2.05 %

(1) Partially includes rent expense amounts payable in various foreign currencies and are based on the foreign currency exchange spot rates as of September 30, 2020, where applicable.

(2) Includes operating lease extensions to lease agreements that have been executed, but has not yet commenced, as of September 30, 2020.

Note 15 - Deconsolidation of Controlling Interest in Subsidiary

On June 12, 2020, Hill International Brasil S.A ("Hill Brazil") filed for bankruptcy and liquidation with the Bankruptcy Court of Sao Paulo Brazil. Hill Brazil was a consolidated operating subsidiary of Hill International Brasil Participacoes LTDA ("Brazil Consolidated"). A trustee was appointed by the court on June 15, 2020 to oversee the settlement of liabilities and close the entity. The Company lost control of Hill Brazil on the date of the bankruptcy filing and as a result deconsolidated Hill Brazil at that time.

At June 12, 2020, Hill Brazil's assets totaled \$1,901, and consisted of Cash \$9, Accounts receivable \$1,380, Property, Plant & Equipment \$295 and other assets \$217. At June 12, 2020, Hill Brazil's liabilities totaled \$3,538 and consisted of Accounts payable and accrued expenses \$1,800, debt \$365, deferred revenue \$132 and other liabilities \$1,242, therefore Hill Brazil's liabilities exceeded assets by \$1,638. The write-off of the investment in Hill Brazil by Brazil Consolidated resulted in a \$1,201 loss. The write-off of the balance sheet and write-off of the investment in Hill Brazil resulted in a \$437 gain on the deconsolidation before consideration of foreign currency adjustments and intercompany items.

In conjunction with the liquidation of Hill Brazil, the Company's intercompany receivables from Hill Brazil totaling \$116 were fully reserved and an intercompany payable of \$1,180 to Hill Brazil from Brazil Consolidated was written off against the income/loss of the liquidation. Additionally, \$5,565 of accumulated other comprehensive losses related to foreign currency adjustments was taken into expense. This resulted in a net loss of \$4,064 related to the deconsolidation which was recorded on the consolidated statements of operations under Other loss (income), net.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands).

Introduction

The following discussion should be read in conjunction with the information contained in Hill International, Inc.'s (collectively referred to as "Hill", "we", "us", "our" and "the Company") unaudited consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. See our Annual Report on Form 10-K, for the fiscal year ended December 31, 2019 filed with the Securities and Exchange Commission (the "SEC") on March 26, 2020, including the factors disclosed therein, as well as "Disclosure Regarding Forward-looking Statements" for certain factors that may cause actual results to vary materially from these forward-looking statements. 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, facilities management and related consulting. These services are primarily delivered on a "cost plus" or "time and materials" ("T&M") 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, except for paid time-off, which is recorded in selling, general and administrative expenses ("SG&A") on our consolidated statements of operations. We also provide services under fixed price contracts and T&M contracts with a cap.

Our revenue consists of two components: consulting fee revenue ("CFR") and reimbursable expenses. The professionals we deploy are occasionally subcontractors. We generally bill the actual cost of these subcontractors and recognize this cost as both revenue (reimbursable expenses) 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 may be difficult for others 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.

SG&A consists 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.

The Company operates as 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.

Impact of COVID-19 on our Business

In December 2019, COVID-19 was identified in Wuhan, China. In March 2020, the World Health Organization declared COVID-19 a global pandemic as a result of the further spread of the virus into all regions of the world, including those regions where our primary operations occur.

We instituted a work-from-home policy for all offices and employees globally in late March, except for field-based employees who normally work on-site at our client's facilities. These field-based employees are complying with our respective clients' policies. The majority of our field employees are already located in the regions where they deliver their services, so the travel restrictions that have been enacted by various government authorities are not expected to impair their ability to continue to perform services for our clients. Employees have been returning to their assigned offices, on a modified basis, as their city, state and country reopens, consistent with the applicable requirements of local law.

