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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from _____ to _____

Commission file number 1-14260

The GEO Group, Inc.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

65-0043078
(IRS Employer
Identification No.)

**One Park Place, 621 NW 53rd Street, Suite 700,
Boca Raton, Florida**
(Address of principal executive offices)

33487
(Zip Code)

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

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

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

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

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

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

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

As of November 6, 2014, the registrant had 74,146,836 shares of common stock outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

| | |
|--|----|
| ITEM 1. FINANCIAL STATEMENTS | 3 |
| CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 | 3 |
| CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED) FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 | 4 |
| CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2014 (UNAUDITED) AND DECEMBER 31, 2013 | 5 |
| CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013 | 6 |
| NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS | 7 |
| ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 35 |
| ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 55 |
| ITEM 4. CONTROLS AND PROCEDURES | 55 |
| <u>PART II - OTHER INFORMATION</u> | 56 |
| ITEM 1. LEGAL PROCEEDINGS | 56 |
| ITEM 1A. RISK FACTORS | 56 |
| ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 56 |
| ITEM 3. DEFAULTS UPON SENIOR SECURITIES | 56 |
| ITEM 4. MINE SAFETY DISCLOSURES | 56 |
| ITEM 5. OTHER INFORMATION | 56 |
| ITEM 6. EXHIBITS | 57 |
| SIGNATURES | 58 |

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2014 AND 2013
(In thousands, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Revenues | \$ 457,900 | \$ 379,842 | \$ 1,263,880 | \$ 1,138,526 |
| Operating expenses | 342,216 | 283,903 | 934,197 | 843,946 |
| Depreciation and amortization | 24,079 | 23,888 | 71,969 | 70,480 |
| General and administrative expenses | 28,287 | 27,222 | 84,937 | 86,625 |
| Operating income | 63,318 | 44,829 | 172,777 | 137,475 |
| Interest income | 1,048 | 1,084 | 2,604 | 3,433 |
| Interest expense | (21,408) | (21,569) | (62,662) | (62,013) |
| Loss on extinguishment of debt | — | (1,451) | — | (6,978) |
| Income before income taxes and equity in earnings of affiliates | 42,958 | 22,893 | 112,719 | 71,917 |
| Provision for (benefit from) income taxes | 5,537 | (7,755) | 11,062 | (14,142) |
| Equity in earnings of affiliates, net of income tax provision of \$711, \$578, \$1,914 and \$1,472, respectively | 1,544 | 1,526 | 4,202 | 3,772 |
| Income from continuing operations | 38,965 | 32,174 | 105,859 | 89,831 |
| Loss from discontinued operations, net of income tax provision of \$0, \$0, \$0 and \$0, respectively | — | (2,265) | — | (2,265) |
| Net income | 38,965 | 29,909 | 105,859 | 87,566 |
| Net loss (income) attributable to noncontrolling interests | 26 | (12) | 20 | (42) |
| Net income attributable to The GEO Group, Inc. | <u>\$ 38,991</u> | <u>\$ 29,897</u> | <u>\$ 105,879</u> | <u>\$ 87,524</u> |
| Weighted-average common shares outstanding: | | | | |
| Basic | 72,380 | 71,201 | 71,862 | 71,046 |
| Diluted | 72,637 | 71,655 | 72,130 | 71,557 |
| Income per common share attributable to The GEO Group, Inc.: | | | | |
| Basic: | | | | |
| Income from continuing operations | \$ 0.54 | \$ 0.45 | \$ 1.47 | \$ 1.26 |
| Loss from discontinued operations | — | (0.03) | — | (0.03) |
| Income per common share attributable to The GEO Group, Inc. - basic | <u>\$ 0.54</u> | <u>\$ 0.42</u> | <u>\$ 1.47</u> | <u>\$ 1.23</u> |
| Diluted: | | | | |
| Income from continuing operations | \$ 0.54 | \$ 0.45 | \$ 1.47 | \$ 1.25 |
| Loss from discontinued operations | — | (0.03) | — | (0.03) |
| Income per common share attributable to The GEO Group, Inc. - diluted | <u>\$ 0.54</u> | <u>\$ 0.42</u> | <u>\$ 1.47</u> | <u>\$ 1.22</u> |
| Dividends declared per share | <u>\$ 0.57</u> | <u>\$ 0.50</u> | <u>\$ 1.71</u> | <u>\$ 1.50</u> |

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

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2014 AND 2013
(In thousands)

| | <u>Three Months Ended</u> | | <u>Nine Months Ended</u> | |
|---|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | <u>September 30,</u> <u>2014</u> | <u>September 30,</u> <u>2013</u> | <u>September 30,</u> <u>2014</u> | <u>September 30,</u> <u>2013</u> |
| Net income | \$ 38,965 | \$ 29,909 | \$ 105,859 | \$ 87,566 |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency translation adjustments | (3,125) | 611 | (1,501) | (6,050) |
| Pension liability adjustment, net of tax benefit of \$12, \$25, \$37 and \$76, respectively | 19 | 40 | 58 | 121 |
| Unrealized gain (loss) on derivative instrument classified as cash flow hedge, net of tax (provision) benefit of (\$2,139), (\$2), (\$2,148) and \$75, respectively | (4,877) | (3) | (4,858) | 138 |
| Total other comprehensive income (loss), net of tax | (7,983) | 648 | (6,301) | (5,791) |
| Total comprehensive income | 30,982 | 30,557 | 99,558 | 81,775 |
| Comprehensive loss (income) attributable to noncontrolling interests | 49 | (4) | 51 | 38 |
| Comprehensive income attributable to The GEO Group, Inc. | <u>\$ 31,031</u> | <u>\$ 30,553</u> | <u>\$ 99,609</u> | <u>\$ 81,813</u> |

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

THE GEO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2014 AND DECEMBER 31, 2013
(In thousands, except share data)

| | September 30, 2014 (Unaudited) | December 31, 2013 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 52,680 | \$ 52,125 |
| Restricted cash and investments | 14,448 | 11,518 |
| Accounts receivable, less allowance for doubtful accounts of \$3,258 and \$2,549, respectively | 266,768 | 250,530 |
| Current deferred income tax assets | 20,936 | 20,936 |
| Prepaid expenses and other current assets | 38,443 | 49,236 |
| Total current assets | <u>393,275</u> | <u>384,345</u> |
| Restricted Cash and Investments | 21,360 | 18,349 |
| Property and Equipment, Net | 1,757,062 | 1,727,798 |
| Contract Receivable | 51,998 | — |
| Direct Finance Lease Receivable | 11,584 | 16,944 |
| Non-Current Deferred Income Tax Assets | 4,821 | 4,821 |
| Goodwill | 494,075 | 490,196 |
| Intangible Assets, Net | 159,113 | 163,400 |
| Other Non-Current Assets | 104,679 | 83,511 |
| Total Assets | <u>\$ 2,997,967</u> | <u>\$ 2,889,364</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 61,568 | \$ 47,286 |
| Accrued payroll and related taxes | 50,231 | 38,726 |
| Accrued expenses and other | 129,375 | 114,950 |
| Current portion of capital lease obligations, long-term debt and non-recourse debt | 22,475 | 22,163 |
| Total current liabilities | <u>263,649</u> | <u>223,125</u> |
| Non-Current Deferred Income Tax Liabilities | 14,689 | 14,689 |
| Other Non-Current Liabilities | 74,119 | 64,961 |
| Capital Lease Obligations | 10,132 | 10,924 |
| Long-Term Debt | 1,433,279 | 1,485,536 |
| Non-Recourse Debt | 135,347 | 66,153 |
| Commitments, Contingencies and Other (Note 10) | | |
| Shareholders' Equity | | |
| Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued or outstanding | — | — |
| Common stock, \$0.01 par value, 125,000,000 and 90,000,000 shares authorized, 74,144,870 and 86,662,676 issued and 74,144,870 and 72,082,071 outstanding, respectively | 741 | 866 |
| Additional paid-in capital | 861,866 | 848,018 |
| Earnings in excess of distributions | 214,441 | 232,646 |
| Accumulated other comprehensive loss | (10,699) | (4,429) |
| Treasury stock, 0 and 14,580,605 shares, at cost, respectively | — | (53,579) |
| Total shareholders' equity attributable to The GEO Group, Inc. | <u>1,066,349</u> | <u>1,023,522</u> |
| Noncontrolling interests | 403 | 454 |
| Total shareholders' equity | <u>1,066,752</u> | <u>1,023,976</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 2,997,967</u> | <u>\$ 2,889,364</u> |

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

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2014 AND 2013
(In thousands)

| | Nine Months Ended | |
|---|--------------------|--------------------|
| | September 30, 2014 | September 30, 2013 |
| Cash Flow from Operating Activities: | | |
| Net income | \$ 105,859 | \$ 87,566 |
| Net loss (income) attributable to noncontrolling interests | 20 | (42) |
| Net income attributable to The GEO Group, Inc. | 105,879 | 87,524 |
| Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities: | | |
| Stock-based compensation | 6,263 | 5,768 |
| Loss on extinguishment of debt | — | 6,978 |
| Depreciation and amortization expense | 71,969 | 70,480 |
| Amortization of debt issuance costs, discount and/or premium | 3,921 | 4,609 |
| Dividends received from unconsolidated joint venture | 2,455 | — |
| Provision for doubtful accounts | — | 321 |
| Equity in earnings of affiliates, net of tax | (4,202) | (3,772) |
| Income tax benefit related to equity compensation | (1,498) | (1,883) |
| Release of reserve for uncertain tax positions | — | (6,356) |
| Loss on sale/disposal of property and equipment | 453 | 668 |
| Changes in assets and liabilities: | | |
| Changes in accounts receivable, prepaid expenses and other assets | 22,235 | (16,258) |
| Changes in contract receivable | (54,731) | — |
| Changes in accounts payable, accrued expenses and other liabilities | 11,881 | 7,476 |
| Cash provided by operating activities - continuing operations | 164,625 | 155,555 |
| Cash provided by operating activities - discontinued operations | — | 2,265 |
| Net cash provided by operating activities | 164,625 | 157,820 |
| Cash Flow from Investing Activities: | | |
| Acquisition of Protocol, cash consideration | (13,025) | — |
| Proceeds from sale of property and equipment | 515 | 204 |
| Proceeds from sale of assets held for sale | — | 1,968 |
| Net working capital adjustment from RTS divestiture | — | (996) |
| Change in restricted cash and investments | (6,052) | 13,976 |
| Capital expenditures | (77,713) | (101,450) |
| Net cash used in investing activities | (96,275) | (86,298) |
| Cash Flow from Financing Activities: | | |
| Proceeds from long-term debt | 459,384 | 842,000 |
| Payments on long-term debt | (509,132) | (742,203) |
| Payments on non-recourse debt | (4,511) | (27,153) |
| Proceeds from non-recourse debt | 74,191 | — |
| Taxes paid related to net share settlements of equity awards | (1,844) | — |
| Proceeds from issuance of common stock in connection with ESPP | 277 | 228 |
| Issuance of common stock under prospectus supplement | 54,724 | — |
| Debt issuance costs | (23,508) | (19,317) |
| Income tax benefit related to equity compensation | 1,498 | 1,883 |
| Proceeds from the exercise of stock options | 6,384 | 4,941 |
| Cash dividends paid | (124,084) | (107,526) |
| Net cash used in financing activities | (66,621) | (47,147) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (1,174) | (2,969) |
| Net increase Cash and Cash Equivalents | 555 | 21,406 |
| Cash and Cash Equivalents, beginning of period | 52,125 | 31,755 |
| Cash and Cash Equivalents, end of period | \$ 52,680 | \$ 53,161 |
| Supplemental Disclosures: | | |
| Non-cash Investing and Financing activities: | | |
| Capital expenditures in accounts payable and accrued expenses | \$ 11,895 | \$ 529 |

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 re-entry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa, the United Kingdom and Canada. 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 re-entry facilities. The Company develops new facilities based on contract awards, using its project development expertise and experience to design, construct and finance what it believes are state-of-the-art facilities that maximize security and efficiency. The Company provides innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. The Company also provides secure transportation services for offender and detainee populations as contracted domestically and in the United Kingdom through its joint venture GEO Amey PECS Ltd. (“GEOAmey”). The Company’s worldwide operations include the management and/or ownership of approximately 78,500 beds at 98 correctional and detention facilities, including idle facilities, projects under development and recently awarded contracts, and also include the provision of monitoring of more than 70,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states.

As a part of the Company’s conversion to a REIT which became effective January 1, 2013, the Company merged into The GEO Group REIT, Inc. (“GEO REIT”), a newly formed wholly-owned subsidiary of GEO. The merger became effective June 27, 2014 and was approved by the Company’s shareholders on May 2, 2014. The purpose of the merger was to ensure the effective adoption of charter provisions that implement standard REIT share ownership and transfer restrictions. In the merger, shares of GEO’s common stock were converted into the same number of GEO REIT shares of common stock. In addition, each share of the Company’s common stock held in treasury at June 27, 2014 were retired, and a corresponding adjustment was recorded to common stock and additional paid-in capital. Effective at the time of the merger, GEO REIT was renamed The GEO Group, Inc. Also, in connection with the merger, the Company’s authorized common stock was increased from 90 million shares to 125 million shares.

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 March 3, 2014 for the year ended December 31, 2013. The accompanying December 31, 2013 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, 2013. 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 Form 10-Q have been made. Results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results for the entire year ending December 31, 2014, or for any other future interim or annual periods.

2. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill as a result of its business combinations. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the tangible assets and intangible assets acquired net of liabilities assumed, including noncontrolling interests. Changes in goodwill from December 31, 2013 to September 30, 2014 are related to fluctuations in foreign currency exchange rates and additions due to an acquisition completed in the first quarter of 2014 as discussed further below.

The Company has also recorded other finite and indefinite-lived intangible assets as a result of its various business combinations. An acquisition completed in the first quarter of 2014 as discussed further below also led to additions to intangible assets. The Company’s intangible assets include facility management contracts, the trade name and technology, as follows (in thousands):

| | Weighted Average Useful Life (years) | September 30, 2014 | | | December 31, 2013 | | |
|----------------------------------|--------------------------------------|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
| | | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Facility management contracts | 13.4 | \$ 154,623 | \$ (53,447) | \$ 101,176 | \$ 151,604 | \$ (44,646) | \$ 106,958 |
| Technology | 7.0 | 24,000 | (11,263) | 12,737 | 21,200 | (8,758) | 12,442 |
| Trade name (Indefinite lived) | Indefinite | 45,200 | — | 45,200 | 44,000 | — | 44,000 |
| Total acquired intangible assets | | <u>\$ 223,823</u> | <u>\$ (64,710)</u> | <u>\$ 159,113</u> | <u>\$ 216,804</u> | <u>\$ (53,404)</u> | <u>\$ 163,400</u> |

[Table of Contents](#)

Amortization expense was \$3.9 million and \$11.3 million for the three months and nine months ended September 30, 2014. Amortization expense was \$3.6 million and \$11.0 million for the three months and nine months ended September 30, 2013. Amortization expense was primarily related to the U.S. Corrections & Detention and GEO Community Services segments' amortization of acquired facility management contracts. As of September 30, 2014, the weighted average period before the next contract renewal or extension for the acquired facility management contracts was approximately 2.1 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.

Estimated amortization expense related to the Company's finite-lived intangible assets for the remainder of 2014 through 2018 and thereafter is as follows (in thousands):

| Fiscal Year | Total Amortization Expense |
|--------------------|-----------------------------------|
| Remainder of 2014 | \$ 3,808 |
| 2015 | 15,228 |
| 2016 | 15,228 |
| 2017 | 15,228 |
| 2018 | 12,528 |
| Thereafter | 51,893 |
| | <u>\$ 113,913</u> |

On February 25, 2014, Protocol Criminal Justice, Inc. ("Protocol"), a recently created subsidiary of the Company's B.I. Incorporated ("BI") subsidiary, entered into an Asset Purchase Agreement (the "Agreement") with an unrelated entity, APAC Customer Services, Inc., to acquire certain tangible and intangible assets for cash consideration of \$13.0 million. The acquisition is expected to provide returns consistent with GEO's targeted returns on invested capital. The final purchase price allocation, which was completed during the second quarter of 2014, resulted in the recognition of intangible assets of \$7.1 million related to acquired facility management contracts, acquired technology and trade name, and goodwill of \$3.9 million. In addition, the Company acquired accounts receivable, equipment and assumed certain liabilities, none of which were significant. During the measurement period, the Company made \$0.1 million in aggregate retrospective adjustments to provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized at that date. These adjustments related primarily to the Company's valuation of intangible assets which resulted in a reduction of intangible assets of \$0.3 million and an increase in goodwill of \$0.2 million from the amounts previously reported in the Company's unaudited consolidated financial statements as of March 31, 2014.

3. FINANCIAL INSTRUMENTS

The following tables provide a summary of the Company's significant financial assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2014 and December 31, 2013 (in thousands):

| | Carrying Value at September 30, 2014 | Fair Value Measurements at September 30, 2014 | | |
|--------------------------------|--|---|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Restricted investment: | | | | |
| Rabbi Trust | \$ 11,044 | — | \$ 11,044 | — |
| Fixed income securities | 1,994 | — | 1,994 | — |
| Interest rate cap derivatives | 1,161 | — | \$ 1,161 | — |
| Liabilities: | | | | |
| Interest rate swap derivatives | \$ 7,048 | \$ — | \$ 7,048 | \$ — |

| | Carrying Value at December 31, 2013 | Fair Value Measurements at December 31, 2013 | | |
|---|---|---|---|---|
| | | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | |
| Restricted investments: | | | | |
| Guaranteed Investment Contract | \$ 5,742 | — | \$ 5,742 | — |
| Rabbi Trust | 9,534 | — | 9,534 | — |
| Fixed income securities | 1,993 | — | 1,993 | — |
| Liabilities: | | | | |
| Interest rate swap derivative liabilities | \$ 390 | \$ — | \$ 390 | \$ — |

The Company's Level 2 financial instruments included in the tables above as of September 30, 2014 and December 31, 2013 consist of an interest rate swap liability held by the Company's Australian subsidiary, the Company's rabbi trust established for GEO employee and employer contributions to the Company. Non-qualified Deferred Compensation Plan and an investment in Canadian dollar denominated fixed income securities. At December 31, 2013, the Company's Level 2 financial instruments included a guaranteed investment contract which was a restricted investment related to CSC of Tacoma LLC ("CSC"). During the nine months ended September 30, 2014, the balance in the guaranteed investment contract was liquidated as it was no longer required because it relates to a portion of the CSC bonds which matured in October 2014. Refer to Note 9 - Debt.

