
Section 1: 10-Q (10-Q)

[Table of Contents](#)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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)

4955 Technology Way,
Boca Raton, Florida
(Address of principal executive offices)

65-0043078
(IRS Employer
Identification No.)

33431
(Zip Code)

(561) 893-0101
(Registrant's telephone number, including area code)

One Park Place, Suite 700,
621 Northwest 53rd Street
Boca Raton, Florida 33487-8242
(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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	GEO	New York Stock Exchange

As of May 3, 2019, the registrant had 121,205,405 shares of common stock outstanding.

Table of Contents

TABLE OF CONTENTS

<u>PART I - FINANCIAL INFORMATION</u>	3
<u>ITEM 1. FINANCIAL STATEMENTS</u>	3
<u>CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018</u>	3
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018</u>	4
<u>CONSOLIDATED BALANCE SHEETS AS OF MARCH 31, 2019 (UNAUDITED) AND DECEMBER 31, 2018</u>	5
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018</u>	6
<u>NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS</u>	7
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	36
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	51
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	51
<u>PART II - OTHER INFORMATION</u>	52
<u>ITEM 1. LEGAL PROCEEDINGS</u>	52
<u>ITEM 1A. RISK FACTORS</u>	52
<u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	53
<u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u>	53
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	53
<u>ITEM 5. OTHER INFORMATION</u>	53
<u>ITEM 6. EXHIBITS</u>	54
<u>SIGNATURES</u>	55

[Table of Contents](#)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
FOR THE THREE MONTHS ENDED
MARCH 31, 2019 AND 2018
(In thousands, except per share data)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Revenues	\$ 610,667	\$ 564,917
Operating expenses	456,997	426,709
Depreciation and amortization	32,469	31,926
General and administrative expenses	46,424	41,832
Operating income	74,777	64,450
Interest income	8,396	9,099
Interest expense	(40,280)	(35,869)
Income before income taxes and equity in earnings of affiliates	42,893	37,680
Provision for income taxes	4,840	4,755
Equity in earnings of affiliates, net of income tax provision of \$359 and \$706, respectively	2,596	1,995
Net income	40,649	34,920
Net loss attributable to noncontrolling interests	56	67
Net income attributable to The GEO Group, Inc.	\$ 40,705	\$ 34,987
Weighted-average common shares outstanding:		
Basic	118,774	121,768
Diluted	119,496	122,304
Net income per common share attributable to The GEO Group, Inc.:		
Basic:		
Net income per common share attributable to The GEO Group, Inc. - basic	\$ 0.34	\$ 0.29
Diluted:		
Net income per common share attributable to The GEO Group, Inc. - diluted	\$ 0.34	\$ 0.29
Dividends declared per share	\$ 0.48	\$ 0.47

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
(Unaudited)
FOR THE THREE MONTHS ENDED
MARCH 31, 2019 AND 2018
(In thousands)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Net income	\$ 40,649	\$ 34,920
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	1,736	521
Pension liability adjustment, net of tax provision of \$11 and \$28, respectively	(648)	105
Change in fair value of derivative instrument classified as cash flow hedge, net of tax provision of \$205 and \$130, respectively	1,164	736
Total other comprehensive income, net of tax	2,252	1,362
Total comprehensive income	42,901	36,282
Comprehensive loss attributable to noncontrolling interests	56	59
Comprehensive income attributable to The GEO Group, Inc.	\$ 42,957	\$ 36,341

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

[Table of Contents](#)

THE GEO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2019 AND DECEMBER 31, 2018
(In thousands, except share data)

	<u>March 31, 2019</u>	<u>December 31, 2018</u>
	<u>(Unaudited)</u>	
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 67,728	\$ 31,255
Restricted cash and cash equivalents	53,749	51,678
Accounts receivable, less allowance for doubtful accounts of \$4,276 and \$4,183, respectively	423,596	445,526
Contract receivable, current portion	16,005	15,535
Prepaid expenses and other current assets	43,535	57,768
Total current assets	<u>604,613</u>	<u>601,762</u>
<i>Restricted Cash and Investments</i>	27,282	22,431
<i>Property and Equipment, Net</i>	2,150,627	2,158,610
<i>Assets Held for Sale</i>	4,607	2,634
<i>Contract Receivable</i>	368,698	368,178
<i>Operating Lease Right-of-Use Assets, Net</i>	133,365	—
<i>Deferred Income Tax Assets</i>	29,924	29,924
<i>Goodwill</i>	776,361	776,359
<i>Intangible Assets, Net</i>	226,782	232,360
<i>Other Non-Current Assets</i>	61,807	65,860
Total Assets	<u>\$ 4,384,066</u>	<u>\$ 4,258,118</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
<i>Current Liabilities</i>		
Accounts payable	\$ 93,458	\$ 93,032
Accrued payroll and related taxes	58,079	76,009
Accrued expenses and other current liabilities	189,174	204,170
Operating lease liabilities, current portion	35,210	—
Current portion of finance lease liabilities, long-term debt and non-recourse debt	332,864	332,027
Total current liabilities	<u>708,785</u>	<u>705,238</u>
<i>Deferred Income Tax Liabilities</i>	13,681	13,681
<i>Other Non-Current Liabilities</i>	79,734	82,481
<i>Operating Lease Liabilities</i>	102,238	—
<i>Finance Lease Liabilities</i>	4,179	4,570
<i>Long-Term Debt</i>	2,433,433	2,397,227
<i>Non-Recourse Debt</i>	15,112	15,017
<i>Commitments, Contingencies and Other (Note 12)</i>		
<i>Shareholders' Equity</i>		
Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 187,500,000 shares authorized, 125,397,214 and 124,794,986 issued and 121,186,960 and 120,584,732 outstanding, respectively	1,254	1,248
Additional paid-in capital	1,213,922	1,210,916
Distributions in excess of earnings	(71,076)	(52,868)
Accumulated other comprehensive loss	(21,366)	(23,618)
Treasury stock, 4,210,254 and 4,210,254 shares, at cost, respectively	(95,175)	(95,175)
Total shareholders' equity attributable to The GEO Group, Inc.	<u>1,027,559</u>	<u>1,040,503</u>
Noncontrolling interests	(655)	(599)
Total shareholders' equity	<u>1,026,904</u>	<u>1,039,904</u>
Total Liabilities and Shareholders' Equity	<u>\$ 4,384,066</u>	<u>\$ 4,258,118</u>

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 THREE MONTHS ENDED
MARCH 31, 2019 AND 2018
(In thousands)

	Three Months Ended	
	March 31, 2019	March 31, 2018
Cash Flow from Operating Activities:		
Net income	\$ 40,649	\$ 34,920
Net loss attributable to noncontrolling interests	56	67
Net income attributable to The GEO Group, Inc.	40,705	34,987
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	32,469	31,926
Stock-based compensation	6,727	5,827
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	2,563	2,138
Provision for doubtful accounts	131	195
Equity in earnings of affiliates, net of tax	(2,596)	(1,995)
Dividends received from unconsolidated joint venture	3,088	736
Loss on sale/disposal of property and equipment, net	697	(350)
Loss on assets held for sale	1,083	—
Changes in assets and liabilities, net of effects of acquisitions:		
Changes in accounts receivable, prepaid expenses and other assets	27,527	7,525
Changes in contract receivable	1,446	6,298
Changes in accounts payable, accrued expenses and other liabilities	(14,829)	(17,601)
Net cash provided by operating activities	<u>99,011</u>	<u>69,686</u>
Cash Flow from Investing Activities:		
Insurance proceeds - damaged property	2,503	4,504
Proceeds from sale of property and equipment	274	—
Proceeds from sale of assets held for sale	—	3,797
Change in restricted investments	(4,062)	(505)
Capital expenditures	(28,084)	(52,147)
Net cash used in investing activities	<u>(29,369)</u>	<u>(44,351)</u>
Cash Flow from Financing Activities:		
Proceeds from long-term debt	130,000	102,000
Payments on long-term debt	(96,926)	(43,000)
Payments on non-recourse debt	(2,089)	(5,600)
Taxes paid related to net share settlements of equity awards	(4,172)	(4,356)
Proceeds from issuance of common stock in connection with ESPP	124	140
Payment for repurchases of common stock	—	(40,182)
Proceeds from the exercise of stock options	333	260
Cash dividends paid	(57,945)	(58,238)
Net cash used in financing activities	<u>(30,675)</u>	<u>(48,976)</u>
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	366	(655)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	39,333	(24,296)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, beginning of period	84,472	133,545
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, end of period	<u>\$ 123,805</u>	<u>\$ 109,249</u>
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Right-of-use assets obtained from operating lease liabilities upon adoption of new lease standard (Refer to Note 2 - Leases)	<u>\$ 147,000</u>	<u>\$ —</u>
Capital expenditures in accounts payable and accrued expenses	<u>\$ 5,081</u>	<u>\$ 1,814</u>

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

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 and offers an expanded delivery of offender rehabilitation services under its ‘GEO Continuum of Care’ platform. The ‘GEO Continuum of Care’ program integrates enhanced in-prison programs, which are evidence-based and include cognitive behavioral treatment and post-release services, and provides academic and vocational classes in life skills and treatment programs while helping individuals reintegrate into their communities. 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”). At March 31, 2019, the Company’s worldwide operations include the management and/or ownership of approximately 95,000 beds at 134 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 210,000 offenders and pretrial defendants, including approximately 100,000 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 25, 2019 for the year ended December 31, 2018. The accompanying December 31, 2018 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, 2018. Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported financial position, results of operations or cash flows. 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 three months ended March 31, 2019 are not necessarily indicative of the results for the entire year ending December 31, 2019, or for any other future interim or annual periods.

2. LEASES

On January 1, 2019, the Company adopted Accounting Standard Update (“ASU”) No. 2016-02, “Leases” (Topic 842) which requires that entities record lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. The Company implemented the new standard using the transition method that provided for adoption on the adoption date and recognizing a cumulative-effect adjustment to retained earnings, if any, upon adoption. Therefore, the consolidated financial statements for the three months ended March 31, 2019 are presented under the new standard, while comparative years presented are not adjusted and continue to be reported in accordance with the Company’s historical accounting policy. Refer to Note 15 - Recent Accounting Pronouncements for further information.

The Company has operating and finance leases for facilities, ground leases, office space, computers, copier equipment and transportation vehicles that have remaining lease terms of one year to seventy-seven years, some of which include options to extend the lease for up to ten years. For leases with terms greater than 12 months, the Company records the related asset and obligation at the present value of the lease payments over the term of the lease. Many of GEO’s leases include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments when appropriate. Only renewal or termination options that are reasonably certain to be exercised by the Company are included in the lease term which is used in the calculation of lease liabilities and right-of-use assets. GEO does not typically enter into lease agreements that contain a residual guarantee or that provide for variable lease payments.

Table of Contents

When available, GEO uses the rate implicit in the lease to discount lease payments to present value, however, most of GEO's lease agreements do not provide a readily determinable implicit rate. Therefore, the Company must estimate its incremental borrowing rate to discount the lease payments based on information available at lease commencement.

Lease related assets and liabilities are recorded on the balance sheet as follows (in thousands):

	<u>Classification on the Balance Sheet</u>	<u>March 31, 2019</u>
Assets		
Operating lease assets	Operating Lease Right-of-Use Assets, Net	\$ 133,365
Finance lease assets	Property and Equipment, Net	3,647
Total lease assets		<u>\$ 137,012</u>
Liabilities		
Current		
Operating	Operating lease liabilities, current portion	\$ 35,210
Finance [1]	Current portion of finance liabilities, long-term debt and non-recourse debt	1,519
Noncurrent		
Operating	Operating Lease Liabilities	102,238
Finance [1]	Finance Lease Liabilities	4,179
Total lease liabilities		<u>\$ 143,146</u>

[1] Also refer to Note 11 - Debt.

Table of Contents

Certain information related to the lease costs for finance and operating leases is presented as follows (in thousands):

	Three Months Ended March 31, 2019
Operating lease cost	\$ 12,492
Finance lease cost:	
Amortization of right-of-use assets	256
Interest on lease liabilities	113
Total finance lease cost	369
Short-term lease cost	1,915
Total Lease Cost	<u>\$ 14,776</u>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	\$ 12,616
Operating cash flows for finance leases	\$ 113
Financing activities for finance leases	\$ 394
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 3,164
Weighted average remaining lease term:	
Operating leases	7.3 years
Finance leases	3.4 years
Weighted average discount rate:	
Operating leases [1]	4.71%
Finance leases	8.27%

[1] Upon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019.

Table of Contents

Undiscounted Cash Flows

The table below reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the operating lease liabilities and finance lease liabilities recorded on the balance sheet as of March 31, 2019 (in thousands).

