

GEO GROUP INC  
Form 10-Q  
November 06, 2015  
Table of Contents

**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 September 30, 2015**

**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 1-14260**

**The GEO Group, Inc.**

**(Exact name of registrant as specified in its charter)**

**Florida**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**65-0043078**  
**(IRS Employer**  
**Identification No.)**

**One Park Place, 621 NW 53rd Street, Suite 700,**

**Boca Raton, Florida**  
**(Address of principal executive offices)**  
**(561) 893-0101**

**33487**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year if changed since last report)**

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

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

As of November 4, 2015, the registrant had 74,655,580 shares of common stock outstanding.



**Table of Contents**

**TABLE OF CONTENTS**

<b><u>PART I - FINANCIAL INFORMATION</u></b>	3
<b><u>ITEM 1. FINANCIAL STATEMENTS</u></b>	3
<b><u>CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014</u></b>	3
<b><u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED) FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014</u></b>	4
<b><u>CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2015 (UNAUDITED) AND DECEMBER 31, 2014</u></b>	5
<b><u>CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014</u></b>	6
<b><u>NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u></b>	7
<b><u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	38
<b><u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	60
<b><u>ITEM 4. CONTROLS AND PROCEDURES</u></b>	60
<b><u>PART II - OTHER INFORMATION</u></b>	61
<b><u>ITEM 1. LEGAL PROCEEDINGS</u></b>	61
<b><u>ITEM 1A. RISK FACTORS</u></b>	61
<b><u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u></b>	61
<b><u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u></b>	61
<b><u>ITEM 4. MINE SAFETY DISCLOSURES</u></b>	61
<b><u>ITEM 5. OTHER INFORMATION</u></b>	61
<b><u>ITEM 6. EXHIBITS</u></b>	62
<b><u>SIGNATURES</u></b>	63

Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE GEO GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****FOR THE THREE AND NINE MONTHS ENDED****SEPTEMBER 30, 2015 AND 2014****(In thousands, except per share data)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Revenues	\$ 469,866	\$ 457,900	\$ 1,343,181	\$ 1,263,880
Operating expenses	345,966	342,216	997,812	934,197
Depreciation and amortization	27,127	24,079	78,628	71,969
General and administrative expenses	33,742	28,287	97,764	84,937
Operating income	63,031	63,318	168,977	172,777
Interest income	2,992	1,048	7,933	2,604
Interest expense	(27,314)	(21,408)	(78,610)	(62,662)
Income before income taxes and equity in earnings of affiliates	38,709	42,958	98,300	112,719
Provision for income taxes	1,758	5,537	6,954	11,062
Equity in earnings of affiliates, net of income tax provision of \$583, \$711, \$1,712 and \$1,914, respectively	1,340	1,544	3,949	4,202
Net income	38,291	38,965	95,295	105,859
Net loss attributable to noncontrolling interests	21	26	79	20
Net income attributable to The GEO Group, Inc.	\$ 38,312	\$ 38,991	\$ 95,374	\$ 105,879
Weighted-average common shares outstanding:				
Basic	73,757	72,380	73,658	71,862
Diluted	73,919	72,637	73,906	72,130
Net income per common share attributable to The GEO Group, Inc.:				

Edgar Filing: GEO GROUP INC - Form 10-Q

Basic:

Net income per common share attributable to The GEO Group, Inc. - basic	\$	0.52	\$	0.54	\$	1.29	\$	1.47
---	----	------	----	------	----	------	----	------

Diluted:

Net income per common share attributable to The GEO Group, Inc. - diluted	\$	0.52	\$	0.54	\$	1.29	\$	1.47
---	----	------	----	------	----	------	----	------

Dividends declared per share	\$	0.62	\$	0.57	\$	1.86	\$	1.71
------------------------------	----	------	----	------	----	------	----	------

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

**THE GEO GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Unaudited)

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2015 AND 2014

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2015	2014	2015	2014
Net income	\$ 38,291	\$ 38,965	\$ 95,295	\$ 105,859
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments	(3,014)	(3,125)	(4,982)	(1,501)
Pension liability adjustment, net of tax (provision) benefit of \$21, \$12, \$63 and \$37, respectively	43	19	120	58
Unrealized loss on derivative instrument classified as cash flow hedge, net of tax benefit of \$604, \$2,139, \$484 and \$2,148, respectively	(3,470)	(4,877)	(2,453)	(4,858)
Total other comprehensive loss, net of tax	(6,441)	(7,983)	(7,315)	(6,301)
Total comprehensive income	31,850	30,982	87,980	99,558
Comprehensive loss (income) attributable to noncontrolling interests	64	49	145	51
Comprehensive income attributable to The GEO Group, Inc.	\$ 31,914	\$ 31,031	\$ 88,125	\$ 99,609

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

## THE GEO GROUP, INC.

## CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2015 AND DECEMBER 31, 2014

(In thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 47,131	\$ 41,337
Restricted cash and investments	8,389	4,341
Accounts receivable, less allowance for doubtful accounts of \$3,155 and \$3,315, respectively	289,044	269,038
Current deferred income tax assets	25,921	25,884
Prepaid expenses and other current assets	33,256	36,806
Total current assets	403,741	377,406
<i>Restricted Cash and Investments</i>	26,058	19,578
<i>Property and Equipment, Net</i>	1,921,461	1,772,166
<i>Contract Receivable</i>	124,679	66,229
<i>Direct Finance Lease Receivable</i>	3,303	9,256
<i>Non-Current Deferred Income Tax Assets</i>	5,873	5,873
<i>Goodwill</i>	615,937	493,890
<i>Intangible Assets, Net</i>	229,327	155,275
<i>Other Non-Current Assets</i>	104,237	102,535
Total Assets	\$ 3,434,616	\$ 3,002,208
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<i>Current Liabilities</i>		
Accounts payable	\$ 72,567	\$ 58,155
Accrued payroll and related taxes	39,674	38,556
Accrued expenses and other current liabilities	127,549	140,612
Current portion of capital lease obligations, long-term debt and non-recourse debt	16,428	16,752
Total current liabilities	256,218	254,075
<i>Non-Current Deferred Income Tax Liabilities</i>	15,769	10,068
<i>Other Non-Current Liabilities</i>	88,406	87,429
<i>Capital Lease Obligations</i>	8,992	9,856
<i>Long-Term Debt</i>	1,881,034	1,462,819



<b><i>Non-Recourse Debt</i></b>	178,738	131,968
<b><i>Commitments, Contingencies and Other</i></b> (Note 11)		
<b><i>Shareholders Equity</i></b>		
Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value, 125,000,000 shares authorized, 74,634,299 and 74,190,688 issued and outstanding, respectively	746	742
Additional paid-in capital	875,992	866,056
Earnings in excess of distributions	163,262	206,342
Accumulated other comprehensive loss	(34,710)	(27,461)
Total shareholders equity attributable to The GEO Group, Inc.	1,005,290	1,045,679
Noncontrolling interests	169	314
Total shareholders equity	1,005,459	1,045,993
Total Liabilities and Shareholders Equity	\$ 3,434,616	\$ 3,002,208

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Table of Contents

**THE GEO GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

FOR THE NINE MONTHS ENDED

SEPTEMBER 30, 2015 AND 2014

(In thousands)

	Nine Months Ended	
	September 30, 2015	September 30, 2014
<b>Cash Flow from Operating Activities:</b>		
Net income	\$ 95,295	\$ 105,859
Net loss attributable to noncontrolling interests	79	20
Net income attributable to The GEO Group, Inc.	95,374	105,879
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	78,628	71,969
Stock-based compensation	8,602	6,263
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	4,986	3,921
Dividends received from unconsolidated joint venture		2,455
Provision for doubtful accounts	323	
Equity in earnings of affiliates, net of tax	(3,949)	(4,202)
Income tax benefit related to equity compensation	(1,252)	(1,498)
(Gain) loss on sale/disposal of property and equipment	(935)	453
Changes in assets and liabilities, net of effects of acquisitions:		
Changes in accounts receivable, prepaid expenses and other assets	(3,068)	22,235
Changes in contract receivable	(74,483)	(54,731)
Changes in accounts payable, accrued expenses and other liabilities	6,938	11,881
Net cash provided by operating activities	111,164	164,625
<b>Cash Flow from Investing Activities:</b>		
Acquisition of SoberLink, cash consideration	(24,402)	
Acquisition of LCS, net of cash acquired	(307,403)	
Acquisition of Protocol, cash consideration		(13,025)
Insurance proceeds - damaged property	1,270	
Proceeds from sale of property and equipment	49	515
Change in restricted cash and investments	(11,136)	(6,052)
Capital expenditures	(100,844)	(77,713)

Edgar Filing: GEO GROUP INC - Form 10-Q

Net cash used in investing activities	(442,466)	(96,275)
Cash Flow from Financing Activities:		
Proceeds from long-term debt	642,000	459,384
Payments on long-term debt	(222,675)	(509,132)
Payments on non-recourse debt	(6,366)	(4,511)
Proceeds from non-recourse debt	70,117	74,191
Taxes paid related to net share settlements of equity awards	(2,748)	(1,844)
Proceeds from issuance of common stock in connection with ESPP	321	277
Issuance of common stock under prospectus supplement		54,724
Debt issuance costs	(5,217)	(23,508)
Income tax benefit related to equity compensation	1,252	1,498
Proceeds from the exercise of stock options	2,513	6,384
Cash dividends paid	(138,454)	(124,084)
Net cash provided by (used in) financing activities	340,743	(66,621)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3,647)	(1,174)
Net increase in Cash and Cash Equivalents	5,794	555
Cash and Cash Equivalents, beginning of period	41,337	52,125
Cash and Cash Equivalents, end of period	\$ 47,131	\$ 52,680
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	\$ 7,266	\$ 11,895

The accompanying notes are an integral part of these unaudited consolidated financial statements.

---

**Table of Contents****THE GEO GROUP, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****1. BASIS OF PRESENTATION**

The GEO Group, Inc., a Florida corporation, and subsidiaries (the Company or GEO) is a fully-integrated real estate investment trust (REIT) specializing in the ownership, leasing and management of correctional, detention and reentry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa and the United Kingdom. The Company owns, leases and operates a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers, as well as community based reentry facilities. The Company develops new facilities based on contract awards, using its project development expertise and experience to design, construct and finance what it believes are state-of-the-art facilities that maximize security and efficiency. The Company provides innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. The Company also provides secure transportation services for offender and detainee populations as contracted domestically and in the United Kingdom through its joint venture GEO Amey PECS Ltd. (GEOAmey). The Company's worldwide operations include the management and/or ownership of approximately 87,000 beds at 104 correctional and detention facilities, including idle facilities, projects under development and recently awarded contracts, and also include the provision of community supervision services for more than 127,000 offenders and pre-trial defendants, including approximately 83,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

The Company's unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2015 for the year ended December 31, 2014. The accompanying December 31, 2014 consolidated balance sheet has been derived from those audited financial statements. Additional information may be obtained by referring to the Company's Form 10-K for the year ended December 31, 2014. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Quarterly Report on Form 10-Q have been made. Results of operations for the nine months ended September 30, 2015 are not necessarily indicative of the results for the entire year ending December 31, 2015, or for any other future interim or annual periods.

**2. BUSINESS COMBINATIONS*****Soberlink, Inc.***

On May 18, 2015, the Company's wholly-owned subsidiary, B.I. Incorporated (BI) acquired 100% of the outstanding common stock of Soberlink, Inc. (Soberlink) for cash consideration of \$24.4 million. Soberlink is a leading developer and distributor of mobile alcohol monitoring devices and services. The Company financed the acquisition of Soberlink with borrowings under its revolving credit facility. The allocation of the purchase price for this transaction has not yet been finalized. The primary areas of the preliminary purchase price allocations that are not yet finalized primarily relate to certain tangible assets and liabilities included in working capital. The Company expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the

measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition. During the measurement period, the Company has made \$0.2 million in aggregate retrospective adjustments to provisional amounts recognized at the acquisition date, that if known, would have affected the measurement of the amounts recognized at that date. These adjustments primarily related to working capital adjustments. Transaction costs incurred in connection with the acquisition were not significant and have been recorded in general and administrative expenses.

**Table of Contents**

As shown below, the Company recorded \$14.7 million of goodwill which is not deductible for tax purposes. The Company believes the acquisition of Soberlink provides strategic benefits and synergies with BI's existing electronic monitoring services. These factors contributed to the goodwill that was recorded upon consummation of the transaction. The goodwill and net assets are included in the GEO Care business segment. Revenues and earnings from Soberlink from the date of acquisition through September 30, 2015 were not significant. Intangible assets consist of technology with an estimated useful life of 8 years and a customer relationship with an estimated useful life of 20 years.

The purchase price of approximately \$24.4 million has been preliminarily allocated to the estimated fair values of the assets acquired and liabilities assumed as of May 18, 2015 as follows (in '000's):

Accounts receivable and other current assets	\$ 295
Inventory	385
Intangible assets	15,200
Total assets acquired	15,880
Accounts payable	18
Deferred tax and other tax liabilities	6,176
Total identifiable net assets	9,686
Goodwill	14,716
Total consideration paid	\$ 24,402

Additionally, the Company has provided a loan in the amount of \$2.2 million to an entity ( Soberlink Healthcare, LLC ) owned by the former shareholders of Soberlink. The loan matures on May 19, 2019 and bears interest at 10.00%. Proceeds from the loan were used by the seller to fund certain research and development activities of another entity owned by the former shareholders ( DevCo, LLC ). The Company has also entered into a license and development agreement with DevCo, LLC whereby the Company will pay an annual fee of \$1.3 million in exchange for a lifetime, royalty free right to use any improvements to the existing technology resident in the product that Soberlink sells. The Company has determined that it has an implicit variable interest in DevCo, LLC and that DevCo, LLC is a variable interest entity. However, the Company has determined that it is not the primary beneficiary of DevCo, LLC since it does not have the power to direct the activities of DevCo, LLC that most significantly impact DevCo, LLC's economic performance. Nor does the Company have the obligation to absorb the losses of DevCo, LLC. Therefore, the Company does not consolidate this entity. The Company also has determined that Soberlink Healthcare, LLC. is a variable interest entity but the Company is not the primary beneficiary as it does not have the power to direct the activities of Soberlink Healthcare, LLC that most significantly impact its performance. Nor does the Company have the obligation to absorb the losses of Soberlink Healthcare, LLC. Therefore, the Company also does not consolidate this entity.

**LCS Corrections Services, Inc.**

On February 17, 2015, the Company acquired eight correctional and detention facilities (the LCS Facilities ) totaling more than 6,500 beds from LCS Corrections Services, Inc., a privately-held owner and operator of correctional and detention facilities in the United States, and its affiliates (collectively, LCS ). Pursuant to the terms of the definitive asset purchase agreement signed on January 26, 2015, the Company acquired the LCS Facilities for approximately

\$307.4 million at closing in an all cash transaction, excluding transaction related expenses of approximately \$2.1 million that were recorded as general and

**Table of Contents**

administrative expense during the nine months ended September 30, 2015. The Company also acquired certain tangible and intangible assets and assumed certain accounts payable and accrued expenses pursuant to the asset purchase agreement. Additionally, LCS has the opportunity to receive an additional payment if the LCS Facilities exceed certain performance targets over an 18-month period ending August 31, 2016 (the Earnout Payment). The aggregate amount of the purchase price paid at closing and the Earnout Payment, if achieved, will not exceed \$350 million. This contingent payment had zero fair value ascribed at the date of acquisition since management believes that it is a remote possibility that such payment will be made. Approximately \$298 million of outstanding debt related to the facilities was repaid at closing using the cash consideration paid by the Company. The Company did not assume any debt as a result of the transaction. The Company financed the acquisition of the LCS Facilities with borrowings under its revolving credit facility.

The allocation of the purchase price for this transaction has not yet been finalized. The primary areas of the preliminary purchase price allocations that are not yet finalized primarily relate to the fair value of certain tangible assets and liabilities that were assumed. The Company expects to continue to obtain information to assist it in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition. During the measurement period, the Company has made \$0.1 million in aggregate retrospective adjustments to provisional amounts recognized at the acquisition date, that if known, would have affected the measurement of the amounts recognized at that date. These adjustments primarily related to working capital adjustments.

The purchase price of \$307.4 million has been preliminarily allocated to the estimated fair values of the assets acquired and liabilities assumed as of February 17, 2015 as follows (in 000 s):

Accounts receivable	\$ 9,338
Prepaid expenses and other current assets	183
Property and equipment	119,726
Intangible assets	73,200
<b>Total assets acquired</b>	<b>202,447</b>
Accounts payable and accrued expenses	2,442
<b>Total identifiable net assets</b>	<b>200,005</b>
Goodwill	107,398
<b>Total consideration paid</b>	<b>\$ 307,403</b>

As shown above, the Company recorded \$107.4 million of goodwill which is fully deductible for tax purposes. The Company believes its acquisition of the LCS Facilities provides synergies and strategic benefits which further position the Company to meet the demand for correctional and detention bed space in the United States. These factors contributed to the goodwill that was recorded upon consummation of the transaction. The goodwill and net assets acquired are included in the U.S. Corrections & Detention business segment. Revenues and earnings for LCS from the date of acquisition through September 30, 2015 were not significant in relation to the Company's total consolidated revenues and earnings.



