

GEO GROUP INC
Form 10-Q
August 08, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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)

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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 a 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 August 6, 2013, the registrant had 72,000,856 shares of common stock outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2013 AND JULY 1, 2012

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenues	\$ 381,653	\$ 371,173	\$ 758,684	\$ 731,215
Operating expenses	279,246	269,141	560,043	539,861
Depreciation and amortization	23,657	22,962	46,592	45,201
General and administrative expenses	27,363	26,129	59,403	52,715
Operating income	51,387	52,941	92,646	93,438
Interest income	1,165	1,761	2,349	3,568
Interest expense	(21,103)	(20,618)	(40,444)	(41,424)
Loss on extinguishment of debt	(5,527)		(5,527)	
Income before income taxes, equity in earnings of affiliates and discontinued operations	25,922	34,084	49,024	55,582
Income tax (benefit) provision	(7,268)	13,660	(6,387)	22,150
Equity in earnings of affiliates, net of income tax provision of \$417, \$303, \$894 and \$624, respectively	1,029	430	2,246	1,178
Income from continuing operations	34,219	20,854	57,657	34,610
Income from discontinued operations, net of income tax provision of \$0, \$973, \$0 and \$1,729, respectively		1,622		2,925
Net income	34,219	22,476	57,657	37,535
Net (income) loss attributable to noncontrolling interests	(12)	25	(30)	(9)
Net income attributable to The GEO Group, Inc.	\$ 34,207	\$ 22,501	\$ 57,627	\$ 37,526
Weighted-average common shares outstanding:				
Basic	71,083	60,839	70,967	60,803
Diluted	71,607	61,066	71,510	60,984
Income per common share attributable to The GEO Group, Inc.:				
Basic:				
Income from continuing operations	\$ 0.48	\$ 0.34	\$ 0.81	\$ 0.57
Income from discontinued operations		0.03		0.05
Income per common share attributable to The GEO Group, Inc. basic	\$ 0.48	\$ 0.37	\$ 0.81	\$ 0.62

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Diluted:								
Income from continuing operations	\$	0.48	\$	0.34	\$	0.81	\$	0.57
Income from discontinued operations				0.03				0.05
Income per common share attributable to The GEO Group, Inc. diluted	\$	0.48	\$	0.37	\$	0.81	\$	0.62

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

Table of Contents**THE GEO GROUP, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)****FOR THE THREE AND SIX MONTHS ENDED****JUNE 30, 2013 AND JULY 1, 2012****(In thousands)**

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net income	\$ 34,219	\$ 22,476	\$ 57,657	\$ 37,535
Other comprehensive income, net of tax:				
Foreign currency translation adjustments, net of tax (benefit) provision of \$0, \$(195), \$0 and \$125, respectively	(5,328)	(2,068)	(6,661)	(142)
Pension liability adjustment, net of tax benefit of \$25, \$19, \$51 and \$38, respectively	40	29	81	59
Unrealized gain (loss) on derivative instrument classified as cash flow hedge, net of tax provision (benefit) of \$16, (\$203), \$77 and (\$220), respectively	28	(430)	140	(399)
Total other comprehensive loss, net of tax	(5,260)	(2,469)	(6,440)	(482)
Total comprehensive income	28,959	20,007	51,217	37,053
Comprehensive (income) loss attributable to noncontrolling interests	19	58	42	(4)
Comprehensive income attributable to The GEO Group, Inc.	\$ 28,978	\$ 20,065	\$ 51,259	\$ 37,049

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

Table of Contents**THE GEO GROUP, INC.****CONSOLIDATED BALANCE SHEETS****JUNE 30, 2013 AND DECEMBER 31, 2012****(In thousands, except share data)**

