Hill International, Inc.
Form 10-Q
May 10, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period

from __________________ to __________________

Commission File Number: 001-33961

HILL INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-0953973**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
303 Lippincott Centre, Marlton, NJ	**08053**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (856) 810-6200

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

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-Accelerated Filer	¨	Smaller Reporting Company	¨

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

There were 38,323,666 shares of the Registrant s Common Stock outstanding at May 2, 2011.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	March 31, 2011	December 31, 2010
Assets	(unaudited)	
Cash and cash equivalents	$ 26,695	$ 39,406
Cash restricted	2,173	2,527
Accounts receivable, less allowance for doubtful accounts of $9,467 and $9,457	190,278	180,856
Accounts receivable affiliate	2,836	3,230
Prepaid expenses and other current assets	12,883	8,834
Income taxes receivable	1,171	1,138
Deferred income tax assets	1,365	1,475
Total current assets	237,401	237,466
Property and equipment, net	13,769	11,926
Cash restricted, net of current portion	2,732	4,040
Retainage receivable	3,351	3,102
Acquired intangibles, net	48,724	26,709
Goodwill	80,446	57,310
Investments	11,438	10,962
Deferred income tax assets	9,266	8,918
Other assets	11,195	10,418
Total assets	$ 418,322	$ 370,851
Liabilities and Stockholders Equity		
Due to bank	$ 4,237	$ 4,903
Current maturities of notes payable	77,082	2,278
Accounts payable and accrued expenses	85,074	72,215
Income taxes payable	127	2,931
Deferred revenue	15,136	15,620
Deferred income taxes	409	396
Other current liabilities	7,540	6,122
Total current liabilities	189,605	104,465
Notes payable, net of current maturities	11,423	67,778
Retainage payable	3,678	3,701
Deferred income taxes	16,449	11,275
Deferred revenue	3,228	1,747
Other liabilities	11,876	13,789
Total liabilities	236,259	202,755
Commitments and contingencies		
Stockholders equity:		

Preferred stock, $.0001 par value; 1,000,000 shares authorized, none issued		
Common stock, $.0001 par value; 75,000,000 shares authorized, 44,757,269 shares and 44,686,148 shares issued at March 31, 2011 and December 31, 2010, respectively	4	4
Additional paid-in capital	124,180	123,762
Retained earnings	74,047	79,643
Accumulated other comprehensive loss	(11,191)	(14,552)
	187,040	188,857
Less treasury stock of 6,433,651 shares at March 31, 2011 and December 31, 2010, at cost	(27,766)	(27,766)
Hill International, Inc. share of equity	159,274	161,091
Noncontrolling interests	22,789	7,005
Total equity	182,063	168,096
Total liabilities and stockholders equity	$ 418,322	$ 370,851

See accompanying notes to consolidated financial statements.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three Months Ended March 31, 2011	2010
Consulting fee revenue	$ 94,272	$ 91,936
Reimbursable expenses	28,738	12,536
Total revenue	123,010	104,472
Cost of services	55,343	53,113
Reimbursable expenses	28,738	12,536
Total direct expenses	84,081	65,649
Gross profit	38,929	38,823
Selling, general and administrative expenses	44,226	36,945
Equity in earnings of affiliates	(4)	(821)
Operating (loss) profit	(5,293)	2,699
Interest expense, net	994	545
(Loss) earnings before income tax benefit income taxes	(6,287)	2,154
Income tax benefit	(909)	(469)
Consolidated net (loss) earnings	(5,378)	2,623
Less: net earnings noncontrolling interests	218	166
Net (loss) earnings attributable to Hill International, Inc.	$ (5,596)	$ 2,457
Basic (loss) earnings per common share Hill International, Inc.	$ (0.15)	$ 0.06
Basic weighted average common shares outstanding	38,276	40,313
Diluted (loss) earnings per common share Hill International, Inc.	$ (0.15)	$ 0.06
Diluted weighted average common shares outstanding	38,276	40,922

See accompanying notes to consolidated financial statements.