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

4. FAIR VALUE OF ASSETS AND LIABILITIES

The Company's consolidated balance sheets reflect certain financial assets and liabilities at carrying value. The carrying value of certain debt instruments, if applicable, is net of unamortized discount. The following tables present the carrying values of those financial instruments and the estimated corresponding fair values at September 30, 2014 and December 31, 2013 (in thousands):

| | Carrying Value as of September 30, 2014 | Estimated Fair Value Measurements at September 30, 2014 | | | |
|--|---|---|-----------|------------|---------|
| | | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 52,680 | \$ 52,680 | \$ 52,680 | \$ — | \$ — |
| Restricted cash | 24,764 | 24,764 | 6,162 | 18,602 | — |
| Liabilities: | | | | | |
| Borrowings under senior credit facility | \$ 336,250 | \$ 337,731 | \$ — | \$ 337,731 | \$ — |
| 5 7/8% Senior Notes | 250,000 | 250,625 | — | 250,625 | — |
| 5.875% Senior Notes | 250,000 | 253,750 | — | 253,750 | — |
| 6.625% Senior Notes | 300,000 | 314,814 | — | 314,814 | — |
| 5.125% Senior Notes | 300,000 | 290,439 | — | 290,439 | — |
| Non-recourse debt, Australian subsidiary | 93,271 | 93,517 | — | 93,517 | — |
| Other non-recourse debt, including current portion | 60,442 | 62,721 | — | 62,721 | — |

| | Carrying Value as of December 31, 2013 | Estimated Fair Value Measurements at December 31, 2013 | | | |
|--|--|--|-----------|------------|---------|
| | | Total Fair Value | Level 1 | Level 2 | Level 3 |
| Assets: | | | | | |
| Cash and cash equivalents | \$ 52,125 | \$ 52,125 | \$ 52,125 | \$ — | \$ — |
| Restricted cash | 14,592 | 14,592 | 1,838 | 12,754 | — |
| Liabilities: | | | | | |
| Borrowings under senior credit facility | \$ 638,500 | \$ 639,246 | \$ — | \$ 639,246 | \$ — |
| 5 7/8% Senior Notes | 250,000 | 265,938 | — | 265,938 | — |
| 6.625% Senior Notes | 300,000 | 317,064 | — | 317,064 | — |
| 5.125% Senior Notes | 300,000 | 279,000 | — | 279,000 | — |
| Non-recourse debt, Australian subsidiary | 23,896 | 24,439 | — | 24,439 | — |
| Other non-recourse debt, including current portion | 60,235 | 62,319 | — | 62,319 | — |

The fair values of the Company's cash and cash equivalents, and restricted cash approximates the carrying values of these assets at September 30, 2014 and December 31, 2013. Restricted cash consists of money market funds, commercial paper and time deposits used for payments on the Company's non-recourse debt and asset replacement funds contractually required to be maintained at the Company's Australian subsidiary. The fair value of the money market funds is based on quoted market prices (Level 1) and the fair value of commercial paper and time deposits is based on market prices for similar instruments (Level 2).

The fair values of the Company's 5 7/8% senior unsecured notes due 2022 ("5 7/8% Senior Notes"), 5.875% senior unsecured notes due 2024 ("5.875% Senior Notes"), 6.625% senior unsecured notes due 2021 ("6.625% Senior Notes"), and the 5.125% senior unsecured notes due 2023 ("5.125% Senior Notes"), although not actively traded, are based on published financial data for these instruments. The fair values of the Company's non-recourse debt related to the Washington Economic Development Finance Authority ("WEDFA") is based on market prices for similar instruments. The fair value of the non-recourse debt related to the Company's Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of borrowings under the senior credit facility is based on an estimate of trading value considering the Company's borrowing rate, the undrawn spread and similar instruments.

5. SHAREHOLDERS' EQUITY

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

| | <u>Common shares</u> | | <u>Additional</u> | <u>Earnings in</u> | <u>Accumulated</u> | <u>Treasury shares</u> | | <u>Noncontrolling</u> | <u>Total</u> |
|---|----------------------|---------------|-------------------|----------------------|--------------------|------------------------|---------------|-----------------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Excess of</u> | <u>Other</u> | <u>Shares</u> | <u>Amount</u> | <u>Interests</u> | <u>Shareholders'</u> |
| | | | <u>Capital</u> | <u>Distributions</u> | <u>Loss</u> | | | | <u>Equity</u> |
| Balance, December 31, 2013 | 72,082 | \$ 866 | \$848,018 | \$ 232,646 | \$ (4,429) | 14,581 | \$(53,579) | \$ 454 | \$ 1,023,976 |
| Proceeds from exercise of stock options | 338 | 3 | 6,381 | — | — | — | — | — | 6,384 |
| Tax benefit related to equity compensation | — | — | 1,498 | — | — | — | — | — | 1,498 |
| Stock-based compensation expense | — | — | 885 | — | — | — | — | — | 885 |
| Amortization of restricted stock | — | — | 5,378 | — | — | — | — | — | 5,378 |
| Restricted stock granted | 310 | 3 | (3) | — | — | — | — | — | — |
| Restricted stock canceled | (22) | — | — | — | — | — | — | — | — |
| Dividends paid | — | — | — | (124,084) | — | — | — | — | (124,084) |
| Issuance of common stock - prospectus supplement | 1,483 | 15 | 54,709 | — | — | — | — | — | 54,724 |
| Shares withheld for net settlements of share-based awards | (54) | — | (428) | — | — | 43 | (1,416) | — | (1,844) |
| Re-issuance of treasury shares - ESPP | 5 | — | 162 | — | — | (6) | 23 | — | 185 |
| Issuance of common stock - ESPP | 3 | — | 92 | — | — | — | — | — | 92 |
| Retirement of treasury shares | — | (146) | (54,826) | — | — | (14,618) | 54,972 | — | — |
| Net income | — | — | — | 105,879 | — | — | — | (20) | 105,859 |
| Other comprehensive loss | — | — | — | — | (6,270) | — | — | (31) | (6,301) |
| Balance, September 30, 2014 | <u>74,145</u> | <u>\$ 741</u> | <u>\$861,866</u> | <u>\$ 214,441</u> | <u>\$ (10,699)</u> | <u>—</u> | <u>\$ —</u> | <u>\$ 403</u> | <u>\$ 1,066,752</u> |

During the nine months ended September 30, 2014, the Company withheld shares through net share settlements to satisfy minimum statutory tax withholding requirements upon vesting of shares of restricted stock held by employees.

REIT Distributions

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

[Table of Contents](#)

During the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively, GEO declared and paid the following regular cash distributions to its shareholders as follows:

| <u>Declaration Date</u> | <u>Payment Due</u> | <u>Record Date</u> | <u>Distribution Per Share</u> | <u>Aggregate Payment Amount (in millions)</u> |
|-------------------------|--------------------|--------------------|-------------------------------|---|
| January 17, 2013 | March 1, 2013 | February 15, 2013 | \$ 0.50 | \$ 35.7 |
| May 7, 2013 | June 3, 2013 | May 20, 2013 | \$ 0.50 | \$ 35.8 |
| July 30, 2013 | August 29, 2013 | August 19, 2013 | \$ 0.50 | \$ 36.1 |
| November 1, 2013 | November 26, 2013 | November 14, 2013 | \$ 0.55 | \$ 39.6 |
| February 18, 2014 | March 14, 2014 | March 3, 2014 | \$ 0.57 | \$ 41.1 |
| April 28, 2014 | May 27, 2014 | May 15, 2014 | \$ 0.57 | \$ 41.5 |
| August 5, 2014 | August 29, 2014 | August 18, 2014 | \$ 0.57 | \$ 41.4 |

Prospectus Supplement

On May 8, 2013, the Company filed with the Securities and Exchange Commission a prospectus supplement related to the offer and sale from time to time of the Company's common stock at an aggregate offering price of up to \$100.0 million through sales agents. Sales of shares of the Company's common stock under the prospectus supplement and equity distribution agreements entered into with the sales agents, if any, 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. On July 18, 2014, the Company filed with the Securities and Exchange Commission a post-effective amendment to its shelf registration statement on Form S-3 (pursuant to which the prospectus supplement had been filed) as a result of the merger of the Company into GEO REIT effective June 27, 2014. During the three months ended September 30, 2014, there were approximately 1.5 million shares of common stock sold under the prospectus supplement for net proceeds of \$54.7 million.

Comprehensive Income (Loss)

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

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

| | <u>Nine Months Ended September 30, 2014</u> (In thousands) | | | |
|--|---|--|--|--------------|
| | <u>Foreign currency translation adjustments, net of tax attributable to The GEO Group, Inc. (1)</u> | <u>Unrealized (loss)/gain on derivatives, net of tax</u> | <u>Pension adjustments, net of tax</u> | <u>Total</u> |
| Balance, December 31, 2013 | \$ (2,441) | \$ (274) | \$ (1,714) | \$ (4,429) |
| Current-period other comprehensive (loss) income | (1,471) | (4,857) | 58 | (6,270) |
| Balance, September 30, 2014 | \$ (3,912) | \$ (5,131) | \$ (1,656) | \$ (10,699) |

(1) The foreign currency translation related to noncontrolling interests was not significant at September 30, 2014 or December 31, 2013.

6. EQUITY INCENTIVE PLANS

The Board has adopted The GEO Group, Inc. 2014 Stock Incentive Plan (the "2014 Plan"), which was approved by the Company's shareholders on May 2, 2014. The 2014 Plan replaces the 2006 Stock Incentive Plan (the "2006 Plan"). The 2014 Plan provides for a reserve of 3,083,353 shares, which consists of 2,000,000 new shares of common stock available for

[Table of Contents](#)

issuance and 1,083,353 shares of common stock that were available for issuance under the 2006 Plan prior to the 2014 Plan replacing it. The Company filed a Form S-8 registration statement related to the 2014 Plan on June 3, 2014, which was amended on July 18, 2014.

Stock Options

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. For options granted during the nine months ended September 30, 2014, the fair value was estimated using the following assumptions: (i) volatility of 28.92%; (ii) expected term of 4.82 years; (iii) risk free interest rate of 1.44%; and (iv) expected dividend yield of 7%. A summary of the activity of stock option awards issued and outstanding under Company plans is as follows for the nine months ended September 30, 2014:

| | <u>Shares</u> <u>(in thousands)</u> | <u>Wtd. Avg.</u> <u>Exercise</u> <u>Price</u> | <u>Wtd. Avg.</u> <u>Remaining</u> <u>Contractual Term</u> <u>(years)</u> | <u>Aggregate</u> <u>Intrinsic</u> <u>Value</u> <u>(in thousands)</u> |
|---|--|---|---|---|
| Options outstanding at December 31, 2013 | 849 | \$ 19.67 | 6.39 | \$ 10,654 |
| Options granted | 227 | 32.41 | | |
| Options exercised | (338) | 19.34 | | |
| Options forfeited/canceled/expired | (24) | 26.27 | | |
| Options outstanding at September 30, 2014 | 714 | \$ 23.64 | 6.91 | \$ 10,425 |
| Options vested and expected to vest at September 30, 2014 | 683 | \$ 23.36 | 6.82 | \$ 10,146 |
| Options exercisable at September 30, 2014 | 410 | \$ 20.64 | 5.89 | \$ 7,200 |

For the nine months ended September 30, 2014 and September 30, 2013, the amount of stock-based compensation expense related to stock options was \$0.9 million and \$1.0 million, respectively. As of September 30, 2014, the Company had \$1.0 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 2.1 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 issued share-based awards with service-based, performance-based and market-based vesting criteria.

A summary of the activity of restricted stock outstanding is as follows for the nine months ended September 30, 2014:

| | <u>Shares</u> <u>(in thousands)</u> | <u>Wtd. Avg.</u> <u>Grant Date</u> <u>Fair Value</u> |
|--|--|--|
| Restricted stock outstanding at December 31, 2013 | 734 | \$ 26.87 |
| Granted | 310 | 32.24 |
| Vested | (291) | 22.03 |
| Forfeited/canceled | (22) | 32.58 |
| Restricted stock outstanding at September 30, 2014 | 731 | \$ 30.95 |

During the nine months ended September 30, 2014, the Company granted approximately 310,000 shares of restricted stock to certain employees and executive officers. Of these awards, 90,000 are performance-based awards which will be forfeited if the Company does not achieve certain annual metrics during 2014, 2015 and 2016.

The vesting of these performance-based restricted stock grants are subject to the achievement by GEO of two annual performance metrics as follows: (i) up to 75% of the shares of restricted stock ("TSR Target Award") can vest at the end of a three-year performance period if GEO meets certain total shareholder return ("TSR") performance targets, as compared to the

[Table of Contents](#)

total shareholder return of a peer group of companies, during 2014, 2015 and 2016; and (ii) up to 25% of the shares of restricted stock (“ROCE Target Award”) can vest at the end of a three-year period if GEO meets certain return on capital employed (“ROCE”) performance targets in 2014, 2015 and 2016. These performance awards can vest at between 0% and 200% of the target awards for both metrics. The number of shares shown for the performance-based awards is based on the target awards for both metrics.

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

The metric related to TSR is considered to be a market condition. For share-based awards that contain a market condition, the probability of satisfying the market condition must be considered in the estimate of grant-date fair value and previously recorded compensation expense is not reversed if the market condition is never met. The fair value of these awards was determined based on a Monte Carlo simulation, which calculates a range of possible outcomes and the probabilities that they will occur, using the following key assumptions: (i) volatility of 25.6%; (ii) beta of 0.74; and (iii) risk free rate of 0.62%.

For the nine months ended September 30, 2014 and September 30, 2013, the Company recognized \$5.4 million and \$4.8 million, respectively, of compensation expense related to its restricted stock awards. As of September 30, 2014, the Company had \$17.0 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 2.7 years.

Employee Stock Purchase Plan

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

The Plan is considered to be non-compensatory. As such, there is no compensation expense required to be recognized. Share purchases under the Plan are made on the last day of each month. During the nine months ended September 30, 2014, 8,348 shares of the Company’s common stock were issued in connection with the Plan.

7. EARNINGS PER SHARE

Basic income per common share is computed by dividing the income from continuing operations attributable to The GEO Group, Inc. shareholders by the weighted average number of outstanding shares of common stock. The calculation of diluted income per common share is similar to that of basic income per common share except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted income from continuing operations per common share was calculated for the three and nine months ended September 30, 2014 and September 30, 2013 as follows (in thousands, except per share data):

| | Three Months Ended | | Nine Months Ended | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Net income | \$ 38,965 | \$ 32,174 | \$ 105,859 | \$ 89,831 |
| Net income attributable to noncontrolling interests | 26 | (12) | 20 | (42) |
| Net income attributable to The GEO Group, Inc. | 38,991 | 32,162 | 105,879 | 89,789 |
| Basic earnings per share attributable to The GEO Group, Inc.: | | | | |
| Weighted average shares outstanding | 72,380 | 71,201 | 71,862 | 71,046 |
| Per share amount - continuing operations | \$ 0.54 | \$ 0.45 | \$ 1.47 | \$ 1.26 |
| Diluted earnings per share attributable to The GEO Group, Inc.: | | | | |
| Weighted average shares outstanding | 72,380 | 71,201 | 71,862 | 71,046 |
| Effect of dilutive securities: Stock options and restricted stock | 257 | 454 | 268 | 511 |
| Weighted average shares assuming dilution | 72,637 | 71,655 | 72,130 | 71,557 |
| Per share amount - continuing operations | \$ 0.54 | \$ 0.45 | \$ 1.47 | \$ 1.25 |

Three Months

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

For the three months ended September 30, 2013, 1,589 weighted average common stock equivalents from restricted stock awards were excluded from the computation of diluted EPS because the effect would be anti-dilutive. There were no shares of common stock underlying options that were anti-dilutive.

Nine Months

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

For the nine months ended September 30, 2013, no shares of common stock underlying options or restricted stock were anti-dilutive.

8. 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 - Fullham

The Company's Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on its variable rate non-recourse debt (related to its Fullham facility) to 9.7%. The Company has determined the swap, which has a notional amount of AUD 50.9 million, payment and expiration dates, and call provisions that coincide with the terms of the non-recourse debt, to be an effective cash flow hedge. Accordingly, the Company records the change in the fair value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. Total unrealized gains recorded in other comprehensive income, net of tax, related to this cash flow hedge was not significant for the nine months ended September 30, 2014. The total fair value of the swap liability as of September 30, 2014 and December 31, 2013 was \$0.3 million and \$0.4 million, respectively, and is recorded as a component of other non-current assets within the accompanying consolidated balance

[Table of Contents](#)

sheets. There was no material ineffectiveness of this interest rate swap for the periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

Australia - Ravenhall

In September 2014, the Company's Australian subsidiary entered into interest rate swap agreements to fix the interest rate on its variable rate non-recourse debt related to a prison project in Ravenhall, a locality near Melbourne, Australia to 3.3% during the design and construction phase and 4.2% during the project's operating phase. Refer to Note 11 - Ravenhall Prison Project. The swaps' notional amounts coincide with construction draw fixed commitments throughout the project. At September 30, 2014, the swaps had a notional value of approximately AUD 85.0 million, or \$74.0 million, based on exchange rates at September 30, 2014, related to the outstanding draws for the design and construction phase and approximately AUD 486.0 million, or \$424.0 million, based on exchange rates at September 30, 2014, related to future construction draws. The Company has determined that the swaps have payment, expiration dates, and provisions that coincide with the terms of the non-recourse debt and are therefore considered to be effective cash flow hedges. Accordingly, the Company records the change in the fair value of the interest rate swaps in accumulated other comprehensive income, net of applicable income taxes. Total unrealized losses recorded in other comprehensive income, net of tax, related to this cash flow hedge were approximately \$(4.9) million during the three and nine months ended September 30, 2014. The total fair value of the swap liability as of September 30, 2014 was \$(7.0) million and is recorded as a component of Other Non-Current liabilities within the accompanying consolidated balance sheet. There was no material ineffectiveness for the periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with these swaps currently reported in accumulated other comprehensive income (loss).