	<u>Operating Leases</u>	<u>Finance Leases</u>
2019	\$ 31,919	\$ 1,450
2020	30,134	1,934
2021	21,376	1,936
2022	16,054	1,234
2023	13,430	—
Thereafter	51,675	—
Total minimum lease payments	164,588	6,554
Less: amount of lease payment representing interest	(27,140)	(856)
Present value of future minimum lease payments	137,448	5,698
Less: current obligations under leases	(35,210)	(1,519)
Long-term lease obligations	<u>\$ 102,238</u>	<u>\$ 4,179</u>

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill as a result of its various 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, 2018 to March 31, 2019 are as follows (in thousands):

	<u>December 31, 2018</u>	<u>Acquisition Adjustments</u>	<u>Foreign Currency Translation</u>	<u>March 31, 2019</u>
U.S. Corrections & Detention	\$ 316,366	\$ —	\$ —	\$ 316,366
GEO Care	459,589	—	—	459,589
International Services	404	—	2	406
Total Goodwill	<u>\$ 776,359</u>	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ 776,361</u>

The Company has also recorded other finite and indefinite-lived intangible assets as a result of its various business combinations. The Company's intangible assets include facility management contracts, covenants not to compete, trade names and technology, as follows (in thousands):

	Weighted Average Useful Life (years)	March 31, 2019			December 31, 2018		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Facility management contracts	16.3	\$308,516	\$ (132,753)	\$ 175,763	\$308,419	\$ (127,481)	\$ 180,938
Covenants not to compete	1	—	—	—	700	(700)	—
Technology	7.3	33,700	(27,881)	5,819	33,700	(27,478)	6,222
Trade name (Indefinite lived)	Indefinite	45,200	—	45,200	45,200	—	45,200
Total acquired intangible assets		<u>\$387,416</u>	<u>\$ (160,634)</u>	<u>\$ 226,782</u>	<u>\$388,019</u>	<u>\$ (155,659)</u>	<u>\$ 232,360</u>

Amortization expense was \$5.6 million and \$6.1 million for the three months ended March 31, 2019 and 2018, respectively. Amortization expense was primarily related to the U.S. Corrections & Detention and GEO Care segments' amortization of acquired facility management contracts. As of March 31, 2019, the weighted average period before the next contract renewal or extension for the acquired facility management contracts was approximately 1.5 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.

Table of Contents

Estimated amortization expense related to the Company's finite-lived intangible assets for the remainder of 2019 through 2023 and thereafter is as follows (in thousands):

Fiscal Year	Total Amortization Expense
Remainder of 2019	\$ 16,522
2020	22,306
2021	19,782
2022	18,273
2023	13,632
Thereafter	91,067
	\$ 181,582

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 March 31, 2019 and December 31, 2018 (in thousands):

	Carrying Value at March 31, 2019	Fair Value Measurements at March 31, 2019		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted investment:				
Rabbi Trust	\$ 24,954	\$ —	\$ 24,954	\$ —
Fixed income securities	1,848	—	1,848	—
Liabilities:				
Interest rate swap derivatives	\$ 5,393	\$ —	\$ 5,393	\$ —

	Carrying Value at December 31, 2018	Fair Value Measurements at December 31, 2018		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted investments:				
Rabbi Trust	\$ 20,892	\$ —	\$ 20,892	\$ —
Fixed income securities	1,801	—	1,801	—
Liabilities:				
Interest rate swap derivatives	\$ 8,638	\$ —	\$ 8,638	\$ —

The Company's Level 2 financial instruments included in the tables above as of March 31, 2019 and December 31, 2018 consist of interest rate swap derivative liabilities 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 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](#)

During the three months ended March 31, 2019, the Company transferred certain accounts receivable balances that had a carrying value of approximately \$3.0 million to an unrelated third party. The transfer was accounted for as a sale and the Company has no continuing involvement with the transferred assets. The Company received cash proceeds in connection with the sale of approximately \$3.0 million, and as such, there was no gain or loss in connection with the transaction.

[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 March 31, 2019 and December 31, 2018 (in thousands):

	Carrying Value as of March 31, 2019	Estimated Fair Value Measurements at March 31, 2019			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 67,728	\$ 67,728	\$ 67,728	\$ —	\$ —
Restricted cash and investments	56,077	56,077	53,148	2,929	—
Liabilities:					
Borrowings under senior credit facility	\$ 1,311,175	\$ 1,252,400	\$ —	\$ 1,252,400	\$ —
5.875% Senior Notes due 2024	250,000	219,278	—	219,278	—
5.125% Senior Notes	300,000	266,034	—	266,034	—
5.875% Senior Notes due 2022	250,000	242,853	—	242,853	—
6.00% Senior Notes	350,000	294,914	—	294,914	—
Non-recourse debt	341,196	341,595	—	341,595	—

	Carrying Value as of December 31, 2018	Estimated Fair Value Measurements at December 31, 2018			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 31,255	\$ 31,255	\$ 31,255	\$ —	\$ —
Restricted cash and investments	53,217	53,217	49,884	2,284	—
Liabilities:					
Borrowings under senior credit facility	\$ 1,273,965	\$ 1,188,196	\$ —	\$ 1,188,196	\$ —
5.875% Senior Notes due 2024	250,000	224,590	—	224,590	—
5.125% Senior Notes	300,000	271,992	—	271,992	—
5.875% Senior Notes due 2022	250,000	244,550	—	244,550	—
6.00% Senior Notes	350,000	310,177	—	310,177	—
Non-recourse debt	340,910	348,274	—	348,274	—

The fair values of the Company's cash and cash equivalents, and restricted cash approximates the carrying values of these assets at March 31, 2019 and December 31, 2018. Restricted cash consists of money market funds, bank deposits, commercial paper and time deposits used for asset replacement funds and other funds contractually required to be maintained at the Company's Australian subsidiary. The fair value of the money market funds and bank deposits 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).

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"), 6.00% senior unsecured notes due 2026 ("6.00% 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") and the Company's Australian subsidiary are estimated based on market prices of 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.

[Table of Contents](#)

6. RESTRICTED CASH AND CASH EQUIVALENTS

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

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Cash and Cash Equivalents	\$ 67,728	\$ 49,235
Restricted cash and cash equivalents - current	53,749	56,888
Restricted cash and investments - non-current	27,282	24,394
Less Restricted investments - non-current	<u>(24,954)</u>	<u>(21,268)</u>
Total cash, cash equivalents and restricted cash and cash equivalents shown in the statement of cash flows	<u>\$ 123,805</u>	<u>\$ 109,249</u>

Amounts included in restricted cash and cash equivalents are attributable to certain contractual cash restriction requirements at the Company's wholly owned Australian subsidiary related to non-recourse debt and asset replacement funds contractually required to be maintained and other guarantees. Restricted investments - non-current (included in Restricted Cash and Investments in the accompanying consolidated balance sheets) consists of the Company's rabbi trust established for employee and employer contributions to The GEO Group, Inc. Non-qualified Deferred Compensation Plan and is not considered to be a restricted cash equivalent. Refer to Note 4 - Financial Instruments.

Table of Contents

7. SHAREHOLDERS' EQUITY

The following table presents the changes in shareholders' equity that are attributable to the Company's shareholders and to noncontrolling interests for the three months ended March 31, 2019 and 2018 (in thousands):

	Common shares		Additional Paid-In Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Treasury shares		Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
Balance, January 1, 2019	120,585	\$ 1,248	\$1,210,916	\$ (52,868)	\$ (23,618)	4,210	\$(95,175)	\$ (599)	\$ 1,039,904
Proceeds from exercise of stock options	22	—	333	—	—	—	—	—	333
Stock-based compensation expense	—	—	6,727	—	—	—	—	—	6,727
Restricted stock granted	778	8	(8)	—	—	—	—	—	—
Restricted stock canceled	(6)	—	—	—	—	—	—	—	—
Dividends paid	—	—	—	(57,945)	—	—	—	—	(57,945)
Shares withheld for net settlements of share-based awards [1]	(198)	(2)	(4,170)	—	—	—	—	—	(4,172)
Issuance of common stock - ESPP	6	—	124	—	—	—	—	—	124
Transition adjustment for accounting standard adoption [2]	—	—	—	(968)	968	—	—	—	—
Net income (loss)	—	—	—	40,705	—	—	—	(56)	40,649
Other comprehensive income	—	—	—	—	1,284	—	—	—	1,284
Balance, March 31, 2019	<u>121,187</u>	<u>\$ 1,254</u>	<u>\$1,213,922</u>	<u>\$ (71,076)</u>	<u>\$ (21,366)</u>	<u>4,210</u>	<u>\$(95,175)</u>	<u>\$ (655)</u>	<u>\$ 1,026,904</u>

	Common shares		Additional Paid-In Capital	Earnings in Excess of Distributions	Accumulated Other Comprehensive Loss	Treasury shares		Noncontrolling Interests	Total Shareholders' Equity
	Shares	Amount				Shares	Amount		
Balance, January 1, 2018	124,008	\$ 1,240	\$1,190,906	\$ 31,541	\$ (24,446)	—	—	\$ (322)	\$ 1,198,919
Proceeds from exercise of stock options	15	1	260	—	—	—	—	—	261
Stock-based compensation expense	—	—	5,827	—	—	—	—	—	5,827
Restricted stock canceled	(9)	—	—	—	—	—	—	—	—
Dividends paid	—	—	—	(58,319)	—	—	—	—	(58,319)
Shares withheld for net settlements of share-based awards [1]	(169)	(2)	(4,355)	—	—	—	—	—	(4,357)
Issuance of common stock - ESPP	8	—	141	—	—	—	—	—	141
Repurchases of common stock	(1,848)	—	—	—	—	1,848	(40,182)	—	(40,182)
Net income (loss)	—	—	—	34,987	—	—	—	(67)	34,920
Other comprehensive income	—	—	—	—	1,354	—	—	8	1,362
Balance, March 31, 2018	<u>122,005</u>	<u>\$ 1,239</u>	<u>\$1,192,779</u>	<u>\$ 8,209</u>	<u>\$ (23,092)</u>	<u>1,848</u>	<u>\$(40,182)</u>	<u>\$ (381)</u>	<u>\$ 1,138,572</u>

[1] During the three months ended March 31, 2019 and 2018, the Company withheld shares through net share settlements to satisfy statutory tax withholding requirements upon vesting of shares of restricted stock held by employees.

[2] On January 1, 2019, the Company adopted Accounting Standard Update ("ASU") No. 2018-02 "Income Statement-Reporting Comprehensive Income-Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". Refer to Note 15 - Recent Accounting Pronouncements for further information.

Table of Contents

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, 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.

During the three months ended March 31, 2019 and the year ended December 31, 2018 GEO declared and paid the following regular cash distributions to its shareholders as follows:

Declaration Date	Record Date	Payment Date	Distribution Per Share	Aggregate Payment Amount (in millions)
February 5, 2018	February 16, 2018	February 27, 2018	\$ 0.47	\$ 58.3
April 11, 2018	April 23, 2018	May 3, 2018	\$ 0.47	\$ 57.4
July 10, 2018	July 20, 2018	July 27, 2018	\$ 0.47	\$ 57.2
October 15, 2018	October 26, 2018	November 2, 2018	\$ 0.47	\$ 57.2
February 4, 2019	February 15, 2019	February 22, 2019	\$ 0.48	\$ 57.9

Stock Buyback Program

On February 14, 2018, the Company announced that its Board authorized a stock buyback program authorizing the Company to repurchase up to a maximum of \$200.0 million of its shares of common stock. The stock buyback program will be funded primarily with cash on hand, free cash flow and borrowings under the Company's \$900 million revolving credit facility (the "Revolver"). The program is effective through October 20, 2020. The stock buyback program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission ("SEC") requirements. The stock buyback program does not obligate the Company to purchase any specific amount of the Company's common stock and may be suspended or extended at any time at the discretion of the Company's Board. There were no repurchases of shares of the Company's common stock during the three months ended March 31, 2019. The Company believes it has the ability to continue to fund the stock buyback program, its debt service requirements and its maintenance and growth capital expenditure requirements, while maintaining sufficient liquidity for other corporate purposes.

Prospectus Supplement

On October 20, 2017, the Company filed with the SEC an automatic shelf registration on Form S-3. Under this shelf registration, the Company may, from time to time, sell any combination of securities described in the prospectus in one or more offerings. Each time that the Company may sell securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities being offered. On November 9, 2017, in connection with the shelf registration, the Company filed with the SEC 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 \$150 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 common stock sold under this prospectus supplement during the three months ended March 31, 2019.

Table of Contents

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 (loss) 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).

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

	Three Months Ended March 31, 2019			
	(In thousands)			
	Foreign currency translation adjustments, net of tax attributable to The GEO Group, Inc. (1)	Change in fair value of derivatives, net of tax	Pension adjustments, net of tax	Total
Balance, January 1, 2019	\$ (14,573)	\$ (5,746)	\$ (3,299)	\$(23,618)
Current-period other comprehensive (loss) income	1,736	1,164	(648)	2,252
Balance, March 31, 2019	<u>\$ (12,837)</u>	<u>\$ (4,582)</u>	<u>\$ (3,947)</u>	<u>\$(21,366)</u>

(1) The foreign currency translation related to noncontrolling interests was not significant at March 31, 2019 or December 31, 2018.

	Three Months Ended March 31, 2018			
	(In thousands)			
	Foreign currency translation adjustments, net of tax attributable to The GEO Group, Inc. (1)	Change in fair value of derivatives, net of tax	Pension adjustments, net of tax	Total
Balance, January 1, 2018	(7,470)	(11,892)	(5,084)	(24,446)
Current-period other comprehensive (loss) income	513	736	105	1,354
Balance, March 31, 2018	<u>(6,957)</u>	<u>(11,156)</u>	<u>(4,979)</u>	<u>(23,092)</u>

1) The foreign currency translation related to noncontrolling interests was not significant at March 31, 2018 or December 31, 2017.

8. EQUITY INCENTIVE PLANS

The Board has adopted The GEO Group, Inc. 2018 Stock Incentive Plan (the "2018 Plan"), which was approved by the Company's shareholders on April 24, 2018. The 2018 Plan replaced the 2014 Stock Incentive Plan (the "2014 Plan"). As of the date the 2018 Plan was adopted, it provided for a reserve of 4,600,000 shares of common stock that may be issued pursuant to awards granted under the 2018 Plan. The Company filed a Form S-8 registration statement related to the 2018 Plan on May 11, 2018.