Most of the projects to which we provide services have been classified as essential services by the relevant governmental authority and as such have continued despite restrictions on the operation of "non-essential" businesses by certain governmental authorities. The majority of our billable employees have continued to provide billable services to our clients, either on-site or remotely at the same or at a slightly reduced volume as in effect prior to the spread of COVID-19. We estimate that COVID-19 resulted in loss of CFR of approximately \$18,000 for the nine months ended September 30, 2020, exclusive of delayed projects awards and cancellations brought on by the virus.

Nearly all our employees had company laptop computers and the ability to work remotely prior to the institution of our work-at-home policy. The work-at-home policy did not have a significant impact on our employees' ability to perform their job requirements. Our internal control structure does not generally require physical access to our office locations, and has not to date and is not expected in the future to be adversely impacted by the spread of COVID-19 and the corresponding response by certain governmental authorities. Processes that require physical access to our offices, such as receiving mail (including collections) and processing and mailing manual checks, are being performed by designated individuals at a reduced frequency while certain of our offices remain closed.

The main impacts on our business observed to date other than those discussed above are delays in the procurement processes of a number of our current and potential clients and a temporary slowing of certain collections. We expect these delays in the procurement process to adversely impact the timing of our new bookings, resulting in lower bookings, Consulting Fee Revenue ("CFR") and backlog for the duration of the economic slowdown caused by the pandemic.

We also experienced a lower than normal amount of collections during the latter part of March. Collections returned to a more normal level during the second quarter and remained at a more normal level through the third quarter. We anticipate we may experience additional deferred collections during the duration of the economic slowdown caused by the COVID-19 pandemic. We had unrestricted cash of \$33,270 and available borrowing capacity on our credit facilities totaling \$3,324 at September 30, 2020.

Management has implemented various actions and policies that we expect will result in approximately \$11,000-\$13,000 in cost reductions to partially offset the expected reduction in CFR. This is higher than the \$10,000 estimated previously due to the continuation of cost reductions as COVID-19 has continued to impact the business beyond the time initially contemplated.

The full extent and duration of the impact of COVID-19 on our operations and financial performance is currently unknown, and depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, its impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus, its spread to other regions and the actions to contain the virus or treat its impact, among others.

We will continue to evaluate the potential short-term and long-term implications of COVID-19 on our consolidated financial statements and operations. We believe that the lower backlog reflected in the financial statements at September 30, 2020 was primarily due to the effects of the COVID-19 pandemic. The potential additional future impacts to our consolidated financial statements of operations include, but are not limited to: decreased CFR, lower gross and operating margins, impairment of goodwill and indefinite-lived intangible assets and fair value and collectability of receivables.

Any of these outcomes could have a material adverse impact on our business, financial condition, results of operations and cash flows. Management currently believes that it has adequate liquidity and business plans to continue to operate the business and mitigate the risks associated with COVID-19 for at least the next 12 months from the date of this report.