Additionally, upon completion and commercial acceptance of the prison project, the Department of Justice in the State of Victoria (the "State") in accordance with the prison contract, will make a lump sum payment of AUD 310 million, or \$270.5 million, based on exchange rates at September 30, 2014, towards a portion of the outstanding principal of the non-recourse debt. The Company's Australian subsidiary also entered into interest rate cap agreements in September 2014 giving the Company the option to cap the interest rate on its variable non-recourse debt related to the project in the event that the completion of the prison project is delayed which could delay the State's payment. The Company paid \$1.7 million for the interest rate cap agreements. These instruments do not meet the requirements for hedge accounting, and therefore, changes in fair value of the interest rate caps are recorded in earnings. During the three and nine months ended September 30, 2014, the Company recorded a loss of \$0.5 million related to a decline in the fair value of the interest rate cap assets. As of September 30, 2014, the interest rate cap assets had a fair value of \$1.2 million which is included in Other Non-Current Assets in the accompanying consolidated balance sheet.

[Table of Contents](#)

9. DEBT

Debt outstanding as of September 30, 2014 and December 31, 2013 consisted of the following (in thousands):

| | <u>September 30, 2014</u> | <u>December 31, 2013</u> |
|--|---------------------------|--------------------------|
| Senior Credit Facility: | | |
| Term loan | \$ 296,250 | \$ 298,500 |
| Revolver | 40,000 | 340,000 |
| Total Senior Credit Facility | \$ 336,250 | \$ 638,500 |
| 5.875% Senior Notes | | |
| Notes Due in 2024 | 250,000 | — |
| 5.125% Senior Notes: | | |
| Notes due in 2023 | 300,000 | 300,000 |
| 5 7/8% Senior Notes | | |
| Notes Due in 2022 | 250,000 | 250,000 |
| 6.625% Senior Notes: | | |
| Notes due in 2021 | 300,000 | 300,000 |
| Non-Recourse Debt : | | |
| Non-Recourse Debt | 154,466 | 85,091 |
| Unamortized discount on non-recourse debt | (753) | (960) |
| Total Non-Recourse Debt | 153,713 | 84,131 |
| Capital Lease Obligations | 11,177 | 11,924 |
| Other debt | 93 | 221 |
| Total debt | 1,601,233 | 1,584,776 |
| Current portion of capital lease obligations, long-term debt and non-recourse debt | (22,475) | (22,163) |
| Capital Lease Obligations, long-term portion | (10,132) | (10,924) |
| Non-Recourse Debt, long-term portion | (135,347) | (66,153) |
| Long-Term Debt | <u>\$ 1,433,279</u> | <u>\$ 1,485,536</u> |

Credit Agreement

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

The Credit Agreement evidences a credit facility (the "Credit Facility") consisting of a \$296.3 million term loan (the "Term Loan") bearing interest at LIBOR plus 2.50% (with a LIBOR floor of .75%), and a \$700.0 million revolving credit facility (the "Revolver") initially bearing interest at LIBOR plus 2.25% (with no LIBOR floor) together with AUD 225.0 million available solely for the issuance of financial letters of credit and performance letters of credit, in each case denominated in Australian Dollars (the "Australian LC Facility"). At September 30, 2014, the Company had approximately AUD 214.0 million in letters of credit outstanding under the Australian LC Facility in connection with certain performance and financing guarantees related to the Ravenhall Prison Project - Refer to Note 11. Amounts to be borrowed by the Company under the Credit Agreement are subject to the satisfaction of customary conditions to borrowing. The Revolver component is scheduled to mature on August 27, 2019 and the Term Loan component is scheduled to mature on April 3, 2020. In connection with the amendment, the Company wrote off approximately \$0.4 million of deferred financing costs pertaining to the former credit facility. The Company capitalized \$3.1 million of deferred finance costs in connection with the new Credit Facility.

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

[Table of Contents](#)

Company's lenders' security interests in the collateral for its loans. The restricted payments covenant remains consistent with the Company's election to be treated as a real estate investment trust under the Internal Revenue Code of 1986, effective as of January 1, 2013.

Events of default under the Credit Agreement include, but are not limited to, (i) the Company's failure to pay principal or interest when due, (ii) the Company's material breach of any representation or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) certain material environmental liability claims which have been asserted against the Company, and (viii) a change in control. The Company was in compliance with the all of the covenants of the Credit Agreement as of September 30, 2014.

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

As of September 30, 2014, the Company had \$296.3 million in aggregate borrowings outstanding under the Term Loan, \$40.0 million in borrowings under the Revolver, and approximately \$61.0 million in letters of credit which left \$599.0 million in additional borrowing capacity under the Revolver. The weighted average interest rate on outstanding borrowings under the Credit Agreement as of September 30, 2014 was 3.2%.

5.875% Senior Notes

On September 25, 2014, the Company completed an offering of \$250.0 million aggregate principal amount of senior unsecured notes. The notes will mature on October 15, 2024 and have a coupon rate and yield to maturity of 5.875%. Interest is payable semi-annually in cash in arrears on April 15 and October 15, beginning April 15, 2015. The 5.875% Senior Notes are guaranteed on a senior unsecured basis by all the Company's restricted subsidiaries that guarantee obligations. The 5.875% Senior Notes rank equally in right of payment with any unsecured, unsubordinated indebtedness of the Company and the guarantors, including the Company's 6.625% senior notes due 2021, the 5 7/8% senior notes due 2022, the 5.125% senior notes due 2023, and the guarantors' guarantees thereof, senior in right of payment to any future indebtedness of the Company and the guarantors that is expressly subordinated to the 5.875% Senior Notes and the guarantees, effectively junior to any secured indebtedness of the Company and the guarantors, including indebtedness under the Company's senior credit facility, to the extent of the value of the assets securing such indebtedness, and structurally junior to all obligations of the Company's subsidiaries that are not guarantors. The sale of the 5.875% Senior Notes was registered under the Company's automatic shelf registration statement on Form S-3 filed on September 12, 2014. The Company capitalized \$3.8 million of deferred financing costs in connection with the offering.

At any time prior to October 15, 2017, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding 5.875% Senior Notes issued under the indenture governing the 5.875% Senior Notes (including any additional notes) at a redemption price of 105.875% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. In addition, the Company may, at its option, redeem the 5.875% Senior Notes in whole or in part before October 15, 2019 at a redemption price equal to 100% of the principal amount of the 5.875% Senior Notes being redeemed plus a "make-whole" premium, together with accrued and unpaid interest, if any, to the redemption date.

On or after October 15, 2019, the Company may, at its option, redeem all or part of the 5.875% Senior Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest, if any, on the 5.875% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

| Year | Percentage |
|---------------------|-------------------|
| 2019 | 102.938% |
| 2020 | 101.958% |
| 2021 | 100.979% |
| 2022 and thereafter | 100.000% |

[Table of Contents](#)

The indenture contains covenants which, among other things, limit the ability of the Company and its restricted subsidiaries to incur additional indebtedness or issue preferred stock, make dividend payments or other restricted payments (other than the payment of dividends or other distributions, or any other actions necessary to maintain the Company's status as a real estate investment trust), create liens, sell assets, engage in sale and lease back transactions, create or permit restrictions on the ability of the restricted subsidiaries to pay dividends or make other distributions to the Company, enter into transactions with affiliates, and enter into mergers, consolidations or sales of all or substantially all of their assets. These covenants are subject to a number of limitations and exceptions as set forth in the indenture.

The indenture also contains events of default with respect to, among other things, the following: failure by the Company to pay interest on the 5.875% Senior Notes when due, which failure continues for 30 days; failure by the Company to pay the principal of, or premium, if any, on, the 5.875% Senior Notes when due; failure by the Company or any of its restricted subsidiaries to comply with their obligations to offer to repurchase the 5.875% Senior Notes at the option of the holders of the 5.875% Senior Notes upon a change of control, to offer to redeem the 5.875% Senior Notes under certain circumstances in connection with asset sales with excess proceeds in excess of \$25.0 million or to observe certain restrictions on mergers, consolidations and sales of substantially all of their assets; the failure by the Company or any guarantor to comply with any of the other agreements in the indenture, which failure continues for 60 days after notice; and certain events of bankruptcy or insolvency of GEO or a restricted subsidiary that is a significant subsidiary or any group of restricted subsidiaries that together would constitute a significant subsidiary. The Company was in compliance with all of the covenants of the indenture governing the 5.875% Senior Notes as of September 30, 2014.

5.125% Senior Notes

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). The Company was in compliance with all of the covenants of the indenture governing the 5.125% Senior Notes as of September 30, 2014.

5 7/8% Senior Notes

Interest on the 5 7/8% Senior Notes 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 7/8% Senior Notes at the redemption prices set forth in the indenture governing the 5 7/8% 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). The Company was in compliance with all of the covenants of the indenture governing the 5 7/8% Senior Notes as of September 30, 2014.

6.625% Senior Notes

Interest on the 6.625% Senior Notes accrues at the stated rate. The Company pays interest semi-annually in arrears on February 15 and August 15 of each year. On or after February 15, 2016, the Company may, at its option, redeem all or part of the 6.625% Senior Notes at the redemption prices set forth in the indenture governing the 6.625% Senior Notes. The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 16-Condensed Consolidating Financial Information). The Company was in compliance with all of the covenants of the indenture governing the 6.625% Senior Notes as of September 30, 2014.

Non-Recourse Debt

Northwest Detention Center

The remaining balance of the original debt service requirement under the \$57.0 million note payable ("2003 Revenue Bonds") and the \$54.4 million note payable ("2011 Revenue Bonds") to the Washington Economic Finance Authority ("WEDFA") matured in October 2014 and will mature in October 2021 with fixed coupon rates ranging from 4.10% to 5.25%, respectively, is \$61.2 million, of which \$11.8 million is classified as current in the accompanying consolidated balance sheet as of September 30, 2014. The payment of principal and interest on the 2011 Revenue Bonds and the 2003 Revenue Bonds issued by WEDFA is non-recourse to GEO.

[Table of Contents](#)

As of September 30, 2014, included in current restricted cash and investments and non-current restricted cash and investments is \$17.1 million of funds held in trust for debt service and other reserves with respect to the above mentioned notes payable to WEDFA.

Australia - Fullham

The non-recourse obligation to the Company totaled \$19.1 million (AUD 21.9 million) and \$23.9 million (AUD 26.9 million), based on the exchange rates in effect at September 30, 2014 and December 31, 2013, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million, which, based on exchange rates as of September 30, 2014, was \$4.4 million. This amount is included in non-current restricted cash and investments and the annual maturities of the future debt obligation are included in Non-Recourse Debt in the accompanying consolidated balance sheets.

Australia - Ravenhall

In connection with a new design and build prison project agreement with the State, the Company entered into a syndicated facility agreement (the "Construction Facility") with National Australia Bank Limited to provide debt financing for construction of the project. Refer to Note 11 - Ravenhall Prison Project. The Construction Facility provides for non-recourse funding up to AUD 791.0 million, or \$690.3 million, based on exchange rates as of September 30, 2014. Construction draws will be funded throughout the project according to a fixed utilization schedule as defined in the syndicated facility agreement. The term of the Construction Facility is through October 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. After October 2019, the Construction Facility will be converted to a term loan with payments due quarterly beginning in 2018 through 2041. In accordance with the terms of the Construction Facility, upon completion and commercial acceptance of the prison, in accordance with prison contract, the State will make a lump sum payment of AUD 310 million, or \$270.5 million, based on exchange rates as of September 30, 2014, towards a portion of the outstanding principal. The remaining outstanding principal balance will be repaid over the term of the operating agreement. As of September 30, 2014, \$74.2 million was outstanding under the Construction Facility. The Company also entered into interest rate swap and interest rate cap agreements related to its non-recourse debt in connection with the project. Refer to Note 8 - Derivative Financial Instruments.

Guarantees

Australia

The Company has entered into certain guarantees in connection with the financing and construction performance of a facility in Australia (Refer to Note 11 - Ravenhall Prison Project). The obligations amounted to approximately AUD 214.0 million, or \$186.8 million, based on exchange rates as of September 30, 2014. These guarantees are secured by outstanding letters of credit under the Company's Revolver as of September 30, 2014.

At September 30, 2014, the Company also had nine other letters of credit outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$13.2 million.

South Africa

In connection with the creation of South African Custodial Services Pty. Limited ("SACS"), the Company entered into certain guarantees related to the financing, construction and operation of the prison. As of September 30, 2014, the Company guaranteed obligations amounting to 28.4 million South African Rand, or \$2.5 million based on exchange rates as of September 30, 2014. In the event SACS is unable to maintain the required funding in a rectification account maintained for the payment of certain costs in the event of contract termination, a previously existing guarantee by the Company for the shortfall will need to be re-instated. The remaining guarantee of 28.4 million South African Rand is secured by outstanding letters of credit under the Company's Revolver as of September 30, 2014.

In addition to the above, the Company has also agreed to provide a loan, if required, of up to 20 million South African Rand, or \$1.8 million based on exchange rates as of September 30, 2014, referred to as the Shareholder's Loan, to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under the standby facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company's obligations under the Shareholder's Loan expire upon the earlier of full funding or SACS's release from its obligations under its debt agreements. The lenders' ability to draw on the Shareholder's Loan is limited to certain circumstances, including termination of the contract.

[Table of Contents](#)

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

Canada

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a trust. The potential estimated exposure of these obligations is Canadian Dollar ("CAD") 2.5 million, or \$2.2 million, based on exchange rates as of September 30, 2014, commencing in 2017. The Company has a liability of \$2.0 million related to this exposure included in Other Non-Current Liabilities as of September 30, 2014 and December 31, 2013, respectively. To secure this guarantee, the Company purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset equal to the current fair value of those securities included in Other Non-Current Assets as of September 30, 2014 and December 31, 2013 on its consolidated balance sheets. The Company does not currently operate or manage this facility.

United Kingdom

In connection with the creation of GEOAmev, the Company and its joint venture partner guarantee the availability of working capital in equal proportion to ensure that GEOAmev can comply with current and future contractual commitments related to the performance of its operations. The Company and the 50% joint venture partner have each extended a £12 million line of credit of which £12.0 million, or \$19.5 million, based on exchange rates as of September 30, 2014, was outstanding as of September 30, 2014. The Company's maximum exposure relative to the joint venture is its note receivable of \$19.5 million, which is included in Other Non-Current Assets in the accompanying consolidated balance sheets, and future financial support necessary to guarantee performance under the contract.

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

10. COMMITMENTS, CONTINGENCIES AND OTHER

Litigation, Claims and Assessments

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

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 \$224.0 million of which \$62.5 million was spent through the third quarter of 2014. The Company estimates the remaining capital requirements related to these capital projects will be \$161.5 million which will be spent through fiscal year 2015. Included in these commitments is a contractual commitment to provide a capital contribution towards the design and construction of a prison project in Ravenhall, a locality near Melbourne, Australia, in the amount of AUD 115.0 million, or \$100.1 million, based on exchange rates as of September 30, 2014. Refer to Note 11 - Ravenhall Prison Project. This capital contribution is expected to be made in January 2017.

Additionally, in connection with the Ravenhall Prison Project, the Company has a contractual commitment for construction of the facility and has entered into a syndicated facility agreement with National Australia Bank Limited to provide funding for the project up to AUD 791.0 million, or \$690.3 million, based on exchange rates as of September 30, 2014. Refer to Note 9 - Debt.

Contract Awards

On September 16, 2014, GEO announced that GEO was awarded a contract with the Department of Justice in the State of Victoria for the development and operation of a new 1,300-bed capacity prison (the "Facility") in Ravenhall, a locality near Melbourne, Australia. Refer to Note 11 - Ravenhall Prison Project.

On September 10, 2014, GEO announced that the Company's wholly-owned subsidiary, BI has been awarded a contract by U.S. Immigration and Customs Enforcement ("ICE") for the continued provision of case management and supervision services under the Intensive Supervision and Appearance Program ("ISAP"). The contract has a term of five years, inclusive of option periods, effective September 8, 2014.

Idle Facilities

The Company is currently marketing approximately 5,800 vacant beds at five 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 \$185.0 million as of September 30, 2014, excluding equipment and other assets that can be easily transferred for use at other facilities.

11. RAVENHALL PRISON PROJECT

On September 16, 2014, GEO's newly formed wholly-owned subsidiary, GEO Ravenhall Pty. Ltd. in its capacity as trustee of another newly formed wholly-owned subsidiary, GEO Ravenhall Trust ("Project Co"), signed the Ravenhall Prison Project Agreement ("Ravenhall Contract") with the State for the development and operation of a new 1,000-bed Facility in Ravenhall, a locality near Melbourne, Australia under a Public-Private Partnership financing structure. The Facility will also have the capacity to house 1,300 inmates should the State have the need for additional beds in the future. The design and construction phase ("D&C Phase") of the agreement began in September 2014 with completion expected towards the end of 2017. Project Co is the primary developer during the D&C Phase and has subcontracted with a bonded international design and build contractor to design and construct the Facility. Once constructed and commercially accepted, GEO's wholly-owned subsidiary, the GEO Group Australasia Pty. Ltd. ("GEO Australia") will operate the Facility under a 25-year management contract ("Operating Phase"). During the D&C Phase, GEO Australia will also provide construction management and consultant services to the State.

The cost of the project during the D&C Phase will be funded by debt financing along with a capital contribution by GEO expected to be contributed in January 2017. Another wholly-owned subsidiary of GEO, Ravenhall Finance Co Pty. Limited ("Finance Co"), has entered into a syndicated facility agreement with National Australia Bank Limited to provide the debt financing for the project. Refer to Note 9 - Debt. In order to fix the interest rate on this variable non-recourse debt, Finance Co has entered into interest rate swap and interest rate cap agreements. Refer to Note 8 - Derivative Financial Instruments. Upon completion and commercial acceptance of the Facility, in accordance with the Ravenhall Contract, the State will make a lump sum payment of AUD 310 million, or \$270.5 million, based on exchange rates as of September 30, 2014, towards a portion of the outstanding principal.