Stock Options

The Company uses a Black-Scholes option valuation model to estimate the fair value of each time based or performance based option awarded. For options granted during the three months ended March 31, 2019, the fair value was estimated using the following assumptions: (i) volatility of 40.69%; (ii) expected term of 5.0 years; (iii) risk free interest rate of 2.44%; and (iv) expected dividend yield of 8.47%. A summary of the activity of stock option awards issued and outstanding under Company plans was as follows for the three months ended March 31, 2019:

Table of Contents

	<u>Shares</u> (in thousands)	<u>Wtd. Avg. Exercise Price</u>	<u>Wtd. Avg. Remaining Contractual Term (years)</u>	<u>Aggregate Intrinsic Value</u> (in thousands)
Options outstanding at January 1, 2019	1,462	\$ 24.30	7.20	\$ 924
Options granted	379	22.68		
Options exercised	(22)	14.83		
Options forfeited/canceled/expired	(55)	25.43		
Options outstanding at March 31, 2019	<u>1,764</u>	\$ 24.06	7.61	\$ 700
Options vested and expected to vest at March 31, 2019	<u>1,642</u>	\$ 24.11	7.49	\$ 700
Options exercisable at March 31, 2019	<u>896</u>	\$ 24.42	6.18	\$ 700

On March 1, 2019, the Company granted approximately 379,000 options to certain employees which had a per share grant date fair value of \$3.96. For the three months ended March 31, 2019 and March 31, 2018, the amount of stock-based compensation expense related to stock options was \$0.3 million and \$0.2 million, respectively. As of March 31, 2019, the Company had \$2.9 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 3.1 years.

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 historically 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 three months ended March 31, 2019:

	<u>Shares</u> (in thousands)	<u>Wtd. Avg. Grant Date Fair Value</u>
Restricted stock outstanding at January 1, 2019	2,018	\$ 27.62
Granted	778	23.79
Vested	(697)	24.08
Forfeited/canceled	(6)	24.89
Restricted stock outstanding at March 31, 2019	<u>2,093</u>	\$ 27.26

During the three months ended March 31, 2019, the Company granted approximately 778,000 shares of restricted stock to certain employees and executive officers. Of these awards, 250,000 are market and performance-based awards which will be forfeited if the Company does not achieve certain annual metrics during 2019, 2020 and 2021.

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 50% 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, over a three year period from January 1, 2019 to December 31, 2021 and (ii) up to 50% 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 over a three year period from January 1, 2019 to December 31, 2021. 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 the 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

Table of Contents

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 43.7%; (ii) beta of 1.0; and (iii) risk free rate of 2.53%.

For the three months ended March 31, 2019 and March 31, 2018, the Company recognized \$6.5 million and \$5.6 million, respectively, of compensation expense related to its restricted stock awards. As of March 31, 2019, the Company had \$41.2 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 2.6 years.

Employee Stock Purchase Plan

The Company previously adopted The GEO Group Inc. 2011 Employee Stock Purchase Plan (the "Plan" or "ESPP") 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 750,000 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 three months ended March 31, 2019, 5,886 shares of the Company's common stock were issued in connection with the Plan.

[Table of Contents](#)

9. EARNINGS PER SHARE

Basic earnings per share of common stock is computed by dividing the net income attributable to The GEO Group, Inc. 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 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 months ended March 31, 2019 and 2018 as follows (in thousands, except per share data):

	Three Months Ended	
	March 31, 2019	March 31, 2018
Net income	\$ 40,649	\$ 34,920
Net loss attributable to noncontrolling interests	56	67
Net income attributable to The GEO Group, Inc.	40,705	34,987
Basic earnings per share attributable to The GEO Group, Inc.:		
Weighted average shares outstanding	118,774	121,768
Per share amount	\$ 0.34	\$ 0.29
Diluted earnings per share attributable to The GEO Group, Inc.:		
Weighted average shares outstanding	118,774	121,768
Dilutive effect of equity incentive plans	721	536
Weighted average shares assuming dilution	119,496	122,304
Per share amount	\$ 0.34	\$ 0.29

Three Months

For the three months ended March 31, 2019, 1,191,206 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 874,714 common stock equivalents from restricted shares that were anti-dilutive.

For the three months ended March 31, 2018, 759,382 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 757,401 common stock equivalents from restricted shares that were anti-dilutive.

10. 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 - Ravenhall

The Company's Australian subsidiary has entered into interest rate swap agreements to fix the interest rate on its variable rate non-recourse debt related to a correctional facility project in Ravenhall, a locality near Melbourne, Australia to 4.2% during the project's operating phase. The swaps' notional amounts coincide with outstanding draws under the project. At March 31, 2019, the swaps had a notional amount of approximately AUD 448 million, or \$318.1 million, based on exchange rates at March 31, 2019. 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 gain recorded in other comprehensive income, net of tax, related to this cash flow hedge was \$1.2 million during the three months ended March 31,

Table of Contents

2019. The total fair value of the swap liability as of March 31, 2019 was \$5.4 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. If the Company refinances the debt before its maturity date, this would result in the reclassification into earnings or losses amounts associated with these swaps currently reported in accumulated other comprehensive income (loss). The Company intends to refinance the construction facility prior to September 2019. The transaction is expected to close in the second quarter of 2019 and, as such, the amounts associated with the swaps will be reclassified to earnings or losses at that time.

11. DEBT

Debt outstanding as of March 31, 2019 and December 31, 2018 consisted of the following (in thousands):

	March 31, 2019	December 31, 2018
Senior Credit Facility:		
Term loan	\$ 784,000	\$ 786,000
Unamortized discount on term loan	(2,729)	(2,878)
Unamortized debt issuance costs on term loan	(6,472)	(6,826)
Revolver	529,904	490,843
Total Senior Credit Facility	1,304,703	1,267,139
6.00% Senior Notes:		
Notes Due in 2026	350,000	350,000
Unamortized debt issuance costs	(4,691)	(4,820)
Total 6.00% Senior Notes Due in 2026	345,309	345,180
5.875% Senior Notes:		
Notes Due in 2024	250,000	250,000
Unamortized debt issuance costs	(2,865)	(2,971)
Total 5.875% Senior Notes Due in 2024	247,135	247,029
5.125% Senior Notes:		
Notes Due in 2023	300,000	300,000
Unamortized debt issuance costs	(3,386)	(3,548)
Total 5.125% Senior Notes Due in 2023	296,614	296,452
5.875% Senior Notes:		
Notes Due in 2022	250,000	250,000
Unamortized debt issuance costs	(2,329)	(2,514)
Total 5.875% Senior Notes Due in 2022	247,671	247,486
Non-Recourse Debt	341,338	341,074
Unamortized debt issuance costs on non-recourse debt	(2,738)	(3,883)
Unamortized discount on non-recourse debt	(142)	(164)
Total Non-Recourse Debt	338,458	337,027
Finance Lease Liabilities	5,698	6,059
Other debt	—	2,469
Total debt	2,785,588	2,748,841
Current portion of finance lease liabilities, long-term debt and non-recourse debt	(332,864)	(332,027)
Finance Lease Liabilities, long-term portion	(4,179)	(4,570)
Non-Recourse Debt, long-term portion	(15,112)	(15,017)
Long-Term Debt	\$ 2,433,433	\$ 2,397,227

Table of Contents

Amended and Restated Credit Agreement

On April 30, 2018, GEO entered into Amendment No. 1 to Third Amended and Restated Credit Agreement (the “Credit Agreement”) by and among the refinancing lenders party thereto, the other lenders party thereto, GEO and GEO Corrections Holdings, Inc. and BNP Paribas, as administrative agent. The amendment, among other things, provides for the refinancing of all of GEO’s existing senior secured term loans with refinancing term loans in the aggregate principal amount of \$792.0 million and makes certain other modifications to GEO’s senior secured credit agreement. The interest rate applicable to the refinancing term loans is equal to LIBOR plus 2.00% (with a LIBOR floor of 0.75%). The amendment was considered to be a modification and loan costs of approximately \$1.0 million were incurred and capitalized in connection with the transaction.

The Credit Agreement evidences a credit facility (the “Credit Facility”) consisting of the \$792.0 million term loan discussed above (the “Term Loan”) bearing interest at LIBOR plus 2.00% (with a LIBOR floor of 0.75%), and a \$900.0 million Revolver initially bearing interest at LIBOR plus 2.25% (with no LIBOR floor) together with AUD275 million available solely for the issuance of financial letters of credit and performance letters of credit, in each case denominated in Australian Dollars under the Australian Dollar Letter of Credit Facility (the “Australian LC Facility”). As of March 31, 2019, there were no letters of credit issued under the Australian LC Facility. Amounts to be borrowed by GEO under the Credit Agreement are subject to the satisfaction of customary conditions to borrowing. The Term Loan component is scheduled to mature on March 23, 2024. The revolving credit commitment component is scheduled to mature on May 19, 2021. The Credit Agreement also has an accordion feature of \$450.0 million, subject to lender demand and prevailing market conditions and satisfying the relevant borrowing conditions.

The Credit Agreement contains certain customary representations and warranties, and certain customary covenants that restrict GEO’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 6.25 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 GEO conducts, and (xi) materially impair GEO’s lenders’ security interests in the collateral for its loans.

Events of default under the Credit Agreement include, but are not limited to, (i) GEO’s failure to pay principal or interest when due, (ii) GEO’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 asserted against GEO, and (viii) a change in control.

All of the obligations under the Credit Agreement are unconditionally guaranteed by certain domestic subsidiaries of GEO and the Credit Agreement and the related guarantees are secured by a perfected first-priority pledge of substantially all of GEO’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 GEO and each guarantor in their domestic subsidiaries.

GEO Australasia Holdings Pty Ltd, GEO Australasia Finance Holdings Pty Ltd as trustee for the GEO Australasia Finance Holding Trust, and together with GEO Australasia Holdings, collectively (“the Australian Borrowers”) are wholly owned foreign subsidiaries of GEO. GEO has designated each of the Australian Borrowers as restricted subsidiaries under the Credit Agreement. However, the Australian Borrowers are not obligated to pay or perform any obligations under the Credit Agreement other than their own obligations as Australian Borrowers under the Credit Agreement. The Australian Borrowers do not pledge any of their assets to secure any obligations under the Credit Agreement.

On August 18, 2016, the Company executed a Letter of Offer by and among GEO and HSBC Bank Australia Limited (the “Letter of Offer”) providing for a bank guarantee line and bank guarantee/standby sub-facility in an aggregate amount of approximately AUD100 million, or \$71.0 million, based on exchange rates in effect as of March 31, 2019 (collectively, the “Bank Guarantee Facility”). The Bank Guarantee Facility allows GEO to provide letters of credit to assure performance of certain obligations of its wholly owned subsidiary relating to its correctional facility in Ravenhall, located near Melbourne, Australia. The Bank Guarantee Facility is unsecured. The issuance of letters of credit under the Bank Guarantee Facility is subject to the satisfaction of the conditions precedent specified in the Letter of Offer. Letters of credit issued under the bank

Table of Contents

guarantee lines are due on demand and letters of credit issued under the bank guarantee/standby sub-facility cannot have a duration exceeding twelve months. The Bank Guarantee Facility may be terminated by HSBC Bank Australia Limited on 90 days written notice. As of March 31, 2019, there was AUD100 million in letters of credit issued under the Bank Guarantee Facility.

As of March 31, 2019, the Company had approximately \$784 million in aggregate borrowings outstanding under the Term Loan, approximately \$530 million in borrowings under the Revolver, and approximately \$62 million in letters of credit which left approximately \$308 million in additional borrowing capacity under the Revolver. The weighted average interest rate on outstanding borrowings under the Credit Agreement as of March 31, 2019 was 4.6%.

6.00% Senior Notes due 2026

Interest on the 6.00% Senior Notes 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 April 15, 2019, the Company may, at its option, redeem all or part of the 6.00% Senior Notes at the redemption prices set forth in the indenture governing the 6.00% Senior Notes. The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors. Refer to Note 16- Condensed Consolidating Financial Information.

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 16- Condensed Consolidating Financial Information.

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 16- Condensed Consolidating Financial Information.

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 16- Condensed Consolidating Financial Information.

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 is \$23.0 million, of which \$7.3 million is classified as current in the accompanying consolidated balance sheet as of March 31, 2019. The payment of principal and interest on the 2011 Revenue Bonds issued by WEDFA is non-recourse to GEO. The 2011 Revenue Bonds will mature in October 2021 with fixed coupon rates of 5.25%.

As of March 31, 2019, included in current restricted cash and cash equivalents is \$8.0 million of funds held in trust for debt service and other reserves with respect to the above mentioned note payable to WEDFA.

Table of Contents

Australia - Ravenhall

In connection with a design and build correctional facility project agreement with the State of Victoria, 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 provided for non-recourse funding up to AUD 791.0 million, or approximately \$561.6 million, based on exchange rates as of March 31, 2019. The term of the Construction Facility is through September 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. The Company intends to refinance the Construction Facility prior to September 2019. As of March 31, 2019, approximately \$318 million was outstanding under the Construction Facility. The Company also entered into interest rate swap agreements related to its non-recourse debt in connection with the project. Refer to Note 10 - Derivative Financial Instruments.

Guarantees

Australia

The Company has entered into a guarantee in connection with the operating performance of a facility in Australia. The obligation amounted to approximately AUD 100.0 million, or \$71.0 million, based on exchange rates as of March 31, 2019. The guarantee is secured by outstanding letters of credit under the Company's Revolver as of March 31, 2019.

At March 31, 2019, the Company also had nine other letters of credit outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$12.3 million.