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 38,511	\$ 31,755
Restricted cash and investments (including VIEs ¹ of \$6,308 and \$6,182, respectively)	15,646	15,654
Accounts receivable, less allowance for doubtful accounts of \$2,163 and \$2,546, respectively	239,001	246,635
Current deferred income tax assets	18,290	18,290
Prepaid expenses and other current assets	25,142	24,849
Total current assets	336,590	337,183
Restricted Cash and Investments (including VIEs of \$16,943 and \$15,521, respectively)	37,748	32,756
Property and Equipment, Net (including VIEs of \$25,544 and \$25,840, respectively)	1,739,986	1,687,159
<i>Assets Held for Sale</i>	1,200	3,243
<i>Direct Finance Lease Receivable</i>	20,445	26,757
<i>Non-Current Deferred Income Tax Assets</i>	2,532	2,532
<i>Goodwill</i>	490,216	490,308
<i>Intangible Assets, Net</i>	170,743	178,318
<i>Other Non-Current Assets</i>	88,742	80,938
Total Assets	\$ 2,888,202	\$ 2,839,194
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Current Liabilities</i>		
Accounts payable	\$ 47,391	\$ 50,110
Accrued payroll and related taxes	34,314	39,322
Accrued expenses	109,179	116,557
Current portion of capital lease obligations, long-term debt and non-recourse debt (including VIEs of \$5,450 and \$5,200, respectively)	22,341	53,882
Total current liabilities	213,225	259,871
<i>Non-Current Deferred Income Tax Liabilities</i>	15,703	15,703
<i>Other Non-Current Liabilities</i>	74,137	82,025
<i>Capital Lease Obligations</i>	11,426	11,926
<i>Long-Term Debt</i>	1,444,475	1,317,529
<i>Non-Recourse Debt (including VIEs of \$11,588 and \$16,997 respectively)</i>	93,352	104,836
<i>Commitments and Contingencies</i> (Note 12)		
<i>Shareholders Equity</i>		
Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value, 90,000,000 shares authorized, 86,586,630 and 86,007,433 issued and 72,000,856 and 71,417,034 outstanding, respectively	865	860
Additional paid-in capital	841,097	832,230
Earnings in excess of distributions	250,767	264,667
Accumulated other comprehensive income (loss)	(3,698)	2,670

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Treasury stock, 14,585,774 and 14,590,399 shares, at cost, respectively	(53,597)	(53,615)
Total shareholders' equity attributable to The GEO Group, Inc.	1,035,434	1,046,812
Noncontrolling interests	450	492
Total shareholders' equity	1,035,884	1,047,304
Total Liabilities and Shareholders' Equity	\$ 2,888,202	\$ 2,839,194

¹ Variable interest entities or VIEs

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

Table of Contents**THE GEO GROUP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****FOR THE SIX MONTHS ENDED****JUNE 30, 2013 AND JULY 1, 2012****(In thousands)**

	Six Months Ended	
	June 30, 2013	July 1, 2012
Cash Flow from Operating Activities:		
Net Income	\$ 57,657	\$ 37,535
Net income attributable to noncontrolling interests	(30)	(9)
Net income attributable to The GEO Group, Inc.	57,627	37,526
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Stock-based compensation	705	1,433
Loss on extinguishment of debt	5,527	
Depreciation and amortization expense	46,632	45,201
Amortization of debt issuance costs, discount and/or premium	3,015	1,369
Restricted stock expense	2,640	2,061
Provision for doubtful accounts	158	517
Equity in earnings of affiliates, net of tax	(2,246)	(1,178)
Income tax (benefit) provision related to equity compensation	(1,308)	270
Release of reserve for uncertain tax positions	(6,356)	
Loss on sale/disposal of property and equipment	603	915
Changes in assets and liabilities:		
Changes in accounts receivable, prepaid expenses and other assets	9,501	23,373
Changes in accounts payable, accrued expenses and other liabilities	(15,184)	5,445
Cash provided by operating activities continuing operations	101,314	116,932
Cash provided by operating activities discontinued operations		10,034
Net cash provided by operating activities	101,314	126,966
Cash Flow from Investing Activities:		
Proceeds from sale of property and equipment	51	231
Proceeds from sale of assets held for sale	1,968	297
Net working capital adjustment from RTS divestiture	(996)	
Change in restricted cash and investments	(5,910)	553
Capital expenditures	(89,921)	(69,536)
Cash used in investing activities continuing operations	(94,808)	(68,455)
Cash used in investing activities discontinued operations		(2,537)
Net cash used in investing activities	(94,808)	(70,992)
Cash Flow from Financing Activities:		