The Company's revenue recognition policy with respect to the Ravenhall Contract is as follows:

As the Ravenhall Contract contains multiple element arrangements where the Company is providing project development services during the D&C Phase along with facility management services during the Operating Phase, the Company follows the revenue recognition guidance under ASC 605-25, *Multiple-Element Arrangements*. This revenue recognition guidance related to multiple deliverables provides guidance on determining if separate contracts should be evaluated as a single arrangement and if an arrangement involves a single unit of accounting or separate units of accounting. If the arrangement is determined to have separate units, this guidance also provides guidance on how to allocate amounts received in the arrangement for revenue recognition purposes. In instances where the Company provides these project development services and subsequent facility management services, generally, the arrangement results in no delivered items at the onset of the agreement. The elements are delivered over the contract period as the project development and facility management services are performed.

The Company has determined that the significant deliverables in the arrangement during the D&C Phase (design and construction) and the Operating Phase (facility management contract) qualify as separate units of accounting. With respect to the deliverables during the Operating Phase under the management contract, the Company regularly negotiates such contracts and provides management services to customers outside of any arrangement for construction. The Company establishes per diem rates for all of its management contracts based on, amongst other factors, expected and guaranteed occupancy, costs of providing the services and desired margins. As such, the fair value of the consideration to each deliverable was determined

[Table of Contents](#)

using the Company's estimated selling price for the design and construction deliverable and vendor specific objective evidence for the facility management services deliverable. With regard to the general timing of revenue recognition during the Ravenhall Contract, revenue will be recognized during the D&C Phase using the percentage-of-completion method as construction and construction management services are incurred and revenue will be recognized during the Operating Phase as the services are provided over the twenty-five year term of the management agreement.

In accordance with ASC 605-35, *Construction-Type and Production-Type Contracts*, during the D&C Phase the Company will recognize revenue as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to the estimated total costs for the design and construction of the Facility. Costs incurred and estimated earnings in excess of billings is classified as Contract Receivable in the accompanying consolidated balance sheets. Contract Receivable is recorded at net present value based on the timing of expected future settlement. As the primary contractor, Project Co is exposed to the various risks associated with the D&C Phase. Accordingly, the Company will record construction revenue on a gross basis and include the related cost of construction activities in Operating Expenses within the Facility Construction and Design segment. Reimbursable pass through costs are excluded from revenues and expenses. Refer to Note 1 to the consolidated financial statements included the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for the Company's full revenue recognition policy as it relates to construction revenue.

During the Operating Phase, revenue will be recognized as services are performed under the management contract based on a fixed monthly rate. Refer to Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013 for the Company's full revenue recognition policy as it relates to facility management revenue.

12. BUSINESS SEGMENTS AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments

The Company conducts its business through four reportable business segments: the U.S. Corrections & Detention segment; the GEO Community Services 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 | | Nine Months Ended | |
|------------------------------------|--------------------|--------------------|---------------------|---------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Revenues: | | | | |
| U.S. Corrections & Detention | \$ 281,550 | \$ 253,414 | \$ 824,448 | \$ 756,229 |
| GEO Community Services | 86,610 | 76,879 | 245,723 | 225,892 |
| International Services | 50,874 | 49,549 | 154,843 | 156,405 |
| Facility Construction & Design (2) | 38,866 | — | 38,866 | — |
| Total revenues | <u>\$ 457,900</u> | <u>\$ 379,842</u> | <u>\$ 1,263,880</u> | <u>\$ 1,138,526</u> |
| Operating income: | | | | |
| U.S. Corrections & Detention | \$ 67,450 | \$ 50,826 | \$ 190,983 | \$ 161,550 |
| GEO Community Services | 23,504 | 17,128 | 61,164 | 53,387 |
| International Services (1) | 62 | 4,097 | 4,978 | 9,163 |
| Facility Construction & Design (2) | 589 | — | 589 | — |
| Operating income from segments | <u>\$ 91,605</u> | <u>\$ 72,051</u> | <u>\$ 257,714</u> | <u>\$ 224,100</u> |

- (1) Operating income in the International Services segment decreased primarily due to bid costs incurred during the three months ended September 30, 2014 at GEO's subsidiary in the United Kingdom. Additionally, operating income during the three months ended September 30, 2014 includes a non-cash mark-to-market negative adjustment on a derivative instrument held by GEO's Australian subsidiary.
- (2) The Company began the design and construction of a new prison contract located in Ravenhall, a locality near Melbourne, Australia. Refer to Note 11 - Ravenhall Prison Project.

[Table of Contents](#)

Pre-Tax Income Reconciliation of Segments

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

| | Three Months Ended | | Nine Months Ended | |
|---|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Total operating income from segments | \$ 91,605 | \$ 72,051 | \$ 257,714 | \$ 224,100 |
| Unallocated amounts: | | | | |
| General and Administrative Expenses | (28,287) | (27,222) | (84,937) | (86,625) |
| Net Interest Expense | (20,360) | (20,485) | (60,058) | (58,580) |
| Loss on Extinguishment of Debt | — | (1,451) | — | (6,978) |
| Income before income taxes and equity in earnings of affiliates | <u>\$ 42,958</u> | <u>\$ 22,893</u> | <u>\$ 112,719</u> | <u>\$ 71,917</u> |

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. Our 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 \$1.3 million and \$3.6 million in earnings, net of tax, for SACS operations during the three and nine months ended September 30, 2014, respectively, and \$1.3 million and \$3.8 million during the three and nine months ended September 30, 2013, respectively, which are included in equity in earnings of affiliates, net of income tax provision in the accompanying consolidated statements of operations. As of September 30, 2014 and December 31, 2013, the Company's investment in SACS was \$9.2 million and \$8.1 million, respectively.

The Company has recorded \$0.3 million and \$0.6 million in earnings, net of tax, for GEOAmeY's operations during the three and nine months ended September 30, 2014, respectively and \$0.2 million and \$0.1 million in losses during the three and nine months ended September 30, 2013, respectively, which are included in equity in earnings of affiliates, net of income tax provision, in the accompanying consolidated statements of operations. As of September 30, 2014 and December 31, 2013, the Company's investment in GEOAmeY was \$(2.4) million and \$(3.0) million, respectively, and represents its share of cumulative reported losses. Losses in excess of the Company's investment have been recognized as the Company has provided certain loans and guarantees to provide financial support to GEOAmeY. Refer to Note 9 - Debt.

13. BENEFIT PLANS

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

| | Nine Months Ended September 30, 2014 | Year Ended December 2013 |
|---|---|-------------------------------------|
| Change in Projected Benefit Obligation | | |
| Projected benefit obligation, beginning of period | \$ 20,032 | \$ 19,761 |
| Service cost | 613 | 925 |
| Interest cost | 701 | 829 |
| Actuarial gain | — | (1,229) |
| Benefits paid | (219) | (254) |
| Projected benefit obligation, end of period | <u>\$ 21,127</u> | <u>\$ 20,032</u> |
| Change in Plan Assets | | |
| Plan assets at fair value, beginning of period | \$ — | \$ — |
| Company contributions | 219 | 254 |
| Benefits paid | (219) | (254) |
| Plan assets at fair value, end of period | <u>\$ —</u> | <u>\$ —</u> |
| Unfunded Status of the Plan | <u>\$ (21,127)</u> | <u>\$ (20,032)</u> |

[Table of Contents](#)

| | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | \$ 307 | \$ 232 | \$ 613 | \$ 694 |
| Interest cost | 351 | 207 | 701 | 622 |
| Net loss | 31 | 66 | 95 | 197 |
| Net periodic pension cost | <u>\$ 689</u> | <u>\$ 505</u> | <u>\$ 1,409</u> | <u>\$ 1,513</u> |

The long-term portion of the pension liability as of September 30, 2014 and December 31, 2013 was \$20.9 million and \$19.9 million, respectively, and is included in Other Non-Current Liabilities in the accompanying consolidated balance sheets.

14. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2014, the FASB issued ASU No. 2014-12, “*Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*,” which resolves the diverse accounting treatment of share-based payments on an award where the terms provide that the performance target could be achieved after an employee completes the requisite service period. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this update apply to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. This standard will become effective for annual periods and interim periods within those annual periods beginning on or after December 15, 2015. The implementation of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*,” which initiates a joint project between FASB and the International Accounting Standards Board (“IASB”) to clarify the principles for recognizing revenue and develop a common revenue standard for U.S. GAAP and IFRS. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. This standard will become effective for annual periods, beginning after December 15, 2016, including those interim periods within that reporting period. Early adoption is not permitted. An entity may apply the amendment in this update retrospectively to each reporting period presented, or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. The Company is in the process of evaluating whether this standard would have a material impact on the Company’s financial position, results of operations or cash flows.

In April 2014, the FASB issued ASU No. 2014-08, “*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*,” which changes the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or group of components of an entity, or a business or nonprofit activity. Under the ASU, only those disposals of components of an entity that represent a strategic shift that has (or will have) a major effect on an entity’s operations and financial results will be reported as discontinued operations in the financial statements. This standard will become effective for disposals or activities classified as held for sale that occur within annual periods beginning on or after December 15, 2014. The implementation of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

In January 2014, the FASB issued ASU No. 2014-05, “*Service Concession Arrangements*,” which specifies that an operating entity should not account for a service concession arrangement that falls within the scope of this update as a lease in accordance with Topic 840. An operating entity should refer to other Topics as applicable to account for various aspects of a service concession arrangement. The amendments also specify that the infrastructure used in a service concession arrangement should not be recognized as property, plant and equipment of the operating entity. A service concession arrangement is defined as an arrangement between a public-sector entity and an operating entity for which the terms provide that the operating entity will operate the public-sector entity’s infrastructure (for example, airports, roads, bridges, tunnels, prisons and hospitals) for a specified period of time. This standard will become effective for annual periods, and interim periods within those annual periods, beginning after December 31, 2014. The implementation of this standard is not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

15. SUBSEQUENT EVENTS

Dividend

On November 5, 2014, the Board of Directors declared a quarterly cash dividend of \$0.62 per share of common stock, which is to be paid on November 26, 2014 to shareholders of record as of the close of business on November 17, 2014.

16. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

As of September 30, 2014, the Company's 6.625% Senior Notes, 5.125% Senior Notes, 5 7/8% Senior Notes and 5.875% Senior Notes were fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly-owned domestic subsidiaries (the "Subsidiary Guarantors"). The following condensed consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(d) of Regulation S-X promulgated under the Securities Act, presents the condensed consolidating financial information separately for:

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

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

| | For the Three Months Ended September 30, 2014 | | | | |
|--|--|---|--|---------------------|---------------------|
| | <u>The GEO Group, Inc.</u> | <u>Combined Subsidiary Guarantors</u> | <u>Combined Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| Revenues | \$ 141,631 | \$ 337,769 | \$ 92,300 | \$ (113,800) | \$ 457,900 |
| Operating expenses | 115,580 | 257,645 | 82,791 | (113,800) | 342,216 |
| Depreciation and amortization | 6,395 | 16,554 | 1,130 | — | 24,079 |
| General and administrative expenses | 8,352 | 14,295 | 5,640 | — | 28,287 |
| Operating income | 11,304 | 49,275 | 2,739 | — | 63,318 |
| Interest income | 5,593 | 966 | 953 | (6,464) | 1,048 |
| Interest expense | (11,716) | (14,258) | (1,898) | 6,464 | (21,408) |
| Income before income taxes and equity in earnings of affiliates | 5,181 | 35,983 | 1,794 | — | 42,958 |
| Income tax provision | — | 4,528 | 1,009 | — | 5,537 |
| Equity in earnings of affiliates, net of income tax provision | — | — | 1,544 | — | 1,544 |
| Income before equity in income of consolidated subsidiaries | 5,181 | 31,455 | 2,329 | — | 38,965 |
| Income from consolidated subsidiaries, net of income tax provision | 33,784 | — | — | (33,784) | — |
| Net income | 38,965 | 31,455 | 2,329 | (33,784) | 38,965 |
| Net loss attributable to noncontrolling interests | — | — | 26 | — | 26 |
| Net income attributable to The GEO Group, Inc. | <u>\$ 38,965</u> | <u>\$ 31,455</u> | <u>\$ 2,355</u> | <u>\$ (33,784)</u> | <u>\$ 38,991</u> |
| Net income | \$ 38,965 | \$ 31,455 | \$ 2,329 | \$ (33,784) | \$ 38,965 |
| Other comprehensive income (loss), net of tax | — | 19 | (8,002) | — | (7,983) |
| Total comprehensive income (loss) | \$ 38,965 | \$ 31,474 | \$ (5,673) | \$ (33,784) | \$ 30,982 |
| Comprehensive loss attributable to noncontrolling interests | — | — | 49 | — | 49 |
| Comprehensive income (loss) attributable to The GEO Group, Inc. | <u>\$ 38,965</u> | <u>\$ 31,474</u> | <u>\$ (5,624)</u> | <u>\$ (33,784)</u> | <u>\$ 31,031</u> |

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

| | For the Three Months Ended September 30, 2013 | | | | |
|--|---|---|--|---------------------|---------------------|
| | <u>The GEO Group, Inc.</u> | <u>Combined Subsidiary Guarantors</u> | <u>Combined Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| Revenues | \$ 131,159 | \$ 301,244 | \$ 52,584 | \$ (105,145) | \$ 379,842 |
| Operating expenses | 115,671 | 233,143 | 40,234 | (105,145) | 283,903 |
| Depreciation and amortization | 6,266 | 16,411 | 1,211 | — | 23,888 |
| General and administrative expenses | 9,235 | 14,314 | 3,673 | — | 27,222 |
| Operating income | (13) | 37,376 | 7,466 | — | 44,829 |
| Interest income | 11,358 | 382 | 980 | (11,636) | 1,084 |
| Interest expense | (10,650) | (20,328) | (2,227) | 11,636 | (21,569) |
| Loss on early extinguishment of debt | — | (1,451) | — | — | (1,451) |
| Income (loss) before income taxes and equity in earnings of affiliates | 695 | 15,979 | 6,219 | — | 22,893 |
| Income tax (benefit) provision | (5,673) | (3,300) | 1,218 | — | (7,755) |
| Equity in earnings of affiliates, net of income tax provision | — | — | 1,526 | — | 1,526 |
| Income before equity in income of consolidated subsidiaries | 6,368 | 19,279 | 6,527 | — | 32,174 |
| Income from consolidated subsidiaries, net of income tax provision (benefit) | 25,806 | — | — | (25,806) | — |
| Income from continuing operations | 32,174 | 19,279 | 6,527 | (25,806) | 32,174 |
| Net income from discontinued operations | (2,265) | — | — | — | (2,265) |
| Net income | 29,909 | 19,279 | 6,527 | (25,806) | 29,909 |
| Net income attributable to noncontrolling interests | — | — | (12) | — | (12) |
| Net income attributable to The GEO Group, Inc. | <u>\$ 29,909</u> | <u>\$ 19,279</u> | <u>\$ 6,515</u> | <u>\$ (25,806)</u> | <u>\$ 29,897</u> |
| Net income | \$ 29,909 | \$ 19,279 | \$ 6,527 | \$ (25,806) | \$ 29,909 |
| Other comprehensive income, net of tax | — | 40 | 608 | — | 648 |
| Total comprehensive income | \$ 29,909 | \$ 19,319 | \$ 7,135 | \$ (25,806) | \$ 30,557 |
| Comprehensive income attributable to noncontrolling interests | — | — | (4) | — | (4) |
| Comprehensive income attributable to The GEO Group, Inc. | <u>\$ 29,909</u> | <u>\$ 19,319</u> | <u>\$ 7,131</u> | <u>\$ (25,806)</u> | <u>\$ 30,553</u> |

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

| | For the Nine Months Ended September 30, 2014 | | | | |
|--|---|---|--|---------------------|---------------------|
| | The GEO Group, Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Revenues | \$ 415,468 | \$ 980,181 | \$ 201,391 | \$ (333,160) | \$1,263,880 |
| Operating expenses | 333,992 | 760,159 | 173,206 | (333,160) | 934,197 |
| Depreciation and amortization | 19,242 | 49,357 | 3,370 | — | 71,969 |
| General and administrative expenses | 26,773 | 45,186 | 12,978 | — | 84,937 |
| Operating income | 35,461 | 125,479 | 11,837 | — | 172,777 |
| Interest income | 16,208 | 2,017 | 2,382 | (18,003) | 2,604 |
| Interest expense | (33,913) | (41,379) | (5,373) | 18,003 | (62,662) |
| Income before income taxes and equity in earnings of affiliates | 17,756 | 86,117 | 8,846 | — | 112,719 |
| Income tax provision | — | 8,493 | 2,569 | — | 11,062 |
| Equity in earnings of affiliates, net of income tax provision | — | — | 4,202 | — | 4,202 |
| Income before equity in income of consolidated subsidiaries | 17,756 | 77,624 | 10,479 | — | 105,859 |
| Income from consolidated subsidiaries, net of income tax provision | 88,103 | — | — | (88,103) | — |
| Net income | 105,859 | 77,624 | 10,479 | (88,103) | 105,859 |
| Net loss attributable to noncontrolling interests | — | — | 20 | — | 20 |
| Net income attributable to The GEO Group, Inc. | <u>\$ 105,859</u> | <u>\$ 77,624</u> | <u>\$ 10,499</u> | <u>\$ (88,103)</u> | <u>\$ 105,879</u> |
| Net income | \$ 105,859 | \$ 77,624 | \$ 10,479 | \$ (88,103) | \$ 105,859 |
| Other comprehensive income (loss), net of tax | — | 58 | (6,359) | — | (6,301) |
| Total comprehensive income (loss) | \$ 105,859 | \$ 77,682 | \$ 4,120 | \$ (88,103) | \$ 99,558 |
| Comprehensive loss attributable to noncontrolling interests | — | — | 51 | — | 51 |
| Comprehensive income (loss) attributable to The GEO Group, Inc. | <u>\$ 105,859</u> | <u>\$ 77,682</u> | <u>\$ 4,171</u> | <u>\$ (88,103)</u> | <u>\$ 99,609</u> |