South Africa

In connection with the creation of South African Custodial Services Pty. Limited ("SACS"), the Company had entered into certain guarantees related to the financing, construction and operation of the prison. The Company had guaranteed certain obligations of SACS under its debt agreements to SACS' senior lenders through the issuance of letters of credit under the Company's Revolver. In July 2018, SACS settled all amounts due under the debt facilities and has therefore discharged the guaranteed obligations, therefore the guarantees related to these obligations were no longer necessary and the letters of credit were not renewed. Additionally, SACS was required to maintain funding in a rectification account maintained for the payment of certain costs in the event of contract termination. SACS has met the required funding obligation and there is no further requirement to maintain the required funding amount.

In addition to the above, the Company had 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 March 31, 2019, referred to as the shareholder's standby facility, to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under the shareholder's standby facility. The Company's obligations under the shareholder's standby facility expired upon SACS's release from its obligations under the common terms agreement. SACS' obligations in terms of the common terms agreements expired in February 2019 with the final payment of the facility management fees when the Company's obligations under the shareholder's standby facility expired.

The Company had 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 expired in February 2019 when all SACS obligation in terms of the finance agreements were settled.

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

12. COMMITMENTS, CONTINGENCIES AND OTHER

Litigation, Claims and Assessments

As previously reported and described in the Company's prior periodic reports, including most recently in our Form 10-K for the year ended December 31, 2018, on February 8, 2017, former civil immigration detainees at the Aurora Immigration Detention Center filed a class action lawsuit on October 22, 2014, against the Company in the United States District Court for the District of Colorado (the "Court"). The complaint alleges that the Company was in violation of the Colorado Minimum Wages of Workers Act and the federal Trafficking Victims Protection Act ("TVPA"). The plaintiff class claims that the Company was unjustly enriched because of the level of payment the detainees received for work performed at the facility, even though the voluntary work program as well as the wage rates and standards associated with the program that are at issue in the case are authorized by the Federal government under guidelines approved by the United States Congress. On July 6, 2015, the

Table of Contents

Court found that detainees were not employees under the Colorado Minimum Wage Order and dismissed this claim. In February 2017, the Court granted the plaintiff-class' motion for class certification. The plaintiff class seeks actual damages, compensatory damages, exemplary damages, punitive damages, restitution, attorneys' fees and costs, and such other relief as the Court may deem proper. In the time since the Colorado suit was initially filed, three similar lawsuits have been filed - two in Washington and one in California. In Washington, one of the two lawsuits was filed on September 9, 2017 by immigration detainees against the Company in the U.S. District Court for the Western District of Washington. The second was filed on September 20, 2017 by the State Attorney General against the Company in the Superior Court of the State of Washington for Pierce County, which the Company removed to the U.S. District Court for the Western District of Washington on October 9, 2017. In California, a class-action lawsuit was filed on December 19, 2017 by immigration detainees against the Company in the U.S. District Court Eastern Division of the Central District of California. All three lawsuits allege violations of the respective state's minimum wage laws. However, the California lawsuit, like the Colorado suit, also includes claims that the Company violated the TVPA and California's equivalent state statute. The Company intends to take all necessary steps to vigorously defend itself and has consistently refuted the allegations and claims in these lawsuits. The Company has not recorded an accrual relating to these matters at this time, as a loss is not considered probable nor reasonably estimable at this stage of the lawsuit.

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. However, the results of these claims or proceedings cannot be predicted with certainty, and an unfavorable resolution of one or more of these claims or proceedings could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

Other Assessment

A state non-income tax audit completed in 2016 included tax periods for which the state tax authority had a number of years ago processed a substantial tax refund. At the completion of the audit fieldwork, the Company received a notice of audit findings disallowing deductions that were previously claimed by the Company, approved by the state tax authority and served as the basis for the approved refund claim. In early January 2017, the Company received a formal Notice of Assessment of Taxes and Demand for Payment from the taxing authority disallowing the deductions. The total tax, penalty and interest assessed is approximately \$19.6 million. The Company has filed an administrative protest and disagrees with the assessment and intends to take all necessary steps to vigorously defend its position. The Company has established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of outside counsel in connection with this matter.

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 \$218 million of which \$195 million was spent through the first three months of 2019. The Company estimates the remaining capital requirements related to these capital projects will be \$23 million which will be spent through the remainder of 2019.

Idle Facilities

As of March 31, 2019, the Company was marketing approximately 4,000 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 \$110.0 million as of March 31, 2019, excluding equipment and other assets that can be easily transferred for use at other facilities. There was no indication of impairment related to the Company's idle facilities at March 31, 2019. In May 2019, the Company entered into a contract for the reactivation of its company-owned 1,800-bed North Lake Correctional Facility located in Baldwin, Michigan which was included in the above idle facilities. Refer to Note 17 - Subsequent Events.

[Table of Contents](#)

13. 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):

	Three Months Ended	
	March 31, 2019	March 31, 2018
Revenues:		
U.S. Corrections & Detention	\$ 390,510	\$ 358,681
GEO Care	153,843	140,078
International Services	64,224	66,158
Facility Construction & Design [1]	2,090	—
Total revenues	<u>\$ 610,667</u>	<u>\$ 564,917</u>
Operating income from segments:		
U.S. Corrections & Detention	\$ 76,924	\$ 69,188
GEO Care	38,538	31,692
International Services	5,739	5,402
Facility Construction & Design [1]	—	—
Operating income from segments	<u>\$ 121,201</u>	<u>\$ 106,282</u>
General and Administrative Expenses	<u>(46,424)</u>	<u>(41,832)</u>
Total Operating Income	<u>\$ 74,777</u>	<u>\$ 64,450</u>

[1] In 2019, Facility Construction & Design revenues related to an expansion project at the Company's Fulham Correctional Centre in Australia which is expected to be completed in the third quarter of 2020. There is no margin associated with the expansion.

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	
	March 31, 2019	March 31, 2018
Operating income from segments	\$ 121,201	\$ 106,282
Unallocated amounts:		
General and Administrative Expenses	(46,424)	(41,832)
Net Interest Expense	(31,884)	(26,770)
Income before income taxes and equity in earnings of affiliates	<u>\$ 42,893</u>	<u>\$ 37,680</u>

[Table of Contents](#)

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 GEOAmeY, 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 \$1.4 million and \$1.6 million in earnings, net of tax, for SACS operations during the three months ended March 31, 2019, and 2018, respectively, which are included in equity in earnings of affiliates, net of income tax provision in the accompanying consolidated statements of operations. As of March 31, 2019 and December 31, 2018, the Company's investment in SACS was \$11.6 million and \$13.4 million, respectively, and represents its share of cumulative reported earnings.

The Company has recorded \$1.2 million and \$0.4 million in earnings, net of tax, for GEO AmeY's operations during the three months ended March 31, 2019 and 2018, respectively, which are included in equity in earnings of affiliates, net of income tax provision in the accompanying consolidated statements of operations. As of March 31, 2019 and December 31, 2018, the Company's investment in GEOAmeY was \$6.1 million and \$4.8 million, respectively, and represents its share of cumulative reported earnings.

14. BENEFIT PLANS

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

	Three Months Ended March 31, 2019	Year Ended December 31, 2018
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	\$ 32,474	\$ 32,820
Service cost	250	1,200
Interest cost	348	1,242
Actuarial loss	—	(2,166)
Benefits paid	(179)	(622)
Projected benefit obligation, end of period	\$ 32,893	\$ 32,474
Change in Plan Assets		
Plan assets at fair value, beginning of period	\$ —	\$ —
Company contributions	179	622
Benefits paid	(179)	(622)
Plan assets at fair value, end of period	\$ —	\$ —
Unfunded Status of the Plan	\$ (32,893)	\$ (32,474)
	Three Months Ended	
	March 31, 2019	March 31, 2018
Components of Net Periodic Benefit Cost		
Service cost	\$ 250	\$ 300
Interest cost	348	310
Net loss	53	133
Net periodic pension cost	\$ 651	\$ 743

The long-term portion of the pension liability as of March 31, 2019 and December 31, 2018 was \$32.6 million and \$32.1 million, respectively, and is included in Other Non-Current Liabilities in the accompanying consolidated balance sheets.

[Table of Contents](#)

15. RECENT ACCOUNTING PRONOUNCEMENTS

The Company implemented the following accounting standards during the three months ended March 31, 2019:

In June 2018, the FASB issued ASU No. 2018-07, “*Compensation - Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*” as a part of its Simplification Initiative. The amendments in this update expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. An entity should apply the requirements of Topic 718 to nonemployee awards except for specific guidance on inputs to an option pricing model and the period of time over which share-based payment awards vest and the pattern of cost recognition over that period. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The amendments also clarify that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Topic 606, “*Revenue from Contracts with Customers*.” The new standard became effective for the Company beginning January 1, 2019. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2018, the FASB issued ASU No. 2018-02, “*Income Statement-Reporting Comprehensive Income-Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*”. The amendments in this update allow an entity to elect to reclassify the income tax effects resulting from the Tax Cuts and Jobs Act on items within accumulated other comprehensive income (“AOCI”) to retained earnings. The new standard is effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption was permitted. The Company adopted the new standard effective January 1, 2019 and has made a policy election to reclassify the income tax effects resulting from the Tax Cuts and Jobs Act on items within AOCI to distributions in excess of earnings on a prospective basis. As a result, the Company reclassified \$0.7 million for the tax effect of the tax rate reduction related to its pension liability and \$1.7 million for the tax effect of other income tax effects of tax reform on items remaining in AOCI related to currency translation adjustments to distributions in excess of earnings on January 1, 2019. The net effect of both adjustments resulted in an aggregate increase to distributions in excess of earnings of approximately \$1.0 million. Refer to Note 7 - Shareholders’ Equity.

In August 2017, the FASB issued ASU No. 2017-12, “*Derivatives and Hedging - Targeted Improvements to Accounting for Hedging Activities*.” The objective of this guidance is to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. Certain of the amendments in this update as they relate to cash flow hedges, eliminate the requirement to separately record hedge ineffectiveness currently in earnings. Instead, the entire change in the fair value of the hedging instrument is recorded in other comprehensive income. Those amounts are reclassified to earnings in the same income statement line item that is used to present the earnings effect of the hedged item when the hedged item affects earnings. The new standard became effective for the Company beginning January 1, 2019. The adoption of this standard did not have a material impact on the Company’s financial position, results of operations or cash flows.

In February 2016, FASB issued ASU 2016-02, “*Leases*,” which requires entities to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. For finance leases and operating leases, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term with each initially measured at the present value of the lease payments. The amendments in ASU 2016-02 became effective for the Company on January 1, 2019. The Company elected the package of transition expedients available for expired or existing lease contracts, which allowed it to carry forward its historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. The Company also elected not to apply the recognition requirements to lease arrangements that have terms of twelve months or less. The adoption had a material impact in the Company’s consolidated balance sheets, but did not have an impact on its consolidated statements of operations or cash flows. The most significant impact was the recognition of right-of-use assets and lease liabilities for operating leases, while our accounting for finance leases remained substantially unchanged. The new standard resulted in the recording of operating right-of-use lease assets and operating lease liabilities of approximately \$140 million and \$147 million, respectively, as of January 1, 2019. Refer to Note 2 - Leases for further discussion and additional required disclosures.

Table of Contents

The following accounting standards will be adopted in future periods:

In August 2018, the FASB issued ASU No. 2018-14, “*Compensation-Retirement Benefits-Defined Benefit Plans-General (Topic 715.20)*” as a part of its disclosure framework project. The amendments in this update remove, modify and add certain disclosures primarily related to amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, explanations for reasons for significant gains and losses related to changes in the benefit obligation for the period, and projected and accumulated benefit obligations. The new standard is effective for the Company beginning January 1, 2021. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In August 2018, the FASB issued ASU No. 2018-13, “*Fair Value Measurement (Topic 820)*” as a part of its disclosure framework project. The amendments in this update remove, modify and add certain disclosures primarily related to transfers between Level 1 and Level 2 of the fair value hierarchy, various disclosures related to Level 3 fair value measurements and investments in certain entities that calculate net asset value. The new standard is effective for the Company beginning January 1, 2020. The adoption of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In June 2016, the FASB issued ASC No. 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*”. The purpose of Update No. 2016-13 is to replace the current incurred loss impairment methodology for financial assets measured at amortized cost with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information, including forecasted information, to develop credit loss estimates. Update No. 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted for annual periods beginning after December 15, 2018. The Company is in the process of determining the effect that the adoption will have on its financial position and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants and the SEC did not, or are not expected to, have a material effect on the Company’s results of operations or financial position.

16. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

As of March 31, 2019, the Company’s 6.00% Senior Notes, 5.125% Senior Notes, the 5.875% Senior Notes due 2022 and the 5.875% Senior Notes due 2024 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 March 31, 2019				
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 228,382	\$ 494,890	\$ 68,968	\$ (181,573)	\$ 610,667
Operating expenses	171,516	412,453	54,601	(181,573)	456,997
Depreciation and amortization	7,419	24,185	865	—	32,469
General and administrative expenses	17,200	24,030	5,194	—	46,424
Operating income	32,247	34,222	8,308	—	74,777
Interest income	3,478	1,335	8,198	(4,615)	8,396
Interest expense	(23,296)	(13,847)	(7,752)	4,615	(40,280)
Income before income taxes and equity in earnings of affiliates	12,429	21,710	8,754	—	42,893
Income tax provision	289	2,379	2,172	—	4,840
Equity in earnings of affiliates, net of income tax provision	—	—	2,596	—	2,596
Income before equity in income of consolidated subsidiaries	12,140	19,331	9,178	—	40,649
Income from consolidated subsidiaries, net of income tax provision	28,509	—	—	(28,509)	—
Net income	40,649	19,331	9,178	(28,509)	40,649
Net loss attributable to noncontrolling interests	—	—	56	—	56
Net income attributable to The GEO Group, Inc.	<u>\$ 40,649</u>	<u>\$ 19,331</u>	<u>\$ 9,234</u>	<u>\$ (28,509)</u>	<u>\$ 40,705</u>
Net income	\$ 40,649	\$ 19,331	\$ 9,178	\$ (28,509)	\$ 40,649
Other comprehensive income (loss), net of tax	—	(648)	2,900	—	2,252
Total comprehensive income	\$ 40,649	\$ 18,683	\$ 12,078	\$ (28,509)	\$ 42,901
Comprehensive loss attributable to noncontrolling interests	—	—	56	—	56
Comprehensive income attributable to The GEO Group, Inc.	<u>\$ 40,649</u>	<u>\$ 18,683</u>	<u>\$ 12,134</u>	<u>\$ (28,509)</u>	<u>\$ 42,957</u>

[Table of Contents](#)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(dollars in thousands)
(unaudited)

	For the Three Months Ended March 31, 2018				
	<u>The GEO Group, Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenues	\$ 195,630	\$ 458,728	\$ 68,806	\$ (158,247)	\$ 564,917
Operating expenses	151,822	377,966	55,168	(158,247)	426,709
Depreciation and amortization	6,460	24,443	1,023	—	31,926
General and administrative expenses	14,341	22,447	5,044	—	41,832
Operating income	23,007	33,872	7,571	—	64,450
Interest income	4,177	1,417	9,384	(5,879)	9,099
Interest expense	(18,622)	(14,460)	(8,666)	5,879	(35,869)
Income before income taxes and equity in earnings of affiliates	8,562	20,829	8,289	—	37,680
Income tax provision	177	2,300	2,278	—	4,755
Equity in earnings of affiliates, net of income tax provision	—	—	1,995	—	1,995
Income (loss) before equity in income of consolidated subsidiaries	8,385	18,529	8,006	—	34,920
Income from consolidated subsidiaries, net of income tax provision	26,535	—	—	(26,535)	—
Net income	34,920	18,529	8,006	(26,535)	34,920
Net loss attributable to noncontrolling interests	—	—	67	—	67
Net income attributable to The GEO Group, Inc.	\$ 34,920	\$ 18,529	\$ 8,073	\$ (26,535)	\$ 34,987
Net income	\$ 34,920	\$ 18,529	\$ 8,006	\$ (26,535)	\$ 34,920
Other comprehensive income, net of tax	—	105	1,257	—	1,362
Total comprehensive income	\$ 34,920	\$ 18,634	\$ 9,263	\$ (26,535)	\$ 36,282
Comprehensive loss attributable to noncontrolling interests	—	—	59	—	59
Comprehensive income attributable to The GEO Group, Inc.	\$ 34,920	\$ 18,634	\$ 9,322	\$ (26,535)	\$ 36,341

[Table of Contents](#)

CONDENSED CONSOLIDATING BALANCE SHEET
(dollars in thousands)
(unaudited)

	As of March 31, 2019				
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 32,701	\$ 2,965	\$ 32,062	\$ —	\$ 67,728
Restricted cash and cash equivalents	1,125	—	52,624	—	53,749
Accounts receivable, less allowance for doubtful accounts	177,929	199,420	43,128	3,119	423,596
Contract receivable, current portion	—	—	16,005	—	16,005
Prepaid expenses and other current assets	586	40,108	4,736	(1,895)	43,535
Total current assets	<u>212,341</u>	<u>242,493</u>	<u>148,555</u>	<u>1,224</u>	<u>604,613</u>
Restricted Cash and Investments	—	24,954	2,328	—	27,282
Property and Equipment, Net	842,309	1,223,123	85,195	—	2,150,627
Assets Held for Sale	705	3,902	—	—	4,607
Contract Receivable	—	—	368,698	—	368,698
Operating Lease Right-of-Use Assets, Net	25,097	107,432	836	—	133,365
Intercompany Receivable	989,843	219,936	25,462	(1,235,241)	—
Deferred Income Tax Assets	798	27,928	1,198	—	29,924
Goodwill	—	775,954	407	—	776,361
Intangible Assets, Net	—	226,229	553	—	226,782
Investment in Subsidiaries	1,483,260	458,229	2,189	(1,943,678)	—
Other Non-Current Assets	7,931	113,075	19,289	(78,488)	61,807
Total Assets	<u>\$ 3,562,284</u>	<u>\$ 3,423,255</u>	<u>\$ 654,710</u>	<u>\$ (3,256,183)</u>	<u>\$ 4,384,066</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable	\$ 13,657	\$ 70,420	\$ 9,381	\$ —	\$ 93,458
Accrued payroll and related taxes	—	37,351	20,728	—	58,079
Accrued expenses and other current liabilities	35,765	126,669	26,938	(198)	189,174
Operating lease liabilities, current portion	5,042	29,786	382	—	35,210
Current portion of finance lease liabilities, long-term debt and non-recourse debt	8,000	1,521	323,343	—	332,864
Total current liabilities	<u>62,464</u>	<u>265,747</u>	<u>380,772</u>	<u>(198)</u>	<u>708,785</u>
Deferred Income Tax Liabilities	—	—	13,681	—	13,681
Intercompany Payable	92,733	1,106,285	34,800	(1,233,818)	—
Other Non-Current Liabilities	387	151,804	6,031	(78,488)	79,734
Operating lease Liabilities	20,612	81,171	455	—	102,238
Finance Lease Liabilities	—	4,179	—	—	4,179
Long-Term Debt	2,358,529	—	74,904	—	2,433,433
Non-Recourse Debt	—	—	15,112	—	15,112
Commitments & Contingencies and Other	—	—	—	—	—
Shareholders' Equity:					
The GEO Group, Inc. Shareholders' Equity	1,027,559	1,814,069	129,610	(1,943,679)	1,027,559
Noncontrolling Interests	—	—	(655)	—	(655)
Total Shareholders' Equity	<u>1,027,559</u>	<u>1,814,069</u>	<u>128,955</u>	<u>(1,943,679)</u>	<u>1,026,904</u>
Total Liabilities and Shareholders' Equity	<u>\$ 3,562,284</u>	<u>\$ 3,423,255</u>	<u>\$ 654,710</u>	<u>\$ (3,256,183)</u>	<u>\$ 4,384,066</u>

CONDENSED CONSOLIDATING BALANCE SHEET
(dollars in thousands)

	As of December 31, 2018				
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 4,468	\$ 7,873	\$ 18,914	\$ —	\$ 31,255
Restricted cash and cash equivalents	2,854	—	48,824	—	51,678
Accounts receivable, less allowance for doubtful accounts	190,594	221,957	44,377	(11,402)	445,526
Contract receivable, current portion	—	—	15,535	—	15,535
Prepaid expenses and other current assets	2,011	50,482	7,114	(1,839)	57,768
Total current assets	<u>199,927</u>	<u>280,312</u>	<u>134,764</u>	<u>(13,241)</u>	<u>601,762</u>
Restricted Cash and Investments	—	21,009	1,422	—	22,431
Property and Equipment, Net	845,291	1,227,223	86,096	—	2,158,610
Assets Held for Sale	705	1,929	—	—	2,634
Contract Receivable	—	—	368,178	—	368,178
Intercompany Receivable	990,365	150,710	22,407	(1,163,482)	—
Deferred Income Tax Assets	798	27,928	1,198	—	29,924
Goodwill	—	775,955	404	—	776,359
Intangible Assets, Net	—	231,787	573	—	232,360
Investment in Subsidiaries	1,503,841	458,229	2,190	(1,964,260)	—
Other Non-Current Assets	9,541	115,695	19,334	(78,710)	65,860
Total Assets	<u>\$ 3,550,468</u>	<u>\$ 3,290,777</u>	<u>\$ 636,566</u>	<u>\$ (3,219,693)</u>	<u>\$ 4,258,118</u>
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable	\$ 13,566	\$ 72,128	\$ 7,338	\$ —	\$ 93,032
Accrued payroll and related taxes	—	56,543	19,466	—	76,009
Accrued expenses and other current liabilities	23,565	168,231	25,615	(13,241)	204,170
Current portion of finance lease liabilities, long-term debt and non-recourse debt	8,000	2,017	322,010	—	332,027
Total current liabilities	<u>45,131</u>	<u>298,919</u>	<u>374,429</u>	<u>(13,241)</u>	<u>705,238</u>
Deferred Income Tax Liabilities	—	—	13,681	—	13,681
Intercompany Payable	142,055	989,856	31,571	(1,163,482)	—
Other Non-Current Liabilities	1,395	152,815	6,981	(78,710)	82,481
Finance Lease Liabilities	—	4,570	—	—	4,570
Long-Term Debt	2,321,384	—	75,843	—	2,397,227
Non-Recourse Debt	—	—	15,017	—	15,017
Commitments & Contingencies and Other	—	—	—	—	—
Shareholders' Equity:					
The GEO Group, Inc. Shareholders' Equity	1,040,503	1,844,617	119,643	(1,964,260)	1,040,503
Noncontrolling Interests	—	—	(599)	—	(599)
Total Shareholders' Equity	<u>1,040,503</u>	<u>1,844,617</u>	<u>119,044</u>	<u>(1,964,260)</u>	<u>1,039,904</u>
Total Liabilities and Shareholders' Equity	<u>\$ 3,550,468</u>	<u>\$ 3,290,777</u>	<u>\$ 636,566</u>	<u>\$ (3,219,693)</u>	<u>\$ 4,258,118</u>

[Table of Contents](#)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the Three Months Ended March 31, 2019			
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Consolidated
Cash Flow from Operating Activities:				
Net cash provided by operating activities	\$ 14,354	\$ 20,879	\$ 63,778	\$ 99,011
Cash Flow from Investing Activities:				
Insurance proceeds - damaged property	—	2,503	—	2,503
Proceeds from sale of property and equipment	—	274	—	274
Change in restricted investments	—	(4,062)	—	(4,062)
Capital expenditures	(6,608)	(21,452)	(24)	(28,084)
Net cash used in investing activities	(6,608)	(22,737)	(24)	(29,369)
Cash Flow from Financing Activities:				
Proceeds from long-term debt	130,000	—	—	130,000
Payments on long-term debt	(96,926)	—	—	(96,926)
Payments on non-recourse debt	—	—	(2,089)	(2,089)
Taxes paid related to net share settlements of equity awards	(4,172)	—	—	(4,172)
Proceeds from issuance of common stock in connection with ESPP	124	—	—	124
Proceeds from stock options exercised	333	—	—	333
Dividends paid	(57,945)	—	—	(57,945)
Net cash used in financing activities	(28,586)	—	(2,089)	(30,675)
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	—	—	366	366
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	(20,840)	(1,858)	62,031	39,333
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, beginning of period	54,666	4,823	24,983	84,472
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, end of period	<u>\$ 33,826</u>	<u>\$ 2,965</u>	<u>\$ 87,014</u>	<u>\$ 123,805</u>

[Table of Contents](#)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(dollars in thousands)
(unaudited)

	For the Three Months Ended March 31, 2018			
	<u>The GEO Group, Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
Cash Flow from Operating Activities:				
Net cash provided by operating activities	\$ 39,888	\$ 17,614	\$ 12,184	\$ 69,686
Cash Flow from Investing Activities:				
Proceeds from sale of assets held for sale	—	3,797	—	3,797
Insurance proceeds - damaged property	—	4,504	—	4,504
Change in restricted investments	—	(505)	—	(505)
Capital expenditures	(34,360)	(16,654)	(1,133)	(52,147)
Net cash used in investing activities	(34,360)	(8,858)	(1,133)	(44,351)
Cash Flow from Financing Activities:				
Proceeds from long-term debt	102,000	—	—	102,000
Payments on long-term debt	(43,000)	—	—	(43,000)
Payments on non-recourse debt	—	—	(5,600)	(5,600)
Taxes paid related to net share settlements of equity awards	(4,356)	—	—	(4,356)
Proceeds from issuance of common stock in connection with ESPP	140	—	—	140
Proceeds from stock options exercised	260	—	—	260
Payments for repurchases of common stock	(40,182)	—	—	(40,182)
Dividends paid	(58,238)	—	—	(58,238)
Net cash used in financing activities	(43,376)	—	(5,600)	(48,976)
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash and Cash Equivalents				
	—	—	(655)	(655)
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	(37,848)	8,756	4,796	(24,296)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, beginning of period	54,666	4,952	73,927	133,545
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, end of period	\$ 16,818	\$ 13,708	\$ 78,723	\$ 109,249

Table of Contents

17. SUBSEQUENT EVENTS

Dividend

On April 3, 2019, the Board of Directors declared a quarterly cash dividend of \$0.48 per share of common stock which was paid on April 22, 2019 to shareholders of record as of the close of business on April 15, 2019.

Contract Awards

On May 2, 2019, the Company announced that it has entered into a new ten-year contract, inclusive of renewal option periods, with the Federal Bureau of Prisons (“BOP”) for the reactivation of the existing company-owned, 1,800-bed North Lake Correctional Facility located in Baldwin, Michigan. The Company also announced on May 2, 2019 that Reeves County, Texas has entered into two new ten-year contracts, inclusive of renewal periods, with the BOP for the county-owned, 1,800-bed Reeves County Detention Center I & II and the county-owned, 1,376-bed Reeves County Detention Center III. GEO provides management consulting and support services to Reeves County. The new ten-year contracts were awarded to GEO and Reeves County under a long-standing procurement, for the housing of non-U.S. citizen criminal aliens, commonly referred to as Criminal Alien Requirement (CAR) 19, which was issued by the BOP in 2017.