Identifiable intangible assets purchased consist of facility management contracts and have an estimated useful life of 20 years.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill as a result of its business combinations. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the tangible assets and intangible assets acquired net of liabilities assumed, including noncontrolling interests. Changes in the Company's goodwill balances from December 31, 2014 to September 30, 2015 are as follows (in thousands):

	December 31, 2014	Acquisitions	Foreign Currency Translation	September 30, 2015
U.S. Corrections & Detention	\$ 170,376	\$ 107,398	\$	\$ 277,774
GEO Care	323,047	14,716		337,763
International Services	467		(67)	400
Total Goodwill	\$ 493,890	122,114	\$ (67)	\$ 615,937

**Table of Contents**

The Company has also recorded other finite and indefinite-lived intangible assets as a result of its various business combinations. Acquisitions completed in the first nine months of 2015 as discussed above in Note 2 - Business Combinations also led to additions to intangible assets. The Company's intangible assets include customer relationships, facility management contracts, trade names and technology, as follows (in thousands):

	Weighted Average Useful Life (years)	September 30, 2015			December 31, 2014		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Facility management contracts and customer relationships	15.6	\$ 233,162	\$ (67,640)	\$ 165,522	\$ 154,591	\$ (56,396)	\$ 98,195
Technology	7.3	33,700	(15,095)	18,605	24,000	(12,120)	11,880
Trade name (Indefinite lived)	Indefinite	45,200		45,200	45,200		45,200
Total acquired intangible assets		\$ 312,062	\$ (82,735)	\$ 229,327	\$ 223,791	\$ (68,516)	\$ 155,275

Amortization expense was \$5.1 million and \$14.2 million for the three and nine months ended September 30, 2015, respectively. Amortization expense was \$3.9 million and \$11.3 million for the three and nine months ended September 30, 2014, respectively. Amortization expense was primarily related to the U.S. Corrections & Detention and GEO Care segments' amortization of acquired facility management contracts. As of September 30, 2015, the weighted average period before the next contract renewal or extension for the acquired facility management contracts was approximately 1.9 years. Although the facility management contracts acquired have renewal and extension terms in the near term, the Company has historically maintained these relationships beyond the current contractual periods. The acquired contracts in the acquisition of the LCS Facilities do not have contract expiration dates and are perpetual in nature.

Estimated amortization expense related to the Company's finite-lived intangible assets for the remainder of 2015 through 2019 and thereafter is as follows (in thousands):

Fiscal Year	Total Amortization Expense
Remainder of 2015	\$ 4,904
2016	20,359
2017	20,327
2018	17,468
2019	17,140
Thereafter	103,929
	\$ 184,127



**Table of Contents****4. FINANCIAL INSTRUMENTS**

The following tables provide a summary of the Company's significant financial assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2015 and December 31, 2014 (in thousands):

	<b>Fair Value Measurements at September 30, 2015</b>				
	<b>Carrying Value at September 30, 2015</b>	<b>Quoted Prices in Active Markets (Level 1)</b>		<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>					
<b>Restricted investment:</b>					
Rabbi Trust	\$ 12,459	\$	\$	12,459	\$
Fixed income securities	1,778			1,778	
Interest rate cap derivatives	210		\$	210	
<b>Liabilities:</b>					
Interest rate swap derivatives	\$ 22,113	\$	\$	22,113	\$

	<b>Fair Value Measurements at December 31, 2014</b>				
	<b>Carrying Value at December 31, 2014</b>	<b>Quoted Prices in Active Markets (Level 1)</b>		<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>					
<b>Restricted investments:</b>					
Rabbi Trust	\$ 11,281	\$	\$	11,281	\$
Fixed income securities	1,966			1,966	
Interest rate cap derivatives	570			570	
<b>Liabilities:</b>					
Interest rate swap derivatives	\$ 19,248	\$	\$	19,248	\$

The Company's Level 2 financial instruments included in the tables above as of September 30, 2015 and December 31, 2014 consist of interest rate swap derivative liabilities and interest rate cap derivative assets held by the Company's Australian subsidiary, the Company's rabbi trust established for GEO employee and employer contributions to the GEO Group, Inc. Non-qualified Deferred Compensation Plan and an investment in Canadian dollar denominated fixed income securities.

The Australian subsidiary's interest rate swap derivative liabilities and interest rate cap derivative assets are valued using a discounted cash flow model based on projected Australian borrowing rates. The Company's restricted investment in the rabbi trust is invested in Company owned life insurance policies which are recorded at their cash surrender values. These investments are valued based on the underlying investments held in the policies' separate account. The underlying assets are equity and fixed income pooled funds that are comprised of Level 1 and Level 2 securities. The Canadian dollar denominated securities, not actively traded, are valued using quoted rates for these and

similar securities.

**Table of Contents****5. FAIR VALUE OF ASSETS AND LIABILITIES**

The Company's consolidated balance sheets reflect certain financial assets and liabilities at carrying value. The carrying value of certain debt instruments, if applicable, is net of unamortized discount. The following tables present the carrying values of those financial instruments and the estimated corresponding fair values at September 30, 2015 and December 31, 2014 (in thousands):

**Estimated Fair Value Measurements at September 30, 2015**

	<b>Carrying Value as of September 30, 2015</b>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 47,131	\$ 47,131	\$ 47,131	\$	\$
Restricted cash	21,988	21,988	8,086	13,902	
<b>Liabilities:</b>					
Borrowings under senior credit facility	\$ 783,250	\$ 784,716	\$	\$ 784,716	\$
5.875% Senior Notes due 2024	250,000	253,438		253,438	
5.125% Senior Notes	300,000	298,875		298,875	
5.875% Senior Notes due 2022	250,000	257,813		257,813	
6.625% Senior Notes	300,000	309,562		309,562	
Non-recourse debt, Australian subsidiary	141,984	142,379		142,379	
Other non-recourse debt, including current portion	48,815	51,436		51,436	

**Estimated Fair Value Measurements at December 31, 2014**

	<b>Carrying Value as of December 31, 2014</b>	<b>Total Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash and cash equivalents	\$ 41,337	\$ 41,337	\$ 41,337	\$	\$
Restricted cash	12,638	12,638	3,889	8,749	
<b>Liabilities:</b>					
Borrowings under senior credit facility	\$ 365,500	\$ 364,411	\$	\$ 364,411	\$
5.875% Senior Notes due 2024	250,000	256,720		256,720	
5.125% Senior Notes	300,000	296,814		296,814	
5.875% Senior Notes due 2022	250,000	256,720		256,720	
6.625% Senior Notes	300,000	315,750		315,750	
Non-recourse debt, Australian subsidiary	95,714	95,871		95,871	
Other non-recourse debt, including current portion	48,836	52,016		52,016	

The fair values of the Company's cash and cash equivalents, and restricted cash approximates the carrying values of these assets at September 30, 2015 and December 31, 2014. Restricted cash consists of money market funds, commercial paper and time deposits used for payments on the Company's non-recourse debt and asset replacement

funds contractually required to be maintained at the Company's Australian subsidiary. The fair value of the money market funds is based on quoted market prices (Level 1) and the fair value of commercial paper and time deposits is based on market prices for similar instruments (Level 2).

**Table of Contents**

The fair values of the Company's 5.875% senior unsecured notes due 2022 ( 5.875% Senior Notes due 2022 ), 5.875% senior unsecured notes due 2024 ( 5.875% Senior Notes due 2024 ), 6.625% senior unsecured notes due 2021 ( 6.625% Senior Notes ), and the 5.125% senior unsecured notes due 2023 ( 5.125% Senior Notes ), although not actively traded, are based on published financial data for these instruments. The fair values of the Company's non-recourse debt related to the Washington Economic Development Finance Authority ( WEDFA ) is based on market prices for similar instruments. The fair value of the non-recourse debt related to the Company's Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of borrowings under the senior credit facility is based on an estimate of trading value considering the Company's borrowing rate, the undrawn spread and similar instruments.

**6. SHAREHOLDERS' EQUITY**

The following table presents the changes in shareholders' equity that are attributable to the Company's shareholders and to noncontrolling interests (in thousands):

	Common shares Shares	Amount	Additional Paid-In Capital	Earnings in Excess of Distributions	Accumulated Other Comprehens Loss	Noncontrolling Interests	Total Shareholders Equity
<b>Balance, December 31, 2014</b>	74,191	\$ 742	\$ 866,056	\$ 206,342	\$ (27,461)	\$ 314	\$ 1,045,993
Proceeds from exercise of stock options	109		2,513				2,513
Tax benefit related to equity compensation			1,252				1,252
Stock-based compensation expense			8,602				8,602
Restricted stock granted	423	4	(4)				
Restricted stock canceled	(27)						
Dividends paid				(138,454)			(138,454)
Shares withheld for net settlements of share-based awards	(71)		(2,748)				(2,748)
Issuance of common stock - ESPP	9		321				321
Net income (loss)				95,374		(79)	95,295
Other comprehensive loss					(7,249)	(66)	(7,315)
<b>Balance, September 30, 2015</b>	74,634	\$ 746	\$ 875,992	\$ 163,262	\$ (34,710)	\$ 169	\$ 1,005,459

During the nine months ended September 30, 2015, the Company withheld shares through net share settlements to



satisfy minimum statutory tax withholding requirements upon vesting of shares of restricted stock held by employees.

***REIT Distributions***

As a REIT, GEO is required to distribute annually at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) and began paying regular quarterly REIT dividends in 2013. The amount, timing and frequency of future dividends, however, will be at the sole discretion of GEO's Board of Directors (the Board) and will be declared based upon various factors, many of which are beyond GEO's control, including, GEO's financial condition and operating cash flows, the amount required to maintain REIT status and reduce any income taxes that GEO otherwise would be required to pay, limitations on distributions in GEO's existing and future debt instruments, limitations on GEO's ability to fund distributions using cash generated through GEO's taxable REIT subsidiaries ( TRSs ) and other factors that GEO's Board may deem relevant.

**Table of Contents**

During the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively, GEO declared and paid the following regular cash distributions to its shareholders as follows:

Declaration Date	Record Date	Payment Due	Distribution Per Share	Aggregate Payment Amount (in millions)
February 18, 2014	March 3, 2014	March 14, 2014	\$ 0.57	\$ 41.1
April 28, 2014	May 15, 2014	May 27, 2014	\$ 0.57	\$ 41.5
August 5, 2014	August 18, 2014	August 29, 2014	\$ 0.57	\$ 41.4
November 5, 2014	November 17, 2014	November 26, 2014	\$ 0.62	\$ 46.0
February 6, 2015	February 17, 2015	February 27, 2015	\$ 0.62	\$ 46.0
April 29, 2015	May 11, 2015	May 21, 2015	\$ 0.62	\$ 46.3
July 31, 2015	August 14, 2015	August 24, 2015	\$ 0.62	\$ 46.3

**Prospectus Supplement**

On May 8, 2013, the Company filed with the Securities and Exchange Commission a prospectus supplement related to the offer and sale from time to time of the Company's common stock at an aggregate offering price of up to \$100.0 million through sales agents. Sales of shares of the Company's common stock under the prospectus supplement and equity distribution agreements entered into with the sales agents, if any, were to be made in negotiated transactions or transactions that were deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. On July 18, 2014, the Company filed with the Securities and Exchange Commission a post-effective amendment to its shelf registration statement on Form S-3 (pursuant to which the prospectus supplement had been filed) as a result of the merger of the Company into GEO REIT effective June 27, 2014. During the year ended December 31, 2014, there were approximately 1.5 million shares of common stock sold under the prospectus supplement for net proceeds of \$54.7 million. There were no shares of the Company's common stock sold under the prospectus supplement during the nine months ended September 30, 2015.

In September 2014, the Company filed with the Securities and Exchange Commission a new automatic shelf registration statement on Form S-3. On November 10, 2014, in connection with the new shelf registration, the Company filed with the Securities and Exchange Commission a new prospectus supplement related to the offer and sale from time to time of the Company's common stock at an aggregate offering price of up to \$150.0 million through sales agents. Sales of shares of the Company's common stock under the prospectus supplement and the equity distribution agreements entered into with the sales agents, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. There were no shares of the Company's stock issued under this prospectus supplement during the year ended December 31, 2014 nor the nine months ended September 30, 2015.

**Comprehensive Income (Loss)**

Comprehensive income (loss) represents the change in shareholders' equity from transactions and other events and circumstances arising from non-shareholder sources. The Company's total comprehensive income is comprised of net income attributable to GEO, net income attributable to noncontrolling interests, foreign currency translation adjustments that arise from consolidating foreign operations that do not impact cash flows, net unrealized gains and/or losses on derivative instruments, and pension liability adjustments within shareholders' equity and comprehensive income (loss).



**Table of Contents**

The components of accumulated other comprehensive income (loss) attributable to GEO within shareholders' equity are as follows:

	Nine Months Ended September 30, 2015 (In thousands)			
	Foreign currency translation adjustments, net of tax attributable to The GEO Group, Inc. (1)	Unrealized (loss)/gain on derivatives, net of tax	Pension adjustments, net of tax	Total
Balance, December 31, 2014	\$ (6,903)	\$ (16,322)	\$ (4,236)	\$ (27,461)
Current-period other comprehensive (loss) income	(4,916)	(2,453)	120	(7,249)
Balance, September 30, 2015	\$ (11,819)	\$ (18,775)	\$ (4,116)	\$ (34,710)

(1) The foreign currency translation related to noncontrolling interests was not significant at September 30, 2015 or December 31, 2014.

**7. EQUITY INCENTIVE PLANS**

The Board has adopted The GEO Group, Inc. 2014 Stock Incentive Plan (the "2014 Plan"), which was approved by the Company's shareholders on May 2, 2014. The 2014 Plan replaced the 2006 Stock Incentive Plan (the "2006 Plan"). As of the date the 2014 Plan was adopted, it provided for a reserve of 3,083,353 shares, which consisted of 2,000,000 new shares of common stock available for issuance and 1,083,353 shares of common stock that were available for issuance under the 2006 Plan prior to the 2014 Plan replacing it. The Company filed a Form S-8 registration statement related to the 2014 Plan on June 4, 2014, which was amended on July 18, 2014.

**Stock Options**

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. For options granted during the nine months ended September 30, 2015, the fair value was estimated using the following assumptions: (i) volatility of 24%; (ii) expected term of 5.00 years; (iii) risk free interest rate of 1%; and (iv) expected dividend yield of 5.75%. A summary of the activity of stock option awards issued and outstanding under Company plans is as follows for the nine months ended September 30, 2015:

Shares	Wtd. Avg. Exercise	Wtd. Avg.	Aggregate Intrinsic
--------	-----------------------	--------------	------------------------

		<b>Price</b>	<b>Remaining Contractual Term (years)</b>	<b>Value</b>
	<b>(in thousands)</b>			<b>(in thousands)</b>
Options outstanding at December 31, 2014	664	\$ 23.89	6.77	\$ 10,935
Options granted	256	43.15		
Options exercised	(109)	22.63		
Options forfeited/canceled/expired	(35)	37.76		
Options outstanding at September 30, 2015	776	\$ 29.90	7.04	\$ 3,506
Options vested and expected to vest at September 30, 2015	737	\$ 29.41	6.94	\$ 3,498
Options exercisable at September 30, 2015	454	\$ 23.98	5.70	\$ 3,390

During the nine months ended September 30, 2015, the Company granted approximately 256,000 options to certain employees which had a weighted-average grant-date fair value of \$4.26 per share. For the nine months ended September 30, 2015 and September 30, 2014, the amount of stock-based compensation expense related to stock options was \$0.6 million and \$0.9 million, respectively. As of September 30, 2015, the Company had \$1.1 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 1.5 years.

**Table of Contents****Restricted Stock**

Compensation expense for nonvested stock awards is recorded over the vesting period based on the fair value at the date of grant. Generally, the restricted stock awards vest in equal increments over either a three or four-year period. The fair value of restricted stock awards, which do not contain a market-based vesting condition, is determined using the closing price of the Company's common stock on the date of grant. The Company has issued share-based awards with service-based, performance-based and market-based vesting criteria.

A summary of the activity of restricted stock outstanding is as follows for the nine months ended September 30, 2015:

	Shares (in thousands)	Wtd. Avg. Grant Date Fair Value
Restricted stock outstanding at December 31, 2014	724	\$ 30.97
Granted	423	45.83
Vested	(243)	24.52
Forfeited/canceled	(27)	38.13
Restricted stock outstanding at September 30, 2015	877	\$ 39.69

During the nine months ended September 30, 2015, the Company granted approximately 423,000 shares of restricted stock to certain employees and executive officers. Of these awards, 148,500 are market and performance-based awards which will be forfeited if the Company does not achieve certain annual metrics during 2015, 2016 and 2017.

The vesting of these performance-based restricted stock grants are subject to the achievement by GEO of two annual performance metrics as follows: (i) up to 75% of the shares of restricted stock ( TSR Target Award ) can vest at the end of a three-year performance period if GEO meets certain total shareholder return ( TSR ) performance targets, as compared to the total shareholder return of a peer group of companies, during 2015, 2016 and 2017 and (ii) up to 25% of the shares of restricted stock ( ROCE Target Award ) can vest at the end of a three-year period if GEO meets certain return on capital employed ( ROCE ) performance targets in 2015, 2016 and 2017. These market and performance awards can vest at between 0% and 200% of the target awards for both metrics. The number of shares shown for the performance-based awards is based on the target awards for both metrics.

The metric related to ROCE is considered to be a performance condition. For share-based awards that contain a performance condition, the achievement of the targets must be probable before any share-based compensation expense is recorded. The Company reviews the likelihood of which target in the range will be achieved and if deemed probable, compensation expense is recorded at that time. If subsequent to initial measurement there is a change in the estimate of the probability of meeting the performance condition, the effect of the change in the estimated quantity of awards expected to vest is recognized by cumulatively adjusting compensation expense. If ultimately the performance targets are not met, for any awards where vesting was previously deemed probable, previously recognized compensation expense will be reversed in the period in which vesting is no longer deemed probable. The fair value of these awards was determined based on the closing price of the Company's common stock on the date of grant.

The metric related to TSR is considered to be a market condition. For share-based awards that contain a market condition, the probability of satisfying the market condition must be considered in the estimate of grant-date fair value and previously recorded compensation expense is not reversed if the market condition is never met. The fair value of these awards was determined based on a Monte Carlo simulation, which calculates a range of possible outcomes and the probabilities that they will occur, using the following key assumptions: (i) volatility of 21.3% to 21.4%; (ii) beta of 0.81 to 0.74; and (iii) risk free rates of 0.85% to 1.00%.

For the nine months ended September 30, 2015 and September 30, 2014, the Company recognized \$8.0 million and \$5.4 million, respectively, of compensation expense related to its restricted stock awards. As of September 30, 2015, the Company

**Table of Contents**

had \$25.3 million of unrecognized compensation costs related to non-vested restricted stock awards, including non-vested restricted stock awards with performance-based and market-based vesting, that are expected to be recognized over a weighted average period of 1.3 years.