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

| | For the Nine Months Ended September 30, 2013 | | | | |
|--|--|--------------------------------------|---|--------------------|------------------|
| | The GEO Group, Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
| Revenues | \$ 363,508 | \$ 927,893 | \$ 165,553 | \$ (318,428) | \$1,138,526 |
| Operating expenses | 317,189 | 712,814 | 132,371 | (318,428) | 843,946 |
| Depreciation and amortization | 17,963 | 48,849 | 3,668 | — | 70,480 |
| General and administrative expenses | 26,589 | 47,926 | 12,110 | — | 86,625 |
| Operating income | 1,767 | 118,304 | 17,404 | — | 137,475 |
| Interest income | 19,347 | 1,291 | 3,199 | (20,404) | 3,433 |
| Interest expense | (30,942) | (44,467) | (7,008) | 20,404 | (62,013) |
| Loss on early extinguishment of debt | (2,600) | (4,378) | — | — | (6,978) |
| Income (loss) before income taxes and equity in earnings of affiliates | (12,428) | 70,750 | 13,595 | — | 71,917 |
| Income tax (benefit) provision | (14,679) | (2,668) | 3,205 | — | (14,142) |
| Equity in earnings of affiliates, net of income tax provision | — | — | 3,772 | — | 3,772 |
| Income before equity in income of consolidated subsidiaries | 2,251 | 73,418 | 14,162 | — | 89,831 |
| Income from consolidated subsidiaries, net of income tax provision (benefit) | 87,580 | — | — | (87,580) | — |
| Income from continuing operations | 89,831 | 73,418 | 14,162 | (87,580) | 89,831 |
| Net income from discontinued operations | (2,265) | — | — | — | (2,265) |
| Net income | 87,566 | 73,418 | 14,162 | (87,580) | 87,566 |
| Net income attributable to noncontrolling interests | — | — | (42) | — | (42) |
| Net income attributable to The GEO Group, Inc. | <u>\$ 87,566</u> | <u>\$ 73,418</u> | <u>\$ 14,120</u> | <u>\$ (87,580)</u> | <u>\$ 87,524</u> |
| Net income | \$ 87,566 | \$ 73,418 | \$ 14,162 | \$ (87,580) | \$ 87,566 |
| Other comprehensive income, net of tax | — | 121 | (5,912) | — | (5,791) |
| Total comprehensive income | 87,566 | 73,539 | 8,250 | (87,580) | 81,775 |
| Comprehensive income attributable to noncontrolling interests | — | — | 38 | — | 38 |
| Comprehensive income attributable to The GEO Group, Inc. | <u>\$ 87,566</u> | <u>\$ 73,539</u> | <u>\$ 8,288</u> | <u>\$ (87,580)</u> | <u>\$ 81,813</u> |

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

| | As of September 30, 2014 | | | | |
|--|----------------------------|---|--|----------------------|---------------------|
| | <u>The GEO Group, Inc.</u> | <u>Combined Subsidiary Guarantors</u> | <u>Combined Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 19,095 | \$ 4,744 | \$ 28,841 | \$ — | \$ 52,680 |
| Restricted cash and investments | — | — | 14,448 | — | 14,448 |
| Accounts receivable, less allowance for doubtful accounts | 94,598 | 148,909 | 23,261 | — | 266,768 |
| Current deferred income tax assets | — | 19,236 | 1,700 | — | 20,936 |
| Prepaid expenses and other current assets | 9,396 | 13,496 | 16,705 | (1,154) | 38,443 |
| Total current assets | <u>123,089</u> | <u>186,385</u> | <u>84,955</u> | <u>(1,154)</u> | <u>393,275</u> |
| Restricted Cash and Investments | 212 | 13,231 | 7,917 | — | 21,360 |
| Property and Equipment, Net | 715,243 | 957,561 | 84,258 | — | 1,757,062 |
| Contract Receivable | — | — | 51,998 | — | 51,998 |
| Direct Finance Lease Receivable | — | — | 11,584 | — | 11,584 |
| Intercompany Receivable | 962,384 | 139,381 | — | (1,101,765) | — |
| Non-Current Deferred Income Tax Assets | — | — | 4,821 | — | 4,821 |
| Goodwill | 34 | 493,391 | 650 | — | 494,075 |
| Intangible Assets, Net | — | 158,022 | 1,091 | — | 159,113 |
| Investment in Subsidiaries | 853,693 | 438,141 | (70) | (1,291,764) | — |
| Other Non-Current Assets | 25,987 | 106,666 | 51,986 | (79,960) | 104,679 |
| Total Assets | <u>\$ 2,680,642</u> | <u>\$ 2,492,778</u> | <u>\$ 299,190</u> | <u>\$(2,474,643)</u> | <u>\$ 2,997,967</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Accounts payable | \$ 9,642 | \$ 48,855 | \$ 3,071 | \$ — | \$ 61,568 |
| Accrued payroll and related taxes | — | 34,649 | 15,582 | — | 50,231 |
| Accrued expenses and other | 36,541 | 77,763 | 16,225 | (1,154) | 129,375 |
| Current portion of capital lease obligations, long-term debt and non-recourse debt | 3,000 | 1,110 | 18,365 | — | 22,475 |
| Total current liabilities | <u>49,183</u> | <u>162,377</u> | <u>53,243</u> | <u>(1,154)</u> | <u>263,649</u> |
| Non-Current Deferred Income Tax Liabilities | (2,675) | 17,347 | 17 | — | 14,689 |
| Intercompany Payable | 129,832 | 957,569 | 14,364 | (1,101,765) | — |
| Other Non-Current Liabilities | 4,674 | 139,016 | 10,389 | (79,960) | 74,119 |
| Capital Lease Obligations | — | 10,132 | — | — | 10,132 |
| Long-Term Debt | 1,433,279 | — | — | — | 1,433,279 |
| Non-Recourse Debt | — | — | 135,347 | — | 135,347 |
| Commitments & Contingencies and Other | | | | | |
| Shareholders' Equity: | | | | | |
| The GEO Group, Inc. Shareholders' Equity | 1,066,349 | 1,206,337 | 85,427 | (1,291,764) | 1,066,349 |
| Noncontrolling Interests | — | — | 403 | — | 403 |
| Total Shareholders' Equity | <u>1,066,349</u> | <u>1,206,337</u> | <u>85,830</u> | <u>(1,291,764)</u> | <u>1,066,752</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 2,680,642</u> | <u>\$ 2,492,778</u> | <u>\$ 299,190</u> | <u>\$(2,474,643)</u> | <u>\$ 2,997,967</u> |

CONDENSED CONSOLIDATING BALANCE SHEET
(dollars in thousands)

| | As of December 31, 2013 | | | | |
|--|----------------------------|---|--|----------------------|---------------------|
| | <u>The GEO Group, Inc.</u> | <u>Combined Subsidiary Guarantors</u> | <u>Combined Non-Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 30,730 | \$ 985 | \$ 20,410 | \$ — | \$ 52,125 |
| Restricted cash and investments | — | — | 11,518 | — | 11,518 |
| Accounts receivable, less allowance for doubtful accounts | 84,087 | 149,239 | 17,204 | — | 250,530 |
| Current deferred income tax assets | — | 19,236 | 1,700 | — | 20,936 |
| Prepaid expenses and other current assets | 17,834 | 21,032 | 11,524 | (1,154) | 49,236 |
| Total current assets | <u>132,651</u> | <u>190,492</u> | <u>62,356</u> | <u>(1,154)</u> | <u>384,345</u> |
| Restricted Cash and Investments | 167 | 11,158 | 7,024 | — | 18,349 |
| Property and Equipment, Net | 686,005 | 956,724 | 85,069 | — | 1,727,798 |
| Direct Finance Lease Receivable | — | — | 16,944 | — | 16,944 |
| Intercompany Receivable | 947,916 | 123,237 | — | (1,071,153) | — |
| Non-Current Deferred Income Tax Assets | — | — | 4,821 | — | 4,821 |
| Goodwill | 34 | 489,501 | 661 | — | 490,196 |
| Intangible Assets, Net | — | 162,160 | 1,240 | — | 163,400 |
| Investment in Subsidiaries | 898,333 | 421,218 | — | (1,319,551) | — |
| Other Non-Current Assets | 23,346 | 104,241 | 35,615 | (79,691) | 83,511 |
| Total Assets | <u>\$ 2,688,452</u> | <u>\$ 2,458,731</u> | <u>\$ 213,730</u> | <u>\$(2,471,549)</u> | <u>\$ 2,889,364</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | |
| Accounts payable | \$ 29,866 | \$ 13,895 | \$ 3,525 | \$ — | \$ 47,286 |
| Accrued payroll and related taxes | 207 | 23,470 | 15,049 | — | 38,726 |
| Accrued expenses and other | 26,963 | 74,645 | 14,496 | (1,154) | 114,950 |
| Current portion of capital lease obligations, long-term debt and non-recourse debt | 3,000 | 1,185 | 17,978 | — | 22,163 |
| Total current liabilities | <u>60,036</u> | <u>113,195</u> | <u>51,048</u> | <u>(1,154)</u> | <u>223,125</u> |
| Non-Current Deferred Income Tax Liabilities | (120) | 14,792 | 17 | — | 14,689 |
| Intercompany Payable | 114,208 | 942,666 | 14,279 | (1,071,153) | — |
| Other Non-Current Liabilities | 5,270 | 138,743 | 639 | (79,691) | 64,961 |
| Capital Lease Obligations | — | 10,924 | — | — | 10,924 |
| Long-Term Debt | 1,485,536 | — | — | — | 1,485,536 |
| Non-Recourse Debt | — | — | 66,153 | — | 66,153 |
| Commitments & Contingencies and Other | | | | | |
| Shareholders' Equity: | | | | | |
| The GEO Group, Inc. Shareholders' Equity | 1,023,522 | 1,238,411 | 81,140 | (1,319,551) | 1,023,522 |
| Noncontrolling Interests | — | — | 454 | — | 454 |
| Total Shareholders' Equity | <u>1,023,522</u> | <u>1,238,411</u> | <u>81,594</u> | <u>(1,319,551)</u> | <u>1,023,976</u> |
| Total Liabilities and Shareholders' Equity | <u>\$ 2,688,452</u> | <u>\$ 2,458,731</u> | <u>\$ 213,730</u> | <u>\$(2,471,549)</u> | <u>\$ 2,889,364</u> |

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

| | For the Nine Months Ended September 30, 2014 | | | Consolidated |
|--|--|--------------------------------------|---|--------------|
| | The GEO Group, Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | |
| Cash Flow from Operating Activities: | | | | |
| Net cash provided by operating activities | \$ 149,460 | \$ 53,506 | \$ (38,341) | \$ 164,625 |
| Cash Flow from Investing Activities: | | | | |
| Acquisition of Protocol, cash consideration | — | (13,025) | — | (13,025) |
| Proceeds from sale of property and equipment | — | 515 | — | 515 |
| Change in restricted cash and investments | (212) | (2,073) | (3,767) | (6,052) |
| Capital expenditures | (41,020) | (34,432) | (2,261) | (77,713) |
| Net cash used in investing activities | (41,232) | (49,015) | (6,028) | (96,275) |
| Cash Flow from Financing Activities: | | | | |
| Proceeds from long-term debt | 459,384 | — | — | 459,384 |
| Payments on long-term debt | (508,400) | (732) | — | (509,132) |
| Payments on non-recourse debt | — | — | (4,511) | (4,511) |
| Proceeds from non-recourse debt | — | — | 74,191 | 74,191 |
| Taxes paid related to net share settlements of equity awards | (1,844) | — | — | (1,844) |
| Proceeds from reissuance of treasury stock in connection with ESPP | 277 | — | — | 277 |
| Issuance of common stock under prospectus supplement | 54,724 | — | — | 54,724 |
| Debt issuance costs | (7,802) | — | (15,706) | (23,508) |
| Tax benefit related to equity compensation | 1,498 | — | — | 1,498 |
| Proceeds from stock options exercised | 6,384 | — | — | 6,384 |
| Cash dividends paid | (124,084) | — | — | (124,084) |
| Net cash used in financing activities | (119,863) | (732) | 53,974 | (66,621) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | — | — | (1,174) | (1,174) |
| Net Increase (Decrease) in Cash and Cash Equivalents | (11,635) | 3,759 | 8,431 | 555 |
| Cash and Cash Equivalents, beginning of period | 30,730 | 985 | 20,410 | 52,125 |
| Cash and Cash Equivalents, end of period | \$ 19,095 | \$ 4,744 | \$ 28,841 | \$ 52,680 |

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

| | For the Nine Months Ended September 30, 2013 | | | Consolidated |
|--|--|--------------------------------------|---|------------------|
| | The GEO Group, Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | |
| Cash Flow from Operating Activities: | | | | |
| Cash provided by operating activities - continuing operations | \$ 110,143 | \$ 30,302 | \$ 15,110 | \$ 155,555 |
| Cash provided by operating activities - discontinued operations | 2,265 | — | — | 2,265 |
| Net cash provided by operating activities | <u>112,408</u> | <u>30,302</u> | <u>15,110</u> | <u>157,820</u> |
| Cash Flow from Investing Activities: | | | | |
| Proceeds from sale of property and equipment | — | 204 | — | 204 |
| Proceeds from sale of assets held for sale | — | 1,968 | — | 1,968 |
| Net working capital adjustment from RTS divestiture | (996) | — | — | (996) |
| Change in restricted cash and investments | (149) | (2,055) | 16,180 | 13,976 |
| Capital expenditures | (71,848) | (27,967) | (1,635) | (101,450) |
| Net cash used in investing activities | <u>(72,993)</u> | <u>(27,850)</u> | <u>14,545</u> | <u>(86,298)</u> |
| Cash Flow from Financing Activities: | | | | |
| Proceeds from long-term debt | 842,000 | — | — | 842,000 |
| Payments on long-term debt | (741,313) | (890) | — | (742,203) |
| Payments on non-recourse debt | — | — | (27,153) | (27,153) |
| Proceeds from non-recourse debt | — | — | — | — |
| Proceeds from reissuance of treasury stock in connection with ESPP | 228 | — | — | 228 |
| Debt issuance costs | (19,317) | — | — | (19,317) |
| Tax benefit related to equity compensation | 1,883 | — | — | 1,883 |
| Proceeds from stock options exercised | 4,941 | — | — | 4,941 |
| Cash dividends paid | (107,526) | — | — | (107,526) |
| Net cash provided by (used in) financing activities | <u>(19,104)</u> | <u>(890)</u> | <u>(27,153)</u> | <u>(47,147)</u> |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | — | — | (2,969) | (2,969) |
| Net Increase in Cash and Cash Equivalents | 20,311 | 1,562 | (467) | 21,406 |
| Cash and Cash Equivalents, beginning of period | 4,764 | 1,917 | 25,074 | 31,755 |
| Cash and Cash Equivalents, end of period | <u>\$ 25,075</u> | <u>\$ 3,479</u> | <u>\$ 24,607</u> | <u>\$ 53,161</u> |

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

Forward-Looking Information

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

- our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;
- our ability to remain qualified for taxation as a real estate investment trust, or REIT;
- our ability to fulfill our debt service obligations and its impact on our liquidity;
- our ability to activate the inactive beds at our idle facilities;
- our ability to maintain occupancy rates at our facilities;
- an increase in unreimbursed labor rates;
- our ability to expand, diversify and grow our correctional, detention, re-entry, 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 estimate the government’s level of dependency on privatized correctional services;
- our ability to accurately project the size and growth of the U.S. and international privatized corrections industry and our ability to capitalize on opportunities for public-private partnerships;
- our ability to successfully respond to delays encountered by states privatizing correctional services and cost savings initiatives implemented by a number of states;
- our ability to develop long-term earnings visibility;
- our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisitions on satisfactory terms, and estimate the synergies to be achieved as a result of such acquisitions;
- our exposure to the impairment of goodwill and other intangible assets as a result of our acquisitions;

Table of Contents

- our ability to successfully conduct our operations in the United Kingdom, South Africa and Australia through joint ventures or a consortium;
- our ability to obtain future financing on satisfactory terms or at all, including our ability to secure the funding we need to complete ongoing capital projects;
- our exposure to political and economic instability and other risks impacting our international operations;
- the instability of foreign exchange rates, exposing us to currency risks in Australia, Canada, the United Kingdom, and South Africa, or other countries in which we may choose to conduct our business;
- our exposure to risks impacting our information systems, including those that may cause an interruption, delay or failure in the provision of our services;
- our exposure to rising general insurance costs;
- our exposure to state, federal and foreign income tax law changes, including changes to the REIT provisions and our exposure as a result of federal and international examinations of our tax returns or tax positions;
- our exposure to claims for which we are uninsured;
- our exposure to rising employee and inmate medical costs;
- our ability to manage costs and expenses relating to ongoing litigation arising from our operations;
- our ability to accurately estimate on an annual basis, loss reserves related to general liability, workers compensation and automobile liability claims;
- the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us and continue to operate under our existing agreements and/or renew our existing agreements;
- our ability to pay quarterly dividends consistent with our requirements as a REIT, and expectations as to timing and amounts;
- our ability to comply with government regulations and applicable contractual requirements;
- our ability to acquire, protect or maintain our intellectual property;
- the risk that future sales of shares of our common stock could adversely affect the market price of our common stock and may be dilutive; and
- other factors contained in our filings with the Securities and Exchange Commission, or the SEC, including, but not limited to, those detailed in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 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 fiscal year ended December 31, 2013. 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.

[Table of Contents](#)

We are a real estate investment trust (“REIT”) specializing in the ownership, leasing and management of correctional, detention and re-entry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa, the United Kingdom and Canada. 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 re-entry facilities. We offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems at most of the domestic facilities we manage. We are also a provider of innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants.

Our worldwide operations include the management and/or ownership of approximately 78,500 beds at 98 correctional, detention and re-entry facilities, including idle facilities, projects under development and recently awarded contracts, and also include the provision of monitoring of more than 70,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states.

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 GEOAmeY is responsible for providing prisoner escort and custody services in the United Kingdom, including all of Wales and England except London and The East of England; and
- our services are provided at facilities which we either own, lease or are owned by our customers.