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Distribution to noncontrolling interests		(5,758)
Proceeds from long term debt	785,000	145,000
Payments on long-term debt	(697,748)	(169,282)
Payments for retirement of common stock		(1,035)
Proceeds from reissuance of treasury stock in connection with ESPP	155	
Debt issuance costs	(17,017)	(44)
Income tax benefit (provision) related to equity compensation	1,308	(270)
Proceeds from the exercise of stock options	4,082	396
Cash dividends paid	(71,527)	
Net cash provided by (used in) financing activities	4,253	(30,993)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4,003)	(43)
Net Increase in Cash and Cash Equivalents	6,756	24,938
Cash and Cash Equivalents, beginning of period	31,755	43,378
Cash and Cash Equivalents, end of period	\$ 38,511	\$ 68,316
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	\$ 2,739	\$ 6,801

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

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

The GEO Group, Inc., a Florida corporation, and subsidiaries (the Company or GEO), is a 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. GEO 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). As of June 30, 2013, the Company's worldwide operations included the management and/or ownership of approximately 72,000 beds at 95 correctional and detention facilities, including projects under development, and also included 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.

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 1, 2013 for the fiscal year ended December 31, 2012. The accompanying December 31, 2012 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, 2012. 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 six months ended June 30, 2013 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2013, or for any other future interim or annual periods.

REIT Conversion - GEO began operating as a REIT for federal income tax purposes effective January 1, 2013. As a result of the REIT conversion, GEO reorganized its operations and moved non-real estate components into taxable REIT subsidiaries (TRS). Through the TRS structure, the portion of GEO's businesses which are non-real estate related, such as its managed-only contracts, international operations, electronic monitoring services, and other non-residential and community based facilities, are part of wholly-owned taxable subsidiaries of the REIT. Most of GEO's business segments, which are real estate related and involve company-owned and company-leased facilities, are part of the REIT. The TRS structure allows the Company to maintain the strategic alignment of almost all of its diversified business segments under one entity. The TRS assets and operations will continue to be subject to federal and state corporate income taxes and to foreign taxes as applicable in the jurisdictions in which those assets and operations are located. As a REIT, GEO is required to make distributions of its REIT taxable income to its shareholders. Refer to Note 5 - Shareholders' Equity.

Divestiture of Residential Treatment Services - The operating results of Residential Treatment Services (RTS), which was divested on December 31, 2012, have been retroactively reclassified to discontinued operations for the three and six months ended July 1, 2012. Refer to Note 8 - Discontinued Operations.

Change of Reporting Segment Name from GEO Care to GEO Community Services - The Company's GEO Care reporting segment previously consisted of four aggregated operating segments including Residential Treatment Services, Community Based Services, Youth Services and B.I. Incorporated (BI). The GEO Care reporting segment was renamed GEO Community Services concurrent with the divestiture of the Company's Residential Treatment Services operating segment. All current and prior year financial position and results of operations amounts presented for this reporting segment are referred to as GEO Community Services.

Fiscal Year - In connection with the REIT conversion, effective December 31, 2012, the Company changed to a calendar year from a fiscal year that ended on the Sunday closest to the calendar year end and changed its fiscal quarters to coincide with each calendar quarter. The second fiscal quarter of 2013 began on April 1, 2013 and ended on June 30, 2013, and is referred to as the three months ended June 30, 2013. The six month period of 2013 began on January 1, 2013 and ended on June 30, 2013, and is referred to as the six months ended June 30, 2013. The second fiscal quarter of 2012 began on April 2, 2012 and ended on July 1, 2012, and is referred to as the three months ended July 1, 2012. The six month period of 2012 began on January 2, 2012 and ended on July 1, 2012, and is referred to as the six months ended July 1, 2012.