On April 25, 2019, the Company announced it had signed a contract modification with U.S. Immigration and Customs Enforcement (“ICE”) for the reactivation of its existing company-owned 1,000-bed South Louisiana ICE Processing Center (the “Center”) located in Basile, Louisiana. The previously idled Center will house federal immigration detainees under an existing intergovernmental service agreement between Evangeline Parish, Louisiana and ICE. The Center will begin the intake process during the third quarter of 2019.

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 fulfill our debt service obligations and its impact on our liquidity;
- our ability to successfully refinance any of our debt service obligations within the anticipated timing;

Table of Contents

- our ability to estimate the government's level of utilization of public-private partnerships for correctional services and the impact of any modifications or reductions by our government customers of their utilization of public-private partnerships;
- 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 any challenges or concerns that our government customers may raise regarding their use of public-private partnerships for correctional services;
- 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 activate the inactive beds at our idle facilities;
- our ability to maintain or increase occupancy rates at our facilities;
- 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;
- 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 develop long-term earnings visibility;
- our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisitions on satisfactory terms, to enhance occupancy levels and the financial performance of assets acquired 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, 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;
- an increase in unreimbursed labor rates;
- our exposure to federal, state and foreign income tax law changes, including changes to the REIT provisions and the Tax Cuts and Jobs Act and our exposure as a result of federal, state and international examinations of our tax returns or tax positions;

Table of Contents

- 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;
- our ability to remain qualified for taxation as a real estate investment trust, or REIT;
- our ability to comply with government regulations and applicable contractual requirements;
- our ability to acquire, protect or maintain our intellectual property;
- the risk that a number of factors could adversely affect the market price of our common stock;
- our ability to fully implement our stock buyback program and the timing and amounts of any future stock repurchases; 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, 2018 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, 2018. 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 and we offer an expanded delivery of offender rehabilitation services under our ‘GEO Continuum of Care’ platform. 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.

At March 31, 2019, our worldwide operations include the management and/or ownership of approximately 95,000 beds at 134 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 210,000 offenders and pre-trial defendants, including approximately 100,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

Table of Contents

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;
- 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 GEOAmev 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 three months ended March 31, 2019 and March 31, 2018, we had consolidated revenues of \$610.7 million and \$564.9 million, respectively. We maintained an average company wide facility occupancy rate of 93.9% including 87,744 active beds and excluding 7,068 idle beds which includes those being marketed to potential customers for the three months ended March 31, 2019, and 91.5% including 88,345 active beds and excluding 7,846 idle beds which includes those being marketed to potential customers and beds under development for the three months ended March 31, 2018.

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, 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 three months ended March 31, 2019 and the year ended December 31, 2018, respectively, we declared and paid the following regular cash distributions to our shareholders as follows:

<u>Declaration Date</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Distribution Per Share</u>	<u>Aggregate Payment Amount (in millions)</u>
February 5, 2018	February 16, 2018	February 27, 2018	\$ 0.47	\$ 58.3
April 11, 2018	April 23, 2018	May 3, 2018	\$ 0.47	\$ 57.4
July 10, 2018	July 20, 2018	July 27, 2018	\$ 0.47	\$ 57.2
October 15, 2018	October 26, 2018	November 2, 2018	\$ 0.47	\$ 57.2
February 4, 2019	February 15, 2019	February 22, 2019	\$ 0.48	\$ 57.9

Table of Contents

On April 3, 2019, our Board of Directors declared a quarterly cash dividend of \$0.48 per share of common stock which was paid on April 22, 2019 to shareholders of record as of the close of business on April 15, 2019.

Reference is made to Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on February 25, 2019, 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, 2018.

2019 Developments

Idle Facilities

In May 2019, the Company entered into a contract for the reactivation of its company-owned 1,800-bed North Lake Correctional Facility located in Baldwin, Michigan which was previously idle. See further discussion under **Contract Awards** below. We are currently marketing approximately 2,300 vacant beds at three of our idle facilities to potential customers. The carrying values of these idle facilities totaled \$27.8 million as of March 31, 2019, excluding equipment and other assets that can be easily transferred for use at other facilities.

Contract Awards

On April 25, 2019, we announced that we had signed a contract modification with U.S. Immigration and Customs Enforcement for the reactivation of our existing company-owned 1,000-bed South Louisiana ICE Processing Center (the “Center”) located in Basile, Louisiana. The previously idled Center will house federal immigration detainees under an existing intergovernmental service agreement between Evangeline Parish, Louisiana and ICE. The Center will begin the intake process during the third quarter of 2019 and is expected to generate approximately \$25 million in incremental annualized revenues.

On May 2, 2019, we announced that we have entered into a new ten-year contract, inclusive of renewal option periods, with the Federal Bureau of Prisons (“BOP”) for the reactivation of our existing company-owned, 1,800-bed North Lake Correctional Facility located in Baldwin, Michigan. The contract is expected to generate approximately \$37 million in incremental annualized revenues. We also announced on May 2, 2019 that Reeves County, Texas has entered into two new ten-year contracts, inclusive of renewal periods, with the BOP for the county-owned, 1,800-bed Reeves County Detention Center I & II and the county-owned, 1,376-bed Reeves County Detention Center III. We provide management consulting and support services to Reeves County. The new ten-year contracts were awarded to GEO and Reeves County under a long-standing procurement, for the housing of non-U.S. citizen criminal aliens, commonly referred to as Criminal Alien Requirement (CAR) 19, which was issued by the BOP in 2017.

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 three months ended March 31, 2019, 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, 2018.

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.

[Table of Contents](#)

Equity in Earnings of Affiliates, net of Income Tax Provision

	<u>2019</u>	<u>% of Revenue</u>	<u>2018</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
Equity in Earnings of Affiliates	\$2,596	0.4%	\$1,995	0.4%	\$ 601	30.1%

Equity in earnings of affiliates, presented net of income tax provision, represents the earnings of SACS and GEOAmeY in the aggregate. Equity in earnings of affiliates during First Quarter 2019 compared to First Quarter 2018 increased primarily due to more favorable performance by GEOAmeY.

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.

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 \$218 million of which \$195 million was spent through March 31, 2019. We estimate that the remaining capital requirements related to these capital projects will be \$23 million which will be spent through 2019.

Liquidity and Capital Resources

Indebtedness

On April 30, 2018, we entered into Amendment No. 1 to Third Amended and Restated Credit Agreement (the "Credit Agreement") by and among the refinancing lenders party thereto, the other lenders party thereto, GEO and GEO Corrections Holdings, Inc. and BNP Paribas, as administrative agent. The amendment, among other things, provides for the refinancing of all of GEO's existing senior secured term loans with refinancing term loans in the aggregate principal amount of \$792.0 million and makes certain other modifications to GEO's senior secured credit agreement. The interest rate applicable to the refinancing term loans is equal to LIBOR plus 2.00% (with a LIBOR floor of 0.75%). The amendment was considered to be a modification and loan costs of approximately \$1 million were incurred and capitalized in connection with the transaction.

As of March 31, 2019, we had approximately \$784 million in aggregate borrowings outstanding, net of discount, under the Term Loan and approximately \$530 million in borrowings under the Revolver, and approximately \$62 million in letters of credit which left approximately \$308 million in additional borrowing capacity under the Revolver. Refer to Note 11 - 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 design and build correctional facility 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 project was completed during the fourth quarter of 2017. The Construction Facility provided for non-recourse funding up to AUD 791.0 million, or approximately \$561.6 million, based on

Table of Contents

exchange rates as of March 31, 2019. The term of the Construction Facility is through September 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. The Company intends to refinance the Construction Facility prior to September 2019. As of March 31, 2019, approximately \$318 million was outstanding under the Construction Facility.

In addition to the debt outstanding under the Credit Facility, the 6.00% Senior Notes, the 5.125% Senior Notes, the 5.875% Senior Notes due 2022 and the 5.875% Senior Notes due 2024, 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, 2018. 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, 2018.

Refer to Note 11 - 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 information on our indebtedness.

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 5.125% Senior Notes, the indenture governing the 5.875% Senior Notes due 2022, the indenture governing the 5.875% Senior Notes due 2024, the indenture governing the 6.00% Senior Notes due 2026 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 effect 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.

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 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, in their discretion, may consummate. Currently, our primary source of liquidity to meet these requirements is cash flow from operations and borrowings under the \$900.0 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 2019 as disclosed under “Capital Requirements” above.

Stock Buyback Program

Refer to Note 7 - Shareholders' Equity of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Prospectus Supplement

Refer to Note 7 - Shareholders' Equity of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information.

Table of Contents

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. Our CEO has reached age 55 and is eligible to receive the payment upon retirement. If our CEO had retired as of March 31, 2019, we would have had to pay him approximately \$8.6 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 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, cash equivalents and restricted cash and cash equivalents as of March 31, 2019 was \$123.8 million, compared to \$109 million as of March 31, 2018.

Operating Activities

Cash provided by operating activities amounted to \$99.0 million for the three months ended March 31, 2019 versus cash provided by operating activities of \$69.7 million for the three months ended March 31, 2018. Cash provided by operating activities during the three months ended March 31, 2019 was positively impacted by net income attributable to GEO, non-cash expenses such as depreciation and amortization, amortization of debt issuance costs, discount and/or premium and other non-cash interest, and stock-based compensation expense. Equity in earnings of affiliates, net of tax negatively impacted cash. Changes in accounts receivable, prepaid expenses and other assets decreased in total by \$27.5 million, representing a positive impact on cash. The decrease was primarily driven by the timing of billings and collections. Changes in accounts payable, accrued expenses and other liabilities decreased by \$14.8 million which negatively impacted cash. The decrease was primarily driven by the timing of payments. Additionally, cash provided by operating activities for the three months ended March 31, 2019 was positively impacted by a decrease in changes in contract receivable related to our correctional facility in Ravenhall, Australia of \$1.4 million which was a result of the timing of interest accruals and payments made towards the contract receivable.

Cash provided by operating activities during the three months ended March 31, 2018 was positively impacted by net income attributable to GEO, non-cash expenses such as depreciation and amortization, amortization of debt issuance costs, discount and/or premium and other non-cash interest, and stock-based compensation expense. Equity in earnings of affiliates, net of tax negatively impacted cash. Changes in accounts receivable, prepaid expenses and other assets decreased in total by \$7.5 million, representing a positive impact on cash. The decrease was primarily driven by the timing of billings and collections. Changes in accounts payable, accrued expenses and other liabilities decreased by \$17.6 million which negatively impacted cash. The decrease was primarily driven by the timing of payments. Additionally, cash provided by operating activities for the three months ended March 31, 2018 was positively impacted by a decrease in changes in contract receivable related to our prison project in Ravenhall, Australia of \$6.3 million which was a result of payments made towards the contract receivable now that the facility is in operation.

Investing Activities

Cash used in investing activities of \$29.4 million during the three months ended March 31, 2019 was primarily the result of capital expenditures of \$28.1 million. Cash used in investing activities of \$44.4 million during the three months ended March 31, 2018 was primarily the result of capital expenditures of \$52.1 million.

Financing Activities

Cash used in financing activities during the three months ended March 31, 2019 was approximately \$30.7 million compared to cash used in financing activities of \$49.0 million during the three months ended March 31, 2018. Cash used in financing activities during the three months ended March 31, 2019 was primarily the result of dividends paid of \$57.9 million, payments on long-term debt of \$96.9 million and payments on non-recourse debt of \$2.1 million. These decreases were partially offset by proceeds from long-term debt of \$130.0 million. Cash used in financing activities during the three months ended March 31, 2018 was primarily the result of proceeds from long-term debt of \$102.0 million. This increase was partially offset by a decrease for dividends paid of \$58.2 million, payments for repurchases of our common stock of \$40.2 million, payments on long-term debt of \$43.0 million and payments on non-recourse debt of \$5.6 million.

Table of Contents

Non-GAAP Measures

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, as supplemental non-GAAP financial measures of real estate investment trusts’ operating performance.

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 the Net Tax Cuts and Jobs Act impact and the tax effect of adjustments to FFO.

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 net income attributable to GEO 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 net income attributable to GEO.

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 months ended March 31, 2019 and 2018 is as follows (in thousands):

	<u>Three Months Ended</u>	
	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Net income attributable to The GEO Group, Inc.	\$ 40,705	\$ 34,987
Add (Subtract):		
Real estate related depreciation and amortization	18,103	17,388
(Gain)/loss on real estate assets	1,497	(98)
NAREIT Defined FFO	\$ 60,305	\$ 52,277
Add (Subtract):		
Net Tax Cuts and Jobs Act Impact	—	304
Tax effect of adjustments to Funds From Operations *	(45)	—
Normalized Funds from Operations	\$ 60,260	\$ 52,581
Add (Subtract):		
Non-real estate related depreciation and amortization	14,366	14,538
Consolidated maintenance capital expenditures	(3,634)	(5,323)
Stock-based compensation expense	6,727	5,827
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	2,563	2,138
Adjusted Funds from Operations	\$ 80,282	\$ 69,761

* Tax effect of adjustments relate to gain/loss on real estate assets

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, 2018, 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.

Table of Contents

Revenue

We continue to be encouraged by the current landscape of growth opportunities; however any positive trends may, to some extent, be adversely impacted by government budgetary constraints or any changes to a government's willingness to maintain or grow public-private partnerships in the future. While state finances overall are stable, future budgetary pressures may cause state correctional agencies to 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, contract modifications, contract terminations, contract non-renewals, and/or contract re-bids and the impact of any other potential changes to the willingness to maintain or grow public-private partnerships on the part of other government agencies. We believe we have a strong relationship with our government partners and we believe that we operate facilities that maximize security and efficiency while offering our suite of GEO Continuum of Care services and resources.