Results of Operations
**Consolidated Results
(In thousands)**

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2020	2019	\$	%	2020	2019	\$	%
Income Statement Data:								
Consulting fee revenue	\$ 71,543	\$ 75,747	\$ (4,204)	(5.6)%	\$ 224,453	\$ 231,782	\$ (7,329)	(3.2)%
Reimbursable expenses	17,109	19,923	(2,814)	(14.1)%	51,956	60,828	(8,872)	(14.6)%
Total revenue	\$ 88,652	\$ 95,670	\$ (7,018)	(7.3)%	\$ 276,409	\$ 292,610	\$ (16,201)	(5.5)%
Direct expenses	59,998	64,086	(4,088)	(6.4)%	190,078	198,288	(8,210)	(4.1)%
Gross profit	\$ 28,654	\$ 31,584	\$ (2,930)	(9.3)%	\$ 86,331	\$ 94,322	\$ (7,991)	(8.5)%
Selling, general and administrative expenses	25,588	27,422	(1,834)	(6.7)%	80,543	86,163	(5,620)	(6.5)%
Foreign currency exchange (benefit) loss	(694)	1,839	(2,533)	(137.7)%	3,622	1,824	1,798	98.6 %
Plus: Share of profit of equity method affiliates	983	780	203	26.0 %	2,021	1,911	110	5.8 %
Operating profit	\$ 4,743	\$ 3,103	\$ 1,640	52.9 %	\$ 4,187	\$ 8,246	\$ (4,059)	(49.2)%
Interest and related financing fees, net	1,275	1,485	(210)	(14.1)%	3,870	4,408	(538)	(12.2)%
Other (loss) income, net	(152)	549	(701)	(127.7)%	(3,654)	549	(4,203)	(765.6)%
Earnings (loss) before income taxes	\$ 3,316	\$ 2,167	\$ 1,149	53.0 %	\$ (3,337)	\$ 4,387	\$ (7,724)	(176.1)%
Income tax expense (benefit)	1,071	(340)	1,411	(415.0)%	2,776	2,248	528	23.5 %
Net earnings (loss)	\$ 2,245	\$ 2,507	\$ (262)	(10.5)%	\$ (6,113)	\$ 2,139	\$ (8,252)	(385.8)%
Less: net earnings - noncontrolling interests	131	26	105	403.8 %	308	176	132	75.0 %
Net earnings (loss) attributable to Hill International, Inc.	\$ 2,114	\$ 2,481	\$ (367)	(14.8)%	\$ (6,421)	\$ 1,963	\$ (8,384)	(427.1)%

**Three Months Ended September 30, 2020 Compared to the
Three Months Ended September 30, 2019**

Total Revenue by Geographic Region:

	Three Months Ended September 30,				Change	
	2020		2019		\$	%
United States	\$ 47,721	53.9 %	\$ 49,936	52.3 %	\$ (2,215)	(4.4)%
Latin America	474	0.5 %	1,669	1.7 %	(1,195)	(71.6)%
Europe	11,465	12.9 %	10,556	11.0 %	909	8.6 %
Middle East	21,024	23.7 %	25,447	26.6 %	(4,423)	(17.4)%
Africa	6,263	7.1 %	7,005	7.3 %	(742)	(10.6)%
Asia/Pacific	1,705	1.9 %	1,057	1.1 %	648	61.3 %
Total	\$ 88,652	100.0 %	\$ 95,670	100.0 %	\$ (7,018)	(7.3)%

Consulting Fee Revenue by Geographic Region:

	Three Months Ended September 30,				Change	
	2020		2019		\$	%
United States	\$ 33,223	46.5 %	\$ 33,442	44.1 %	\$ (219)	(0.7)%
Latin America	474	0.7 %	1,668	2.2 %	(1,194)	(71.6)%
Europe	10,549	14.7 %	9,989	13.2 %	560	5.6 %
Middle East	20,817	29.1 %	23,328	30.8 %	(2,511)	(10.8)%
Africa	5,588	7.8 %	6,421	8.5 %	(833)	(13.0)%
Asia/Pacific	892	1.2 %	899	1.2 %	(7)	(0.8)%
Total	\$ 71,543	100.0 %	\$ 75,747	100.0 %	\$ (4,204)	(5.6)%

CFR was \$71,543 and \$75,747 for the three months ended September 30, 2020 and 2019, respectively, which comprised 80.7% and 79.2% of total revenues, respectively.

The decrease in total revenue and the corresponding decrease in CFR for the three months ended September 30, 2020 compared to the same period in 2019 was primarily due to delayed project starts and project suspensions due to the COVID-19 pandemic.