**Employee Stock Purchase Plan**

The Company previously adopted The GEO Group Inc. 2011 Employee Stock Purchase Plan (the Plan) which was approved by the Company's shareholders. The purpose of the Plan, which is qualified under Section 423 of the Internal Revenue Service Code of 1986, as amended, is to encourage stock ownership through payroll deductions by the employees of GEO and designated subsidiaries of GEO in order to increase their identification with the Company's goals and secure a proprietary interest in the Company's success. These deductions are used to purchase shares of the Company's common stock at a 5% discount from the then current market price. The Company has made available up to 500,000 shares of its common stock, which were registered with the Securities and Exchange Commission on May 4, 2012, as amended on July 18, 2014, for sale to eligible employees under the Plan.

The Plan is considered to be non-compensatory. As such, there is no compensation expense required to be recognized. Share purchases under the Plan are made on the last day of each month. During the nine months ended September 30, 2015, 9,076 shares of the Company's common stock were issued in connection with the Plan.



**Table of Contents****8. EARNINGS PER SHARE**

Basic earnings per common share is computed by dividing the net income from continuing operations attributable to The GEO Group, Inc. shareholders by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per common share except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share were calculated for the three and nine months ended September 30, 2015 and September 30, 2014 as follows (in thousands, except per share data):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>September 30, 2014</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Net income	\$ 38,291	\$ 38,965	\$ 95,295	\$ 105,859
Net income loss attributable to noncontrolling interests	21	26	79	20
Net income attributable to The GEO Group, Inc.	38,312	38,991	95,374	105,879
Basic earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	73,757	72,380	73,658	71,862
Per share amount	\$ 0.52	\$ 0.54	\$ 1.29	\$ 1.47
Diluted earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	73,757	72,380	73,658	71,862
Dilutive effect of equity incentive plans	162	257	248	268
Weighted average shares assuming dilution	73,919	72,637	73,906	72,130
Per share amount	\$ 0.52	\$ 0.54	\$ 1.29	\$ 1.47

**Three Months**

For the three months ended September 30, 2015, 403,695 weighted average shares of common stock underlying options were excluded from the computation of diluted earnings per share ( EPS ) because the effect would be anti-dilutive. There were 258,688 common stock equivalents from restricted shares that were anti-dilutive.

For the three months ended September 30, 2014, no shares of common stock underling options or restricted stock were anti-dilutive.

**Nine Months**

For the nine months ended September 30, 2015, 192,079 weighted average shares of common stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive. There were 201,102 common stock equivalents from restricted shares that were anti-dilutive.

For the nine months ended September 30, 2014, 165,965 weighted average shares of common stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive. There were 288 common stock equivalents from restricted shares that were anti-dilutive.

## **9. DERIVATIVE FINANCIAL INSTRUMENTS**

The Company's primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in interest rates. The Company measures its derivative financial instruments at fair value.

### *Australia - Fulham*

The Company's Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on its variable rate non-recourse debt (related to its Fulham facility) to 9.7%. The Company has determined the swap, which has a notional amount of AUD 50.9 million, payment and expiration dates, and call provisions that coincide with the terms of the non-recourse debt,

---

**Table of Contents**

to be an effective cash flow hedge. Accordingly, the Company records the change in the fair value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. Total unrealized gains recorded in other comprehensive income, net of tax, related to this cash flow hedge were not significant for the nine months ended September 30, 2015 and 2014. The total fair value of the swap liability was not significant as of September 30, 2015 and December 31, 2014, respectively, and is recorded as a component of other non-current liabilities within the accompanying consolidated balance sheets. There was no material ineffectiveness of this interest rate swap for the periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

*Australia - Ravenhall*

In September 2014, the Company's Australian subsidiary entered into interest rate swap agreements to fix the interest rate on its variable rate non-recourse debt related to a prison project in Ravenhall, a locality near Melbourne, Australia to 3.3% during the design and construction phase and 4.2% during the project's operating phase. The swaps' notional amounts coincide with construction draw fixed commitments throughout the project. At September 30, 2015, the swaps had a notional value of approximately AUD 188.9 million, or \$131.8 million, based on exchange rates at September 30, 2015, related to the outstanding draws for the design and construction phase and approximately AUD 466.3 million, or \$325.4 million, based on exchange rates at September 30, 2015 related to future construction draws. The Company has determined that the swaps have payment, expiration dates, and provisions that coincide with the terms of the non-recourse debt and are therefore considered to be effective cash flow hedges. Accordingly, the Company records the change in the fair value of the interest rate swaps in accumulated other comprehensive income, net of applicable income taxes. Total unrealized loss recorded in other comprehensive income, net of tax, related to this cash flow hedge was approximately \$2.5 million during the nine months ended September 30, 2015. The total fair value of the swap liability as of September 30, 2015 was \$22.0 million and is recorded as a component of Other Non-Current liabilities within the accompanying consolidated balance sheet. There was no material ineffectiveness for the periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with these swaps currently reported in accumulated other comprehensive income (loss).

Additionally, upon completion and commercial acceptance of the prison project, the Department of Justice in the State of Victoria (the State) in accordance with the prison contract, will make a lump sum payment of AUD 310 million, or \$216.3 million, based on exchange rates at September 30, 2015, towards a portion of the outstanding principal of the non-recourse debt. The Company's Australian subsidiary also entered into interest rate cap agreements in September 2014 giving the Company the option to cap the interest rate on its variable non-recourse debt related to the project in the event that the completion of the prison project is delayed which could delay the State's payment. The Company paid \$1.7 million for the interest rate cap agreements. These instruments do not meet the requirements for hedge accounting, and therefore, changes in fair value of the interest rate caps are recorded in earnings. During the nine months ended September 30, 2015, the Company recorded a loss of approximately \$0.3 million related to a decrease in the fair value of the interest rate cap assets. As of September 30, 2015, the interest rate cap assets had a fair value of \$0.2 million which is included in Other Non-Current Assets in the accompanying consolidated balance sheet.

**Table of Contents****10. DEBT**

Debt outstanding as of September 30, 2015 and December 31, 2014 consisted of the following (in thousands):

	September 30, 2015	December 31, 2014
<b>Senior Credit Facility:</b>		
Term loan	\$ 293,250	\$ 295,500
Revolver	490,000	70,000
<b>Total Senior Credit Facility</b>	<b>\$ 783,250</b>	<b>\$ 365,500</b>
<b>5.875% Senior Notes</b>		
Notes Due in 2024	250,000	250,000
<b>5.125% Senior Notes:</b>		
Notes due in 2023	300,000	300,000
<b>5.875% Senior Notes</b>		
Notes Due in 2022	250,000	250,000
<b>6.625% Senior Notes:</b>		
Notes due in 2021	300,000	300,000
<b>Non-Recourse Debt:</b>		
Non-Recourse Debt	191,384	145,262
Unamortized discount on non-recourse debt	(585)	(712)
<b>Total Non-Recourse Debt</b>	<b>190,799</b>	<b>144,550</b>
Capital Lease Obligations	10,132	10,924
Other debt	1,011	421
<b>Total debt</b>	<b>2,085,192</b>	<b>1,621,395</b>
Current portion of capital lease obligations, long-term debt and non-recourse debt	(16,428)	(16,752)
Capital Lease Obligations, long-term portion	(8,992)	(9,856)
Non-Recourse Debt, long-term portion	(178,738)	(131,968)
<b>Long-Term Debt</b>	<b>\$ 1,881,034</b>	<b>\$ 1,462,819</b>

**Credit Agreement**

On August 27, 2014, the Company executed a second amended and restated credit agreement by and among the Company and GEO Corrections Holdings, Inc., as borrowers, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto (the Credit Agreement).

---

**Table of Contents**

The Credit Agreement evidences a credit facility (the *Credit Facility*) consisting of a \$296.3 million term loan (the *Term Loan*) bearing interest at LIBOR plus 2.50% (with a LIBOR floor of .75%), and a \$700.0 million revolving credit facility (the *Revolver*) initially bearing interest at LIBOR plus 2.25% (with no LIBOR floor) together with AUD 225.0 million available solely for the issuance of financial letters of credit and performance letters of credit, in each case denominated in Australian Dollars (the *Australian LC Facility*). At September 30, 2015, the Company had approximately AUD 215 million in letters of credit outstanding under the Australian LC Facility in connection with certain performance and financing guarantees related to the Ravenhall prison project in Australia. Amounts to be borrowed by the Company under the Credit Agreement are subject to the satisfaction of customary conditions to borrowing. The Revolver component is scheduled to mature on August 27, 2019 and the Term Loan component is scheduled to mature on April 3, 2020.

The Credit Agreement contains certain customary representations and warranties, and certain customary covenants that restrict the Company's ability to, among other things (i) create, incur or assume any indebtedness, (ii) create, incur, assume or permit liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) make certain restricted payments, (vi) issue, sell or otherwise dispose of capital stock, (vii) engage in transactions with affiliates, (viii) allow the total leverage ratio to exceed 5.75 to 1.00, allow the senior secured leverage ratio to exceed 3.50 to 1.00 or allow the interest coverage ratio to be less than 3.00 to 1.00, (ix) cancel, forgive, make any voluntary or optional payment or prepayment on, or redeem or acquire for value any senior notes, except as permitted, (x) alter the business the Company conducts, and (xi) materially impair the Company's lenders' security interests in the collateral for its loans. The restricted payments covenant remains consistent with the Company's election to be treated as a real estate investment trust under the Internal Revenue Code of 1986, effective as of January 1, 2013.

Events of default under the Credit Agreement include, but are not limited to, (i) the Company's failure to pay principal or interest when due, (ii) the Company's material breach of any representation or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) certain material environmental liability claims which have been asserted against the Company, and (viii) a change in control. The Company was in compliance with all of the covenants of the Credit Agreement as of September 30, 2015.

All of the obligations under the Credit Agreement are unconditionally guaranteed by certain domestic subsidiaries of the Company and the Credit Agreement and the related guarantees are secured by a perfected first-priority pledge of substantially all of the Company's present and future tangible and intangible domestic assets and all present and future tangible and intangible domestic assets of each guarantor, including but not limited to a first-priority pledge of all of the outstanding capital stock owned by the Company and each guarantor in their domestic subsidiaries.

As of September 30, 2015, the Company had \$293.3 million in aggregate borrowings outstanding under the Term Loan, \$490.0 million in borrowings under the Revolver, and approximately \$58.1 million in letters of credit which left \$151.9 million in additional borrowing capacity under the Revolver. The weighted average interest rate on outstanding borrowings under the Credit Agreement as of September 30, 2015 was 2.8%.

***5.875% Senior Notes due 2024***

Interest on the 5.875% Senior Notes due 2024 accrues at the stated rate. The Company pays interest semi-annually in arrears on April 15 and October 15 of each year. On or after October 15, 2019, the Company may, at its option, redeem all or part of the 5.875% Senior Notes due 2024 at the redemption prices set forth in the indenture governing the 5.875% Senior Notes due 2024. The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 15-Condensed Consolidating Financial Information). The Company was in compliance with all of the covenants of the indenture governing the 5.875% Senior Notes due 2024

as of September 30, 2015.

---

**Table of Contents*****5.125% Senior Notes due 2023***

Interest on the 5.125% Senior Notes accrues at the stated rate. The Company pays interest semi-annually in arrears on April 1 and October 1 of each year. On or after April 1, 2018, the Company may, at its option, redeem all or part of the 5.125% Senior Notes at the redemption prices set forth in the indenture governing the 5.125% Senior Notes. The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 15-Condensed Consolidating Financial Information). The Company was in compliance with all of the covenants of the indenture governing the 5.125% Senior Notes as of September 30, 2015.

***5.875% Senior Notes due 2022***

Interest on the 5.875% Senior Notes due 2022 accrues at the stated rate. The Company pays interest semi-annually in arrears on January 15 and July 15 of each year. On or after January 15, 2017, the Company may, at its option, redeem all or part of the 5.875% Senior Notes due 2022 at the redemption prices set forth in the indenture governing the 5.875% Senior Notes due 2022. The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 15-Condensed Consolidating Financial Information). The Company was in compliance with all of the covenants of the indenture governing the 5.875% Senior Notes due 2022 as of September 30, 2015.

***6.625% Senior Notes due 2021***

Interest on the 6.625% Senior Notes accrues at the stated rate. The Company pays interest semi-annually in arrears on February 15 and August 15 of each year. On or after February 15, 2016, the Company may, at its option, redeem all or part of the 6.625% Senior Notes at the redemption prices set forth in the indenture governing the 6.625% Senior Notes. The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 15-Condensed Consolidating Financial Information). The Company was in compliance with all of the covenants of the indenture governing the 6.625% Senior Notes as of September 30, 2015.

***Non-Recourse Debt******Northwest Detention Center***

The remaining balance of the original debt service requirement under the \$54.4 million note payable ( 2011 Revenue Bonds ) to WEDFA will mature in October 2021 with fixed coupon rates of 5.25%, is \$49.4 million, of which \$6.3 million is classified as current in the accompanying consolidated balance sheet as of September 30, 2015. The payment of principal and interest on the 2011 Revenue Bonds issued by WEDFA is non-recourse to GEO.

As of September 30, 2015, included in current restricted cash and investments and non-current restricted cash and investments is \$8.4 million of funds held in trust for debt service and other reserves with respect to the above mentioned note payable to WEDFA.

***Australia - Fulham***

The non-recourse obligation of the Company totaled \$10.0 million (AUD 14.3 million) and \$16.4 million (AUD 20.1 million), based on the exchange rates in effect at September 30, 2015 and December 31, 2014, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to

maintain a restricted cash balance of AUD 5.0 million, which, based on exchange rates as of September 30, 2015, was \$3.5 million. This amount is included in non-current restricted cash and investments and the annual maturities of the future debt obligation are included in Non-Recourse Debt in the accompanying consolidated balance sheets.



---

**Table of Contents***Australia - Ravenhall*

In connection with a new design and build prison project agreement with the State, the Company entered into a syndicated facility agreement (the Construction Facility ) with National Australia Bank Limited to provide debt financing for construction of the project. The Construction Facility provides for non-recourse funding up to AUD 791.0 million, or \$552.0 million, based on exchange rates as of September 30, 2015. Construction draws will be funded throughout the project according to a fixed utilization schedule as defined in the syndicated facility agreement. The term of the Construction Facility is through October 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. Upon completion of the prison, the Construction Facility will be converted to a term loan with payments due quarterly beginning in 2018 through 2041. In accordance with the terms of the Construction Facility, upon completion and commercial acceptance of the prison, in accordance with the prison contract, the State will make a lump sum payment of AUD 310 million, or \$216.3 million, based on exchange rates as of September 30, 2015, towards a portion of the outstanding principal. The remaining outstanding principal balance will be repaid over the term of the operating agreement. As of September 30, 2015, \$132.0 million was outstanding under the Construction Facility. The Company also entered into interest rate swap and interest rate cap agreements related to its non-recourse debt in connection with the project. Refer to Note 9 - Derivative Financial Instruments.

***Guarantees****Australia*

The Company has entered into certain guarantees in connection with the financing and construction performance of a facility in Australia. The obligations amounted to approximately AUD 215.0 million, or \$150.0 million, based on exchange rates as of September 30, 2015. These guarantees are secured by outstanding letters of credit under the Company's Revolver as of September 30, 2015.

At September 30, 2015, the Company also had ten other letters of credit outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$12.8 million.

*South Africa*

In connection with the creation of South African Custodial Services Pty. Limited ( SACS ), the Company entered into certain guarantees related to the financing, construction and operation of the prison. As of September 30, 2015, the Company guaranteed obligations amounting to 16.7 million South African Rand, or \$1.2 million based on exchange rates as of September 30, 2015. In the event SACS is unable to maintain the required funding in a rectification account maintained for the payment of certain costs in the event of contract termination, a previously existing guarantee by the Company for the shortfall will need to be re-instated. The remaining guarantee of 16.7 million South African Rand is secured by outstanding letters of credit under the Company's Revolver as of September 30, 2015.

In addition to the above, the Company has also agreed to provide a loan, if required, of up to 20 million South African Rand, or \$1.4 million based on exchange rates as of September 30, 2015, referred to as the Shareholder's Loan, to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under the standby facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company's obligations under the Shareholder's Loan expire upon the earlier of full funding or SACS' release from its obligations under its debt agreements. SACS' ability to draw on the Shareholder's Loan is limited to certain circumstances, including termination of the contract.

The Company has also guaranteed certain obligations of SACS to the security trustee for SACS lenders. The Company secured its guarantee to the security trustee by ceding its rights to claims against SACS in respect of any loans or other finance agreements, and by pledging the Company's shares in SACS. The Company's liability under the guarantee is limited to the cession and pledge of shares. The guarantee expires upon expiration of the cession and pledge agreements.

*Canada*

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a trust. The potential estimated exposure of these obligations is Canadian Dollar 1.5 million, or \$1.1 million, based on exchange rates as of September 30, 2015, commencing in 2017. The liability related to this exposure is included in Other Non-Current Liabilities as of September 30, 2015 and December 31, 2014, respectively. To secure this

---

**Table of Contents**

guarantee, the Company purchased Canadian Dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset equal to the current fair value of those securities included in Other Non-Current Assets as of September 30, 2015 and December 31, 2014 on its consolidated balance sheets. The Company does not currently operate or manage this facility.

*United Kingdom*

In connection with the creation of GEOAmeY, the Company and its joint venture partner guarantee the availability of working capital in equal proportion to ensure that GEOAmeY can comply with current and future contractual commitments related to the performance of its operations. The Company and the 50% joint venture partner have each extended a £12 million line of credit of which £9.5 million, or \$14.4 million, based on exchange rates as of September 30, 2015, was outstanding as of September 30, 2015. The Company's maximum exposure relative to the joint venture is its note receivable of \$14.4 million, which is included in Other Non-Current Assets in the accompanying consolidated balance sheets, and future financial support necessary to guarantee performance under the contract.

Except as discussed above, the Company does not have any off balance sheet arrangements.

**11. COMMITMENTS, CONTINGENCIES AND OTHER***Litigation, Claims and Assessments*

The nature of the Company's business exposes it to various types of third-party legal claims or litigation against the Company, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, product liability claims, intellectual property infringement claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, indemnification claims by its customers and other third parties, contractual claims and claims for personal injury or other damages resulting from contact with the Company's facilities, programs, electronic monitoring products, personnel or prisoners, including damages arising from a prisoner's escape or from a disturbance or riot at a facility. The Company does not expect the outcome of any pending claims or legal proceedings to have a material adverse effect on its financial condition, results of operations or cash flows.