Table of Contents**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 net tangible assets, other intangible assets acquired and liabilities assumed, including noncontrolling interests. Changes in goodwill from December 31, 2012 to June 30, 2013 are related solely to fluctuations in foreign currency exchange rates.

The Company has also recorded other finite and indefinite lived intangible assets as a result of business combinations completed prior to 2013. Changes in the gross carrying amounts from December 31, 2012 to June 30, 2013 are solely related to fluctuations in foreign currency exchange rates. The Company's intangible assets include facility management contracts, non-compete agreements and the trade name and technology of BI, as follows (in thousands):

	Weighted Average Useful Life (years)	June 30, 2013			December 31, 2012		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Facility management contracts	13.4	\$ 151,683	\$ (38,897)	\$ 112,786	\$ 151,913	\$ (33,141)	\$ 118,772
Covenants not to compete	2.0	8,570	(8,570)		8,570	(8,495)	75
Technology	7.0	21,200	(7,243)	13,957	21,200	(5,729)	15,471
Trade name (Indefinite lived)	Indefinite	44,000		44,000	44,000		44,000
Total acquired intangible assets		\$ 225,453	\$ (54,710)	\$ 170,743	\$ 225,683	\$ (47,365)	\$ 178,318

Amortization expense was \$3.6 million and \$7.3 million, respectively, for the three months and six months ended June 30, 2013. Amortization expense was \$4.6 million and \$9.2 million, respectively, for the three months and six months ended July 1, 2012. Amortization expense was primarily related to the U.S. Corrections & Detention and GEO Community Services segments' amortization of acquired facility management contracts. As of June 30, 2013, the weighted average period before the next contract renewal or extension for the facility management contracts was approximately 1.3 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 contractual periods.

Estimated amortization expense related to the Company's finite-lived intangible assets for the remainder of fiscal year 2013 through fiscal year 2017 and thereafter is as follows (in thousands):

Fiscal Year	Total Amortization Expense
Remainder of 2013	\$ 7,266
2014	14,531
2015	14,531
2016	14,531
2017	14,531
Thereafter	61,353
	\$ 126,743

Table of Contents**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 June 30, 2013 and December 31, 2012 (in thousands):

	Fair Value Measurements at June 30, 2013			
	Carrying Value at June 30, 2013	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap derivative assets	\$ 4,599	\$	\$ 4,599	\$
Restricted investments:				
Guaranteed Investment Contract	5,742		5,742	
Rabbi Trust	8,163	8,163		
Fixed income securities	1,996		1,996	
Liabilities:				
Interest rate swap derivative liabilities	\$ 490	\$	\$ 490	\$

	Fair Value Measurements at December 31, 2012			
	Carrying Value at December 31, 2012	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap derivative assets	\$ 6,212	\$	\$ 6,212	\$
Restricted investments:				
Guaranteed Investment Contract	5,742		5,742	
Rabbi Trust	7,718	7,718		
Fixed income securities	2,152		2,152	
Liabilities:				
Interest rate swap derivative liabilities	\$ 708	\$	\$ 708	\$

The Company's Level 1 investment included in the tables above as of June 30, 2013 and December 31, 2012 relates to the Company's rabbi trust established for GEO employee and employer contributions to The GEO Group Inc. Non-qualified Deferred Compensation Plan. These contributions are invested in cash and mutual funds for which quoted market prices in active markets are available.

The Company's Level 2 financial instruments included in the tables above as of June 30, 2013 and December 31, 2012 consist of an interest rate swap liability held by the Company's Australian subsidiary, other interest rate swap assets of the Company, an investment in Canadian dollar denominated fixed income securities, and a guaranteed investment contract which is a restricted investment related to CSC of Tacoma LLC (CSC). The Australian subsidiary's interest rate swap liability is valued using a discounted cash flow model based on projected Australian borrowing rates. The Company's other interest rate swap assets are based on pricing models which consider prevailing interest rates, credit risk and similar instruments. 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 is valued using quoted rates for these and similar securities.