Gross Profit by Geographic Region:

	Three Months Ended September 30,						Change	
	2020			2019			\$	%
			% of CFR			% of CFR		
United States	\$ 14,042	49.0 %	42.3 %	\$ 14,861	47.1 %	44.4 %	\$ (819)	(5.5)%
Latin America	162	0.6 %	34.2 %	659	2.1 %	39.5 %	(497)	(75.4)%
Europe	4,196	14.6 %	39.8 %	3,719	11.8 %	37.2 %	477	12.8 %
Middle East	7,199	25.1 %	34.6 %	9,259	29.2 %	39.7 %	(2,060)	(22.2)%
Africa	2,695	9.4 %	48.2 %	2,734	8.7 %	42.6 %	(39)	(1.4)%
Asia/Pacific	360	1.3 %	40.4 %	352	1.1 %	39.2 %	8	2.3 %
Total	\$ 28,654	100.0 %	40.1 %	\$ 31,584	100.0 %	41.7 %	\$ (2,930)	(9.3)%

Consolidated gross margin as a percentage of CFR decreased between periods primarily due to the following:

Middle East

The decrease in gross margin as a percentage of CFR in the region is primarily due to work on a large project in Qatar which started during the second half of 2019 with lower than average margin and the closeout of a higher margin project. A settlement on a project in Kuwait, which terminated during 2020, also contributed to the decrease in gross margin.

United States

The decrease in gross margin as a percentage of CFR in the region is primarily due to changes in the mix of projects with lower margin projects comprising a greater percentage of CFR during the current period as compared to the same period in the previous year.

Latin America

The decrease in gross margin during the period is primarily due to the bankruptcy of our Brazilian entity during the second quarter of 2020 and the completion of a large project in Mexico.

The above decreases in gross margin as a percentage of CFR was partially offset by increases in gross margin as a percentage of CFR in Europe as a result of changes in the mix of projects. Higher margin projects comprised a greater percent of CFR during the three months ended September 30, 2020 than in the same period in the prior year.

SG&A Expenses

SG&A expenses for the three months ended September 30, 2020 decreased approximately \$1,834 when compared to the same period in 2019. The decrease was primarily the result of unapplied labor decreasing \$1,800, travel and auto expenses decreasing \$500 and business development expenses decreasing \$300 as a result of the COVID-19 stay at home orders issued throughout the world. In addition, stock based compensation decreased approximately \$800 for the three months ended September 30, 2020 compared to the same period in 2019. These decreases were partially offset by \$1,300 less in recoveries of bad debts during the three months ended September 30, 2020 compared to the same period in 2019. In addition, the three month period ended September 30, 2019 included a \$900 reversal of certain non-recurring costs which were not present in the same period in 2020. SG&A expenses represented approximately 35.8% and 36.2% of CFR for the three months ended September 30, 2020 and 2019, respectively.

Foreign Currency Exchange Loss (Benefit)

There was a foreign currency exchange benefit of \$694 for the three months ended September 30, 2020 compared to a foreign currency loss of \$1,839 for the same period in 2019. The currency exchange gains in 2020 were primarily the result of a 4% weakening of the Euro against the US Dollar and currencies pegged to the US Dollar, partially offset by a 3% change in the Libyan Dinar. The currency exchange losses for the three months ended September 30, 2019 were primarily due to a 7% weakening of the Egyptian Pound against the Euro and US Dollar, partially offset by a 5% strengthening of the Euro against the US Dollar.

Interest and Related Financing Fees, net

Interest and related financing fees for the three months ended September 30, 2020 were \$1,275, net of \$17 of interest income. Interest and related financing fees for the three months ended September 30, 2019 were \$1,485, net of \$72 of interest income. Interest and related financing fees for the three months ended September 30, 2020 includes lower interest expenses primarily related to our U.S. dollar-denominated revolving credit facility and term loan with Société Générale and other U.S. Loan Parties due to a lower weighted-average interest rate throughout the three months ended September 30, 2020, when compared to the three months ended September 30, 2019.

Other (Loss) Income, net

During the three months ended September 30, 2020, the Company recognized other non-operating loss of \$152.

Income Taxes

The effective income tax rate for the three months ended September 30, 2020 and 2019 were 32.3% and (15.7)%, respectively. The change in our effective tax rate for the three months ended September 30, 2020 was primarily a result of the mix of income among various jurisdictions with different statutory tax rates.