*Employment Agreement*

On June 1, 2015, GEO and Mr. George C. Zoley, the Company's Chief Executive Officer, entered into a Third Amendment to the Third Amended and Restated Executive Employment Agreement, effective as of June 1, 2015 (the Amendment). The Amendment modifies Mr. Zoley's employment agreement by decreasing his annual base salary from \$1.215 million to \$1.0 million and increasing the maximum target annual performance award he may receive from 100% of his annual base salary to 150% of his annual base salary. Additionally, on May 14, 2015, a grant of 25,000 shares of performance-based restricted stock was made to Mr. Zoley with the same performance metrics and vesting schedule as the shares of performance-based restricted stock granted to him on February 5, 2015.

*Commitments*

The Company currently has contractual commitments for a number of projects using Company financing. The Company's management estimates that the cost of these existing capital projects will be approximately \$159 million of which \$51 million was spent through the first nine months of 2015. The Company estimates the remaining capital

requirements related to these capital projects will be \$108 million which will be spent through 2017. Included in these commitments is a contractual commitment to provide a capital contribution towards the design and construction of a prison project in Ravenhall, a locality near Melbourne, Australia, which is estimated to be \$80.2 million as of September 30, 2015. This capital contribution is expected to be made in January 2017.

## **Table of Contents**

Additionally, in connection with the Ravenhall Prison Project, the Company has a contractual commitment for construction of the facility and has entered into a syndicated facility agreement with National Australia Bank Limited to provide funding for the project up to AUD 791 million, or \$552.0 million, based on exchange rates as of September 30, 2015. Refer to Note 10 - Debt.

### ***Contract Awards***

On July 6, 2015, GEO announced the activation of three company-owned facilities totaling 4,320 beds in Oklahoma, Michigan, and California

On October 1, 2015, GEO announced the signing of a new contract with U.S. Immigration and Customs Enforcement ( ICE ) for the continued management of the company-owned, 1,575-bed Northwest Detention Center (the Center ) in Tacoma, Washington. The contract for the continued management of the Center will have a term of nine years and six months inclusive of renewal options.

On October 28, 2015, GEO announced that it will assume management of the 3,400-bed Arizona State Prison-Kingman in Kingman, Arizona on December 1, 2015 under a managed-only contract with the Arizona Department of Corrections effective through February 2023. The facility currently houses approximately 1,700 inmates and is expected to ramp up through end of the first quarter of 2016.

The Company also recently signed new contracts with ICE for the continued management of its company-owned, 700-bed Broward Transition Center in Pompano Beach, Florida.

The Company's GEO Care division was also recently awarded a five-year contract for the provision of community-based case management services under a new pilot program by the Department of Homeland Security for families going through the immigration review process.

### ***Idle Facilities***

The Company is currently marketing approximately 3,422 vacant beds at four of its idle facilities to potential customers. The carrying values of these idle facilities, which are included in Property and Equipment, Net in the accompanying consolidated balance sheets, totaled \$34.5 million as of September 30, 2015, excluding equipment and other assets that can be easily transferred for use at other facilities.

**Table of Contents****12. BUSINESS SEGMENTS AND GEOGRAPHIC INFORMATION*****Operating and Reporting Segments***

The Company conducts its business through four reportable business segments: the U.S. Corrections & Detention segment; the GEO Care segment; the International Services segment; and the Facility Construction & Design segment. The Company's segment revenues from external customers and a measure of segment profit are as follows (in thousands):

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
U.S. Corrections & Detention	\$ 320,526	\$ 281,550	\$ 910,465	\$ 824,448
GEO Care	86,517	86,610	248,531	245,723
International Services	38,031	50,874	117,228	154,843
Facility Construction & Design (1)	24,792	38,866	66,957	38,866
<b>Total revenues</b>	<b>\$ 469,866</b>	<b>\$ 457,900</b>	<b>\$ 1,343,181</b>	<b>\$ 1,263,880</b>
<b>Operating income:</b>				
U.S. Corrections & Detention	\$ 74,017	\$ 67,450	\$ 200,224	\$ 190,983
GEO Care	20,702	23,504	58,426	61,164
International Services	1,647	62	6,732	4,978
Facility Construction & Design (1)	407	589	1,359	589
<b>Operating income from segments</b>	<b>\$ 96,773</b>	<b>\$ 91,605</b>	<b>\$ 266,741</b>	<b>\$ 257,714</b>

- (1) In September 2014, the Company began the design and construction of a new prison contract located in Ravenhall, a locality near Melbourne, Australia. During the design and construction phase, the Company recognizes revenue as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total costs for the design and construction of the facility. Costs incurred and estimated earnings in excess of billings is classified as Contract Receivable in the accompanying consolidated balance sheets and is recorded at the net present value based on the timing of expected future settlement. A portion of the Contract Receivable will be paid by the State upon commercial acceptance of the prison and the remainder will be paid quarterly over the life of the contract. Refer to Note 9 - Derivative Financial Instruments and Note 10 - Debt for additional information.

***Pre-Tax Income Reconciliation of Segments***

The following is a reconciliation of the Company's total operating income from its reportable segments to the Company's income before income taxes and equity in earnings of affiliates (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Total operating income from segments	\$ 96,773	\$ 91,605	\$ 266,741	\$ 257,714
Unallocated amounts:				
General and Administrative Expenses	(33,742)	(28,287)	(97,764)	(84,937)
Net Interest Expense	(24,322)	(20,360)	(70,677)	(60,058)
Income before income taxes and equity in earnings of affiliates	\$ 38,709	\$ 42,958	\$ 98,300	\$ 112,719

### *Equity in Earnings of Affiliates*

Equity in earnings of affiliates includes the Company's 50% owned joint ventures in SACS, located in South Africa, and GEOAmev, located in the United Kingdom. The Company's investments in these entities are accounted for under the equity method of accounting. The Company's investments in these entities are presented as a component of Other Non-Current Assets in the accompanying consolidated balance sheets.

The Company has recorded \$1.2 million and \$3.4 million in earnings, net of tax, for SACS operations during the three and nine months ended September 30, 2015, respectively, and \$1.3 million and \$3.6 million in earnings, net of tax, for SACS operations during the three and nine months ended September 30, 2014, respectively, which are included in equity in earnings of affiliates, net of income tax provision in the accompanying consolidated statements of operations. As of September 30, 2015 and December 31, 2014, the Company's investment in SACS was \$9.9 million and \$8.0 million, respectively.

**Table of Contents**

The Company has recorded \$0.2 million and \$0.5 million in earnings, net of tax, for GEOAmeys operations during the three and nine months ended September 30, 2015, respectively, and \$0.3 million and \$0.6 million in earnings, net of tax, for GEOAmeys operations during the three and nine months September 30, 2014, respectively, which are included in equity in earnings of affiliates, net of income tax provision, in the accompanying consolidated statements of operations. As of September 30, 2015 and December 31, 2014, the Company's investment in GEOAmeys was \$(1.5) million and \$(2.2) million, respectively, and represents its share of cumulative reported losses. Losses in excess of the Company's investment have been recognized as the Company has provided certain loans and guarantees to provide financial support to GEOAmeys. Refer to Note 10 - Debt.

**13. BENEFIT PLANS**

The following table summarizes key information related to the Company's pension plans and retirement agreements (in thousands):

	<b>Nine Months Ended September 30, 2015</b>	<b>Year Ended December 2014</b>
<b>Change in Projected Benefit Obligation</b>		
Projected benefit obligation, beginning of period	\$ 25,826	\$ 20,032
Service cost	860	821
Interest cost	812	935
Actuarial loss		4,324
Benefits paid	(356)	(286)
Projected benefit obligation, end of period	\$ 27,142	\$ 25,826
<b>Change in Plan Assets</b>		
Plan assets at fair value, beginning of period	\$	\$
Company contributions	356	286
Benefits paid	(356)	(286)
Plan assets at fair value, end of period	\$	\$
<b>Unfunded Status of the Plan</b>	<b>\$ (27,142)</b>	<b>\$ (25,826)</b>

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2015</b>	<b>September 30, 2014</b>	<b>September 30, 2015</b>	<b>September 30, 2014</b>
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	\$ 293	\$ 307	\$ 860	\$ 613
Interest cost	271	351	812	701



Net loss	107	31	320	95
Net periodic pension cost	\$ 671	\$ 689	\$ 1,992	\$ 1,409

The long-term portion of the pension liability as of September 30, 2015 and December 31, 2014 was \$26.8 million and \$24.9 million, respectively, and is included in Other Non-Current Liabilities in the accompanying consolidated balance sheets.

#### 14. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2015-16, *Business Combinations*, which eliminates the requirement to restate prior period financial statements for measurement period adjustments following a business combination. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. The prior period impact of the adjustment should be either presented separately on the face of the income statement or disclosed in the notes. The amendments resulting from ASU No. 2015-16 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. The amendments in this update should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this update with earlier application permitted for financial statements that have not been issued. The implementation of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

---

**Table of Contents**

In August 2015, FASB issued ASU No. 2015-14 to delay the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers*, for public companies from annual periods beginning after December 15, 2016 to annual periods beginning after December 15, 2017. ASU No. 2014-09 clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards ( IFRS ). The Company is in the process of evaluating whether this standard would have a material impact on the Company's financial position, results of operations or cash flows.

In April 2015, FASB issued ASU No. 2015-03 *Interest-Imputation of Interest*, which is intended to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments resulting from ASU No. 2015-03 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 with early adoption permitted for financial statements that have not previously been issued. The guidance does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. In August 2015, FASB issued ASU No. 2015-15 *Interest-Imputation of Interest (Subtopic 835-30) Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting*, which states that given the absence of authoritative guidance within ASU No. 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The implementation of these standards are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2015, FASB issued ASU No. 2015-02 *Consolidation*, which modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ( VIEs ) or voting interest entities, eliminates the presumption that a general partner should consolidate a limited partnership, affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships and provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments resulting from ASU No. 2015-02 are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015 with early adoption permitted. The implementation of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

**Table of Contents**

**15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

As of September 30, 2015, the Company's 6.625% Senior Notes, 5.125% Senior Notes and each of the 5.875% Senior Notes were fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly-owned domestic subsidiaries (the "Subsidiary Guarantors"). The following condensed consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(d) of Regulation S-X promulgated under the Securities Act, presents the condensed consolidating financial information separately for:

- (i) The GEO Group, Inc., as the issuer of the notes;
- (ii) The Subsidiary Guarantors, on a combined basis, which are 100% owned by The GEO Group, Inc., and which are guarantors of the notes;
- (iii) The Company's other subsidiaries, on a combined basis, which are not guarantors of the notes (the "Non-Guarantor Subsidiaries");
- (iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Company, the Subsidiary Guarantors and the Subsidiary Non-Guarantors and (b) eliminate the investments in the Company's subsidiaries; and
- (v) The Company and its subsidiaries on a consolidated basis.

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)****(dollars in thousands)****(unaudited)****For the Three Months Ended September 30, 2015**

	<b>The GEO Group, Inc.</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ 175,353	\$ 369,004	\$ 65,388	\$ (139,879)	\$ 469,866
Operating expenses	142,002	288,303	55,540	(139,879)	345,966
Depreciation and amortization	6,007	20,002	1,118		27,127
General and administrative expenses	12,285	16,876	4,581		33,742
Operating income	15,059	43,823	4,149		63,031
Interest income	5,820	431	2,870	(6,129)	2,992
Interest expense	(15,419)	(14,320)	(3,704)	6,129	(27,314)
Income before income taxes and equity in earnings of affiliates	5,460	29,934	3,315		38,709
Income tax provision (benefit)		869	889		1,758
Equity in earnings of affiliates, net of income tax provision			1,340		1,340
Income (loss) before equity in income of consolidated subsidiaries	5,460	29,065	3,766		38,291
Income from consolidated subsidiaries, net of income tax provision	32,831			(32,831)	
Net income	38,291	29,065	3,766	(32,831)	38,291
Net loss attributable to noncontrolling interests			21		21
Net income attributable to The GEO Group, Inc.	\$ 38,291	\$ 29,065	\$ 3,787	\$ (32,831)	\$ 38,312
Net income	\$ 38,291	\$ 29,065	\$ 3,766	\$ (32,831)	\$ 38,291
Other comprehensive income (loss), net of tax		43	(6,484)		(6,441)
Total comprehensive income	\$ 38,291	\$ 29,108	\$ (2,718)	\$ (32,831)	\$ 31,850
			64		64

Comprehensive income attributable  
to noncontrolling interests

Comprehensive income (loss) attributable to The GEO Group, Inc.	\$ 38,291	\$ 29,108	\$ (2,654)	\$ (32,831)	\$ 31,914
--	-----------	-----------	------------	-------------	-----------

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)****(dollars in thousands)****(unaudited)****For the Three Months Ended September 30, 2014**

	<b>The GEO Group, Inc.</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ 141,631	\$ 337,769	\$ 92,300	\$ (113,800)	\$ 457,900
Operating expenses	115,580	257,645	82,791	(113,800)	342,216
Depreciation and amortization	6,395	16,554	1,130		24,079
General and administrative expenses	8,352	14,295	5,640		28,287
Operating income	11,304	49,275	2,739		63,318
Interest income	5,593	966	953	(6,464)	1,048
Interest expense	(11,716)	(14,258)	(1,898)	6,464	(21,408)
Income before income taxes and equity in earnings of affiliates	5,181	35,983	1,794		42,958
Income tax provision		4,528	1,009		5,537
Equity in earnings of affiliates, net of income tax provision			1,544		1,544
Income before equity in income of consolidated subsidiaries	5,181	31,455	2,329		38,965
Income from consolidated subsidiaries, net of income tax provision	33,784			(33,784)	
Net income	38,965	31,455	2,329	(33,784)	38,965
Net income attributable to noncontrolling interests			26		26
Net income attributable to The GEO Group, Inc.	\$ 38,965	\$ 31,455	\$ 2,355	\$ (33,784)	\$ 38,991
Net income	\$ 38,965	\$ 31,455	\$ 2,329	\$ (33,784)	\$ 38,965
Other comprehensive income (loss), net of tax		19	(8,002)		(7,983)
Total comprehensive income (loss)	\$ 38,965	\$ 31,474	\$ (5,673)	\$ (33,784)	\$ 30,982
			49		49

Comprehensive loss attributable to  
noncontrolling interests

Comprehensive income (loss) attributable to The GEO Group, Inc.	\$ 38,965	\$ 31,474	\$ (5,624)	\$ (33,784)	\$ 31,031
--	-----------	-----------	------------	-------------	-----------

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)****(dollars in thousands)****(unaudited)****For the Nine Months Ended September 30, 2015**

	<b>The GEO Group, Inc.</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ 481,102	\$ 1,076,373	\$ 191,876	\$ (406,170)	\$ 1,343,181
Operating expenses	399,557	843,498	160,927	(406,170)	997,812
Depreciation and amortization	18,592	56,881	3,155		78,628
General and administrative expenses	33,657	50,684	13,423		97,764
Operating income	29,296	125,310	14,371		168,977
Interest income	17,733	2,510	8,189	(20,499)	7,933
Interest expense	(45,264)	(43,700)	(10,145)	20,499	(78,610)
Income before income taxes and equity in earnings of affiliates	1,765	84,120	12,415		98,300
Income tax provision (benefit)	(62)	4,199	2,817		6,954
Equity in earnings of affiliates, net of income tax provision			3,949		3,949
Income before equity in income of consolidated subsidiaries	1,827	79,921	13,547		95,295
Income from consolidated subsidiaries, net of income tax provision	93,468			(93,468)	
Income from continuing operations	95,295	79,921	13,547	(93,468)	95,295
Net income	95,295	79,921	13,547	(93,468)	95,295
Net loss attributable to noncontrolling interests			79		79
Net income attributable to The GEO Group, Inc.	\$ 95,295	\$ 79,921	\$ 13,626	\$ (93,468)	\$ 95,374
Net income	\$ 95,295	\$ 79,921	\$ 13,547	\$ (93,468)	\$ 95,295
Other comprehensive income (loss), net of tax		120	(7,435)		(7,315)



Edgar Filing: GEO GROUP INC - Form 10-Q

Total comprehensive income	\$ 95,295	\$ 80,041	\$ 6,112	\$ (93,468)	\$ 87,980
Comprehensive income attributable to noncontrolling interests			145		145
Comprehensive income attributable to The GEO Group, Inc.	\$ 95,295	\$ 80,041	\$ 6,257	\$ (93,468)	\$ 88,125

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)****(dollars in thousands)****(unaudited)****For the Nine Months Ended September 30, 2014**

	<b>The GEO Group, Inc.</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ 415,468	\$ 980,181	\$ 201,391	\$ (333,160)	\$ 1,263,880
Operating expenses	333,992	760,159	173,206	(333,160)	934,197
Depreciation and amortization	19,242	49,357	3,370		71,969
General and administrative expenses	26,773	45,186	12,978		84,937
Operating income	35,461	125,479	11,837		172,777
Interest income	16,208	2,017	2,382	(18,003)	2,604
Interest expense	(33,913)	(41,379)	(5,373)	18,003	(62,662)
Income before income taxes and equity in earnings of affiliates	17,756	86,117	8,846		112,719
Income tax provision		8,493	2,569		11,062
Equity in earnings of affiliates, net of income tax provision			4,202		4,202
Income before equity in income of consolidated subsidiaries	17,756	77,624	10,479		105,859
Income from consolidated subsidiaries, net of income tax provision	88,103			(88,103)	
Net income	105,859	77,624	10,479	(88,103)	105,859
Net income attributable to noncontrolling interests			20		20
Net income attributable to The GEO Group, Inc.	\$ 105,859	\$ 77,624	\$ 10,499	\$ (88,103)	\$ 105,879
Net income	\$ 105,859	\$ 77,624	\$ 10,479	\$ (88,103)	\$ 105,859
Other comprehensive income (loss), net of tax		58	(6,359)		(6,301)
Total comprehensive income	\$ 105,859	\$ 77,682	\$ 4,120	\$ (88,103)	\$ 99,558

Comprehensive loss attributable to noncontrolling interests						51		51
---	--	--	--	--	--	----	--	----