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HILL INTERNATIONAL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Consolidated net (loss) earnings	$ (5,378)	$ 2,623
Adjustments to reconcile net (loss) earnings to net cash (used in) operating activities:		
Depreciation and amortization	3,102	2,194
Equity in earnings of affiliates	(4)	(821)
Provision for bad debts	446	324
Deferred tax provision	640	(1,072)
Stock based compensation	617	428
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	2,960	(6,137)
Accounts receivable affiliate	394	2,401
Prepaid expenses and other current assets	(2,375)	(2,380)
Income taxes receivable	2	(59)
Retainage receivable	(249)	(184)
Other assets	(296)	(1,738)
Accounts payable and accrued expenses	4,837	1,259
Income taxes payable	(3,262)	(719)
Deferred revenue	(556)	(3,865)
Other current liabilities	787	(357)
Retainage payable	(29)	219
Other liabilities	(2,124)	(1,104)
Net cash flow used in operating activities	(488)	(8,988)
Cash flows used in investing activities:		
Purchase of businesses, net of cash acquired	(13,881)	
Distributions from affiliate	273	750
Contribution to affiliate		(1,136)
Payments for purchase of property and equipment	(1,805)	(168)
Purchase of additional interest in subsidiary	(1,609)	
Net cash flow used in investing activities	(17,022)	(554)
Cash flows from financing activities:		
Due to bank	(1,515)	893
Payments on notes payable	(4)	(1,881)
Net borrowings on revolving loans	8,934	8,000
Proceeds from stock issued under employee stock purchase plan	16	97
Proceeds from exercise of stock options	10	
Net cash flow provided by financing activities	7,441	7,109
Effect of exchange rate changes on cash	(2,642)	1,599

Net decrease in cash and cash equivalents	(12,711)	(834)
Cash and cash equivalents beginning of period	39,406	30,923
Cash and cash equivalents end of period	$ 26,695	$ 30,089

See accompanying notes to consolidated financial statements.

HILL INTERNATIONAL, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 The Company

Hill International, Inc. (Hill or the Company) is a professional services firm headquartered in Marlton, New Jersey that provides project management and construction claims services to clients worldwide. Hill s clients include the U.S. federal government, U.S. state and local governments, foreign governments, and the private sector. The Company is organized into two key operating divisions: the Project Management Group and the Construction Claims Group.

Recent regional civil unrest and global economic conditions, including disruption of financial markets, could adversely affect the Company s business and results of operations, primarily by limiting its access to credit and disrupting its clients businesses. The reduction in financial institutions willingness or ability to lend has increased the cost of capital and reduced the availability of credit. Although the Company currently believes that the financial institutions with whom 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, which could have a material adverse impact on the Company s business. In addition, continuation or worsening of general market conditions in the United States or other national economies important to its businesses may adversely affect its clients level of spending, ability to obtain financing, and ability to make timely payments to the Company for its services, which could require the Company to increase its allowance for doubtful accounts, negatively impact days sales outstanding and adversely affect the Company s results of operations.

Note 2 Basis of Presentation

The accompanying unaudited interim consolidated financial statements were prepared in accordance with the rules and regulations of the Securities and Exchange Commission pertaining to reports on Form 10-Q and should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (GAAP) for complete financial statements. In the opinion of management, these statements include all adjustments (consisting only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial statements.