For the nine months ended September 30, 2014 and September 30, 2013, we had consolidated revenues of \$1,263.9 million and \$1,138.5 million, respectively, and we maintained an average company wide facility occupancy rate of 96.1% including 72,682 active beds and excluding 5,756 beds marketed to potential customers for the nine months ended September 30, 2014, and 94.8% including 67,178 active beds and excluding 6,016 idle beds marketed to potential customers for the nine months ended September 30, 2013.

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

[Table of Contents](#)

During the nine months ended September 30, 2014 and the year ended December 31, 2013, respectively, we declared and paid the following regular cash distributions to our shareholders as follows:

| <u>Declaration Date</u> | <u>Payment Due</u> | <u>Record Date</u> | <u>Distribution Per Share</u> | <u>Aggregate Payment Amount (in millions)</u> |
|-------------------------|--------------------|--------------------|-------------------------------|---|
| January 17, 2013 | March 1, 2013 | February 15, 2013 | \$ 0.50 | \$ 35.7 |
| May 7, 2013 | June 3, 2013 | May 20, 2013 | \$ 0.50 | \$ 35.8 |
| July 30, 2013 | August 29, 2013 | August 19, 2013 | \$ 0.50 | \$ 36.1 |
| November 1, 2013 | November 26, 2013 | November 14, 2013 | \$ 0.55 | \$ 39.6 |
| February 18, 2014 | March 14, 2014 | March 3, 2014 | \$ 0.57 | \$ 41.1 |
| April 28, 2014 | May 27, 2014 | May 15, 2014 | \$ 0.57 | \$ 41.5 |
| August 5, 2014 | August 29, 2014 | August 18, 2014 | \$ 0.57 | \$ 41.4 |

On November 5, 2014, the Board of Directors declared a quarterly cash dividend of \$0.62 per share of common stock, which is to be paid on November 26, 2014 to shareholders of record as of the close of business on November 17, 2014.

Reference is made to Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on March 3, 2014, 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, 2013.

Fiscal 2014 Developments

Contract Awards

We are currently marketing approximately 5,800 vacant beds at five of our idle facilities to potential customers. The carrying values of these idle facilities totaled approximately \$185 million as of September 30, 2014, excluding equipment and other assets that can be easily transferred for use at other facilities.

On February 3, 2014, we announced that we assumed management of the 985-bed Moore Haven Correctional Facility, the 985-bed Bay Correctional Facility, and the 1,884-bed Graceville Correctional Facility under contracts with the Florida Department of Management Services effective February 1, 2014. The facilities are expected to generate approximately \$56 million in combined annualized revenues at full occupancy.

On February 3, 2014, we announced that we had increased the contracted capacity at the Company-owned Rio Grande Detention Center in Laredo, Texas from 1,500 to 1,900 beds under a contract with the U.S. Marshals Service. The 1,900-bed center is expected to generate approximately \$38 million in total annualized revenues at full capacity.

On April 1, 2014, we announced that we had signed a contract with the California Department of Corrections and Rehabilitation for the reactivation of our Company-owned, 260-bed McFarland Female Community Reentry Facility located in McFarland, California. The facility is expected to generate approximately \$9 million in annualized revenues.

On April 30, 2014, we announced that we had signed an amendment to the existing contract with the City of Adelanto, California for a 640-bed expansion to our Company-owned, 1,300-bed Adelanto Detention Facility. The facility is expected to generate approximately \$21 million in additional annualized revenues.

On September 10, 2014, we announced our wholly-owned subsidiary, BI Incorporated (“BI”) has been awarded a contract by ICE for the continued provision of case management and supervision services under ISAP. The contract is expected to generate approximately \$47 million in annualized revenues.

On September 16, 2014, our newly formed wholly-owned subsidiary, GEO Ravenhall Pty. Ltd. in its capacity as trustee of another newly formed wholly-owned subsidiary, GEO Ravenhall Trust (“Project Co”), signed the Ravenhall Prison Project Agreement (“Ravenhall Contract”) with the Department of Justice in the State of Victoria (the “State”) for the development and operation of a new 1,000-bed Prison (the “Facility”) in Ravenhall, a locality near Melbourne, Australia under a Public-Private

[Table of Contents](#)

Partnership financing structure. The Facility will also have the capacity to house 1,300 inmates should the State have the need for additional beds in the future. We will provide an equity investment of approximately 20% of the project following the activation of the facility and we anticipate returns on investment consistent with the Company-owned facilities. The design and construction phase (“D&C Phase”) of the agreement began in September 2014 with expected completion towards the end of 2017. Once constructed and commercially accepted, our wholly-owned subsidiary, the GEO Group Australasia Pty. Ltd. (“GEO Australia”) will operate the Facility under a 25-year management contract (“Operating Phase”). We believe the Facility will provide unprecedented levels of in-prisons and post-release programs aimed at reducing reoffending rates and helping offenders reintegrate back into society.

Critical Accounting Policies

The accompanying unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. During the nine months ended September 30, 2014, 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 fiscal year ended December 31, 2013. There have been no changes to our significant accounting policies except as described in Note 11 - Ravenhall Prison Project of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

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. The terms Third Quarter 2014 and Third Quarter 2013 used herein refer to the quarter ended September 30, 2014 and September 30, 2013, respectively. The terms Nine Months 2014 and Nine Months 2013 used herein refer to the nine months ended September 30, 2014 and September 30, 2013, respectively.

Comparison of the Third Quarter 2014 and the Third Quarter 2013

Revenues

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|---|------------------------|---------------|------------------|---------------|-----------------|--------------|
| | (Dollars in thousands) | | | | | |
| U.S. Corrections & Detention | \$281,550 | 61.5% | \$253,414 | 66.8% | \$28,136 | 11.1% |
| GEO Community Services | 86,610 | 18.9% | 76,879 | 20.2% | 9,731 | 12.7% |
| International Services | 50,874 | 11.1% | 49,549 | 13.0% | 1,325 | 2.7% |
| Facility Construction & Design | 38,866 | 8.5% | — | — % | 38,866 | 100.0% |
| Total | <u>\$457,900</u> | <u>100.0%</u> | <u>\$379,842</u> | <u>100.0%</u> | <u>\$78,058</u> | <u>20.6%</u> |

U.S. Corrections & Detention

Revenues increased in the Third Quarter 2014 compared to the Third Quarter 2013 primarily due to aggregate increases of \$22.0 million resulting from: (i) the activation and intake of inmates at the Central Valley, Desert View and McFarland correctional facilities, as well as our 100-bed expansion of the Company-owned Golden State correctional facility, in the fourth quarter of 2013; and (ii) our assumption of the management of the Moore Haven, Bay and Graceville correctional facilities in the first quarter of 2014. We also experienced aggregate increases in revenues of \$11.0 million at certain of our facilities primarily due to net increases in population, transportation services and/or rates. These increases were partially offset by an aggregate decrease of \$4.9 million primarily due to contract terminations.

The number of compensated mandays in U.S. Corrections & Detention facilities was approximately 4.8 million in the Third Quarter 2014 and 4.3 million in the Third Quarter 2013. We experienced an aggregate net increase of approximately 473,000 mandays as a result of our new contracts discussed above. These increases were partially offset by decreases resulting from lower populations at certain facilities. We look at the average occupancy in our facilities to determine how we are managing our

[Table of Contents](#)

available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. Corrections & Detention facilities was 97.0% and 94.4% of capacity in the Third Quarter 2014 and the Third Quarter 2013 respectively, excluding idle facilities.

GEO Community Services

The increase in revenues for GEO Community Services in the Third Quarter 2014 compared to the Third Quarter 2013 is primarily attributable to net increases of \$8.1 million due to increased counts in our electronic monitoring contracts and ISAP program at BI and BI's acquisition of Protocol in the first quarter of 2014. In addition, we experienced a net increase of \$1.9 million primarily due to new programs and program growth at our community based and re-entry centers. These increases were partially offset by decreases in revenues of \$0.3 million related to contract terminations and census declines at certain facilities.

International Services

The slight increase in revenues for International Services in the Third Quarter 2014 compared to the Third Quarter 2013 is primarily due an aggregate net increase of \$2.7 million primarily attributable to our Australian subsidiary related to population increases, contractual increases linked to the inflationary index and the provision of additional services under certain contracts. Revenues also increased by \$0.3 million due to the impact of foreign currency exchange rate fluctuations. This increase was partially offset by a decrease in revenue of \$1.7 million in our United Kingdom subsidiary due to the winding down of our Harmondworth management contract.

Facility Construction & Design

The increase in revenues for our Facility Construction & Design services is due to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia. Refer to Note 11 - Ravenhall Prison Project of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Operating Expenses

| | 2014 | % of Segment Revenues | 2013 | % of Segment Revenues | \$ Change | % Change |
|---|------------------------|-----------------------------|------------------|-----------------------------|-----------------|----------|
| | (Dollars in thousands) | | | | | |
| U.S. Corrections & Detention | \$198,148 | 70.4% | \$186,875 | 73.7% | \$11,273 | 6.0% |
| GEO Community Services | 55,664 | 64.3% | 52,195 | 67.9% | 3,469 | 6.6% |
| International Services | 50,127 | 98.5% | 44,833 | 90.5% | 5,294 | 11.8% |
| Facility Construction & Design | 38,277 | 98.5% | — | — % | 38,277 | 100.0% |
| Total | <u>\$342,216</u> | 74.7% | <u>\$283,903</u> | 74.7% | <u>\$58,313</u> | 20.5% |

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

U.S. Corrections & Detention

The increase in operating expenses for U.S. Corrections & Detention reflects the following: (i) an increase of \$18.0 million due to the activation and intake of inmates at the Central Valley, Desert View and McFarland correctional facilities, as well as our 100-bed expansion of the Company-owned Golden State correctional facility, in the fourth quarter of 2013; and (ii) our assumption of the management of the Moore Haven, Bay and Graceville correctional facilities in the first quarter of 2014. In addition, we experienced increases of \$1.9 million at certain of our facilities primarily attributable to net population increases, increased transportation services and the variable costs associated with those increases. These increases were partially offset by a decrease of \$4.8 million due to contract terminations. Additionally, there was a decrease of \$3.8 million which represents the effect of an increase to our insurance reserves in Third Quarter 2013 based on our annual actuarial analysis. In Third Quarter 2014, we did not have as significant of an increase to our insurance reserves based on the same actuarial analysis.

[Table of Contents](#)

GEO Community Services

Operating expenses for GEO Community Services increased by \$3.5 million during the Third Quarter 2014 from the Third Quarter 2013 primarily due to net increases of \$4.1 million due to the following: (i) variable costs associated with increases in counts in our electronic monitoring contracts and ISAP program at BI; (ii) new programs and program growth at our community based and re-entry centers; and (iii) BI's acquisition of Protocol in the first quarter of 2014. These increases were partially offset by decreases that resulted from contract terminations and census declines of \$0.7 million.

International Services

Operating expenses for our International Services segment during the Third Quarter 2014 increased \$5.3 million over the Third Quarter 2013 which was primarily attributable to a net increase of \$2.9 million related to our Australian subsidiary due to net population increases and contractual increases in labor and an increase of \$0.5 million related to a mark-to-market adjustment on a derivative instrument. In addition, operating expenses increased by \$3.1 million due to bid costs incurred at our United Kingdom subsidiary. These increases were partially offset by a decrease of \$1.2 million relating to the winding down of our Harmondsworth contract in our United Kingdom subsidiary. The impact of foreign currency exchange rate fluctuations decreased operating expenses by \$0.1 million.

Facility Construction & Design

The increase in expenses for our Facility Construction & Design services is due to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia. Refer to Note 11 - Ravenhall Prison Project of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Depreciation and Amortization

| | 2014 | % of Segment Revenue | 2013 | % of Segment Revenue | \$ Change | % Change |
|---|------------------------|----------------------------|-----------------|----------------------------|---------------|----------|
| | (Dollars in thousands) | | | | | |
| U.S. Corrections & Detention | \$15,952 | 5.7% | \$15,712 | 6.2% | \$ 240 | 1.5% |
| GEO Community Services | 7,441 | 8.6% | 7,556 | 9.8% | (115) | (1.5)% |
| International Services | 686 | 1.3% | 620 | 1.3% | 66 | 10.6% |
| Facility Construction & Design | — | — % | — | — % | — | — % |
| Total | <u>\$24,079</u> | 5.3% | <u>\$23,888</u> | 6.3% | <u>\$ 191</u> | 0.8% |

U.S. Corrections & Detention

U.S. Corrections & Detention depreciation and amortization expense increased slightly in the Third Quarter 2014 compared to the Third Quarter 2013 primarily due to renovations made at several of our facilities.

GEO Community Services

GEO Community Services depreciation and amortization expense decreased slightly in the Third Quarter 2014 compared to the Third Quarter 2013. The decrease is primarily due to certain assets becoming fully depreciated in 2014.

International Services

Depreciation and amortization expense was fairly consistent in the Third Quarter 2014 compared to the Third Quarter 2013 as there were no significant additions during 2013 or 2014 at our international subsidiaries.

Other Unallocated Operating Expenses

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|--|------------------------|-----------------|----------|-----------------|-----------|----------|
| | (Dollars in thousands) | | | | | |
| General and Administrative Expenses | \$28,287 | 6.2% | \$27,222 | 7.2% | \$ 1,065 | 3.9% |

General and administrative expenses comprise substantially all of our other unallocated operating expenses primarily including corporate management salaries and benefits, professional fees and other administrative expenses. The increase in general and

[Table of Contents](#)

administrative expenses in the Third Quarter 2014 compared to the Third Quarter 2013 was primarily attributable to professional fees incurred in Third Quarter 2014 related to our registration statement for the 5.875% Senior Notes filed on September 12, 2014.

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

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|-------------------------|------------------------|--------------|------------|--------------|-----------|----------|
| | (Dollars in thousands) | | | | | |
| Interest Income | \$ 1,048 | 0.2% | \$ 1,084 | 0.3% | \$ (36) | (3.3)% |
| Interest Expense | \$(21,408) | (4.7)% | \$(21,569) | (5.7)% | \$ 161 | (0.7)% |

The majority of our interest income generated in the Third Quarter 2014 and the Third Quarter 2013 is from the cash balances at our foreign subsidiaries. Interest income decreased slightly in the quarter ended September 30, 2014 primarily due to lower cash balances at our foreign subsidiaries.

Interest expense during the Third Quarter 2014 decreased slightly compared to the Third Quarter 2013. The decrease is primarily due to the effect of our termination of our Fourth Amended and Restated Credit Agreement and entering into a new credit agreement with more favorable rates in the Second Quarter 2013. The decrease was partially offset by debt incurred for the purchase of the Joe Corley Detention Center in June 2013 and the issuance of our 5.875% Senior Notes during Third Quarter 2014. Refer to Note 9 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Loss on Extinguishment of Debt

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|---------------------------------------|------------------------|--------------|---------|--------------|------------|----------|
| | (Dollars in thousands) | | | | | |
| Loss on Extinguishment of Debt | \$— | — | \$1,451 | 0.4% | \$ (1,451) | (100.0)% |

The loss on extinguishment of debt in Third Quarter 2013 is the result of our defeasance of the non-recourse bonds related to South Texas Local Development Corporation (“STLDC”) on September 30, 2013. In connection with the defeasance, we incurred a \$1.5 million loss on extinguishment of debt which represented the excess of the reacquisition price over the carrying value of the bonds and other defeasance related fees and expenses. Refer to Note 9 - Debt of the Notes to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Income Tax Provision

| | 2014 | Effective Rate | 2013 | Effective Rate | \$ Change | % Change |
|---------------------|------------------------|----------------|-----------|----------------|-----------|----------|
| | (Dollars in thousands) | | | | | |
| Income Taxes | \$5,537 | 12.9% | \$(7,755) | (33.9)% | \$13,292 | (171.4)% |

The provision for income taxes during the Third Quarter 2014 increased by \$13.3 million compared to the Third Quarter 2013 and the effective tax rate increased from a benefit of (33.9)% to an expense of 12.9%. The increase is primarily attributable to certain one-time discrete items in the Third Quarter 2013 which did not recur in the Third Quarter 2014. As a REIT, we are required to distribute at least 90% of our taxable income to shareholders and in turn are allowed a deduction for the distribution at the REIT level. The Company’s wholly-owned taxable REIT subsidiaries continue to be fully subject to federal, state and foreign income taxes, as applicable. We estimate our annual effective tax rate to be approximately 10% exclusive of any non-recurring items. As a result of incremental business profitability in our taxable REIT subsidiary, or TRS, our composition of taxable income changed resulting in an increase in our estimated effective tax rate for the year.

Equity in Earnings of Affiliates, net of Income Tax Provision

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|---|------------------------|--------------|---------|--------------|-----------|----------|
| | (Dollars in thousands) | | | | | |
| Equity in Earnings of Affiliates | \$1,544 | 0.3% | \$1,526 | 0.4% | \$ 18 | 1.2% |

[Table of Contents](#)

Equity in earnings of affiliates, presented net of income taxes, represents the combined earnings of SACS and GEOAmeY, respectively. Overall, we experienced a slight increase in equity in earnings of affiliates during the Third Quarter 2014 compared to the Third Quarter 2013, which is primarily due to increased favorable performance from the operations of GEOAmeY during the Third Quarter 2014 compared to the Third Quarter 2013.