Comprehensive income attributable to The GEO Group, Inc.	\$ 105,859	\$ 77,682	\$ 4,171	\$ (88,103)	\$ 99,609
--	------------	-----------	----------	-------------	-----------

**Table of Contents****CONDENSED CONSOLIDATING BALANCE SHEET****(dollars in thousands)****(unaudited)****As of September 30, 2015**

	<b>Combined Subsidiary</b>		<b>Combined Non-Guarantor</b>		<b>Eliminations</b>	<b>Consolidated</b>
	<b>The GEO Group, Inc.</b>	<b>Guarantors</b>	<b>Subsidiaries</b>			
<b>ASSETS</b>						
Cash and cash equivalents	\$ 14,378	\$ 2,373	\$ 30,380	\$	\$	\$ 47,131
Restricted cash and investments			8,389			8,389
Accounts receivable, less allowance for doubtful accounts	114,215	160,899	13,930			289,044
Current deferred income tax assets		21,694	4,227			25,921
Prepaid expenses and other current assets	4,087	19,275	11,048	(1,154)		33,256
<b>Total current assets</b>	<b>132,680</b>	<b>204,241</b>	<b>67,974</b>	<b>(1,154)</b>		<b>403,741</b>
Restricted Cash and Investments	127	15,236	10,695			26,058
Property and Equipment, Net	751,490	1,087,819	82,152			1,921,461
Contract Receivable			124,679			124,679
Direct Finance Lease Receivable			3,303			3,303
Intercompany Receivable	905,295	147,801		(1,053,096)		
Non-Current Deferred Income Tax Assets			5,873			5,873
Goodwill	90	615,448	399			615,937
Intangible Assets, Net		228,498	829			229,327
Investment in Subsidiaries	1,218,023	213,919		(1,431,942)		
Other Non-Current Assets	23,176	111,209	50,006	(80,154)		104,237
<b>Total Assets</b>	<b>\$ 3,030,881</b>	<b>\$ 2,624,171</b>	<b>\$ 345,910</b>	<b>\$ (2,566,346)</b>		<b>\$ 3,434,616</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Accounts payable	\$ 9,582	\$ 47,923	\$ 15,062	\$	\$	\$ 72,567
Accrued payroll and related taxes		25,788	13,886			39,674
Accrued expenses and other	39,077	74,655	14,971	(1,154)		127,549
Current portion of capital lease obligations, long-term debt and non-recourse debt	3,000	1,323	12,105			16,428
<b>Total current liabilities</b>	<b>51,659</b>	<b>149,689</b>	<b>56,024</b>	<b>(1,154)</b>		<b>256,218</b>

Non-Current Deferred Income Tax Liabilities	(1,310)	17,074	5		15,769
Intercompany Payable	91,350	961,000	746	(1,053,096)	
Other Non-Current Liabilities	2,858	142,544	23,158	(80,154)	88,406
Capital Lease Obligations		8,992			8,992
Long-Term Debt	1,881,034				1,881,034
Non-Recourse Debt			178,738		178,738
Commitments & Contingencies and Other					
Shareholders' Equity:					
The GEO Group, Inc. Shareholders' Equity	1,005,290	1,344,872	87,070	(1,431,942)	1,005,290
Noncontrolling Interests			169		169
Total Shareholders' Equity	1,005,290	1,344,872	87,239	(1,431,942)	1,005,459
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 3,030,881</b>	<b>\$ 2,624,171</b>	<b>\$ 345,910</b>	<b>\$ (2,566,346)</b>	<b>\$ 3,434,616</b>

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

(dollars in thousands)

	As of December 31, 2014				
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Cash and cash equivalents	\$ 18,492	\$ 782	\$ 22,063	\$	\$ 41,337
Restricted cash and investments			4,341		4,341
Accounts receivable, less allowance for doubtful accounts	92,456	159,505	17,077		269,038
Current deferred income tax assets		21,657	4,227		25,884
Prepaid expenses and other current assets	7,022	19,593	11,345	(1,154)	36,806
<b>Total current assets</b>	<b>117,970</b>	<b>201,537</b>	<b>59,053</b>	<b>(1,154)</b>	<b>377,406</b>
Restricted Cash and Investments	228	13,729	5,621		19,578
Property and Equipment, Net	726,238	961,896	84,032		1,772,166
Direct Finance Lease Receivable			9,256		9,256
Contract Receivable			66,229		66,229
Intercompany Receivable	962,314	119,414		(1,081,728)	
Non-Current Deferred Income Tax Assets			5,873		5,873
Goodwill	34	493,389	467		493,890
Intangible Assets, Net		154,237	1,038		155,275
Investment in Subsidiaries	855,870	438,243		(1,294,113)	
Other Non-Current Assets	25,635	110,105	46,838	(80,043)	102,535
<b>Total Assets</b>	<b>\$ 2,688,289</b>	<b>\$ 2,492,550</b>	<b>\$ 278,407</b>	<b>\$ (2,457,038)</b>	<b>\$ 3,002,208</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Accounts payable	\$ 7,549	\$ 47,130	\$ 3,476	\$	\$ 58,155
Accrued payroll and related taxes		24,184	14,372		38,556
Accrued expenses and other	47,637	75,574	18,555	(1,154)	140,612
Current portion of capital lease obligations, long-term debt and non-recourse debt	3,001	1,170	12,581		16,752
<b>Total current liabilities</b>	<b>58,187</b>	<b>148,058</b>	<b>48,984</b>	<b>(1,154)</b>	<b>254,075</b>
	(4,095)	14,170	(7)		10,068

<b>Non-Current Deferred Income Tax Liabilities</b>					
Intercompany Payable	121,327	942,071	18,330	(1,081,728)	
Other Non-Current Liabilities	4,372	143,584	19,507	(80,034)	87,429
Capital Lease Obligations		9,856			9,856
Long-Term Debt	1,462,819				1,462,819
Non-Recourse Debt			131,968		131,968
<b>Commitments &amp; Contingencies and Other</b>					
<b>Shareholders Equity:</b>					
The GEO Group, Inc. Shareholders Equity	1,045,679	1,234,811	59,311	(1,294,122)	1,045,679
Noncontrolling Interests			314		314
<b>Total Shareholders Equity</b>	<b>1,045,679</b>	<b>1,234,811</b>	<b>59,625</b>	<b>(1,294,122)</b>	<b>1,045,993</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$ 2,688,289</b>	<b>\$ 2,492,550</b>	<b>\$ 278,407</b>	<b>\$ (2,457,038)</b>	<b>\$ 3,002,208</b>

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****(dollars in thousands)****(unaudited)****For the Nine Months Ended September 30, 2015**

	<b>The GEO Group, Inc.</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Consolidated</b>
<b>Cash Flow from Operating Activities:</b>				
Net cash provided by (used in) operating activities	\$ 72,063	\$ 74,464	\$ (35,363)	\$ 111,164
<b>Cash Flow from Investing Activities:</b>				
Acquisition of SoberLink, cash consideration		(24,402)		(24,402)
Acquisition of LCS, net of cash acquired	(307,403)			(307,403)
Proceeds from sale of property and equipment		49		49
Insurance proceeds - damaged property		1,270		1,270
Change in restricted cash and investments	101	(1,957)	(9,280)	(11,136)
Capital expenditures	(51,084)	(47,833)	(1,927)	(100,844)
Net cash used in investing activities	(358,386)	(72,873)	(11,207)	(442,466)
<b>Cash Flow from Financing Activities:</b>				
Proceeds from long-term debt	642,000			642,000
Payments on long-term debt	(222,675)			(222,675)
Payments on non-recourse debt			(6,366)	(6,366)
Proceeds from non-recourse debt			70,117	70,117
Taxes paid related to net share settlements of equity awards	(2,748)			(2,748)
Proceeds from reissuance of treasury stock in connection with ESPP	321			321
Debt issuance costs			(5,217)	(5,217)
Tax benefit related to equity compensation	1,252			1,252
Proceeds from stock options exercised	2,513			2,513
Cash dividends paid	(138,454)			(138,454)
Net cash provided by financing activities	282,209		58,534	340,743
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>				
			(3,647)	(3,647)
Net Increase (Decrease) in Cash and Cash Equivalents	(4,114)	1,591	8,317	5,794



Cash and Cash Equivalents, beginning of period	18,492	782	22,063	41,337
Cash and Cash Equivalents, end of period	\$ 14,378	\$ 2,373	\$ 30,380	\$ 47,131

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****(dollars in thousands)****(unaudited)****For the Nine Months Ended September 30, 2014**

	<b>The GEO Group, Inc.</b>	<b>Combined Subsidiary Guarantors</b>	<b>Combined Non-Guarantor Subsidiaries</b>	<b>Consolidated</b>
<b>Cash Flow from Operating Activities:</b>				
Net cash provided by operating activities	\$ 149,460	\$ 53,506	\$ (38,341)	\$ 164,625
<b>Cash Flow from Investing Activities:</b>				
Proceeds from sale of property and equipment		515		515
Acquisition of Protocol, cash consideration		(13,025)		(13,025)
Change in restricted cash and investments	(212)	(2,073)	(3,767)	(6,052)
Capital expenditures	(41,020)	(34,432)	(2,261)	(77,713)
Net cash used in investing activities	(41,232)	(49,015)	(6,028)	(96,275)
<b>Cash Flow from Financing Activities:</b>				
Proceeds from long-term debt	459,384			459,384
Payments on long-term debt	(508,400)	(732)		(509,132)
Indirect repurchases of treasury shares	(1,844)			(1,844)
Payments on non-recourse debt			(4,511)	(4,511)
Proceeds from non-recourse debt			74,191	74,191
Proceeds from reissuance of treasury stock in connection with ESPP	277			277
Debt issuance costs - deferred	(7,802)		(15,706)	(23,508)
Tax benefit related to equity compensation	1,498			1,498
Issuance of common stock under prospectus supplement	54,724			54,724
Proceeds from stock options exercised	6,384			6,384
Cash dividends paid	(124,084)			(124,084)
Net cash used in financing activities	(119,863)	(732)	53,974	(66,621)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			(1,174)	(1,174)
Net Increase (Decrease) in Cash and Cash Equivalents	(11,635)	3,759	8,431	555
Cash and Cash Equivalents, beginning of period	30,730	985	20,410	52,125

Cash and Cash Equivalents, end of period	\$ 19,095	\$ 4,744	\$ 28,841	\$ 52,680
--	-----------	----------	-----------	-----------

---

**Table of Contents**

**16. SUBSEQUENT EVENTS**

***Dividend***

On November 3, 2015, the Board of Directors declared a quarterly cash dividend of \$0.65 per share of common stock, which is to be paid on November 25, 2015 to shareholders of record as of the close of business on November 16, 2015.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

**Forward-Looking Information**

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, intend, plan, believe, seek, estimate or continue or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or cautionary statements, include, but are not limited to:

our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;

our ability to remain qualified for taxation as a real estate investment trust, or REIT;

our ability to fulfill our debt service obligations and its impact on our liquidity;

our ability to activate the inactive beds at our idle facilities;

our ability to maintain or increase occupancy rates at our facilities;

an increase in unreimbursed labor rates;

our ability to expand, diversify and grow our correctional, detention, reentry, community-based services, youth services, monitoring services, evidence-based supervision and treatment programs and secure transportation services businesses;

our ability to win management contracts for which we have submitted proposals, retain existing management contracts and meet any performance standards required by such management contracts;

our ability to control operating costs associated with contract start-ups;

**Table of Contents**

our ability to raise new project development capital given the often short-term nature of the customers commitment to use newly developed facilities;

our ability to accurately project the size and growth of public-private partnerships for correctional services in the U.S. and internationally and our ability to capitalize on opportunities for public-private partnerships;

our ability to successfully respond to delays encountered by states pursuing public-private partnerships for correctional services and cost savings initiatives implemented by a number of states;

our ability to develop long-term earnings visibility;

our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisitions on satisfactory terms, and estimate the synergies to be achieved as a result of such acquisitions;

our exposure to the impairment of goodwill and other intangible assets as a result of our acquisitions;

our ability to successfully conduct our operations in the United Kingdom, South Africa and Australia through joint ventures or a consortium;

our ability to obtain future financing on satisfactory terms or at all, including our ability to secure the funding we need to complete ongoing capital projects;

our exposure to political and economic instability and other risks impacting our international operations;

the instability of foreign exchange rates, exposing us to currency risks in Australia, Canada, the United Kingdom, and South Africa, or other countries in which we may choose to conduct our business;

our exposure to risks impacting our information systems, including those that may cause an interruption, delay or failure in the provision of our services;

our exposure to rising general insurance costs;

our exposure to state, federal and foreign income tax law changes, including changes to the REIT provisions and our exposure as a result of federal and international examinations of our tax returns or tax positions;

our exposure to claims for which we are uninsured;

our exposure to rising employee and inmate medical costs;

our ability to manage costs and expenses relating to ongoing litigation arising from our operations;

our ability to accurately estimate on an annual basis, loss reserves related to general liability, workers compensation and automobile liability claims;

the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us and continue to operate under our existing agreements and/or renew our existing agreements;

our ability to pay quarterly dividends consistent with our requirements as a REIT, and expectations as to timing and amounts;

## **Table of Contents**

our ability to comply with government regulations and applicable contractual requirements;

our ability to acquire, protect or maintain our intellectual property;

the risk that future sales of shares of our common stock could adversely affect the market price of our common stock and may be dilutive; and

other factors contained in our filings with the Securities and Exchange Commission, or the SEC, including, but not limited to, those detailed in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the year ended December 31, 2014 and our Current Reports on Form 8-K filed with the SEC.

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q.

## **Introduction**

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of numerous factors including, but not limited to, those described above under **Forward-Looking Information**, those described below under **Part II - Item 1A. Risk Factors** and under **Part I - Item 1A. Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2014. The discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q.

We are a real estate investment trust ( REIT ) specializing in the ownership, leasing and management of correctional, detention and reentry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa, and the United Kingdom. We own, lease and operate a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers, and community based reentry facilities. We offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems at most of the domestic facilities we manage. We are also a provider of innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants.

Our worldwide operations include the management and/or ownership of approximately 87,000 beds at 104 correctional, detention and reentry facilities, including idle facilities, projects under development and recently awarded contracts, and also include the provision of community supervision services for more than 127,000 offenders and pre-trial defendants, including approximately 83,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

We provide a diversified scope of services on behalf of our government clients:



our correctional and detention management services involve the provision of security, administrative, rehabilitation, education and food services, primarily at adult male correctional and detention facilities;

our community-based services involve supervision of adult parolees and probationers and the provision of temporary housing, programming, employment assistance and other services with the intention of the successful reintegration of residents into the community;

**Table of Contents**

our youth services include residential, detention and shelter care and community-based services along with rehabilitative and educational programs;

our monitoring services provide our governmental clients with innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants; including services provided under the Intensive Supervision Appearance Program, which we refer to as ISAP, to the U.S. Immigration and Customs Enforcement, which we refer to as ICE, for the provision of services designed to improve the participation of non-detained aliens in the immigration court system;

we develop new facilities using our project development experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency;

we provide secure transportation services for offender and detainee populations as contracted domestically and internationally - our joint venture GEOAmeY is responsible for providing prisoner escort and custody services in the United Kingdom, including all of Wales and England except London and the East of England; and

our services are provided at facilities which we either own, lease or are owned by our customers.

For the nine months ended September 30, 2015 and September 30, 2014, we had consolidated revenues of \$1,343.2 million and \$1,263.9 million, respectively, and we maintained an average company wide facility occupancy rate of 94.0% including 80,264 active beds and excluding 3,422 beds marketed to potential customers for the nine months ended September 30, 2015, and 96.1% including 72,682 active beds and excluding 5,756 idle beds marketed to potential customers for the nine months ended September 30, 2014.

As a REIT, we are required to distribute annually at least 90% of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) and we began paying regular quarterly REIT dividends in 2013. The amount, timing and frequency of future dividends, however, will be at the sole discretion of our Board of Directors (the Board) and will be declared based upon various factors, many of which are beyond our control, including, our financial condition and operating cash flows, the amount required to maintain REIT status and reduce any income taxes that we otherwise would be required to pay, limitations on distributions in our existing and future debt instruments, limitations on our ability to fund distributions using cash generated through our taxable REIT subsidiaries ( TRSs ) and other factors that our Board may deem relevant.

During the nine months ended September 30, 2015 and the year ended December 31, 2014, respectively, we declared and paid the following regular cash distributions to our shareholders as follows:

Declaration Date	Record Date	Payment Due	Distribution Per Share	Aggregate Payment Amount (in millions)
February 18, 2014	March 3, 2014	March 14, 2014	\$ 0.57	\$ 41.1

Edgar Filing: GEO GROUP INC - Form 10-Q

April 28, 2014	May 15, 2014	May 27, 2014	\$ 0.57	\$ 41.5
August 5, 2014	August 18, 2014	August 29, 2014	\$ 0.57	\$ 41.4
November 5, 2014	November 17, 2014	November 26, 2014	\$ 0.62	\$ 46.0
February 6, 2015	February 17, 2015	February 27, 2015	\$ 0.62	\$ 46.0
April 29, 2015	May 11, 2015	May 21, 2015	\$ 0.62	\$ 46.3
July 31, 2015	August 14, 2015	August 24, 2015	\$ 0.62	\$ 46.3

On November 3, 2015, our Board of Directors declared a quarterly cash dividend of \$0.65 per share of common stock, which is to be paid on November 25, 2015 to shareholders of record as of the close of business on November 16, 2015.

## **Table of Contents**

Reference is made to Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on February 26, 2015, for further discussion and analysis of information pertaining to our financial condition and results of operations as of and for the fiscal year ended December 31, 2014.

## **Fiscal 2015 Developments**

### **Contract Awards**

We are currently marketing approximately 3,422 vacant beds at four of our idle facilities to potential customers. The carrying values of these idle facilities totaled approximately \$34.5 million as of September 30, 2015, excluding equipment and other assets that can be easily transferred for use at other facilities.

On January 28, 2015, we announced that we signed a contract for the reactivation of our Company-owned, 400-bed Mesa Verde Detentional Facility (the Mesa Verde Facility) in California. The Mesa Verde Facility will house immigration detainees under an intergovernmental service agreement between the City of McFarland and U.S. Immigration Customs and Enforcement (ICE).