The consolidated financial statements include the accounts of Hill and its wholly- and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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

Note 3 Acquisitions

On February 28, 2011, the Company s subsidiary, Gerens Hill International, S.A., indirectly acquired 60% of the outstanding common stock of Engineering S.A., one of the largest project management firms in Brazil with approximately 400 professionals. It has main offices in Rio de Janeiro and Sao Paulo and an additional office in Parauapebas. Engineering S.A. provides project management, construction management and engineering

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consulting services throughout Brazil. Total consideration amounted to 37,000,000 Brazilian Reais (approximately $22,320,000 at the date of acquisition) consisting of a cash payment of 22,200,000 Brazilian Reais (approximately $13,392,000) plus minimum additional payments due on each of April 30, 2012 and 2013 in the amount of 7,400,000 Brazilian Reais (approximately $4,464,000 each). Under certain circumstances, the Company may be required to pay 5,000,000 Brazilian Reais ($3,016,000) in addition to the minimum payments. The Company has made a preliminary allocation of the purchase price to the assets acquired and liabilities assumed, but the amounts may change upon finalization of the valuation process. The results of operation of the acquired company are not material to the Company s consolidated results of operations.

Note 4 Comprehensive Earnings

The following table summarizes the Company s comprehensive earnings:

	Three months ended March 31, 2011	Three months ended March 31, 2010
Consolidated net (loss) earnings	$ (5,378)	$ 2,623
Foreign currency translation, net of tax	3,891	(3,534)
Other, net	199	(88)
Comprehensive earnings (loss)	(1,288)	(999)
Comprehensive income attributable to noncontrolling interests	947	97
Comprehensive loss attributable to Hill International, Inc.	$ (2,235)	$ (1,096)

Note 5 Accounts Receivable

The components of accounts receivable are as follows:

(in thousands)	March 31, 2011	December 31, 2010
Billed	$ 170,651	$ 164,938
Retainage, current portion	3,503	3,604
Unbilled	25,591	21,771
	199,745	190,313
Allowance for doubtful accounts	(9,467)	(9,457)
	$ 190,278	$ 180,856

The Company had no clients that accounted for 10% or more of consulting fee revenues for the three-month period March 31, 2011 and one client that accounted for 29% of accounts receivable at March 31, 2011.

At March 31, 2011, the accounts receivable related to the work performed under contracts in Libya amounted to $59,863,000. Due to the political unrest in Libya, we are unable to determine the effect this crisis will have on

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our ability to collect this receivable. We believe that the amount due will be collected, however, if future events preclude our ability to do so, there could be a significant adverse impact on our results of operations and liquidity.

Note 6 Intangible Assets

The following table summarizes the Company s acquired intangible assets:

	March 31, 2011		December 31, 2010	
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Client relationships	$ 45,124	$ 8,181	$ 26,859	$ 7,045
Acquired contract rights	15,528	6,648	11,255	5,410
Trade names	3,980	1,079	2,022	972
Covenant not to compete			18	18
Total	$ 64,632	$ 15,908	$ 40,154	$ 13,445
Intangible assets, net	$ 48,724		$ 26,709	

Amortization expense related to intangible assets totaled $1,961,000 and $1,166,000 for the three-months ended March 31, 2011 and 2010, respectively. The following table presents the estimated amortization expense based on our present intangible assets for the next five years:

Year ending December 31,	Estimated amortization Expense *(in thousands)*
2011 (remaining 9 months)	$ 8,125
2012	7,552
2013	6,957
2014	5,191
2015	4,622

Note 7 Goodwill

The Company performs its annual goodwill impairment testing, by reporting unit, in the third quarter, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Application of the goodwill impairment test requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for the businesses, the useful life over which cash flows will occur, and determination of the Company s weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or conclusions on goodwill impairment for each reporting unit. The Company performed its annual impairment test effective July 1, 2010 and noted no impairment for either of its reporting units. Based on the valuation, the

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fair value of the Project Management unit and the Construction Claims unit substantially exceeded their carrying values.