Nine Months Ended September 30, 2020 Compared to the Nine Months Ended September 30, 2019

Total Revenue by Geographic Region:

	Nine Months Ended September 30,				Change	
	2020		2019		\$	%
United States	\$ 143,526	52.0 %	\$ 149,374	51.1 %	\$ (5,848)	(3.9)%
Latin America	2,304	0.8 %	6,014	2.1 %	(3,710)	(61.7)%
Europe	37,434	13.5 %	32,512	11.1 %	4,922	15.1 %
Middle East	67,125	24.3 %	79,730	27.2 %	(12,605)	(15.8)%
Africa	20,818	7.5 %	20,884	7.1 %	(66)	(0.3)%
Asia/Pacific	5,202	1.9 %	4,096	1.4 %	1,106	27.0 %
Total	\$ 276,409	100.0 %	\$ 292,610	100.0 %	\$ (16,201)	(5.5)%

Consulting Fee Revenue:

	Nine Months Ended September 30,				Change	
	2020		2019		\$	%
United States	\$ 101,957	45.4 %	\$ 100,236	43.2 %	\$ 1,721	1.7 %
Latin America	2,304	1.1 %	6,011	2.6 %	(3,707)	(61.7)%
Europe	32,197	14.3 %	31,073	13.4 %	1,124	3.6 %
Middle East	65,869	29.3 %	71,663	30.9 %	(5,794)	(8.1)%
Africa	18,754	8.4 %	19,198	8.3 %	(444)	(2.3)%
Asia/Pacific	3,372	1.5 %	3,601	1.6 %	(229)	(6.4)%
Total	\$ 224,453	100.0 %	\$ 231,782	100.0 %	\$ (7,329)	(3.2)%

CFR was \$224,453 and \$231,782 of the total revenue for the nine months ended September 30, 2020 and 2019, respectively, which comprised 81.2% and 79.2% of total revenues, respectively.

The decrease in total revenue and the corresponding decrease in CFR for the nine months ended September 30, 2020 compared to the same period in 2019 was primarily due to delayed project starts and project suspensions due to the COVID-19 pandemic.

Gross Profit by Geographic Region:

	Nine Months Ended September 30,						Change	
	2020			2019			\$	%
			% of CFR			% of CFR		
United States	\$ 43,150	50.0 %	42.3 %	\$ 42,904	45.5 %	42.8 %	\$ 246	0.6 %
Latin America	796	0.9 %	34.5 %	2,171	2.3 %	36.1 %	(1,375)	(63.3)%
Europe	12,425	14.4 %	38.6 %	11,806	12.5 %	38.0 %	619	5.2 %
Middle East	20,242	23.4 %	30.7 %	27,340	28.9 %	38.2 %	(7,098)	(26.0)%
Africa	8,349	9.7 %	44.5 %	8,539	9.1 %	44.5 %	(190)	(2.2)%
Asia/Pacific	1,369	1.6 %	40.6 %	1,562	1.7 %	43.4 %	(193)	(12.4)%
Total	\$ 86,331	100.0 %	38.5 %	\$ 94,322	100.0 %	40.7 %	\$ (7,991)	(8.5)%

Consolidated gross margin as a percentage of CFR decreased between periods primarily due to the following:

Middle East

The decrease in gross margin as a percentage of CFR in the region is primarily due to work on a large project in Qatar which started during the second half of 2019 with lower than average margin, increase in expense related to the liquidation of a bond and a reduction in the revenue of an ongoing project related to updated cost projections. A settlement on a project in Kuwait, which terminated during 2020, also contributed to the decrease in gross margin.

Latin America

The decrease in gross margin during the period is primarily due to the bankruptcy of our Brazilian entity during the second quarter of 2020 and the completion of a large project in Mexico.

Asia/Pacific

The decrease in gross margin as a percentage of CFR in the region is primarily the result of the demobilization of 2 projects in the region with much higher than average gross margins which reduced the overall gross margin in the region.

The above decreases in gross margin as a percentage of CFR was partially offset by increases in gross margin as a percentage of CFR in Europe as a result of changes in the mix of projects. Higher margin projects comprised a greater percent of CFR than in the prior period.