On February 18, 2015, we announced the closing of our previously announced acquisition of eight correctional and detention facilities (the LCS Facilities) totaling more than 6,500 beds from LCS Corrections Services, Inc. and its affiliates (collectively, LCS). Refer to Note 2 - Business Combinations included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

On April 27, 2015, we announced that our wholly-owned subsidiary, The GEO Group Australia Pty. Ltd (GEO Australia) signed a contract with the Department of Justice & Regulation in the State of Victoria, Australia for the continued management and operation of the Fulham Correctional Centre and the Fulham Nalu Challenge Community Unit (the Centre). The Centre has a contract capacity of 947 beds with a further increase in planned capacity under construction.

On April 28, 2015, we announced that we had begun to mobilize our company-owned 1,748-bed North Lake Correctional Facility (the North Lake Facility) located in Baldwin, Michigan. The decision to mobilize the North Lake Facility was made as a result of the current demand for out-of-state correctional bed space. The mobilization effort entails hiring staff and purchasing supplies in order to prepare the previously idle North Lake Facility to receive inmates.

On May 20, 2015, we announced that we signed a contract with the Vermont Department of Corrections for the out-of-state housing of up to 675 inmates at the company-owned North Lake Correctional Facility in Baldwin, Michigan.

On May 21, 2015, we announced that we signed a contract with the Washington Department of Corrections for the out-of-state housing of up to 1,000 inmates at the company-owned North Lake Correctional Facility in Baldwin, Michigan.

On July 6, 2015, we announced the activation of three Company-owned facilities totaling 4,320 beds in Oklahoma, Michigan and California. In early June 2015, we began the intake of offenders at the 1,940-bed Great Plains Correctional Facility in Hinton, Oklahoma under a 10-year contract with the Federal Bureau of Prisons. In late June 2015, we also began the intake of inmates from the State of Vermont at the 1,748-bed North Lake Correctional Facility in Baldwin, Michigan under a five-year agreement with the Vermont Department of Corrections. Under the contracts, we will provide comprehensive correctional management services, including the provision of

industry-leading, evidence-based offender rehabilitation programs under our GEO Continuum of Care. On July 1, 2015, we activated a 640-bed expansion and began the intake process at the Adelanto Detention Facility in Adelanto, California under our existing contractual structure with the City of Adelanto and ICE.

On October 1, 2015, we announced the signing of a new contract with ICE for the continued management of our Company-owned, 1,575-bed Northwest Detention Center (the Center ) in Tacoma, Washington. The contract for the continued management of the Center will have a term of nine years and six months inclusive of renewal options.

**Table of Contents**

On October 28, 2015, we announced that we will assume management of the 3,400-bed Arizona State Prison-Kingman in Kingman, Arizona on December 1, 2015 under a managed-only contract with the Arizona Department of Corrections effective through February 2023. The facility currently houses approximately 1,700 inmates and is expected to ramp up through the end of the first quarter of 2016.

We also recently signed new contracts with ICE for the continued management of our company-owned, 700-bed Broward Transition Center in Pompano Beach, Florida.

Our GEO Care division was also recently awarded a five-year contract for the provision of community-based case management services under a new pilot program by the Department of Homeland Security for families going through the immigration review process.

**Critical Accounting Policies**

The accompanying unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. During the nine months ended September 30, 2015, we did not experience any significant changes in estimates or judgments inherent in the preparation of our consolidated financial statements. A summary of our significant accounting policies is contained in Note 1 to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014.

**RESULTS OF OPERATIONS**

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the notes to our unaudited consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

**Comparison of Third Quarter 2015 and Third Quarter 2014****Revenues**

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
	(Dollars in thousands)					
<b>U.S. Corrections &amp; Detention</b>	\$ 320,526	68.2%	\$ 281,550	61.5%	\$ 38,976	13.8%
<b>GEO Care</b>	86,517	18.4%	86,610	18.9%	(93)	(0.1)%
<b>International Services</b>	38,031	8.1%	50,874	11.1%	(12,843)	(25.2)%
<b>Facility Construction &amp; Design</b>	24,792	5.3%	38,866	8.5%	(14,074)	(36.2)%
<b>Total</b>	\$ 469,866	100.0%	\$ 457,900	100.0%	\$ 11,966	2.6%



## **Table of Contents**

### *U.S. Corrections & Detention*

Revenues increased in Third Quarter 2015 compared to Third Quarter 2014 primarily due to aggregate increases of \$32.3 million resulting from: (i) the activation and intake of detainees at our Alexandria Staging facility in November 2014; (ii) the activation and intake of inmates at our McFarland Female Community Reentry facility; (iii) the activation and intake of inmates at our company-owned Mesa Verde facility; and (iv) the acquisition of the LCS Facilities in February 2015. We also experienced aggregate increases in revenues of \$6.7 million at certain of our facilities primarily due to net increases in population, transportation services and/or rates.

The number of compensated mandays in U.S. Corrections & Detention facilities was approximately 5.3 million in Third Quarter 2015 and 4.8 million in Third Quarter 2014. We experienced an aggregate net increase of approximately 544,000 mandays as a result of our new contracts and business acquisition discussed above. These increases were partially offset by decreases resulting from lower populations at certain facilities. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. Corrections & Detention facilities was 92.8% and 97.0% of capacity in the Third Quarter 2015 and the Third Quarter 2014 respectively, excluding idle facilities.

Average occupancy declined to 92.8% from 97.0% and was driven primarily by our acquisition and integration of eight correctional and detention LCS Facilities totaling more than 6,500 beds in February 2015. As we have previously disclosed, the LCS Facilities have been historically underutilized.

### *GEO Care*

Revenues remained relatively consistent for GEO Care in Third Quarter 2015 compared to Third Quarter 2014 primarily due to new programs and program growth at our community based and reentry centers offset by a decrease related to changes in services provided under our electronic monitoring contracts and ISAP services.

### *International Services*

Revenues for International Services in Third Quarter 2015 compared to Third Quarter 2014 decreased by \$12.8 million. Contributing to the decrease was the result of: (i) foreign exchange rate fluctuations of \$(7.1) million resulting from the strengthening of the U.S. dollar against certain international currencies; (ii) a decrease of \$4.1 million in our United Kingdom subsidiary primarily due to the winding down of our Harmondworth management contract; and (iii) a decrease of \$1.6 million primarily attributable to our Australian subsidiary related to population decreases.

### *Facility Construction & Design*

Revenues for our Facility Construction & Design services relate to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia. The decrease is related to higher construction draws, mainly consisting of architectural design services, in Third Quarter 2014 compared to Third Quarter 2015 upon commencement of the project.



**Table of Contents****Operating Expenses**

	2015	% of Segment Revenues	2014	% of Segment Revenues	\$ Change	% Change
	(Dollars in thousands)					
<b>U.S. Corrections &amp; Detention</b>	\$ 228,648	71.3%	\$ 198,148	70.4%	\$ 30,500	15.4%
<b>GEO Care</b>	57,223	66.1%	55,664	64.3%	1,559	2.8%
<b>International Services</b>	35,710	93.9%	50,127	98.5%	(14,417)	(28.8)%
<b>Facility Construction &amp; Design</b>	24,385	98.4%	38,277	98.5%	(13,892)	(36.3)%
<b>Total</b>	\$ 345,966	73.6%	\$ 342,216	74.7%	\$ 3,750	1.1%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and community based facilities.

*U.S. Corrections & Detention*

The increase in operating expenses for U.S. Corrections & Detention reflects an increase of \$18.7 million due to (i) the activation and intake of detainees at our Alexandria Staging facility in November 2014; (ii) the activation and intake of inmates at our McFarland Female Community Reentry facility; (iii) the activation and intake of inmates at our company-owned Mesa Verde facility; (iv) the reactivation of our North Lake facility in Michigan; and (v) the acquisition of the LCS Facilities in February 2015. The timing of these activations and the corresponding start-up expenses resulted in an increase in our operating expenses as a percentage of segment revenue in Third Quarter 2015. We also experienced increases of \$11.8 million at certain of our facilities primarily attributable to expenditures related to the expansion of the delivery of offender rehabilitation services under our GEO Continuum of Care platform, net population increases, increased transportation services and the variable costs associated with those increases.

*GEO Care*

Operating expenses for GEO Care increased by \$1.6 million during Third Quarter 2015 from Third Quarter 2014 primarily due to new contracts and program growth at our community based and reentry centers.

*International Services*

Operating expenses for International Services in Third Quarter 2015 compared to Third Quarter 2014 decreased by \$14.4 million. Contributing to the decrease was (i) the result of foreign exchange rate fluctuations of \$(5.0) million resulting from the strengthening of the U.S. dollar against certain international currencies; (ii) a decrease of \$7.2 million in our United Kingdom subsidiary due to the winding down of our Harmondworth management contract; and (iii) a decrease of \$2.2 million primarily attributable to our Australian subsidiary related to population decreases and the associated variable costs.

*Facility Construction & Design*

Operating expenses for our Facility Construction & Design services relate to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of

Justice in the State of Victoria, Australia. The decrease is related to higher construction draws, mainly consisting of architectural design services, in Third Quarter 2014 compared to Third Quarter 2015 upon commencement of the project.

**Table of Contents****Depreciation and Amortization**

	2015	% of Segment Revenue	2014	% of Segment Revenue	\$ Change	% Change
(Dollars in thousands)						
<b>U.S. Corrections &amp; Detention</b>	\$ 17,861	5.6%	\$ 15,952	5.7%	\$ 1,909	12.0%
<b>GEO Care</b>	8,592	9.9%	7,441	8.6%	1,151	15.5%
<b>International Services</b>	674	1.8%	686	1.3%	(12)	(1.7)%
<b>Facility Construction &amp; Design</b>		%				%
<b>Total</b>	\$ 27,127	5.8%	\$ 24,079	5.3%	\$ 3,048	12.7%

*U.S. Corrections & Detention*

U.S. Corrections & Detention depreciation and amortization expense increased in Third Quarter 2015 compared to Third Quarter 2014 primarily due to renovations made at several of our facilities and additional depreciation and amortization related to the acquisition of the LCS Facilities in February 2015. Refer to Note 2 - Business Combinations of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

*GEO Care*

GEO Care depreciation and amortization expense increased in Third Quarter 2015 compared to Third Quarter 2014 primarily due to renovations made at several of our locations.

*International Services*

Depreciation and amortization expense decreased slightly in Third Quarter 2015 compared to Third Quarter 2014 as a result of certain assets becoming fully depreciated and there were no significant additions or renovations during 2014 or 2015 at our international subsidiaries.

*Other Unallocated Operating Expenses*

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
(Dollars in thousands)						
<b>General and Administrative Expenses</b>	\$ 33,742	7.2%	\$ 28,287	6.2%	\$ 5,455	19.3%

General and administrative expenses comprise substantially all of our other unallocated operating expenses which primarily includes corporate management salaries and benefits, professional fees and other administrative expenses. The increase in general and administrative expenses in Third Quarter 2015 compared to Third Quarter 2014 was primarily attributable to (i) business development expenses of \$1.9 million related to new contract opportunities both domestically and internationally; (ii) expenditures related to the expansion of the delivery of offender rehabilitation services under our GEO Continuum of Care platform of \$0.6 million; and (iii) non-cash stock-based compensation

expense of \$1.3 million. We also experienced increases related to normal compensation adjustments and professional fees.

*Non Operating Expenses*

*Interest Income and Interest Expense*

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
<b>(Dollars in thousands)</b>						
<b>Interest Income</b>	\$ 2,992	0.6%	\$ 1,048	0.2%	\$ 1,944	185.5%
<b>Interest Expense</b>	\$ 27,314	5.8%	\$ 21,408	4.7%	\$ 5,906	27.6%

Interest income increased in the Third Quarter 2015 compared to Third Quarter 2014 primarily due to interest income earned on our contract receivable related to our prison project in Ravenhall, Australia. Refer to Note 12 - Business Segments and Geographic Information of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Table of Contents**

Interest expense increased in Third Quarter 2015 compared to Third Quarter 2014 primarily due to the construction loan interest related to our prison project in Ravenhall, Australia as well as additional Revolver interest incurred in connection with our acquisition of the LCS Facilities. Refer to Note 10 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Income Tax Provision**

	2015	Effective Rate	2014	Effective Rate	\$ Change	% Change
	(Dollars in thousands)					
<b>Income Taxes</b>	\$ 1,758	4.5%	\$ 5,537	12.9%	\$ (3,779)	(68.2)%

The provision for income taxes during Third Quarter 2015 decreased by \$3.8 million compared to Third Quarter 2014 and the effective tax rate decreased to 4.5%. The decrease is primarily attributable to non-recurring items in Third Quarter 2015. As a REIT, we are required to distribute at least 90% of our taxable income to shareholders and in turn are allowed a deduction for the distribution at the REIT level. Our wholly-owned taxable REIT subsidiaries continue to be fully subject to federal, state and foreign income taxes, as applicable. We estimate our annual effective tax rate to be in the range of approximately 8% to 9% exclusive of any non-recurring items.

**Equity in Earnings of Affiliates, net of Income Tax Provision**

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
	(Dollars in thousands)					
<b>Equity in Earnings of Affiliates</b>	\$ 1,340	0.3%	\$ 1,544	0.3%	\$ (204)	(13.2)%

Equity in earnings of affiliates, presented net of income taxes, represents the earnings of SACS and GEOAmeY in the aggregate. Overall, equity in earnings of affiliates during Third Quarter 2015 compared to Third Quarter 2014 was relatively consistent as a result of consistent performance by SACS and GEOAmeY during the periods.

**Comparison of Nine Months 2015 and Nine Months 2014****Revenues**

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
	(Dollars in thousands)					
<b>U.S. Corrections &amp; Detention</b>	\$ 910,465	67.8%	\$ 824,448	65.2%	\$ 86,017	10.4%
<b>GEO Care</b>	248,531	18.5%	245,723	19.4%	2,808	1.1%
<b>International Services</b>	117,228	8.7%	154,843	12.3%	(37,615)	(24.3)%
<b>Facility Construction &amp; Design</b>	66,957	5.0%	38,866	3.1%	28,091	72.3%
<b>Total</b>	\$ 1,343,181	100.0%	\$ 1,263,880	100.0%	\$ 79,301	6.3%

*U.S. Corrections & Detention*

Revenues increased in Nine Months 2015 compared to Nine Months 2014 primarily due to aggregate increases of \$68.0 million resulting from: (i) the activation and intake of detainees at our Alexandria Staging facility in November 2014; (ii) the activation and intake of inmates at our McFarland Female Community Reentry facility; (iii) the activation and intake of inmates at our company-owned Mesa Verde facility; and (iv) the acquisition of the LCS Facilities in February 2015. We also experienced aggregate increases in revenues of \$18.0 million at certain of our facilities primarily due to net increases in population, transportation services and/or rates.

**Table of Contents**

The number of compensated mandays in U.S. Corrections & Detention facilities was approximately 15.2 million in Nine Months 2015 and 14.0 million in Nine Months 2014. We experienced an aggregate net increase of approximately 1,173,000 mandays as a result of our new contracts and business acquisition discussed above. These increases were partially offset by decreases resulting from lower populations at certain facilities. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. Corrections & Detention facilities was 94.4% and 96.8% of capacity in Nine Months 2015 and Nine Months 2014, respectively, excluding idle facilities.

Average occupancy declined to 94.4% from 96.8% and was driven primarily by our acquisition and integration of eight correctional and detention LCS Facilities totaling more than 6,500 beds in February 2015. As we have previously disclosed, the LCS Facilities have been historically underutilized.

*GEO Care*

The increase in revenues for GEO Care in Nine Months 2015 compared to Nine Months 2014 is primarily attributable to new programs and program growth at our community based and reentry centers.

*International Services*

Revenues for International Services in Nine Months 2015 compared to Nine Months 2014 decreased by \$37.6 million. Contributing to the decrease was the result of (i) foreign exchange rate fluctuations of \$(15.5) million resulting from the strengthening of the U.S. dollar against certain international currencies; (ii) a decrease of \$19.0 million in our United Kingdom subsidiary primarily due to the winding down of our Harmondworth management contract; and (iii) an aggregate net decrease of \$3.1 million primarily attributable to our South Africa subsidiary related to population decreases.

*Facility Construction & Design*

The increase in revenues for our Facility Construction & Design services is due to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia.

*Operating Expenses*

	2015	% of Segment Revenues	2014	% of Segment Revenues	\$ Change	% Change
(Dollars in thousands)						
<b>U.S. Corrections &amp; Detention</b>	\$ 657,883	72.3%	\$ 585,454	71.0%	\$ 72,429	12.4%
<b>GEO Care</b>	165,659	66.7%	162,640	66.2%	3,019	1.9%
<b>International Services</b>	108,672	92.7%	147,826	95.5%	(39,154)	(26.5)%
<b>Facility Construction &amp; Design</b>	65,598	98.0%	38,277	98.5%	27,321	71.4%
<b>Total</b>	\$ 997,812	74.3%	\$ 934,197	73.9%	\$ 63,615	6.8%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and community based facilities.

*U.S. Corrections & Detention*

The increase in operating expenses for U.S. Corrections & Detention reflects an increase of \$54.5 million due to (i) the activation and intake of detainees at our Alexandria Staging facility in November 2014; (ii) the activation and intake of inmates at our McFarland Female Community Reentry facility; (iii) the activation and intake of inmates at our company-owned Mesa Verde facility; and (iv) the acquisition of the LCS Facilities in February 2015. We also experienced increases of \$17.9 million at certain of our facilities primarily attributable to expenditures related to the expansion of the delivery of offender rehabilitation services under our GEO Continuum of Care platform, net population increases, increased transportation services and the variable costs associated with those increases.



**Table of Contents***GEO Care*

Operating expenses for GEO Care increased by \$3.0 million during Nine Months 2015 from Nine Months 2014 primarily due to new contracts and program growth at our community based and reentry centers of \$3.3 million. This increase was partially offset by a decrease in variable costs associated with our electronic monitoring contracts and ISAP program at BI of \$0.3 million.

*International Services*

Operating expenses for International Services in Nine Months 2015 compared to Nine Months 2014 decreased by \$39.2 million. Contributing to the decrease was (i) the result of foreign exchange rate fluctuations of \$(12.6) million resulting from the strengthening of the U.S. dollar against certain international currencies; (ii) a decrease of \$20.4 million in our United Kingdom subsidiary due to the winding down of our Harmondworth management contract; and (iii) a decrease of \$6.1 million primarily attributable to our Australian and South African subsidiaries related to population decreases and the associated variable costs.