The following table summarizes the changes in the Company s carrying value of goodwill during 2011 (in thousands):

Segment	Balance at December 31, 2010	Additions	Translation Adjustments	Balance at March 31, 2011
Project Management	$ 31,350	$ 20,955	$ 1,490	$ 53,795
Construction Claims	25,960		691	26,651
Total	$ 57,310	$ 20,955	$ 2,181	$ 80,446

Note 8 Accounts Payable and Accrued Expenses

Below are the components of accounts payable and accrued expenses:

(in thousands)	March 31, 2011	December 31, 2010
Accounts payable	$ 23,648	$ 19,484
Accrued payroll	25,713	20,927
Accrued subcontractor fees	9,821	7,120
Accrued agency fees	16,753	15,463
Accrued legal and professional cost	1,700	1,734
Accrued earn out related to MLL acquisition	3,095	3,046
Other accrued expenses	4,344	4,441
	$ 85,074	$ 72,215

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Note 9 Notes Payable

Outstanding debt obligations are as follows:

	March 31, 2011	December 31, 2010
	(in thousands)	
Revolving credit loan payable. The weighted average interest rate for all borrowings was 4.63% and 4.72% at March 31, 2011 and December 31, 2010, respectively. (For more information, see below.	$ 68,300	$ 61,300
Revolving credit loan payable to Barclays Bank PLC up to £500,000 (approximately $804,000 and $772,000 at March 31, 2011 and December 31, 2010, respectively), with interest at 2.00% plus the Bank of England rate of 0.50% (or 2.50%) at both March 31, 2011 and December 31, 2010, respectively, collateralized by cross guarantees of all United Kingdom companies. Aggregate of all debt owing to the bank will be, at all times, covered by three times the aggregate value of the UK accounts receivable less than 90 days old and excluding the amounts receivable from any associate or subsidiary company. The loan had an indeterminate term and is subject to annual review by the bank.		231
Note payable dated June 8, 2010 for the MLL acquisition with a stated interest rate of 4.45% per annum. The note is due June 7, 2011.	2,063	2,030
Revolving credit facilities with 12 banks in Spain providing for total borrowings of up to 4,870,000 (approximately $6,879,000 and $6,477,000 at March 31, 2011 and December 31, 2010, respectively). The stated interest rate is 6.5%. (For more information, see below.)	6,879	6,477
Credit facility with the National Bank of Abu Dhabi providing for total borrowings of up to 11,500,000 AED (approximately $3,131,000 at both March 31, 2011 and December 31, 2010), collateralized by certain overseas receivables. The interest rate is the one-month Emirates InterBank Offer Rate, plus 3.00%, but no less than 5.50%. The rates at both March 31, 2011 and December 31, 2010 were 5.5%. The facility also allows for up to 150,000,000 AED (approximately $40,836,000 at both March 31, 2011 and December 31, 2010) in Letters of Guarantee of which 100,584,000 AED and 93,992,000 AED (approximately 27,384,000 and $25,588,000, respectively) were utilized at March 31, 2011 and December 31, 2010, respectively. This facility is being renewed on a month-to-month basis.	757	
Unsecured credit facility with the Caja de Badajoz in Spain for 750,000 (approximately $1,059,000 and $997,000 at March 31, 2011 and December 31, 2010, respectively) The interest rate is the three-month EURIBOR rate plus 1.75%, but no less than 4.00%. At both March 31, 2011 and December 31, 2010, the rate was 4.00%. This facility expires on December 24, 2011.	57	
Unsecured credit facility with a bank in Brazil for 2,200,000 Brazilian Reais (approximately $1,350,000 at March 31, 2011). The interest rate was 2.87% at March 31, 2011.	1,350	
Minimum payments due for the Engineering S.A. acquisition	9,085	
Other notes payable	14	18
	88,505	70,056
Less current maturities	77,082	2,278
Notes payable, net of current maturities	$ 11,423	$ 67,778