SG&A Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2020 decreased by approximately \$5,620 when compared to the same period in prior year. The decrease was primarily due to labor expenses decreasing by approximately \$2,400 and travel expenses decreasing by approximately \$1,400, as a result of the COVID-19 stay at home orders issued throughout the world, an approximate \$1,400 decrease in professional fees due to lower fees being charged, and an approximate \$1,400 decrease in legal expenses in 2020 primarily as a result of a settlement of previously incurred legal expenses. In addition, 2019 had retention bonus expenses of approximately \$600 which did not recur in 2020. Partially offsetting these decreases was a \$1,600 additional depreciation charge for the write-off of leasehold improvements related to the Company subletting office space in Philadelphia to a third party during the first quarter of 2020 and an approximate \$350 increase in computer equipment and software costs primarily related to remote working. SG&A expenses represented approximately 35.9% and 37.2% of CFR for the nine months ended September 30, 2020 and 2019, respectively.

Foreign Currency Exchange Loss (Benefit)

Foreign currency exchange losses were approximately \$1,800 greater for the nine months ended September 30, 2020 compared to the same period in 2019. The currency exchange losses were primarily caused by a 28.6% weakening of the Brazilian Real against the Euro prior to declaring bankruptcy of our Brazilian subsidiary and an approximately 16% strengthening of the Egyptian pound against the Euro in 2019 compared to a 2% weakening during the same period in 2020.

Interest and Related Financing Fees, net

Interest and related financing fees decreased \$538 to \$3,870, which is net of \$94 in interest income, for the nine months ended September 30, 2020 as compared with \$4,408 for nine months ended September 30, 2019, which includes \$252 of interest income. This decrease is due to a lower weighted-average interest rate on our U.S. Credit Facilities applicable to the nine months ended September 30, 2020, when compared to the weighted-average interest rate charged during the nine months ended September 30, 2019.

Other Loss, net

During the nine months ended September 30, 2020, a loss of \$4,064 was recognized due to the bankruptcy filing and deconsolidation of our operating subsidiary in Brazil (see Note 15 to the consolidated financial statements filed herein), net of other non-operating income of \$65. An additional \$345 of income was recognized during the first quarter of 2020 related to the cancellation of a PDIC Economic Stimulus Program Loan Agreement that the Company made on October 24, 2014 as a result of the Company satisfying all obligations in regard to the Loan Agreement.

Income Taxes

For the nine months ended September 30, 2020 and 2019, we recognized an income tax expense of \$2,776 and \$2,248, respectively.

The effective income tax rate for the nine-month periods ended September 30, 2020 and 2019 was (83.2)% and 51.2%, respectively. The change in the Company's effective tax rate for the nine months ended September 30, 2020 was primarily a result of the mix of income among various foreign jurisdictions with different statutory tax rates.

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 three 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 from November 9, 2020, the date of this report.

At September 30, 2020, our primary sources of liquidity consisted of \$33,270 of cash and cash equivalents, of which \$22,839 was on deposit in foreign locations, and \$3,324 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 September 30, 2020, we had approximately \$58,658 of availability under these arrangements. Our sources of liquidity under arrangements with foreign banks are available for repatriation as deemed necessary by us, with some restrictions and tax implications.

Please see "Impact of COVID-19 on our Business" above for our discussion about the impact of COVID-19 on liquidity.

Sources of Additional Capital

A significant increase in our current backlog or impacts on our liquidity from the COVID-19 pandemic may require us to obtain additional financing. If additional financing is required in the future due to an increase in backlog, impacts from the COVID-19 pandemic 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

	Nine Months Ended September 30,		
	2020	Change	2019
Net cash provided by operating activities	\$ 3,266	\$ 2,550	\$ 716
Net cash used in investing activities	(1,101)	1,857	(2,958)
Net cash provided by financing activities	15,064	10,599	4,465
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(97)	73	(170)
Net increase in cash, cash equivalents and restricted cash	<u>\$ 17,132</u>		<u>\$ 2,053</u>

Operating activities

During the nine months ended September 30, 2020, cash provided by operating activities was primarily due to the deferral of payroll tax payments as part of the US government's COVID relief program, rent concessions from certain lessors primarily in the form of rent payment deferrals, both of which will be paid during 2021, and the timing of payments to vendors. For the nine months ended September 30, 2019, cash provided by operating activities was primarily the result of the timing of payments to vendors and subcontractors and increased collection activity in the Middle East and Africa.