*Facility Construction & Design*

The increase in expenses for our Facility Construction & Design services is due to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia.

*Depreciation and Amortization*

	2015	% of Segment Revenue	2014	% of Segment Revenue	\$ Change	% Change
(Dollars in thousands)						
<b>U.S. Corrections &amp; Detention</b>	\$ 52,357	5.8%	\$ 48,011	5.8%	\$ 4,346	9.1%
<b>GEO Care</b>	24,446	9.8%	21,919	8.9%	2,527	11.5%
<b>International Services</b>	1,825	1.6%	2,039	1.3%	(214)	(10.5)%
<b>Facility Construction &amp; Design</b>		%		%		%
<b>Total</b>	\$ 78,628	5.9%	\$ 71,969	5.7%	\$ 6,659	9.3%

*U.S. Corrections & Detention*

U.S. Corrections & Detention depreciation and amortization expense increased in Nine Months 2015 compared to Nine Months 2014 primarily due to renovations made at several of our facilities and additional depreciation and amortization related to the acquisition of the LCS Facilities in February 2015. Refer to Note 2 - Business Combinations of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

*GEO Care*

GEO Care depreciation and amortization expense increased in Nine Months 2015 compared to Nine Months 2014 primarily due to renovations made at several of our locations.

*International Services*

Depreciation and amortization expense was fairly consistent in Nine Months 2015 compared to Nine Months 2014 as there were no significant additions or renovations during 2014 or 2015 at our international subsidiaries.

**Table of Contents****Other Unallocated Operating Expenses**

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
--	------	-----------------	------	-----------------	-----------	----------

(Dollars in thousands)

<b>General and Administrative Expenses</b>	\$ 97,764	7.3%	\$ 84,937	6.7%	\$ 12,827	15.1%
--	-----------	------	-----------	------	-----------	-------

General and administrative expenses comprise substantially all of our other unallocated operating expenses which primarily includes corporate management salaries and benefits, professional fees and other administrative expenses. The increase in general and administrative expenses in Nine Months 2015 compared to Nine Months 2014 was primarily attributable to (i) business development expenses of \$6.0 million related to new contract opportunities both domestically and internationally; (ii) expenditures related to the expansion of the delivery of offender rehabilitation services under our GEO Continuum of Care platform of \$1.3 million; (iii) non-cash stock based compensation of \$2.3 million and (iv) nonrecurring professional fees of \$3.0 million incurred in connection with our acquisitions of Soberlink and the LCS Facilities in 2015.

**Non Operating Expenses****Interest Income and Interest Expense**

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
--	------	-----------------	------	-----------------	-----------	----------

(Dollars in thousands)

<b>Interest Income</b>	\$ 7,933	0.6%	\$ 2,604	0.2%	\$ 5,329	204.6%
<b>Interest Expense</b>	\$ 78,610	5.9%	\$ 62,662	5.0%	\$ 15,948	25.5%

Interest income increased in Nine Months 2015 compared to Nine Months 2014 primarily due to interest income earned on our contract receivable related to our prison project in Ravenhall, Australia. Refer to Note 12 - Business Segments and Geographic Information of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Interest expense increased in Nine Months 2015 compared to Nine Months 2014 primarily due to construction loan interest related to our prison project in Ravenhall, Australia as well as additional Revolver interest incurred in connection with our acquisition of the LCS Facilities. Refer to Note 10 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**Income Tax Provision**

	2015	Effective Rate	2014	Effective Rate	\$ Change	% Change
--	------	----------------	------	----------------	-----------	----------

(Dollars in thousands)

<b>Income Taxes</b>	\$ 6,954	7.1%	\$ 11,062	9.8%	\$ (4,108)	(37.1)%
---------------------	----------	------	-----------	------	------------	---------

The provision for income taxes during Nine Months 2015 decreased compared to Nine Months 2014 and the effective tax rate decreased from 9.8% to 7.1%. The decrease is primarily attributable to non-recurring items in Third Quarter 2015. As a REIT, we are required to distribute at least 90% of our taxable income to shareholders and in turn are

allowed a deduction for the distribution at the REIT level. Our wholly-owned taxable REIT subsidiaries continue to be fully subject to federal, state and foreign income taxes, as applicable. We estimate our annual effective tax rate to be in the range of approximately 8% to 9% exclusive of any non-recurring items.

*Equity in Earnings of Affiliates, net of Income Tax Provision*

	2015	% of Revenue	2014	% of Revenue	\$ Change	% Change
	(Dollars in thousands)					
<b>Equity in Earnings of Affiliates</b>	\$ 3,949	0.3%	\$ 4,202	0.3%	\$ (253)	(6.0)%

---

**Table of Contents**

Equity in earnings of affiliates, presented net of income taxes, represents the earnings of SACS and GEOAme y in the aggregate. Overall, equity in earnings of affiliates during Nine Months 2015 compared to Nine Months 2014 was relatively consistent as a result of consistent performance by SACS and GEOAme y during the periods.

**Financial Condition*****Capital Requirements***

Our current cash requirements consist of amounts needed for working capital, distributions of our REIT taxable income in order to maintain our REIT qualification, debt service, supply purchases, investments in joint ventures, and capital expenditures related to either the development of new correctional, detention and reentry facilities, or the maintenance of existing facilities. In addition, some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. Generally, these initial expenditures are subsequently fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. In connection with GEOAme y, our joint venture in the United Kingdom, we and our joint venture partner have each provided a line of credit of £12 million, or \$18.2 million, based on exchange rates as of September 30, 2015, for GEOAme y's operations. As of September 30, 2015, \$14.4 million was outstanding.

We currently have contractual commitments for a number of projects using Company financing. We estimate that the cost of these existing capital projects will be approximately \$159 million of which \$51 million was spent through September 30, 2015. We estimate that the remaining capital requirements related to these capital projects will be \$108 million which will be spent through 2017. Included in these commitments is a contractual commitment to provide a capital contribution towards the design and construction of a prison project in Ravenhall, a locality near Melbourne, Australia, which is estimated to be \$80.2 million as of September 30, 2015. This capital contribution is expected to be made in January 2017. Additionally, in connection with the Ravenhall Prison Project, we have a contractual commitment for construction of the facility and have entered into a syndicated facility agreement with National Australia Bank Limited to provide funding for the project up to AUD 791.0 million, or \$552.0 million, based on exchange rates as of September 30, 2015.

***Liquidity and Capital Resources*****Indebtedness**

On August 27, 2014, we executed a second amended and restated credit agreement by and among us and GEO Corrections Holdings, Inc., as borrowers, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto (the Credit Agreement).

The Credit Agreement evidences a credit facility (the Credit Facility) consisting of a \$296.3 million term loan (the Term Loan) bearing interest at LIBOR plus 2.50% (with a LIBOR floor of .75%), and a \$700.0 million revolving credit facility (the Revolver) initially bearing interest at LIBOR plus 2.25% (with no LIBOR floor) together with AUD 225 million available solely for the issuance of financial letters of credit and performance letters of credit, in each case denominated in Australian Dollars (the Australian LC Facility). At September 30, 2015, we had approximately AUD 215 million in letters of credit outstanding under the Australian LC Facility in connection with certain performance guarantees related to a prison project in Ravenhall, Australia. Amounts to be borrowed by us under the Credit Agreement are subject to the satisfaction of customary conditions to borrowing. The Revolver component is scheduled to mature on August 27, 2019 and the Term Loan component is scheduled to mature on April 3, 2020.

The Credit Agreement contains certain customary representations and warranties, and certain customary covenants that restrict our ability to, among other things (i) create, incur or assume any indebtedness, (ii) create, incur, assume or permit liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) make certain restricted payments, (vi) issue, sell or otherwise dispose of capital stock, (vii) engage in transactions with affiliates, (viii) allow the total leverage ratio to exceed 5.75 to 1.00, allow the senior secured leverage ratio to exceed 3.50 to 1.00 or allow the interest coverage ratio to be less than 3.00 to 1.00, (ix) cancel, forgive, make any voluntary or optional payment or prepayment on, or redeem or acquire

---

**Table of Contents**

for value any senior notes, except as permitted, (x) alter the business we conduct, and (xi) materially impair our lenders' security interests in the collateral for its loans. The restricted payments covenant remains consistent with our election to be treated as a real estate investment trust under the Internal Revenue Code of 1986, effective as of January 1, 2013.

Events of default under the Credit Agreement include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our material breach of any representation or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) certain material environmental liability claims which have been asserted against us, and (viii) a change in control. We were in compliance with all of the covenants of the Credit Agreement as of September 30, 2015.

As of September 30, 2015, we had \$293.3 million in aggregate borrowings outstanding, net of discount, under the Term Loan and \$490.0 million in borrowings under the Revolver, and approximately \$58.1 million in letters of credit which left \$151.9 million in additional borrowing capacity under the Revolver. Refer to Note 10 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

On September 25, 2014, we completed an offering of \$250.0 million aggregate principal amount of senior unsecured notes. The notes will mature on October 15, 2024 and have a coupon rate and yield to maturity of 5.875%. Interest is payable semi-annually in cash in arrears on April 15 and October 15, which commenced on April 15, 2015. The 5.875% Senior Notes due 2024 are guaranteed on a senior unsecured basis by all our restricted subsidiaries that guarantee obligations. The 5.875% Senior Notes due 2024 rank equally in right of payment with any unsecured, unsubordinated indebtedness of the Company and the guarantors, including our 6.625% senior notes due 2021, the 5.875% senior notes due 2022, the 5.125% senior notes due 2023, and the guarantors' guarantees thereof, senior in right of payment to any future indebtedness of ours and the guarantors that is expressly subordinated to the 5.875% Senior Notes due 2024 and the guarantees, effectively junior to any secured indebtedness of ours and the guarantors, including indebtedness under our Credit Facility, to the extent of the value of the assets securing such indebtedness, and structurally junior to all obligations of our subsidiaries that are not guarantors. The sale of the 5.875% Senior Notes due 2024 was registered under our automatic shelf registration statement on Form S-3 filed on September 12, 2014. Refer to Note 10 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

In connection with a new design and build prison project agreement in Ravenhall, Australia with the State of Victoria, in September 2014, we entered into a syndicated facility agreement (the "Construction Facility") with National Australia Bank Limited to provide debt financing for construction of the project. The Construction Facility provides for non-recourse funding up to AUD 791.0 million, or \$552.0 million, based on exchange rates as of September 30, 2015. Construction draws will be funded throughout the project according to a fixed utilization schedule as defined in the syndicated facility agreement. The term of the Construction Facility is through October 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. After October 2019, the Construction Facility will be converted to a term loan with payments due quarterly beginning in 2019 through 2041. In accordance with the terms of the Construction Facility, upon completion and commercial acceptance of the prison, in accordance with the prison contract, the State will make a lump sum payment of AUD 310 million, or \$216.3 million, based on exchange rates as of September 30, 2015, towards a portion of the outstanding principal. The remaining outstanding principal balance will be repaid over the term of the operating agreement. As of September 30, 2015, \$132.0 million was outstanding under the Construction Facility. We also entered into interest rate swap and interest rate cap agreements related to our non-recourse debt in connection with the project. Refer to Note 9 - Derivative Financial Instruments of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form

10-Q for further discussion.

On October 3, 2013, we completed an offering of \$250.0 million aggregate principal amount of 5.875% Senior Notes due 2022. The 5.875% Senior Notes due 2022 will mature on January 15, 2022 and have a coupon rate and yield to maturity of 5.875%. Interest is payable semi-annually on January 15 and July 15 each year, which commenced on January 15, 2014. The proceeds received from the 5.875% Senior Notes due 2022 were used, together with cash on hand, to fund the repurchase, redemption or other discharge of our 7.75% Senior Notes and to pay related transaction fees and expenses. Refer to Note 10 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.



---

**Table of Contents**

On March 19, 2013, we completed an offering of \$300.0 million aggregate principal amount of 5.125% Senior Notes. The 5.125% Senior Notes will mature on April 1, 2023 and have a coupon rate and yield to maturity of 5.125%. Interest is payable semi-annually on April 1 and October 1 each year, which commenced on October 1, 2013. A portion of the proceeds received from the 5.125% Senior Notes were used on the date of the financing to repay the prior revolver credit draws outstanding under the prior senior credit facility. Refer to Note 10 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion.

In February 2011, we completed an offering of \$300.0 million in aggregate principal amount of our 6.625% Senior Notes. The 6.625% Senior Notes will mature on February 15, 2021 and have a coupon rate and yield to maturity of 6.625%. Interest is payable semi-annually in arrears on February 15 and August 15, which commenced on August 15, 2011. The proceeds received from the 6.625% Senior Notes were used together with \$150.0 million of borrowing under our senior credit facility at the time to fund the acquisition of BI and pay related costs.

In addition to the debt outstanding under the Credit Facility, the 6.625% Senior Notes, the 5.125% Senior Notes, the 5.875% Senior Notes due 2022 and 5.875% Senior Notes due 2024 discussed above, we also have significant debt obligations which, although these obligations are non-recourse to us, require cash expenditures for debt service. Our significant debt obligations could have material consequences. See Risk Factors-Risks Related to Our High Level of Indebtedness in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014. We are exposed to various commitments and contingencies which may have a material adverse effect on our liquidity. We also have guaranteed certain obligations for certain of our international subsidiaries. These non-recourse obligations, commitments and contingencies and guarantees are further discussed in our Annual Report on Form 10-K for the year ended December 31, 2014.

We consider opportunities for future business and/or asset acquisitions as we deem appropriate when market conditions present opportunities. If we are successful in our pursuit of any new projects, our cash on hand, cash flows from operations and borrowings under the existing Credit Facility may not provide sufficient liquidity to meet our capital needs and we could be forced to seek additional financing or refinance our existing indebtedness. There can be no assurance that any such financing or refinancing would be available to us on terms equal to or more favorable than our current financing terms, or at all. In the future, our access to capital and ability to compete for future capital intensive projects will also be dependent upon, among other things, our ability to meet certain financial covenants in the indenture governing the 6.625% Senior Notes, the indenture governing the 5.125% Senior Notes, the indenture governing the 5.875% Senior Notes due 2022, the indenture governing the 5.875% Senior Notes due 2024 and our Credit Agreement. A substantial decline in our financial performance could limit our access to capital pursuant to these covenants and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations. In addition to these foregoing potential constraints on our capital, a number of state government agencies have been suffering from budget deficits and liquidity issues. While we expect to be in compliance with our debt covenants, if these constraints were to intensify, our liquidity could be materially adversely impacted as could our ability to remain in compliance with these debt covenants.

**Prospectus Supplement**

On May 8, 2013, the Company filed with the Securities and Exchange Commission a prospectus supplement related to the offer and sale from time to time of the Company's common stock at an aggregate offering price of up to \$100.0 million through sales agents. Sales of shares of the Company's common stock under the prospectus supplement and equity distribution agreements entered into with the sales agents, if any, were to be made in negotiated transactions or transactions that were deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. On July 18, 2014, the Company filed with the Securities and Exchange Commission a post-effective amendment to its

shelf registration statement on Form S-3 (pursuant to which the prospectus supplement had been filed) as a result of the merger of the Company into GEO REIT effective June 27, 2014. During the year ended December 31, 2014, there were approximately 1.5 million shares of common stock sold under the prospectus supplement for net proceeds of \$54.7 million. There were no shares of the Company's common stock sold under the prospectus supplement during the nine months ended September 30, 2015.

---

**Table of Contents**

In September 2014, the Company filed with the Securities and Exchange Commission a new automatic shelf registration statement on Form S-3. On November 10, 2014, in connection with the new shelf registration, the Company filed with the Securities and Exchange Commission a new prospectus supplement related to the offer and sale from time to time of the Company's common stock at an aggregate offering price of up to \$150.0 million through sales agents. Sales of shares of the Company's common stock under the prospectus supplement and the equity distribution agreements entered into with the sales agents, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. There were no shares of the Company's stock issued under this prospectus supplement during the year ended December 31, 2014 nor the nine months ended September 30, 2015.

As a REIT, we are subject to a number of organizational and operational requirements, including a requirement that we annually distribute to our shareholders an amount equal to at least 90% of our REIT taxable income (determined before the deduction for dividends paid and by excluding any net capital gain). Generally, we expect to distribute all or substantially all of our REIT taxable income so as not to be subject to the income or excise tax on undistributed REIT taxable income. The amount, timing and frequency of distributions will be at the sole discretion of our Board of Directors and will be based upon various factors.

We plan to fund all of our capital needs, including distributions of our REIT taxable income in order to maintain our REIT qualification, and capital expenditures, from cash on hand, cash from operations, borrowings under our Credit Facility and any other financings which our management and Board of Directors, in their discretion, may consummate. Currently, our primary source of liquidity to meet these requirements is cash flow from operations and borrowings under the \$700.0 million Revolver. Our management believes that cash on hand, cash flows from operations and availability under our Credit Facility will be adequate to support our capital requirements for 2015 through 2017 as disclosed under *Capital Requirements* above.

***Executive Retirement Agreement***

We have a non-qualified deferred compensation agreement with our Chief Executive Officer (CEO). The current agreement, as amended, provides for a lump sum payment upon retirement, no sooner than age 55. As of January 1, 2013, our CEO had reached age 55 and was eligible to receive the payment upon retirement. If our CEO had retired as of September 30, 2015, we would have had to pay him \$7.4 million. Based on our current capitalization, we do not believe that making this payment would materially adversely impact our liquidity.

***Off-Balance Sheet Arrangements***

Except as discussed above, and in the notes to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q, we do not have any off-balance sheet arrangements.

***Cash Flow***

Cash and cash equivalents as of September 30, 2015 was \$47.1 million, compared to \$41.3 million as of December 31, 2014.