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The Company maintains a $100,000,000 credit facility. Under certain circumstances, the Company may increase availability by an additional $50,000,000. The credit facility had been made pursuant to the terms of a credit agreement (the Credit Agreement) dated as of June 30, 2009 among the Company, Bank of America, N.A., Capital One, N.A., The PrivateBank and Trust Company and PNC Bank N.A. (the lenders). The Credit Agreement also provided for a letter of credit sub-facility of up to $30,000,000. Obligations under the Credit Agreement were collateralized by all of the Company s assets, including, without limitation, accounts receivable, equipment, securities, financial assets and the proceeds of the foregoing, as well as by a pledge of 65% of the outstanding capital stock of its wholly owned subsidiary, Hill International S.A. The Credit Agreement will expire on June 30, 2012. The Company incurred costs of approximately $1,741,000 in connection with establishing the new credit facility. Such costs have been deferred and were being amortized to interest expense over the life of the loan.

The Credit Agreement provides for Base Rate loans and Eurodollar Rate loans. Base Rate loans bear interest at a fluctuating rate per annum equal to the sum of (a) the highest of (i) the Federal Funds Rate plus 0.5%, (ii) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its prime rate and (iii) the Eurodollar Rate plus 1.00%, plus (b) an Applicable Rate which may vary between 1.75% and 2.50% depending on the Company s consolidated leverage ratio at the time of the borrowing. Eurodollar Rate loans bear interest at a rate per annum equal to the British Bankers Association LIBOR Rate plus an Applicable Rate which may vary between 2.75% and 3.50% depending on the Company s consolidated leverage ratio at the time of the borrowing.

The Credit Agreement contains covenants and certain restrictions on the incurrence of debt, on the making of investments, on the payment of dividends, on transactions with affiliates and other affirmative and negative covenants and events of default customary for facilities of its type. It also requires the Company to meet certain financial tests at any time that borrowings are outstanding under the facility including minimum consolidated net worth of $100,000,000 plus 50% of consolidated net earnings attributable to Hill International, Inc. for each quarter after June 30, 2009, consolidated leverage ratio not to exceed 2.50 to 1.00, a minimum consolidated fixed charge coverage ratio of 2.00 to 1.00 and a minimum ratio of consolidated billed and unbilled accounts receivable to consolidated senior indebtedness of 2.00 to 1.00. At March 31, 2011, the Company was in violation of the loan covenants related to the consolidated leverage ratio, the consolidated fixed charge ratio and the ratio of consolidated accounts receivable to consolidated senior indebtedness. The Company has received a waiver of these violations through June 29, 2011. Under the terms of the waiver, the Company is prohibited from making any acquisitions, without the lenders consent, and from making any repurchases of its common stock. In addition, the Applicable Rate on all loans will be increased by 50 basis points through the last day of the waiver period. Since the waiver of violations is through June 29, 2011, all borrowings under the facility have been classified as current liabilities in the consolidated balance sheet.

As of March 31, 2011, the Company had $13,649,000 in outstanding letters of credit which reduced availability under the credit facility. Due to the limitations of the ratio of the Company s consolidated billed and unbilled accounts receivable to consolidated senior indebtedness, total remaining availability at March 31, 2011 was $13,981,000.

The Company also maintains a revolving credit loan payable with a European bank up to 1,000,000 (approximately $1,412,000 and $1,330,000 at March 31, 2011 and December 31, 2010, respectively), with interest rates at 2.50% plus Egnatia Bank s prime rate of 6.00% (or 8.50%) at both March 31, 2011 and December 31, 2010, collateralized by certain assets of the Company. The facility also allows for letters of guarantee up to 4,500,000 (approximately $6,357,000 at March 31, 2011) of which 293,000 (or $414,000)

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had been utilized at March 31, 2010. The loan had an expiration date of April 30, 2011. The Company is in the process of renewing this facility.