Cash held in restricted accounts is used primarily as collateral for the issuance of performance and advance payment bonds, letters of credit and escrow. Restricted cash decreased from \$9,067 at December 31, 2019 to \$8,835 at September 30, 2020, primarily due to the return of collateral on matured bonds.

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

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

Investing activities

During the nine months ended September 30, 2020 and 2019, cash was used in investing activities for the purchase of fixed assets.

Financing activities

During the nine months ended September 30, 2020 and 2019, cash provided by financing activities was used to fund the ongoing operating activities.

Effect of exchange rate changes on cash

For the nine months ended September 30, 2020, the effects of exchange rate changes on cash was primarily driven by the recognition of balances previously included in accumulated other comprehensive losses into expense due to the bankruptcy and liquidation of our operating subsidiary in Brazil (see Note 15 to the consolidated financial statements filed herein), a 31.7% year to date weakening of the Brazilian Real against the Euro and a 4% weakening of the Euro against the US dollar in 2020.

For the nine months ended September 30, 2019 the effects of exchange rate changes on cash was primarily caused by a weakening of the Euro and Turkish Lira against the U.S. Dollar.

Backlog

Our backlog represents CFR, which includes management's estimate of the amount of contracts and awards in-hand that we expect to recognize as CFR in future periods as a component of total revenue. Beginning with the year ended December 31, 2019, we excluded new backlog from indefinite delivery/indefinite quantity ("ID/IQ") contracts in circumstances where the work has not yet been approved by the client. ID/IQ contracts require us to deliver an indefinite amount of service over a predetermined period of time. Estimated future CFR from ID/IQ contracts is only included in our total backlog if the work has been approved starting in 2019, whereas prior year backlog included estimated CFR from all ID/IQ contracts. As of June 30, 2020, management has evaluated all backlog existing prior to 2019 for the purpose of reporting this pre-2019 backlog consistent with the methodology above. This resulted in a reduction to backlog of \$46,584 at December 31, 2019 and June 30, 2020 and a reduction in the 12-month backlog of \$397 at December 31, 2019. 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.

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

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.

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 CFR.

The following tables show our backlog by geographic region:

	Total Backlog		12-Month Backlog	
September 30, 2020				
United States	\$ 284,588	42.3 %	\$ 102,003	44.5 %
Latin America	3,352	0.5 %	2,167	0.9 %
Europe	86,704	12.9 %	34,779	15.1 %
Middle East	163,768	24.3 %	63,150	27.5 %
Africa	119,006	17.7 %	23,175	10.1 %
Asia/Pacific	15,524	2.3 %	4,415	1.9 %
Total	\$ 672,942	100.0 %	\$ 229,689	100.0 %
December 31, 2019				
United States	\$ 324,621	42.4 %	\$ 103,106	41.8 %
Latin America	16,351	2.1 %	5,068	2.1 %
Europe	90,134	11.8 %	35,000	14.2 %
Middle East	229,373	30.0 %	74,846	30.4 %
Africa	86,203	11.3 %	22,574	9.2 %
Asia/Pacific	17,995	2.4 %	5,563	2.3 %
Total	\$ 764,677	100.0 %	\$ 246,157	100.0 %

At September 30, 2020, our backlog was \$672,942 compared to \$764,677 at December 31, 2019, which included re-evaluation and write down of the realizable value of a number of contracts booked before January 1, 2019, some of which were as a result of the impacts of COVID-19.