***Operating Activities***

Cash provided by operating activities amounted to \$111.2 million for the nine months ended September 30, 2015 versus cash provided by operating activities of \$164.6 million for the nine months ended September 30, 2014. Cash provided by operating activities during the nine months ended September 30, 2015 was positively impacted by net

income attributable to GEO, non-cash expenses such as depreciation and amortization, amortization of debt issuance costs, and stock-based compensation expense. Equity in earnings of affiliates negatively impacted cash. Changes in accounts receivable, prepaid expenses and other assets increased in total by \$3.1 million, representing a negative impact on cash. The increase was primarily driven by new facility activations as well as the timing of billings and collections. Changes in accounts payable, accrued expenses and other liabilities increased by \$6.9 million which positively impacted cash. The increase was primarily driven by new facility activations as well as the timing of payments.

---

**Table of Contents**

Additionally, cash provided by operating activities for the nine months ended September 30, 2015 was negatively impacted by an increase in changes in contract receivable of \$74.5 million. This increase relates to costs incurred and estimated earnings in excess of billings related to the prison project in Ravenhall, Australia. The contract receivable is expected to grow as construction services are performed and will continue to have a negative impact on cash from operating activities until the balance is ultimately settled with the State. In accordance with the contract, the project will not be billed out until completion and commercial acceptance of the facility by the State.

Cash provided by operating activities during the nine months ended September 30, 2014 was positively impacted by increases in net income attributable to GEO, non-cash expenses such as depreciation and amortization, amortization of debt issuance costs, and stock-based compensation expense. Increases in equity in earnings of affiliates negatively impacted cash. Changes in accounts receivable, prepaid expenses and other assets decreased in total by a net of \$22.2 million, representing a positive impact on cash. The decrease was primarily driven by a decrease of approximately \$17.0 million related to federal and state tax over payments that were included in other current assets at December 31, 2013 which were applied in 2014. The remaining change is due to the timing of billings and collections. Changes in accounts payable, accrued expenses and other liabilities increased by \$11.9 million which positively impacted cash. The increase was primarily due to a prepayment from the Residential Treatment Services divestiture of \$6.5 million in connection with the termination of the services and license agreement as well as the timing of payments.

Cash provided by operating activities in the nine months ended September 30, 2014 was negatively impacted by an increase in changes in contract receivable of \$54.7 million. This increase relates to costs incurred and estimated earnings in excess of billings related to the Ravenhall Project. Refer to Note 11 - Commitments, Contingencies and Other in the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q. The Contract Receivable is expected to grow as construction services are performed and will continue to have a negative impact on cash from operating activities until the balance is ultimately settled with the State. In accordance with the contract, the project will not be billed out until completion and commercial acceptance of the facility.

***Investing Activities***

Cash used in investing activities of \$442.5 million during the nine months ended September 30, 2015 was primarily the result of our business acquisitions of the LCS Facilities and Soberlink in the amount of \$307.4 million and \$24.4 million, respectively, and capital expenditures of \$100.8 million. Cash used in investing activities of \$96.3 million during the nine months ended September 30, 2014 was primarily the result of capital expenditures of \$77.7 million and cash paid for a business acquisition in the amount of \$13.0 million.

***Financing Activities***

Cash provided by financing activities during the nine months ended September 30, 2015 amounted to \$340.7 million compared to cash used in financing activities of \$66.6 million during the nine months ended September 30, 2014. Cash provided by financing activities during the nine months ended September 30, 2015 was primarily the result of proceeds from long-term debt of \$642 million under our Revolver which was primarily used to fund the acquisition of the LCS Facilities. Additionally, we had proceeds from non-recourse debt of \$70.1 million related to construction draws for our prison project in Ravenhall, Australia. These increases were partially offset by a decrease for dividends paid of \$138.5 million and payments on long-term debt of \$222.7 million. Cash used in financing activities during the nine months ended September 30, 2014 was primarily the result of dividend payments of \$124.1 million and debt issuance costs of \$23.5 million. This decrease was primarily offset by an increase of \$54.7 million for issuance of common stock under our prospectus supplement.



## **Table of Contents**

Funds from Operations ( FFO ) is a widely accepted supplemental non-GAAP measure utilized to evaluate the operating performance of real estate investment trusts. It is defined in accordance with the standards established by the National Association of Real Estate Investment Trusts, or NAREIT, which defines FFO as net income (loss) attributable to common shareholders (computed in accordance with Generally Accepted Accounting Principles), excluding real estate related depreciation and amortization, excluding gains and losses from the cumulative effects of accounting changes, extraordinary items and sales of properties, and including adjustments for unconsolidated partnerships and joint ventures.

We also present Normalized Funds From Operations, or Normalized FFO, and Adjusted Funds from Operations, or AFFO, supplemental non-GAAP financial measures of real estate investment trusts' operating performances.

Normalized FFO is defined as FFO adjusted for certain items which by their nature are not comparable from period to period or that tend to obscure the Company's actual operating performance, including for the periods presented start-up expenses and mergers and acquisitions ( M&A ) related expenses, net of tax.

AFFO is defined as Normalized FFO adjusted by adding non-cash expenses such as non-real estate related depreciation and amortization, stock based compensation expense, the amortization of debt issuance costs, discount and/or premium and other non-cash interest, and by subtracting recurring consolidated maintenance capital expenditures.

Because of the unique design, structure and use of our correctional facilities, we believe that assessing the performance of our correctional facilities without the impact of depreciation or amortization is useful and meaningful to investors. Although NAREIT has published its definition of FFO, companies often modify this definition as they seek to provide financial measures that meaningfully reflect their distinctive operations. We have modified FFO to derive Normalized FFO and AFFO that meaningfully reflect our operations. Our assessment of our operations is focused on long-term sustainability. The adjustments we make to derive the non-GAAP measures of Normalized FFO and AFFO exclude items which may cause short-term fluctuations in income from continuing operations but have no impact on our cash flows, or we do not consider them to be fundamental attributes or the primary drivers of our business plan and they do not affect our overall long-term operating performance.

We may make adjustments to FFO from time to time for certain other income and expenses that do not reflect a necessary component of our operational performance on the basis discussed above, even though such items may require cash settlement. Because FFO, Normalized FFO and AFFO exclude depreciation and amortization unique to real estate as well as non-operational items and certain other charges that are highly variable from year to year, they provide our investors with performance measures that reflect the impact to operations from trends in occupancy rates, per diem rates, operating costs and interest costs, providing a perspective not immediately apparent from income from continuing operations. We believe the presentation of FFO, Normalized FFO and AFFO provide useful information to investors as they provide an indication of our ability to fund capital expenditures and expand our business. FFO, Normalized FFO and AFFO provide disclosure on the same basis as that used by our management and provide consistency in our financial reporting, facilitate internal and external comparisons of our historical operating performance and our business units and provide continuity to investors for comparability purposes. Additionally, FFO, Normalized FFO and AFFO are widely recognized measures in our industry as a real estate investment trust.

**Table of Contents**

Our reconciliation of net income attributable to The GEO Group, Inc. to FFO, Normalized FFO and AFFO for the three and nine months ended September 30, 2015 and 2014 is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
<b>Funds From Operations</b>				
Net income attributable to The GEO Group, Inc.	\$ 38,312	\$ 38,991	\$ 95,374	\$ 105,879
Real estate related depreciation and amortization	14,449	13,172	42,826	39,538
<b>NAREIT Defined FFO</b>	<b>52,761</b>	<b>52,163</b>	<b>138,200</b>	<b>145,417</b>
Start-up expenses, net of tax	1,919		4,831	
M&A related expenses, net of tax			2,232	
<b>Normalized Funds from Operations</b>	<b>\$ 54,680</b>	<b>\$ 52,163</b>	<b>\$ 145,263</b>	<b>\$ 145,417</b>
Non-real estate related depreciation and amortization	12,678	10,907	35,802	32,431
Consolidated maintenance capital expenditures	(5,843)	(6,025)	(17,929)	(15,406)
Stock-based compensation expense	3,025	1,730	8,602	6,263
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	1,770	2,054	4,986	4,453
<b>Adjusted Funds from Operations</b>	<b>\$ 66,310</b>	<b>\$ 60,829</b>	<b>\$ 176,724</b>	<b>\$ 173,158</b>

**Outlook**

The following discussion contains statements that are not historical statements and, therefore, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied in the forward-looking statements. Please refer to Part I - Item 1A. Risk Factors and the Forward Looking Statements - Safe Harbor sections in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, as well as the Forward-Looking Statements - Safe Harbor section and other disclosures contained in this Form 10-Q for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements.

*Revenue*

Domestically, we continue to pursue a number of opportunities for corrections and detention facilities. Continued need for corrections facilities in various states and the need for bed space at the federal level are two of the factors that have contributed to these opportunities.

During the first nine months of 2015, we activated three existing company-owned facilities. In March of 2015, we began the intake process at the company-owned, 400-bed Mesa Verde Detention Facility located in Bakersfield, California under an intergovernmental agreement between the City of McFarland, California and ICE. In early June of



2015, we started the intake process at the company-owned, 1,940-bed Great Plains Correctional Facility in Hinton, Oklahoma under a new 10-year contract with the Federal Bureau of Prisons, which we announced in late December 2014. In late June, we also began the intake

---

**Table of Contents**

of inmates from the State of Vermont at our company-owned, 1,748-bed North Lake Correctional Facility in Baldwin, Michigan under a five-year agreement with the Vermont Department of Corrections for the out-of-state housing of up to 675 inmates. Under the contract, we will provide comprehensive correctional management services, including the provision of industry-leading, evidence-based offender rehabilitation programs under the GEO Continuum of Care. We have also entered into a five-year agreement with the Washington Department of Corrections for the out-of-state housing of up to 1,000 inmates at the North Lake Correctional Facility. In addition to the reactivation of these three existing company-owned facilities, on July 1, 2015, we activated a company-owned, 640-bed expansion at the Adelanto Detention Facility in Adelanto, California under the existing contractual structure with the City of Adelanto and ICE. Furthermore, we expect to complete the development of a 626-bed expansion to the company-owned, 532-bed Karnes County Residential Center in Texas by the end of 2015 under an amendment to our existing contract with Karnes County, Texas and the existing intergovernmental service agreement between Karnes County and ICE. We will finance, develop, and manage the \$36 million expansion, which will increase the facility's total capacity to 1,158 beds. Additionally, we recently signed new contracts with ICE for the continued management of our company-owned, 700-bed Broward Transition Center in Pompano Beach, Florida and our company-owned, 1,575-bed Northwest Detention Center in Tacoma, Washington.

We continue to be encouraged by opportunities as discussed above; however any positive trends may, to some extent, be adversely impacted by government budgetary constraints in the future. While state finances overall are stable and revenue collections are meeting expectations in a majority of states, at least 12 states expect a budget shortfall in fiscal year 2015, according to a survey conducted in the fall of 2014 by the National Conference of State Legislatures. As a result of budgetary pressures, state correctional agencies may pursue a number of cost savings initiatives which may include reductions in per diem rates and/or the scope of services provided by private operators. These potential cost savings initiatives could have a material adverse impact on our current operations and/or our ability to pursue new business opportunities. Additionally, if state budgetary constraints, as discussed above, persist or intensify, our state customers' ability to pay us may be impaired and/or we may be forced to renegotiate our management contracts on less favorable terms and our financial condition, results of operations or cash flows could be materially adversely impacted. We plan to actively bid on any new projects that fit our target profile for profitability and operational risk. Although we are pleased with the overall industry outlook, positive trends in the industry may be offset by several factors, including budgetary constraints, unanticipated contract terminations, contract non-renewals, and/or contract re-bids. Although we have historically had a relatively high contract renewal rate, there can be no assurance that we will be able to renew our expiring management contracts on favorable terms, or at all. Also, while we are pleased with our track record in re-bid situations, we cannot assure that we will prevail in any such future situations.

Internationally, we are exploring a number of opportunities in our current markets and will continue to actively bid on any opportunities that fit our target profile for profitability and operational risk. In September 2014, we announced that a consortium led by us and comprised of The GEO Group Australia Pty. Ltd., John Holland Construction and Honeywell signed a contract with the Department of Justice in the State of Victoria for the development and operation of a 1,300-bed capacity prison in Ravenhall, Australia. The Ravenhall facility will be developed under a public-private partnership financing structure with a capital contribution from us of approximately AUD 115 million and we anticipate returns on investment consistent with our company-owned facilities.

With respect to our reentry services, electronic monitoring services, and youth services business conducted through our GEO Care business segment, we are currently pursuing a number of business development opportunities. Relative to opportunities for community-based reentry services, we are working with our existing federal, state, and local correctional clients to leverage new opportunities for both residential reentry facilities as well as non-residential day reporting centers. We continue to expend resources on informing state and local governments about the benefits of public-private partnerships, and we anticipate that there will be new opportunities in the future as those efforts begin to yield results. We believe we are well positioned to capitalize on any suitable opportunities that become available in

this area.

*Operating Expenses*

Operating expenses consist of those expenses incurred in the operation and management of our contracts to provide services to our governmental clients. Labor and related cost represented 55.7% of our operating expenses during the nine months ended

---

**Table of Contents**

September 30, 2015. Additional significant operating expenses include food, utilities and inmate medical costs. During the nine months ended September 30, 2015, operating expenses totaled 74.3% of our consolidated revenues. Our operating expenses as a percentage of revenues in 2015 will be impacted by the opening of any new or existing idle facilities as a result of the cost of transitioning and/or start-up operations related to a facility opening. During 2015, we will incur carrying costs for facilities that are currently vacant. As of September 30, 2015, our worldwide operations include the management and/or ownership of approximately 87,000 beds at 104 correctional and detention facilities, including idle facilities, projects under development and recently awarded contracts, and also include the provision of community supervision services for more than 127,000 offenders and pre-trial defendants, including approximately 83,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

*General and Administrative Expenses*

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. During the nine months ended September 30, 2015, general and administrative expenses totaled 7.3% of our consolidated revenues. We expect general and administrative expenses as a percentage of revenues in 2015 to remain consistent or decrease as a result of cost savings initiatives and decreases in nonrecurring costs related to our REIT conversion. We expect business development costs to remain consistent or increase slightly as we pursue additional business development opportunities in all of our business lines. We also plan to continue expending resources from time to time on the evaluation of potential acquisition targets.

*Idle Facilities*

We are currently marketing approximately 3,422 vacant beds at four of our idle facilities to potential customers. The annual carrying cost of our idle facilities in 2015 is estimated to be \$13.7 million, including depreciation expense of \$0.9 million. As of September 30, 2015, these facilities had a net book value of \$34.5 million. We currently do not have any firm commitment or agreement in place to activate these facilities. Historically, some facilities have been idle for multiple years before they received a new contract award. These idle facilities are included in the U.S. Corrections & Detention segment. The per diem rates that we charge our clients often vary by contract across our portfolio. However, if all of these idle facilities were to be activated using our U.S. Corrections & Detention average per diem rate through September 30, 2015 (calculated as the U.S. Corrections & Detention revenue divided by the number of U.S. Corrections & Detention mandays) and based on the average occupancy rate in our U.S. Corrections & Detention facilities for 2015, we would expect to receive incremental annualized revenue of approximately \$76 million and an annualized increase in earnings per share of approximately \$0.20 to \$0.25 per share based on our average U.S. Corrections and Detention operating margin.

---

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

*Interest Rate Risk*

We are exposed to market risks related to changes in interest rates with respect to our Credit Facility. Payments under the Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Credit Facility of \$783.3 million and \$58.1 million in outstanding letters of credit, as of September 30, 2015, for every one percent increase in the average interest rate applicable to the Credit Facility, our total annual interest expense would increase by \$7.8 million.

We have entered into certain interest rate swap arrangements for hedging purposes, fixing the interest rate on our Australian non-recourse debt related to the Fulham facility to 9.7%. We have also entered into certain interest rate swap arrangements for hedging purposes, fixing the interest rates on our Australian non-recourse debt related to our Ravenhall Project to 3.3% during the design and construction phase and 4.2% during the operating phase. The difference between the floating rate and the swap rate on these instruments is recognized in interest expense within the respective entity. Because the interest rates with respect to these instruments are fixed, a hypothetical one percent change in the current interest rate would not have a material impact on our financial condition or results of operations.

Additionally, we invest our cash in a variety of short-term financial instruments to provide a return. The majority of our cash is invested internationally. These instruments generally consist of highly liquid investments with original maturities at the date of purchase of three months or less. While these instruments are subject to interest rate risk, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial condition or results of operations.

*Foreign Currency Exchange Rate Risk*

We are also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar, and the Australian dollar, the Canadian dollar, the South African Rand and the British Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at September 30, 2015, every 10 percent change in historical currency rates would have approximately a \$3.4 million effect on our financial position and approximately a \$0.7 million impact on our results of operations during the nine months ended September 30, 2015.

**ITEM 4. CONTROLS AND PROCEDURES.**

*Evaluation of Disclosure Controls and Procedures.*

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act), as of the end of the period covered by this report. On the basis of this review, our management, including our Chief Executive Officer and our Chief Financial Officer, has concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed in our reports filed with the SEC, under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

It should be noted that the effectiveness of our system of disclosure controls and procedures is subject to certain limitations inherent in any system of disclosure controls and procedures, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. Accordingly, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud. As a result, by its nature, our system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

**Table of Contents**

## Changes in Internal Control Over Financial Reporting.

Our management is responsible to report any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management believes that there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

The information required herein is incorporated by reference from Note 11 - Commitments, Contingencies and Other in the Notes to the Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**ITEM 1A. RISK FACTORS.**

Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2014 includes a detailed discussion of the risk factors that could materially affect our business, financial condition or future prospects.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1, 2015 - July 31, 2015		\$		\$
August 1, 2015 - August 31, 2015	29,035	\$ 32.97		\$
September 1, 2015 - September 30, 2015	277	\$ 29.33		\$
Total	29,312	\$		\$

- (1) The Company withheld these shares through net share settlements to satisfy minimum statutory tax withholding requirements upon vesting of shares of restricted stock held by employees. These purchases were not made as part of a publicly announced plan or program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES.**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION.**

Not applicable.



**Table of Contents**

**ITEM 6. EXHIBITS.**

(A) Exhibits

31.1	SECTION 302 CEO Certification.
31.2	SECTION 302 CFO Certification.
32.1	SECTION 906 CEO Certification.
32.2	SECTION 906 CFO Certification.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

**Table of Contents**

**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.

THE GEO GROUP, INC.

Date: November 6, 2015

/s/ Brian R. Evans  
Brian R. Evans  
Senior Vice President & Chief Financial Officer  
(duly authorized officer and principal financial officer)