Comparison of Nine Months 2014 and Nine Months 2013

Revenues

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|---|------------------------|---------------|--------------------|---------------|------------------|--------------|
| | (Dollars in thousands) | | | | | |
| U.S. Corrections & Detention | \$ 824,448 | 65.2% | \$ 756,229 | 66.5% | \$ 68,219 | 9.0% |
| GEO Community Services | 245,723 | 19.4% | 225,892 | 19.8% | 19,831 | 8.8% |
| International Services | 154,843 | 12.3% | 156,405 | 13.7% | (1,562) | (1.0)% |
| Facility Construction & Design | 38,866 | 3.1% | — | — | 38,866 | 100.0% |
| Total | <u>\$1,263,880</u> | <u>100.0%</u> | <u>\$1,138,526</u> | <u>100.0%</u> | <u>\$125,354</u> | <u>11.0%</u> |

U.S. Corrections & Detention

Revenues increased in Nine Months 2014 compared to Nine Months 2013 primarily due to aggregate increases of \$58.9 million resulting from: (i) the activation and intake of inmates at the Central Valley, Desert View and McFarland correctional facilities, as well as our 100-bed expansion of the Company-owned Golden State correctional facility, in the fourth quarter of 2013; and (ii) our assumption of the management of the Moore Haven, Bay and Graceville correctional facilities in the first quarter of 2014. We also experienced aggregate increases in revenues of \$29.1 million at certain of our facilities primarily due to net increases in population, transportation services and/or rates, including the increased revenues due to our purchase of the previously managed-only 1,287-bed Joe Corley Detention Center in June 2013. These increases were partially offset by an aggregate decrease of \$19.8 million primarily due to contract terminations.

The number of compensated mandays in U.S. Corrections & Detention facilities was approximately 14.0 million in Nine Months 2014 and 12.8 million in Nine Months 2013. We experienced an aggregate net increase of approximately 1,221,000 mandays as a result of our new contracts discussed above and also as a result of increases in population at certain facilities. These increases were partially offset by decreases resulting from lower populations at certain facilities. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. Corrections & Detention facilities was 96.8% and 95.5% of capacity in Nine Months 2014 and Nine Months 2013 respectively, excluding idle facilities.

GEO Community Services

The increase in revenues for GEO Community Services in Nine Months 2014 compared to Nine Months 2013 is primarily attributable to net increases of \$16.6 million due to increased counts in our electronic monitoring contracts and ISAP program at BI and BI's acquisition of Protocol in the first quarter of 2014. In addition, we experienced a net increase of \$5.4 million primarily due to new programs and program growth at our community based and re-entry centers. These increases were partially offset by decreases in revenues of \$2.2 million related to contract terminations and census declines at certain facilities.

International Services

The slight decrease in revenues for International Services in Nine Months 2014 compared to Nine Months 2013 is primarily due to the result of foreign exchange rate fluctuations of \$(8.4) million. Revenues also decreased by \$1.1 million in our United Kingdom subsidiary due to the winding down of our Harmondworth management contract. These decreases were partially offset by an aggregate net increase of \$8.0 million primarily attributable to our Australian subsidiary related to population increases, contractual increases linked to the inflationary index and the provision of additional services under certain contracts.

Facility Construction & Design

The increase in revenues for our Facility Construction & Design services is due to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia. Refer to Note 11 - Ravenhall Prison Project of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

[Table of Contents](#)**Operating Expenses**

| | 2014 | % of Segment Revenues | 2013 | % of Segment Revenues | \$ Change | % Change |
|---|------------------|-----------------------|------------------|-----------------------|-----------------|----------|
| (Dollars in thousands) | | | | | | |
| U.S. Corrections & Detention | \$585,454 | 71.0% | \$548,313 | 72.5% | \$37,141 | 6.8% |
| GEO Community Services | 162,640 | 66.2% | 150,281 | 66.5% | 12,359 | 8.2% |
| International Services | 147,826 | 95.5% | 145,352 | 92.9% | 2,474 | 1.7% |
| Facility Construction & Design | 38,277 | 98.5% | — | — % | 38,277 | 100.0% |
| Total | <u>\$934,197</u> | 73.9% | <u>\$843,946</u> | 74.1% | <u>\$90,251</u> | 10.7% |

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

U.S. Corrections & Detention

The increase in operating expenses for U.S. Corrections & Detention reflects the following: (i) an increase of \$45.9 million due to the activation and intake of inmates at the Central Valley, Desert View and McFarland correctional facilities, as well as our 100-bed expansion of the Company-owned Golden State correctional facility, in the fourth quarter of 2013; and (ii) our assumption of the management of the Moore Haven, Bay and Graceville correctional facilities in the first quarter of 2014. In addition, we experienced increases of \$9.5 million at certain of our facilities primarily attributable to net population increases, increased transportation services and the variable costs associated with those increases. These increases were partially offset by a decrease of \$14.5 million due to contract terminations. Additionally, there was a decrease of \$3.8 million which represents the effect of an increase to our insurance reserves in Third Quarter 2013 based on our annual actuarial analysis. In Third Quarter 2014, we did not have as significant of an increase to our insurance reserves based on the same actuarial analysis.

GEO Community Services

Operating expenses for GEO Community Services increased by \$12.4 million during Nine Months 2014 from Nine Months 2013 primarily due to net increases of \$14.1 million due to the following: (i) variable costs associated with increases in counts in our electronic monitoring contracts and ISAP program at BI; (ii) new programs and program growth at our community based and re-entry centers; and (iii) BI's acquisition of Protocol in the first quarter of 2014. These increases were partially offset by decreases that resulted from contract terminations and census declines of \$1.8 million.

International Services

Operating expenses for our International Services segment during Nine Months 2014 increased \$2.5 million over Nine Months 2013 which was primarily attributable to a net increase of \$8.9 million related to our Australian subsidiary due to net population increases and contractual increases in labor and an increase of \$0.5 million related to a mark-to-market adjustment on a derivative instrument. In addition, operating expenses increased by \$2.1 million primarily due to bid costs incurred at our United Kingdom subsidiary. These increases were partially offset by a decrease of \$1.0 million relating to the winding down of our Harmondsworth contract in our United Kingdom subsidiary. The impact of foreign currency exchange rate fluctuations decreased operating expenses by \$8.0 million.

Facility Construction & Design

The increase in expenses for our Facility Construction & Design services is due to the commencement of design and construction activity for our new Ravenhall Prison Contract executed in September 2014 with the Department of Justice in the State of Victoria, Australia. Refer to Note 11 - Ravenhall Prison Project of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

[Table of Contents](#)

Depreciation and Amortization

| | 2014 | % of Segment Revenue | 2013 | % of Segment Revenue | \$ Change | % Change |
|---|------------------------|----------------------------|-----------------|----------------------------|-----------------|----------|
| | (Dollars in thousands) | | | | | |
| U.S. Corrections & Detention | \$48,011 | 5.8% | \$46,366 | 6.1% | \$ 1,645 | 3.5% |
| GEO Community Services | 21,919 | 8.9% | 22,224 | 9.8% | (305) | (1.4)% |
| International Services | 2,039 | 1.3% | 1,890 | 1.2% | 149 | 7.9% |
| Facility Construction & Design | — | — % | — | — | — | — % |
| Total | <u>\$71,969</u> | 5.7% | <u>\$70,480</u> | 6.2% | <u>\$ 1,489</u> | 2.1% |

U.S. Corrections & Detention

U.S. Corrections & Detention depreciation and amortization expense increased by \$1.6 million in Nine Months 2014 compared to Nine Months 2013 primarily due to renovations made at several of our facilities and also our purchase of the 1,287-bed Joe Corley Detention Center in June 2013.

GEO Community Services

GEO Community Services depreciation and amortization expense decreased slightly in Nine Months 2014 compared to Nine Months 2013. The decrease is primarily due to certain assets becoming fully depreciated in 2014.

International Services

Depreciation and amortization expense was fairly consistent in Nine Months 2014 compared to Nine Months 2013 as there were no significant additions during 2013 or 2014 at our international subsidiaries.

Other Unallocated Operating Expenses

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|--|------------------------|-----------------|----------|-----------------|-----------|----------|
| | (Dollars in thousands) | | | | | |
| General and Administrative Expenses | \$84,937 | 6.7% | \$86,625 | 7.6% | \$(1,688) | (1.9)% |

General and administrative expenses comprise substantially all of our other unallocated operating expenses primarily including corporate management salaries and benefits, professional fees and other administrative expenses. The decrease in general and administrative expenses in Nine Months 2014 compared to Nine Months 2013 was primarily attributable to nonrecurring professional fees incurred in Nine Months 2013 associated with our conversion to a REIT.

Non Operating Expenses

Interest Income and Interest Expense

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|-------------------------|------------------------|-----------------|------------|-----------------|-----------|----------|
| | (Dollars in thousands) | | | | | |
| Interest Income | \$ 2,604 | 0.2% | \$ 3,433 | 0.3% | \$ (829) | (24.1)% |
| Interest Expense | \$(62,662) | (5.0)% | \$(62,013) | (5.4)% | \$ (649) | 1.0% |

The majority of our interest income generated in Nine Months 2014 and Nine Months 2013 is from the cash balances at our foreign subsidiaries. Interest income decreased in Nine Months 2014 primarily due to lower cash balances at our foreign subsidiaries.

Interest expense increased slightly primarily due to a \$0.4 million write-off of deferred financing costs in connection with the amendment to our Credit Facility in Third Quarter 2014. Refer to Note 9 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

[Table of Contents](#)

Loss on Extinguishment of Debt

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|---------------------------------------|------|--------------|---------|--------------|-----------|----------|
| Loss on Extinguishment of Debt | \$— | — | \$6,978 | 0.6% | \$(6,978) | (100.0)% |

The loss on extinguishment of debt in Nine Months 2013 is partially the result of our defeasance of the non-recourse bonds related to STLDC on September 30, 2013. In connection with the defeasance, we incurred a \$1.5 million loss on extinguishment of debt which represented the excess of the reacquisition price over the carrying value of the bonds and other defeasance related fees and expenses. In addition, in the second quarter of 2013, we refinanced our prior credit facility and entered into a new amended and restated credit agreement. In connection with the termination, we wrote off \$4.4 million of unamortized deferred financing costs and unamortized debt discount pertaining to the prior credit facility and expensed \$1.1 million in fees related to the new amended and restated credit agreement. Refer to Note 9 - Debt of the Notes to our Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Income Tax Provision

| | 2014 | Effective Rate | 2013 | Effective Rate | \$ Change | % Change |
|---------------------|----------|----------------|------------|----------------|-----------|----------|
| Income Taxes | \$11,062 | 9.8% | \$(14,142) | (19.7)% | \$25,204 | (178.2)% |

The provision for income taxes during Nine Months 2014 increased by \$25.2 million compared to Nine Months 2013 and the effective tax rate increased from (19.7)% to 9.8%. The increase is primarily attributable to certain one-time discrete items in Nine Months 2013 which did not recur in Nine Months 2014. As a REIT, we are required to distribute at least 90% of our taxable income to shareholders and in turn are allowed a deduction for the distribution at the REIT level. The Company's wholly-owned taxable REIT subsidiaries continue to be fully subject to federal, state and foreign income taxes, as applicable. We estimate our annual effective tax rate to be approximately 10% exclusive of any non-recurring items. As a result of incremental business profitability in our taxable REIT subsidiary, or TRS, our composition of taxable income changed resulting in an increase in our estimated effective tax rate for the year.

Equity in Earnings of Affiliates, net of Income Tax Provision

| | 2014 | % of Revenue | 2013 | % of Revenue | \$ Change | % Change |
|---|---------|--------------|---------|--------------|-----------|----------|
| Equity in Earnings of Affiliates | \$4,202 | 0.3% | \$3,772 | 0.3% | \$ 430 | 11.4% |

Equity in earnings of affiliates, presented net of income taxes, represents the earnings of SACS and GEOAmeY, respectively. Overall, we experienced an increase in equity in earnings of affiliates during Nine Months 2014 compared to Nine Months 2013, which is primarily due to increased favorable performance from the operations of GEOAmeY during Nine Months 2014 compared to Nine Months 2013.

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 re-entry facilities, or the maintenance of existing facilities. In addition, some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. Generally, these initial expenditures are subsequently fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. In connection with GEOAmeY, our joint venture in the United Kingdom, we and our joint venture partner have each provided a line of credit of £12 million, or \$20.5 million, based on exchange rates as of September 30, 2014, for GEOAmeY's operations. As of September 30, 2014, \$19.5 million was outstanding.

[Table of Contents](#)

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 \$224.0 million of which \$62.5 million was spent through Third Quarter 2014. We estimate that the remaining capital requirements related to these capital projects will be \$161.5 million which will be spent through fiscal year 2015. Included in these commitments is a contractual commitment to provide a capital contribution towards the design and construction of a prison project in Ravenhall, a locality near Melbourne, Australia, in the amount of AUD 115 million, or \$100.1 million, based on exchange rates as of September 30, 2014. Refer to Note 11 - Ravenhall Prison Project 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. This capital contribution is expected to be made in January 2017. Additionally, in connection with the Ravenhall Prison Project, the Company has a contractual commitment for construction of the facility and has entered into a syndicated facility agreement with National Australia Bank Limited to provide funding for the project up to AUD 791.0 million, or \$690.3 million, based on exchange rates as of September 30, 2014.

Liquidity and Capital Resources

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

The Credit Agreement evidences a credit facility (the "Credit Facility") consisting of a \$296.3 million term loan (the "Term Loan") bearing interest at LIBOR plus 2.50% (with a LIBOR floor of .75%), and a \$700 million revolving credit facility (the "Revolver") initially bearing interest at LIBOR plus 2.25% (with no LIBOR floor) together with AUD 225 million available solely for the issuance of financial letters of credit and performance letters of credit, in each case denominated in Australian Dollars (the "Australian LC Facility"). At September 30, 2014, we had approximately AUD 214 million in letters of credit outstanding under the Australian LC Facility in connection with certain performance guarantees related to the Ravenhall Prison Project. Refer to Note 11 in the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q for further discussion. Amounts to be borrowed by us under the Credit Agreement are subject to the satisfaction of customary conditions to borrowing. The Revolver component is scheduled to mature on August 27, 2019 and the Term Loan component is scheduled to mature on April 3, 2020.

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

Events of default under the Credit Agreement include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our material breach of any representation or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) certain material environmental liability claims which have been asserted against us, and (viii) a change in control. We were in compliance with all of the covenants of the Credit Agreement as of September 30, 2014.

As of September 30, 2014, we had \$296.3 million in aggregate borrowings outstanding, net of discount, under the Term Loan and \$40.0 million in borrowings under the Revolver, and approximately \$61.0 million in letters of credit which left \$599.0 million in additional borrowing capacity under the Revolver. Refer to Note 9 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q for further discussion.

On September 25, 2014, we completed an offering of \$250.0 million aggregate principal amount of senior unsecured notes. The notes will mature on October 15, 2024 and have a coupon rate and yield to maturity of 5.875%. Interest is payable semi-annually in cash in arrears on April 15 and October 15, beginning April 15, 2015. The 5.875% Senior Notes are guaranteed on a senior unsecured basis by all our restricted subsidiaries that guarantee obligations. The 5.875% Senior Notes rank equally in right of payment with any unsecured, unsubordinated indebtedness of the Company and the guarantors, including our 6.625% senior notes due 2021, the 5 7/8% senior notes due 2022, the 5.125% senior notes due 2023, and the guarantors' guarantees thereof, senior in right of payment to any future indebtedness of ours and the guarantors that is expressly subordinated to the

[Table of Contents](#)

5.875% Senior Notes and the guarantees, effectively junior to any secured indebtedness of ours and the guarantors, including indebtedness under our senior credit facility, to the extent of the value of the assets securing such indebtedness, and structurally junior to all obligations of our subsidiaries that are not guarantors. The sale of the 5.875% Senior Notes was registered under our automatic shelf registration statement on Form S-3 filed on September 12, 2014. Refer to Note 9 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q for further discussion.

In connection with a new design and build prison project agreement in 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. Refer to Note 11 - Ravenhall Prison Project 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. The Construction Facility provides for non-recourse funding up to AUD 791.0 million, or \$690.3 million, based on exchange rates as of September 30, 2014. Construction draws will be funded throughout the project according to a fixed utilization schedule as defined in the syndicated facility agreement. The term of the Construction Facility is through October 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. After October 2019, the Construction Facility will be converted to a term loan with payments due quarterly beginning in 2018 through 2041. In accordance with the terms of the Construction Facility, upon completion and commercial acceptance of the prison, in accordance with the prison contract, the State will make a lump sum payment of AUD 310 million, or \$270.5 million, based on exchange rates as of September 30, 2014, towards a portion of the outstanding principal. The remaining outstanding principal balance will be repaid over the term of the operating agreement. As of September 30, 2014, \$74.2 million was outstanding under the Construction Facility. We also entered into interest rate swap and interest rate cap agreements related to our non-recourse debt in connection with the project. Refer to Note 8 - Derivative Financial Instruments of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q for further discussion.

On October 3, 2013, we completed an offering of \$250.0 million aggregate principal amount of 5 ⁷/₈% Senior Notes. The 5 ⁷/₈% Senior Notes will mature on January 15, 2022 and have a coupon rate and yield to maturity of 5 ⁷/₈%. Interest is payable semi-annually on January 15 and July 15 each year, which commenced on January 15, 2014. The proceeds received from the 5 ⁷/₈% Senior Notes were used, together with cash on hand, to fund the repurchase, redemption or other discharge of our 7 ³/₄% Senior Notes and to pay related transaction fees and expenses. Refer to Note 9 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q for further discussion.

On March 19, 2013, we completed an offering of \$300.0 million aggregate principal amount of 5.125% Senior Notes. The 5.125% Senior Notes will mature on April 1, 2023 and have a coupon rate and yield to maturity of 5.125%. Interest is payable semi-annually on April 1 and October 1 each year, which commenced on October 1, 2013. A portion of the proceeds received from the 5.125% Senior Notes were used on the date of the financing to repay the prior revolver credit draws outstanding under the prior senior credit facility. Refer to Note 9 - Debt of the Notes to Unaudited Consolidated Financial Statements included in Part I, Item 1 of this quarterly report on Form 10-Q for further discussion.

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

In addition to the debt outstanding under the Senior Credit Facility, the 6.625% Senior Notes, the 5.125% Senior Notes, the 5 ⁷/₈% Senior Notes and 5.875% Senior Notes discussed above, we also have significant debt obligations which, although these obligations are non-recourse to us, require cash expenditures for debt service. Our significant debt obligations could have material consequences. See "Risk Factors-Risks Related to Our High Level of Indebtedness" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013. 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, 2013.