Our 2020 year-to-date CFR net bookings of \$132,718 equates to a book-to-burn ratio for the nine months ended September 30, 2020 of 59.1%. CFR net bookings represent the value of new bookings, less any cancellations and other reductions of existing backlog. The amount of our new bookings, before any cancellations or other reductions, was \$277,600 and equates to a book-to-burn ratio of 123.7% for the nine months ended September 30, 2020. Our book-to-burn ratio, a non-GAAP measure, is determined by taking our new CFR bookings and dividing it by CFR for the applicable period. This metric allows management to monitor the Company's business development efforts to ensure we grow our backlog and our business over time and management believes that this measure is useful to investors for the same reason. We estimate that approximately \$229,689 or 34.1% of the backlog at September 30, 2020, will be recognized over the next twelve months.

The difference between the remaining performance obligations of \$91,008 and the backlog of \$672,942 at September 30, 2020 is due to the backlog including the full value of client contracts billed on a time and materials basis, which contracts, are not included as part of the remaining performance obligation. These contracts are excluded from the remaining performance obligation since they are not fixed price contracts and the consideration expected under these contracts is variable as it is based upon hours and costs incurred, which would result in the counter-party only being obligated to the Company for services provided through the termination date.

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.

Critical Accounting Policies

The Company's interim financial statements were prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), which require management to make subjective decisions, assessments and estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting these judgments increases, such judgments become even more subjective. While management believes its assumptions are reasonable and appropriate, actual results may be materially different than estimated. The critical accounting estimates and assumptions have not materially changed from those identified in the Company's 2019 Annual Report on Form 10-K.

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 filed herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The management of the Company, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of September 30, 2020. Management concluded that, due to the on-going remediation associated with the material weakness identified in our 2019 Annual Report on Form 10-K ("2019 Form 10-K"), our disclosure controls and procedures were ineffective as of September 30, 2020 to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

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

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 SEC'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.

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.

For a more comprehensive discussion of the material weaknesses in internal control over financial reporting previously identified by management as of December 31, 2019 and the remedial measures undertaken to address these material weaknesses, investors are encouraged to review Item 9A, Disclosure Controls and Procedures, of our 2019 Form 10-K.

Changes in Internal Control Over Financial Reporting

Our remediation efforts for material weaknesses previously reported were ongoing during the three and nine months ended September 30, 2020, and, described in Item 9A of our 2019 Annual Report on Form 10-K. There were no other material changes in our internal control over financial reporting that occurred during the three and nine months ended September 30, 2020 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

Item 1. Legal Proceedings.

Information required by this item is incorporated by reference to Part I, item 1, Note 13 — Commitments and Contingencies, *Legal Proceedings* and Part 1, item 1, Note 15, *Deconsolidation of Controlling Interest in Subsidiary*.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1	Certification of Chief Executive Officer 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.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
104	The cover page of this Quarterly Report on Form 10-Q, formatted in Inline XBRL

SIGNATURES

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

Hill International, Inc.

By: /s/ Raouf S. Ghali
Raouf S. Ghali
Chief Executive Officer
(Principal Executive Officer)

Dated: November 9, 2020

By: /s/ Todd Weintraub
Todd Weintraub
Senior Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

Dated: November 9, 2020

Section 302 Certification of Chief Executive Officer

I, Raouf S. Ghali, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hill International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2020

/s/ Raouf S. Ghali

Raouf S. Ghali
Chief Executive Officer

Section 302 Certification of Chief Financial Officer

I, Todd Weintraub, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Hill International, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2020

/s/ Todd Weintraub

Todd Weintraub

Senior Vice President and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

**CERTIFICATION PURSUANT TO 18 U. S. C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hill International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 (the "Report"), I, Raouf S. Ghali, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2020

/s/ Raouf S. Ghali

Raouf S. Ghali

Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

**CERTIFICATION PURSUANT TO 18 U. S. C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Hill International, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2020 (the "Report"), I, Todd Weintraub Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 9, 2020

/s/ Todd Weintraub

Todd Weintraub

Senior Vice President and Chief Financial Officer