The Company s wholly-owned subsidiary, Gerens Hill International, S.A. (Gerens), maintains a revolving credit facility with 12 banks in Spain (Financing Entities) providing for total borrowings of up to 4,870,000 (approximately $6,879,000 at March 31, 2011) with interest at 6.5% which was fully utilized at both March 31, 2011 and December 31, 2010. The total amount being financed (Credit Contracts) by each Financing Entity is between 379,000 (approximately $535,000) and 639,000 (approximately $902,000). The facility expires on December 17, 2016. The maximum available amount will be reduced to 75.0% at December 31, 2014 and 50.0% at December 31, 2015. To guarantee Gerens obligations resulting from the Credit Contracts, Gerens provided a guarantee in favor of each one of the Financing Entities, which, additionally, and solely in the case of unremedied failure to make payment, and at the request of each of the Financing Entities, shall grant a first ranking pledge over a given percentage of corporate shares of Hill International Brasil Participações Ltda. for the principal, interest, fees, expenses or any other amount owed by virtue of the Credit Contracts, coinciding with the percentage of credit of each Financing Entity with respect to the total outstanding borrowings under this facility.

Note 10 Supplemental Cash Flow Information

The following table provides additional cash flow information:

	Three months ended March 31,	
(in thousands)	**2011**	**2010**
Interest paid	$ 712	$ 325
Income taxes paid	$ 1,043	$ 1,560

Note 11 Equity in Earnings of Affiliates

Equity in earnings of affiliates primarily reflects the Company s ownership of 33.33% of the members equity of Stanley Baker Hill, LLC (SBH) and its ownership of 50.0% of the members equity of Hill TMG.

Stanley Baker Hill, LLC

SBH was a joint venture formed in February 2004 between Stanley Consultants, Inc., Michael Baker, Jr. Inc. and Hill. SBH had a contract for an indefinite delivery and indefinite quantity for construction management and general architect-engineer services for facilities in Iraq with the U.S. Army Corps of Engineers. The Iraq Reconstruction Program was completed in late 2010.

At December 31, 2010, the Company reported receivables totaling $270,000 from SBH for work performed by the Company as a subcontractor to SBH. Such amounts were paid in accordance with the subcontract agreement between the Company and SBH.

Revenue from SBH pursuant to such subcontract agreement for the three-month period ended March 31, 2010 was $11,621,000.

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Hill TMG

Equity in earnings of affiliates also reflects ownership by the Company of 50.0% of the members equity of Hill TMG, a joint venture formed in May 2008 between Talaat Moustafa Group Holding Co. (TMG), and Hill. Hill TMG is managing the construction of several of TMG s largest developments in Egypt and elsewhere in the Middle East.

At March 31, 2011 and December 31, 2010, the Company reported receivables totaling $1,679,000 and $1,728,000, respectively, for work performed by the Company as a subcontractor to Hill TMG. Such amounts are payable in accordance with the subcontract agreement between the Company and Hill TMG.

Revenue from Hill TMG pursuant to such subcontract agreement for the three-month periods ended March 31, 2011 and 2010 was $79,000 and $533,000, respectively.

The following table summarizes the Company equity in earnings from affiliates:

	Three months ended March 31,	
	2011	**2010**
(in thousands)		
Stanley Baker Hill	$	$ 667
Hill TMG	4	154
Total	$ 4	$ 821

Note 12 (Loss) Earnings per Share

Basic (loss) earnings per common share have been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted (loss) earnings per common share incorporate the incremental shares issuable upon the assumed exercise of stock options, warrants and unit purchase options, if dilutive. Dilutive shares were 608,861 shares for the three-month period ended March 31, 2010. Certain stock options were excluded from the calculation of diluted (loss) earnings per common share because their effect was antidilutive. The total number of such shares excluded from diluted (loss) earnings per common share was 2,396,944 shares and 434,095 shares for the three-month periods ended March 31, 2011 and 2010, respectively.