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 Senior 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

[Table of Contents](#)

other things, our ability to meet certain financial covenants in the indenture governing the 6.625% Senior Notes, the indenture governing the 5.125% Senior Notes, the indenture governing the 5 7/8% Senior Notes, the indenture governing the 5.875% Senior Notes and our Credit Agreement. A substantial decline in our financial performance could limit our access to capital pursuant to these covenants and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations. In addition to these foregoing potential constraints on our capital, a number of state government agencies have been suffering from budget deficits and liquidity issues. While we expect to be in compliance with our debt covenants, if these constraints were to intensify, our liquidity could be materially adversely impacted as could our ability to remain in compliance with these debt covenants.

On May 8, 2013, we filed with the Securities and Exchange Commission a prospectus supplement related to the offer and sale from time to time of our common stock at an aggregate offering price of up to \$100 million through sales agents. Sales of shares of our common stock under the prospectus supplement and equity distribution agreements entered into with the sales agents, were permitted to 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. On July 18, 2014, the Company filed with the Securities and Exchange Commission a post-effective amendment to its automatic shelf registration statement on Form S-3 (pursuant to which the prospectus supplement had been filed) as a result of the merger of the Company into GEO REIT effective June 27, 2014. During the three months ended September 30, 2014, there were approximately 1.5 million shares of common stock sold under the prospectus supplement for net proceeds of \$54.7 million.

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

We plan to fund all of our capital needs, including distributions of our REIT taxable income in order to maintain our REIT qualification, and capital expenditures, from cash on hand, cash from operations, borrowings under our Senior Credit Facility and any other financings which our management and Board of Directors, in their discretion, may consummate. Currently, our primary source of liquidity to meet these requirements is cash flow from operations and borrowings under the \$700.0 million Revolver. Our management believes that cash on hand, cash flows from operations and availability under our Senior Credit Facility will be adequate to support our capital requirements for 2014 and 2015 as disclosed under “Capital Requirements” above.

Executive Retirement Agreement

We have a non-qualified deferred compensation agreement with our Chief Executive Officer (“CEO”). The current agreement, as amended, provides for a lump sum payment upon retirement, no sooner than age 55. As of January 1, 2013, our CEO had reached age 55 and was eligible to receive the payment upon retirement. If our CEO had retired as of September 30, 2014, we would have had to pay him \$7.1 million. Based on our current capitalization, we do not believe that making this payment would materially adversely impact our liquidity.

Cash Flow

Cash and cash equivalents as of September 30, 2014 was \$52.7 million, compared to \$52.1 million as of December 31, 2013.

Operating Activities

Cash provided by operating activities from continuing operations amounted to \$164.6 million in Nine Months 2014 versus cash provided by operating activities of \$155.6 million in the Nine Months 2013. Cash provided by operating activities during Nine Months 2014 was positively impacted by increases in net income attributable to GEO, non-cash expenses such as depreciation and amortization, amortization of debt issuance costs, and stock-based compensation expense. Increases in equity in earnings of affiliates negatively impacted cash. Changes in accounts receivable, prepaid expenses and other assets decreased in total by a net of \$22.2 million, representing a positive impact on cash. The decrease was primarily driven by a decrease of approximately \$17.0 million related to federal and state tax over payments that were included in other current assets at December 31, 2013 which were applied in 2014. The remaining change is due to the timing of billings and collections. Changes in accounts payable, accrued expenses and other liabilities increased by \$11.9 million which positively impacted cash. The increase was primarily due to a prepayment from the RTS divestiture of \$6.5 million in connection with the termination of the services and license agreement as well as the timing of payments.

[Table of Contents](#)

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

Cash provided by operating activities in the Nine Months 2013 was positively impacted by increases in net income attributable to GEO, non-cash expenses such as depreciation and amortization, loss on extinguishment of debt and stock-based compensation expense. Changes in accounts payable, accrued expenses and other liabilities increased by \$7.5 million which also positively impacted cash. The increase in accounts payable, accrued expenses and other liabilities was primarily driven by an increase in accrued interest related to our 5.125% Senior Notes which were issued at the end of First Quarter 2013, the initial semi-annual interest payment which was not due until October 1, 2013, an increase in accrued property taxes which are typically paid out in the fourth quarter and an increase in insurance reserves for insurance liability claims recorded in connection with our annual actuarial analysis which occurs in the third quarter each year. These increases were partially offset by decreases in accounts payable, accrued expenses and other current liabilities related to the payment of annual bonuses accrued at December 31, 2012 which were paid out in First Quarter 2013, litigation settlements in 2013 which were accrued at December 31, 2012 and the timing of payments. Changes in accounts receivable, prepaid expenses and other assets decreased in total by a net \$16.3 million, representing a negative impact on cash. The decrease was primarily driven by the timing of billings and collections. Increases in equity in earnings of affiliates, net of tax and a release of reserves for uncertain tax positions also negatively impacted cash collections.

Investing Activities

Cash used in investing activities of \$96.3 million during Nine Months 2014 was primarily the result of capital expenditures of \$77.7 million and cash paid for a business acquisition in the amount of \$13.0 million. Cash used in investing activities during Nine Months 2013 of \$86.3 million was primarily the result of capital expenditures of \$101.5 million.

Financing Activities

Cash used in financing activities during Nine Months 2014 amounted to \$66.6 million compared to cash used in financing activities of \$47.1 million during Nine Months 2013. Cash used in financing activities during Nine Months 2014 was primarily the result of dividend payments of \$124.1 million and debt issuance costs of \$23.5 million. This decrease was primarily offset by an increase of \$54.7 million for issuance of common stock under our prospectus supplement. Cash used in financing activities in the Nine Months 2013 reflects payments of \$742.2 and \$27.2 million on long-term debt and non-recourse debt, respectively, cash dividends paid of \$107.5 million and debt issuance costs of \$19.3 million. These decreases were offset by proceeds from long term debt of \$842.0 million, including \$300.0 million from the 5.125% Senior Notes as well as \$542.0 million of borrowings under our Revolver, and proceeds from the exercise of stock options of \$4.9 million.

Funds from Operations

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

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

Normalized FFO is defined as FFO adjusted for certain items which by their nature are not comparable from period to period or that tend to obscure the Company's actual operating performance, including for the periods presented REIT conversion related expenses, net of tax, tax benefit related to IRS settlement and REIT conversion and loss on extinguishment of debt, net of tax.

[Table of Contents](#)

AFFO is defined as Normalized FFO adjusted by adding non-cash expenses such as non-real estate related depreciation and amortization, stock based compensation, the amortization of debt costs and other non-cash interest, and non-cash mark-to-market adjustments for derivative instruments and by subtracting recurring consolidated maintenance capital expenditures.

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

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

Table of Contents

Our reconciliation of net income to FFO, Normalized FFO and AFFO for the three and nine months ended September 30, 2014 and 2013, respectively, is as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------------|-------------------|-------------------|
| | Sept 30, 2014 | Sept 30, 2013 | Sept 30, 2014 | Sept 30, 2013 |
| Funds From Operations | | | | |
| Net income attributable to The GEO Group, Inc. | \$ 38,991 | \$ 29,897 | \$ 105,879 | \$ 87,524 |
| Depreciation real estate assets | 13,172 | 13,123 | 39,538 | 38,374 |
| Loss from Disc Ops, net of income tax provision (benefit) | — | (2,265) | — | (2,265) |
| NAREIT Defined FFO | 52,163 | 45,285 | 145,417 | 128,163 |
| Expenses associated with REIT conversion, net of taxes | — | — | — | 4,697 |
| Tax benefit associated with IRS settlement & REIT conversion | — | (4,622) | — | (13,038) |
| Loss on extinguishment of debt, net of taxes | — | 1,451 | — | 5,847 |
| Normalized Funds from Operations | \$ 52,163 | \$ 42,114 | \$ 145,417 | \$ 125,669 |
| Depreciation non-real estate assets | 10,907 | 10,765 | 32,431 | 32,106 |
| Consolidated maintenance capital expenditures | (6,025) | (5,140) | (15,406) | (14,436) |
| Stock-based compensation expenses | 1,730 | 2,423 | 6,263 | 5,768 |
| Amortization of debt costs and other non-cash interest | 1,522 | 1,594 | 3,921 | 4,609 |
| Non-Cash Mark-to-Market Adjustment - Derivative Instruments | 532 | — | 532 | — |
| Adjusted Funds from Operations | \$ 60,829 | \$ 51,756 | \$ 173,158 | \$ 153,716 |

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, 2013, as well as the “Forward-Looking Statements - Safe Harbor” section and other disclosures contained in this Form 10-Q for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements.

Revenue

Domestically, we continue to pursue a number of opportunities for corrections and detention facilities. Continued need for corrections facilities in various states and the need for bed space at federal prisons and detention facilities are two of the factors that have contributed to these opportunities. At the state level, we reactivated the Company-owned, 300-bed McFarland Community Reentry Facility during Third Quarter 2014 under a contract with the California Department of Corrections and Rehabilitation. The facility houses female inmates and provides enhanced rehabilitation and recidivism reduction programs.

[Table of Contents](#)

Under the contract, the facility can be expanded by 260 beds at the department's option within 12 months. Additionally during the fourth quarter of 2013, we reactivated the Company-owned, 700-bed Central Valley Modified Community Correctional Facility and the Company-owned, 700-bed Desert View Modified Community Correctional Facility. We also executed a new contract for the continued housing of California inmates at the Company-owned Golden State Modified Community Correctional Facility, which increased the facility's contract capacity from 600 to 700 beds. In Florida, we assumed management of 3,854 contract prison beds at three facilities during the first quarter 2014 which were previously managed by a different private operator. These facilities included the 1,884-bed Graceville Correctional Facility and the 985-bed Moore Haven Correctional Facility, which were developed and had been previously operated by us, as well as the 985-bed Bay Correctional Facility. At the federal level, we expanded the contract capacity at the Company-owned Rio Grande Detention Center from 1,500 to 1,900 beds during the first quarter 2014 for use by the U.S. Marshals and ICE. We also recently completed the development of a new, Company-owned, 400-bed immigration transfer center in Alexandria, Louisiana, which we will manage under an amendment we entered into under our contract for the LaSalle Detention Facility also in Louisiana. Additionally, we announced a 640-bed expansion to the Company-owned, 1,300-bed Adelanto Detention Facility in California under an amendment to the existing contract with the City of Adelanto which in turn contracts with ICE for the housing of immigration detainees at the facility. We will finance, develop, and manage the \$45 million expansion, which will increase the facility's total capacity to 1,940 beds and is expected to generate approximately \$21 million in additional annualized revenues. We expect to complete the 640-bed expansion and begin intake by July 2015. We continue to be encouraged by opportunities as discussed above; however any positive trends may, to some extent, be adversely impacted by government budgetary constraints in the future. While the outlook for state budgets is stable, revenue performance is positive, and expenditure overruns are relatively modest, state lawmakers continue to face numerous budget challenges and state officials are concerned about sluggish revenue growth, rebuilding budget reserves and long-term spending trends, according to a survey conducted in the Spring of 2014 by the National Conference of State Legislatures. As a result of budgetary pressures, state correctional agencies may pursue a number of cost savings initiatives which may include reductions in per diem rates and/or the scope of services provided by private operators. These potential cost savings initiatives could have a material adverse impact on our current operations and/or our ability to pursue new business opportunities. Additionally, if state budgetary constraints, as discussed above, persist or intensify, our state customers' ability to pay us may be impaired and/or we may be forced to renegotiate our management contracts on less favorable terms and our financial condition, results of operations or cash flows could be materially adversely impacted. We plan to actively bid on any new projects that fit our target profile for profitability and operational risk. Although we are pleased with the overall industry outlook, positive trends in the industry may be offset by several factors, including budgetary constraints, unanticipated contract terminations, contract non-renewals, and/or contract re-bids. Although we have historically had a relatively high contract renewal rate, there can be no assurance that we will be able to renew our expiring management contracts on favorable terms, or at all. Also, while we are pleased with our track record in re-bid situations, we cannot assure that we will prevail in any such future situations.

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

With respect to our re-entry services, electronic monitoring services, and youth services business conducted through our GEO Community Services business segment, we are currently pursuing a number of business development opportunities. Relative to opportunities for community-based re-entry centers, we expect to compete for several formal solicitations from the Bureau of Prisons (the "BOP") for re-entry centers across the country and are also working with our existing local and state correctional clients to leverage new opportunities for both residential facilities as well as non-residential day reporting centers. We continue to expend resources on informing state and local governments about the benefits of public-private partnerships, and we anticipate that there will be new opportunities in the future as those efforts begin to yield results. We believe we are well positioned to capitalize on any suitable opportunities that become available in this area.

Operating Expenses

Operating expenses consist of those expenses incurred in the operation and management of our contracts to provide services to our governmental clients. Labor and related cost represented 54.9% of our operating expenses in Nine Months 2014. Additional significant operating expenses include food, utilities and inmate medical costs. In Nine Months 2014, operating expenses totaled 73.9% of our consolidated revenues. Our operating expenses as a percentage of revenues in 2014 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 2014, we will incur carrying costs for facilities that are currently vacant. As of September 30, 2014,

[Table of Contents](#)

our worldwide operations include the management and/or ownership of approximately 78,500 beds at 98 correctional, detention, re-entry, youth services and community-based facilities including idle facilities, and also include the provision of monitoring of approximately 70,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. In Nine Months 2014, general and administrative expenses totaled 6.7% of our consolidated revenues. We expect general and administrative expenses as a percentage of revenues in 2014 to decrease as a result of cost savings initiatives and decreases in nonrecurring costs related to our REIT conversion. We expect business development costs to remain consistent or increase slightly as we pursue additional business development opportunities in all of our business lines. We also plan to continue expending resources from time to time on the evaluation of potential acquisition targets.

Idle Facilities

We are currently marketing approximately 5,800 vacant beds at five of our idle facilities to potential customers. The annual carrying cost of idle facilities in 2014 is estimated to be \$21.2 million, including depreciation expense of \$5.5 million. As of September 30, 2014 these facilities had a net book value of \$185.0 million. We currently do not have any firm commitment or agreement in place to activate these facilities. Historically, some facilities have been idle for multiple years before they received a new contract award. Currently, our North Lake Correctional Facility located in Baldwin, Michigan and our Great Plains Correctional Facility located in Hinton, Oklahoma have been idle the longest of our idle facility inventory. These idle facilities are included in the U.S. Corrections & Detention segment. The per diem rates that we charge our clients often vary by contract across our portfolio. However, if all of these idle facilities were to be activated using our U.S. Corrections & Detention average per diem rate in 2014, (calculated as the U.S. Corrections & Detention revenue divided by the number of U.S. Corrections & Detention mandays) and based on the average occupancy rate in our U.S. Corrections & Detention facilities for 2014, we would expect to receive incremental annualized revenue of approximately \$120 million and an annualized increase in earnings per share of approximately \$0.35 to \$0.40 per share based on our average U.S. Corrections and Detention operating margin.

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 Senior Credit Facility. Payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Senior Credit Facility of \$336.3 million and \$61.0 million in outstanding letters of credit, as of September 30, 2014, for every one percent increase in the average interest rate applicable to the Senior Credit Facility, our total annual interest expense would increase by \$3.4 million.

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

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

Foreign Currency Exchange Rate Risk

We are also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar, and the Australian dollar, the Canadian dollar, the South African Rand and the British Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at September 30, 2014, every 10 percent change in historical currency rates would have approximately a \$5.1 million effect on our financial position and approximately a \$0.7 million impact on our results of operations during Nine Months 2014.

ITEM 4. CONTROLS AND PROCEDURES.

(a) 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.

(b) Changes in Internal Control Over Financial Reporting.

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

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

The information required herein is incorporated by reference from Note 10 - 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, 2013 includes a detailed discussion of the risk factors that could materially affect our business, financial condition or future prospects.

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

| <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</u> |
|--|---|---|---|---|
| July 1, 2014 - July 31, 2014 | — | \$ — | — | \$ — |
| August 1, 2014 - August 31, 2014 | 11,357 | \$ 37.67 | — | \$ — |
| September 1, 2014 - September 30, 2014 | — | \$ — | — | \$ — |

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION.

Not applicable.

[Table of Contents](#)

ITEM 6. EXHIBITS.

| | |
|--------------|---|
| (A) Exhibits | |
| 3.1 | Amendment to the Amended and Restated Bylaws of The GEO Group, Inc., effective as of July 2, 2014. (1) |
| 10.1 | Second Amended and Restated Credit Agreement, dated as of August 27, 2014 by and among The GEO Group, Inc. and GEO Corrections Holdings, Inc, as Borrowers, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto (portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment). (2) |
| 4.1 | Form of Indenture for Senior Debt Securities. (3) |
| 4.2 | Form of Indenture for Subordinated Debt Securities. (4) |
| 4.3 | Indenture, dated as of September 25, 2014, by and between GEO and Wells Fargo Bank, National Association, as Trustee. (5) |
| 4.4 | First Supplemental Indenture, dated as of September 25, 2014, by and among GEO, certain subsidiary guarantors and Wells Fargo Bank, National Association, as Trustee. (6) |
| 4.5 | Form of 5.875% Senior Note due 2024 (included in Exhibit 4.4 above). (7) |
| 31.1 | SECTION 302 CEO Certification. |
| 31.2 | SECTION 302 CFO Certification. |
| 32.1 | SECTION 906 CEO Certification. |
| 32.2 | SECTION 906 CFO Certification. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

- (1) Incorporated by reference to the Company's Current Report on Form 8-K, filed on July 9 2014.
- (2) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 3, 2014.
- (3) Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3 filed on September 12, 2014.
- (4) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-3 filed on September 12, 2014.
- (5) Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on October 1, 2014.
- (6) Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on October 1, 2014.
- (7) Incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on October 1, 2014.

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: November 10, 2014

THE GEO GROUP, INC.

/s/ Brian R. Evans

Brian R. Evans

Senior Vice President & Chief Financial Officer

(duly authorized officer and principal financial officer)

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: November 10, 2014

/s/ George C. Zoley

George C. Zoley
Chief Executive Officer

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: November 10, 2014

/s/ Brian R. Evans

Brian R. Evans
Chief Financial Officer

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

In connection with the quarterly report on Form 10-Q of The GEO Group, Inc. (the "Company") for the period ended September 30, 2014 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: November 10, 2014

**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 September 30, 2014 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: November 10, 2014