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. On March 29, 2018, we announced that our transportation joint venture in the United Kingdom, GEO Amey, has signed a contract with Scottish Prison Service for the provision of court custody and prisoner escort services in Scotland. The contract will have a base term of eight years effective January 26, 2019 with a renewal option of four years and is expected to have an average annual revenue of approximately \$39 million. In New South Wales, Australia we are developing a 489-bed expansion at the Junee Correctional Centre which is expected to be completed during the fourth quarter of 2019. We are also constructing a 137-bed expansion at the Fulham Correctional Centre in Victoria, Australia. With respect to the Parklea Correctional Centre in Australia, we were unfortunately unsuccessful during the current competitive rebid process and have transitioned the management contract in March of 2019. In addition, we were recently informed by the State of Queensland, Australia that the Arthur Gorrie Correctional Centre will be transitioned to government operation between the end of 2019 and the first quarter of 2020.

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. Related 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 federal, 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 continue 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 costs represented 57.6% of our operating expenses during the three months ended March 31, 2019. Additional significant operating expenses include food, utilities and inmate medical costs. During the three months ended March 31, 2019, operating expenses totaled 74.8% of our consolidated revenues. We expect our operating expenses as a percentage of revenues in 2019 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 2019, we will incur carrying costs for facilities that are currently vacant. As of March 31, 2019, our worldwide operations include the management and/or ownership of approximately 95,000 beds at 134 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 210,000 offenders and pretrial defendants, including approximately 100,000 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 three months ended March 31, 2019, general and administrative expenses totaled 7.6% of our consolidated revenues. We expect general and administrative expenses as a percentage of revenues in 2019 to remain consistent or decrease as a result of cost savings initiatives. 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.

Table of Contents

Idle Facilities

We are currently marketing approximately 2,300 vacant beds at three of our U.S. Corrections & Detention idle facilities to potential customers. The annual carrying cost of our idle facilities in 2019 is estimated to be \$11.5 million, including depreciation expense of \$1.0 million. As of March 31, 2019, these three facilities had a net book value of \$27.8 million. In May 2019, the Company entered into a contract for the reactivation of its company-owned 1,800-bed North Lake Correctional Facility located in Baldwin, Michigan which was included in its idle facilities being marketed at March 31, 2019. The contract is expected to generate approximately \$37 million in incremental annualized revenues. Refer to Note 17 - Subsequent Events 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. We currently do not have any firm commitment or agreement in place to activate the remaining facilities. Historically, some facilities have been idle for multiple years before they received a new contract award as was the case for our company-owned North Lake Correctional Facility as discussed above. 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 three remaining idle facilities were to be activated using our U.S. Corrections & Detention average per diem rate in 2019 (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 through March 31, 2019, we would expect to receive incremental annualized revenue of approximately \$55 million and an annualized increase in earnings per share of approximately \$0.05 to \$0.10 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 approximately \$1,314 million and approximately \$62 million in outstanding letters of credit, as of March 31, 2019, for every one percent increase in the average interest rate applicable to the Credit Facility, our total annual interest expense would increase by approximately \$13 million.

We have 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 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. 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 South African Rand and the British Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at March 31, 2019, every 10 percent change in historical currency rates would have approximately a \$5.3 million effect on our financial position and approximately a \$1 million impact on our results of operations during the three months ended March 31, 2019.

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.

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. With respect to the adoption of ASC Topic 842, "Leases" on January 1, 2019, we implemented certain internal controls to ensure we adequately evaluated our lease contracts and properly assessed the impact of the new accounting standard on our financial statements, including relevant disclosures, to

[Table of Contents](#)

facilitate this adoption on January 1, 2019. There were no significant changes to our internal control over financial reporting during the quarter ended March 31, 2019 due to the adoption of this standard. Refer to Note 2 - Leases of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for additional disclosures required under the new standard.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The information required herein is incorporated by reference from Note 12 - 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, 2018 (the "2018 Form 10-K") includes a detailed discussion of the risk factors that could materially affect our business, financial condition or future prospects. Set forth below is a discussion of the material changes in our risk factors previously disclosed in the 2018 Form 10-K. The information below updates, and should be read in conjunction with, the risk factors in our 2018 Form 10-K. We encourage you to read these risk factors in their entirety.

Public resistance to the use of public-private partnerships for correctional, detention and community-based facilities could result in our inability to obtain new contracts or the loss of existing contracts, impact our ability to obtain or refinance debt financing or enter into commercial arrangements, which could have a material adverse effect on our business, financial condition and results of operations.

The management and operation of correctional, detention and community-based facilities under public-private partnerships has not achieved complete acceptance by either government agencies or the public. Some governmental agencies have limitations on their ability to delegate their traditional management responsibilities for such facilities to private companies or they may be instructed by a governmental agency or authority overseeing them to reduce their utilization or scope of public-private partnerships or undertake additional reviews of their public-private partnerships. Additional legislative or policy changes or prohibitions could occur that further increase these limitations or instructions. In addition, the movement toward using public-private partnerships for such facilities has encountered resistance from groups which believe that correctional, detention and community-based facilities should only be operated by governmental agencies. For example, JP Morgan Chase and Wells Fargo recently announced that they will not be renewing existing agreements or entering into new agreements with companies that operate correctional, detention and community-based facilities pursuant to public-private partnerships. While we believe we will continue to have access to cost-effective capital to support the growth and expansion of our high-quality services, if other banks or third parties that currently provide us with debt financing or that we do business with decide in the future to cease providing us with debt financing or doing business with us, such determinations could have a material adverse effect on our business, financial condition and results of operations. Increased public resistance to the use of public-private partnerships for correctional, detention and community-based facilities in any of the markets in which we operate, as a result of these or other factors, could have a material adverse effect on our business, financial condition and results of operations.

[Table of Contents](#)

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

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) (2)</u>
January 1, 2019 - January 31, 2019	—	\$ —	—	\$ 104.8
February 1, 2019 - February 28, 2019	—	\$ —	—	\$ 104.8
March 1, 2019 - March 31, 2019	197,591	\$ 23.60	—	\$ 104.8
Total	<u>197,591</u>		<u>—</u>	

- (1) The Company withheld 197,591 shares through net share settlements to satisfy 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.
- (2) On February 14, 2018, we announced that our Board of Directors authorized a stock buyback program authorizing us to repurchase up to \$200.0 million of our shares of common stock. The program is effective through October 20, 2020. There were no shares of our common stock repurchased under the stock buyback program during the three months ended March 31, 2019.

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

10.1	<u>Senior Officer Employment Agreement, dated July 21, 2014, by and between the Company and Ann Schlarb:</u> *
31.1	<u>SECTION 302 CEO Certification.</u>
31.2	<u>SECTION 302 CFO Certification.</u>
32.1	<u>SECTION 906 CEO Certification.</u>
32.2	<u>SECTION 906 CFO Certification.</u>
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

* Filed herewith.

† Management contract or compensatory plan, contract or agreement as defined in Item 402(a)(3) of Regulation S-K.

[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.

Date: May 6, 2019

THE GEO GROUP, INC.

/s/ Brian R. Evans

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

55

[\(Back To Top\)](#)

Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

SENIOR OFFICER EMPLOYMENT AGREEMENT

THIS SENIOR OFFICER EMPLOYMENT AGREEMENT (this “Agreement”) is entered into effective the 21st day of July, 2014 by and between The GEO Group, Inc. (the “Company”) and Ann Schlarb (the “Employee” and, together with the Company, the “Parties”).

WHEREAS, the terms of this Agreement have been reviewed and approved by the members of the Compensation Committee of the Board of Directors of the Company (the “Board”).

NOW THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other valuable consideration the receipt and adequacy of which is hereby acknowledged, the Parties hereby agree as follows:

1. **Position and Duties.** The Company hereby agrees to continue to employ the Employee and the Employee hereby accepts continued employment and agrees to continue to serve as Senior Vice President, The GEO Group, Inc., President, GEO Community Services of the Company. The Employee will perform all duties and responsibilities and will have all authority inherent in the position of Senior Vice President, The GEO Group, Inc., President, GEO Community Services.

2. **Term of Agreement and Employment.** The term of the Employee’s employment under this Agreement will be for an initial period of two (2) years, beginning on the effective date of this Agreement, and terminating two years thereafter. The term of employment under this Agreement will be automatically extended by one day every day such that it has a continuous “rolling” two-year term until the age of 67 years, unless otherwise terminated pursuant to Section 6 or 7 of this Agreement.

3. **Definition - Cause.** For purposes of this Agreement, “Cause” for the termination of the Employee’s employment hereunder shall be deemed to exist if, in the reasonable judgment of the Company’s Chief Executive Officer (CEO): (i) the Employee commits fraud, theft or embezzlement against the Company or any subsidiary or affiliate thereof; (ii) the Employee commits a felony or a crime involving moral turpitude; (iii) the Employee breaches any non-competition, confidentiality or non-solicitation agreement with the Company or any subsidiary or affiliate thereof; (iv) the Employee breaches any of the terms of this Agreement and fails to cure such breach within 30 days after the receipt of written notice of such breach from the Company; or (v) the Employee engages in gross negligence or willful misconduct that causes harm to the business and operations of the Company or a subsidiary or affiliate thereof.

4. **Compensation.**

A. **Annual Base Salary.** The Employee shall be paid his current annual base salary of \$350,000.00 for the remainder of calendar year 2014 (as such may be amended from time to time, the “Annual Base Salary”). The Company may increase the Annual Base Salary paid to the Employee in an amount to be determined by the Chief Executive Officer of the Company. The Annual Base Salary shall be payable at such regular times and intervals as the Company customarily pays its employees from time to time.

B. **Annual Performance Award.** For each fiscal year of employment during which the Company employs the Employee, the Employee shall be entitled to receive a target annual performance award in accordance with the terms of any plan governing employee performance awards then in effect as established by the Board (the “Annual Performance Award”).

5. **Employee Benefits.** The Employee will be entitled to twenty-one (21) paid-time-off (PTO) days of vacation per fiscal year during his/her first ten (10) years of service, and twenty-six (26) paid-time-off (PTO) days of vacation per fiscal year thereafter. The Employee, the Employee’s spouse, and qualifying members of the Employee’s family will be eligible for and will participate in any benefits and perquisites available to other senior vice presidents of the Company, including any group health, dental, life insurance, disability, or other form of employee benefit plan or program of the Company now existing or that may be later adopted by the Company (collectively, the “Employee Benefits”).

6. **Death or Disability.** The Employee’s employment will terminate immediately upon the Employee’s death. If the Employee becomes physically or mentally disabled so as to become unable for a period of more than five consecutive months or for shorter periods aggregating at least five months during any twelve-month period to perform the Employee’s duties hereunder on a substantially full-time basis, the Employee’s employment will terminate as of the end of such five-month or twelve-month period and this shall be considered a “disability” under this Agreement. Such termination shall not affect the Employee’s benefits under the Company’s disability insurance program, if any, then in effect.

7. **Termination.** Either the Employee or the Company may terminate this Agreement for any reason upon not less than thirty (30) days written notice.

A. **Termination of Employment Without Cause or Upon the Death or Disability of the Employee.** Upon the termination of the Employee’s employment under this Agreement by the Company without Cause or the death or disability of the Employee, the following shall apply:

- (i) **Termination Payment.** The Employee shall be entitled to and paid a termination payment (the “Termination Payment”) equal to two (2) years’ Annual Base Salary as set forth in Section 4 based upon the then current salary level. The Termination Payment shall be made within 10 days of any termination pursuant to this Section 7(A).
- (ii) **Termination Benefits.** The Company shall continue to provide the Employee and any covered dependents of the Employee (and if applicable, his beneficiaries) with the Employee Benefits (as described in Section 5 hereof) for a period of 2 years after the date of termination of the Employee’s employment with the Company. Such Employee Benefits shall be provided at no cost to the Employee in no less than the same amount, and on the same terms

and conditions, as in effect on the date on which the termination of employment occurs. If the Employee dies during the 2-year period following a termination pursuant to this Section 7(A), the Company shall continue to provide the Employee Benefits to the Employee's covered dependents under the same terms as were being provided prior to the Employee's death and, to the extent applicable, to the Employee's estate.

- (iii) **Termination Automobile.** Within 10 days following termination, the Company shall transfer all of its interest in any automobile used by the Employee pursuant to the Company's Employee Automobile Policy (the "Employee Automobile Policy") and shall pay the balance of any outstanding loans or leases on such automobile (whether such obligations are those of the Employee or the Company) so that the Employee owns the automobile outright (in the event such automobile is leased, the Company shall pay the residual cost of such lease).
 - (iv) **Termination Stock Options and Restricted Stock.** All of the outstanding unvested stock options and restricted stock granted to the Employee prior to termination will fully vest immediately upon termination, provided however, that any restricted stock that is still subject to performance based vesting at the time of such termination shall only vest when and to the extent the Compensation Committee of the Board certifies that the performance goals are actually met.
- B. **Termination of Employment by Resignation of Employee or by the Company With Cause.** Upon the termination of the Employee's employment by the voluntary resignation of the Employee or by the Company with Cause, the Employee shall be due no further compensation under this Agreement related to Annual Base Salary, Annual Performance Award, Employee Benefits, or Termination Payment other than what is due and owing through the effective date of the Employee's resignation or termination.
- C. **Retirement Plan Rights Unaffected.** Termination of the Employee's employment under this Agreement for any reason, whatsoever, shall not affect the Employee's rights under the Company's retirement plan applicable to the Employee.