Note 13 Share-Based Compensation

At March 31, 2011, the Company had 3,632,816 options outstanding with a weighted average exercise price of $5.21. During the three-month period ended March 31, 2011, the Company granted 55,000 options which vest over a five-year period and 907,336 options which vest over a four-year period. The options have a weighted average exercise price of $7.18 and a weighted-average contractual life of 3.82 years. The aggregate fair value of the options was $2,447,000 calculated using the Black-Scholes valuation model. The weighted average assumptions used to calculate fair value were: expected life 3.82 years; volatility 54.0% and risk-free interest rate 1.56%. During the first three months of 2011, options for 6,000 shares with a weighted average exercise price of $2.45 were exercised, options for 31,000 shares with a weighted average exercise price of $5.24 were forfeited and options for 1,000 shares with a weighted average exercise price of $6.32 lapsed.

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During the three-month period ended March 31, 2011, the Company issued 62,000 shares of restricted common stock to certain of its officers under the Company s 2007 Restricted Stock Grant Plan.

During the three-month period ended March 31, 2011, employees purchased 3,121 common shares, for an aggregate purchase price of $16,000, pursuant to the Company s 2008 Employee Stock Purchase Plan.

The Company recognized share-based compensation expense in selling, general and administrative expenses in the consolidated statement of operations totaling $617,000 and $428,000 for the three-month periods ended March 31, 2011 and 2010, respectively.

Note 14 Stockholders Equity

On November 10, 2008, the Board of Directors approved a stock repurchase program whereby the Company may purchase shares of its common stock up to a total purchase price of $20,000,000. On August 4, 2009, the Board of Directors amended the stock repurchase program to increase the authorized amount to $40,000,000 and extend the program to December 31, 2010. On March 7, 2011, the Board of Directors approved an increase in the Stock Repurchase Program to $60,000,000 and extended the program to December 31, 2012. Through March 31, 2011, the Company has purchased 5,834,369 shares of its common stock for an aggregate purchase price of $24,438,000, or $4.19 per share, under this program. At March 31, 2011, the Company was in violation of its loan covenants related to the consolidated leverage ratio, the consolidated fixed charge ratio and the ratio of consolidated accounts receivable to consolidated senior indebtedness. The Company has received a waiver of these violations through June 29, 2011. Under the terms of the waiver, the Company is prohibited from making any repurchases of its common stock.

The following table summarizes the changes in stockholders equity during the three months ended March 31, 2011:

	Total	Hill International, Inc. stockholders	Non-controlling interests
Stockholders equity, December 31, 2010	$ 168,096	$ 161,091	$ 7,005
Net (loss) income	(5,378)	(5,596)	218
Other comprehensive income	4,090	3,361	729
Comprehensive (loss) income	(1,288)	(2,235)	947
Additional paid in capital	418	418	
Acquisition of Engineering S.A.	14,837		14,837
Stockholders equity, March 31, 2011	$ 182,063	$ 159,274	$ 22,789

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Note 15 Income Taxes

The effective income tax rates for the three-month periods ended March 31, 2011 and 2010 were 14.5% and (21.8%), respectively. During the three-month period ended March 31, 2010, the Company recognized income tax benefits of $761,000 due to the expiration of the statute of limitations upon filing of certain income tax returns resulting in a reduction in the reserves for uncertain tax positions. Excluding the effect of the reserve adjustment, the effective income tax rate would have been 10.0% for the three-month period ended March 31, 2010.

In 2011, the Company s effective tax rate continues to remain low since a substantial portion of its profit comes from foreign operations which are taxed at lower rates, if at all, and because of the financial reporting requirements related to non-controlling interests in pass through entities that requires the income tax expense on the pass-through entity s pretax income attributable to the noncontrolling interest holders be excluded from consolidated income tax expense. In 2010, the Company s rate was low because a substantial portion of its profit was from foreign operations taxed at lower rates, if at all and because the Company recognized a significant income tax benefit related to a net operating loss from U.S. operations.

The following table indicates the changes to the Company s uncertain tax positions for the three-month periods ended March 31, 2011 and 2010, including interest and penalties.

(in thousands)	**Three months ended March 31,**	
	2011	**2010**