8. Restrictive Covenants.

- A. **General.** The Company and the Employee hereby acknowledge and agree that (i) the Employee is in possession of trade secrets (as defined in Section 688.002(4) of the Florida Statutes) of the Company (the "Trade Secrets"), (ii) the restrictive covenants contained in this Section 8 are justified by legitimate business interests of the Company, including, but not limited to, the protection of the Trade Secrets, in accordance with Section 542.335(1)(e) of the Florida Statutes, and (iii) the restrictive covenants contained in this Section 8 are reasonably necessary to protect such legitimate business interests of the Company.

-
- B. **Non-Competition.** During the period of the Employee's employment with the Company and until two (2) years after the termination of the Employee's employment with the Company, the Employee will not, directly or indirectly, either (i) on the Employee's own behalf or as a partner, officer, director, trustee, employee, agent, consultant or member of any person, firm or corporation, or otherwise, enter into the employ of, render any service to, or engage in any business or activity which is the same as or competitive with any business or activity conducted by the Company or any of its affiliates or majority-owned subsidiaries or (ii) become an officer, employee or consultant of, or otherwise assume a substantial role or relationship with, any governmental entity, agency or political subdivision that is a client or customer of the Company or any subsidiary or affiliate of the Company; provided, however, that the foregoing shall not be deemed to prevent the Employee from investing in securities of any company having a class of securities which is publicly traded, so long as through such investment holdings in the aggregate, the Employee is not deemed to be the beneficial owner of more than 5% of the class of securities that is so publicly traded. During the period of the Employee's employment and until two (2) years after the termination of the Employee's employment, the Employee will not, directly or indirectly, on the Employee's own behalf or as a partner, shareholder, officer, employee, director, trustee, agent, consultant or member of any person, firm or corporation or otherwise, seek to employ or otherwise seek the services of any employee of the Company or any of its affiliates or majority-owned subsidiaries.
- C. **Confidentiality.** During and following the period of the Employee's employment with the Company, the Employee will not use for the Employee's own benefit or for the benefit of others, or divulge to others, any information, Trade Secrets, knowledge or data of a secret or confidential nature and otherwise not available to members of the general public that concerns the business or affairs of the Company or its subsidiaries or affiliates and which was acquired by the Employee at any time prior to or during the term of the Employee's employment with the Company, except with the specific prior written consent of the Company.
- D. **Work Product.** The Employee agrees that all programs, inventions, innovations, improvements, developments, methods, designs, analyses, reports and all similar or related information which relate to the business of the Company and its subsidiaries and affiliates, actual or anticipated, or to any actual or anticipated research and development conducted in connection with the business of the Company and its subsidiaries affiliates, and all existing or future products or services, which are conceived, developed or made by the Employee (alone or with others) during the term of this Agreement ("Work Product") belong to the

Company. The Employee will cooperate fully in the establishment and maintenance of all rights of the Company and its subsidiaries and affiliates in such Work Product. The provisions of this Section 8(D) will survive termination of this Agreement indefinitely to the extent necessary to require actions to be taken by the Employee after the termination of the Agreement with respect to Work Product created during the term of this Agreement.

- E. **Enforcement.** The Parties agree and acknowledge that the restrictions contained in this Section 8 are reasonable in scope and duration and are necessary to protect the Company or any of its subsidiaries or affiliates. If any covenant or agreement contained in this Section 8 is found by a court having jurisdiction to be unreasonable in duration, geographical scope or character of restriction, the covenant or agreement will not be rendered unenforceable thereby but rather the duration, geographical scope or character of restriction of such covenant or agreement will be reduced or modified with retroactive effect to make such covenant or agreement reasonable, and such covenant or agreement will be enforced as so modified. The Employee agrees and acknowledges that the breach of this Section 8 will cause irreparable injury to the Company or any of its subsidiaries or affiliates and upon the breach of any provision of this Section 8, the Company or any of its subsidiaries or affiliates shall be entitled to injunctive relief, specific performance or other equitable relief, without being required to post a bond; provided, however, that, this shall in no way limit any other remedies which the Company or any of its subsidiaries or affiliates may have (including, without limitation, the right to seek monetary damages).

9. Representations. The Employee hereby represents and warrants to the Company that (i) the execution, delivery and full performance of this Agreement by the Employee does not and will not conflict with, breach, violate or cause a default under any agreement, contract or instrument to which the Employee is a party or any judgment, order or decree to which the Employee is subject; (ii) the Employee is not a party or bound by any employment agreement, consulting agreement, agreement not to compete, confidentiality agreement or similar agreement with any other person or entity; and (iii) upon the execution and delivery of this Agreement by the Employee and the Company, this Agreement will be the Employee's valid and binding obligation, enforceable in accordance with its terms.

10. Arbitration. In the event of any dispute between the Company and the Employee with respect to this Agreement, either party may, in its sole discretion by notice to the other, require such dispute to be submitted to arbitration. The arbitrator will be selected by agreement of the Parties or, if they cannot agree on an arbitrator or arbitrators within 30 days after the giving of such notice, the arbitrator will be selected by the American Arbitration Association. The determination reached in such arbitration will be final and binding on both Parties without any right of appeal. Execution of the determination by such arbitrator may be sought in any court having jurisdiction. Unless otherwise agreed by the Parties, any such arbitration will take place in West Palm Beach, Florida and will be conducted in accordance with the rules of the American Arbitration Association. If the Employee is the prevailing party in any such arbitration, he will be entitled to reimbursement by the Company of all reasonable costs and expenses (including attorneys' fees incurred in such arbitration).

11. **Assignment.** The Employee may not assign, transfer, convey, mortgage, hypothecate, pledge or in any way encumber the compensation or other benefits payable to the Employee or any rights which the Employee may have under this Agreement. Neither the Employee nor the Employee's beneficiary or beneficiaries will have any right to receive any compensation or other benefits under this Agreement, except at the time, in the amounts and in the manner provided in this Agreement. This Agreement will inure to the benefit of and will be binding upon any successor to the Company, and any successor to the Company shall be authorized to enforce the terms and conditions of this Agreement, including the terms and conditions of the restrictive covenants contained in Section 8 hereof. As used in this Agreement, the term "successor" means any person, firm, corporation or other business entity which at any time, whether by merger, purchase or otherwise, acquires all or substantially all of the capital stock or assets of the Company. This Agreement may not otherwise be assigned by the Company.

12. **Governing Law.** This Agreement shall be governed by the laws of the State of Florida without regard to the application of conflicts of laws.

13. **Entire Agreement.** This Agreement constitutes the only agreement between the Company and the Employee regarding the Employee's employment by the Company. This Agreement supersedes any and all other agreements and understandings, written or oral, between the Company and the Employee regarding the subject matter hereof and thereof. A waiver by either party of any provision of this Agreement or any breach of such provision in an instance will not be deemed or construed to be a waiver of such provision for the future, or of any subsequent breach of such provision. This Agreement may be amended, modified or changed only by further written agreement between the Company and the Employee, duly executed by both Parties.

14. **Severability; Survival.** In the event that any provision of this Agreement is found to be void and unenforceable by a court of competent jurisdiction, then such unenforceable provision shall be deemed modified so as to be enforceable (or if not subject to modification then eliminated herefrom) to the extent necessary to permit the remaining provisions to be enforced in accordance with the Parties' intention. The provisions of Section 8 (and the restrictive covenants contained therein) shall survive the termination for any reason of this Agreement and/or the Employee's relationship with the Company.

15. **Notices.** Any and all notices required or permitted to be given hereunder will be in writing and will be deemed to have been given when deposited in United States mail, certified or registered mail, postage prepaid. Any notice to be given by the Employee hereunder will be addressed to the Company to the attention of its General Counsel at its main offices, One Park Place, Suite 700, 621 Northwest 53rd Street, Boca Raton, Florida 33487. Any notice to be given to the Employee will be addressed to the Employee at the Employee's residence address last provided by the Employee to Company. Either party may change the address to which notices are to be addressed by notice in writing to the other party given in accordance with the terms of this Section.

16. **Headings.** Section headings are for convenience of reference only and shall not limit or otherwise affect the meaning or interpretation of this Agreement or any of its terms and conditions.

17. **SECTION 409A COMPLIANCE.**

- A. **GENERAL.** It is the intention of both the Company and the Employee that the benefits and rights to which the Employee is entitled pursuant to this Agreement comply with Code Section 409A, to the extent that the requirements of Code Section 409A are applicable thereto, and the provisions of this Agreement shall be construed in a manner consistent with that intention. If the Employee or the Company believes, at any time, that any such benefit or right that is subject to Code Section 409A does not so comply, it shall promptly advise the other and shall negotiate reasonably and in good faith to amend the terms of such benefits and rights such that they comply with Code Section 409A (with the most limited possible economic effect on the Employee and on the Company).
- B. **DISTRIBUTIONS ON ACCOUNT OF SEPARATION FROM SERVICE.** To the extent required to comply with Code Section 409A, any payment or benefit required to be paid under this Agreement on account of termination of the Employee's service (or any other similar term) shall be made only in connection with a "separation from service" with respect to the Employee within the meaning of Code Section 409A.
- C. **NO ACCELERATION OF PAYMENTS.** Neither the Company nor the Employee, individually or in combination, may accelerate any payment or benefit that is subject to Code Section 409A, except in compliance with Code Section 409A and the provisions of this Agreement, and no amount that is subject to Code Section 409A shall be paid prior to the earliest date on which it may be paid without violating Code Section 409A.
- D. **SIX MONTH DELAY FOR SPECIFIED EMPLOYEES.** In the event that the Employee is a "specified employee" (as described in Code Section 409A), and any payment or benefit payable pursuant to this Agreement constitutes deferred compensation under Code Section 409A, then the Company and the Employee shall cooperate in good faith to undertake any actions that would cause such payment or benefit not to constitute deferred compensation under Code Section 409A. In the event that, following such efforts, the Company determines (after consultation with its counsel) that such payment or benefit is still subject to the six-month delay requirement described in Code Section 409A(2)(b) in order for such payment or benefit to comply with the requirements of Code Section 409A, then no such payment or benefit shall be made before the date that is six months after the Employee's "separation from service" (as described in Code Section 409A) (or, if earlier, the date of the Employee's death). Any payment or benefit delayed by reason of the prior sentence shall be paid out or provided in a single lump sum at the end of such required delay period in order to catch up to the original payment schedule.

-
- E. TREATMENT OF EACH INSTALLMENT AS A SEPARATE PAYMENT. For purposes of applying the provisions of Code Section 409A to this Agreement, each separately identified amount to which the Employee is entitled under this Agreement shall be treated as a separate payment. In addition, to the extent permissible under Code Section 409A, any series of installment payments under this Agreement shall be treated as a right to a series of separate payments.
- F. REIMBURSEMENTS AND IN-KIND BENEFITS. With respect to reimbursements and in-kind benefits that may be provided under the Agreement (the "Reimbursement Plans"), to the extent any benefits provided under the Reimbursement Plans are subject to Section 409A, the Reimbursement Plans shall meet the following requirements:
- (i) Reimbursement Plans shall use an objectively determinable, nondiscretionary definition of the expenses eligible for reimbursement or of the in-kind benefits to be provided;
 - (ii) Reimbursement Plans shall provide that the amount of expenses eligible for reimbursement, or in-kind benefits provided, during the Employee's taxable year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided, however, that Reimbursement Plans providing for reimbursement of expenses referred to in Code Section 105(b) shall not fail to meet the requirement of this Section 1 8(G)(ii) solely because such Reimbursement Plans provide for a limit on the amount of expenses that may be reimbursed under such arrangements over some or all of the period in which Reimbursement Plans remain in effect;
 - (iii) The reimbursement of an eligible expense is made on or before the last day of the Employee's taxable year following the taxable year in which the expense was incurred; and
 - (iv) The right to reimbursement or in-kind benefits under the Reimbursement Plans shall not be subject to liquidation or exchange for another benefit.
- G. EMPLOYEE BENEFITS. With respect to any Employee Benefits that do not comply with (or are not exempt from) Code Section 409A, to the extent applicable, the Employee shall be deemed to receive from the Company a monthly payment necessary for the Employee to purchase the benefit in question.

IN WITNESS WHEREOF, the Parties hereto have executed and delivered this Agreement under seal as of the date first above written.

THE GEO GROUP, INC.

By: /s/ George C. Zoley
Name: George C. Zoley
Title: Chairman & Chief Executive Officer

EMPLOYEE

By: /s/ Ann Schlarb
Name: Ann Schlarb
Title: Senior Vice President,
The GEO Group, Inc.
President, GEO Community Services

9

[\(Back To Top\)](#)

Section 3: EX-31.1 (EX-31.1)

EXHIBIT 31.1

THE GEO GROUP, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George C. Zoley, certify that:

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

Date: May 6, 2019

/s/ George C. Zoley
George C. Zoley
Chief Executive Officer

[\(Back To Top\)](#)

Section 4: EX-31.2 (EX-31.2)

EXHIBIT 31.2

THE GEO GROUP, INC.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian R. Evans, certify that:

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

Date: May 6, 2019

/s/ Brian R. Evans

Brian R. Evans
Chief Financial Officer

[\(Back To Top\)](#)

Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of The GEO Group, Inc. (the "Company") for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George C. Zoley, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George C. Zoley
George C. Zoley
Chief Executive Officer

Date: May 6, 2019

[\(Back To Top\)](#)

Section 6: EX-32.2 (EX-32.2)

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of The GEO Group, Inc. (the "Company") for the period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brian R. Evans, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

/s/ Brian R. Evans
Brian R. Evans
Chief Financial Officer

Date: May 6, 2019

[\(Back To Top\)](#)