Table of Contents**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 June 30, 2013 and December 31, 2012 (in thousands):

	Carrying Value as of June 30, 2013	Estimated Fair Value Measurements at June 30, 2013			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 38,511	\$ 38,511	\$ 38,511	\$	\$
Restricted cash	39,489	39,489	39,489		
Liabilities:					
Borrowings under Senior Credit Facility	\$ 595,000	\$ 597,250	\$	\$ 597,250	\$
7 ³ / ₄ % Senior Notes	247,756	262,345		262,345	
6.625% Senior Notes	300,000	316,314		316,314	
5.125% Senior Notes	300,000	288,375		288,375	
Non-recourse debt, Australian subsidiary	27,817	28,531		28,531	
Other non-recourse debt, including current portion	83,665	86,639		86,639	

	Carrying Value as of December 31, 2012	Estimated Fair Value Measurements at December 31, 2012			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 31,755	\$ 31,755	\$ 31,755	\$	\$
Restricted cash	34,949	34,949	34,949		
Liabilities:					
Borrowings under Senior Credit Facility	\$ 797,430	\$ 803,097	\$	\$ 803,097	\$
7 ³ / ₄ % Senior Notes	247,543	270,313		270,313	
6.625% Senior Notes	300,000	335,814		335,814	
Non-recourse debt, Australian subsidiary	34,832	34,973		34,973	
Other non-recourse debt, including current portion	88,650	91,345		91,345	

The fair values of the Company's cash and cash equivalents, and restricted cash approximates the carrying values of these assets at June 30, 2013 and December 31, 2012. Restricted cash consists of debt service funds used for payments on the Company's non-recourse debt and rabbi trust funds. The fair values of the Company's 7³/₄% senior unsecured notes due 2017 (7³/₄% 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 South Texas Local Development Corporation (STLDC) and Washington Economic Development Finance Authority (WEDFA) are 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.

Table of Contents**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):

	Common shares			Earnings in Excess of Distributions	Accumulated Other Comprehensive Income (Loss)	Treasury shares		Noncontrolling Interests	Total Shareholders Equity
	Shares	Amount	Additional Paid-In Capital			Shares	Amount		
Balance, December 31, 2012	71,417	\$ 860	\$ 832,230	\$ 264,667	\$ 2,670	14,590	\$(53,615)	\$ 492	\$ 1,047,304
Proceeds from exercise of stock options	234	2	4,080						4,082
Tax benefit related to equity compensation			1,308						1,308
Stock based compensation expense			705						705
Restricted stock granted	345	3	(3)						
Amortization of restricted stock			2,640						2,640
Dividends paid				(71,527)					(71,527)
Re-issuance of treasury shares (ESPP)	5		137			(5)	18		155
Net income				57,627				30	57,657
Other comprehensive income (loss)					(6,368)			(72)	(6,440)
Balance, June 30, 2013	72,001	\$ 865	\$ 841,097	\$ 250,767	\$ (3,698)	14,585	\$(53,597)	\$ 450	\$ 1,035,884

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 TRS and other factors that GEO's Board may deem relevant. Dividends of \$0.50 per share of common stock were paid during the quarter ended March 31, 2013. Dividends of \$0.50 per share of common stock were paid during the quarter ended June 30, 2013.

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 million through sales agents. Sales of shares of the Company's common stock under the prospectus supplement and equity distribution agreement entered into with the sales agents, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. There were no sales of shares of the Company's common stock under the prospectus supplement during the six months ended June 30, 2013.

Comprehensive Income (Loss)

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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 in the consolidated statements of shareholders' equity and comprehensive income.

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The components of accumulated other comprehensive income (loss) attributable to GEO included in the consolidated statement of shareholders equity are as follows:

	Six Months Ended June 30, 2013 (In thousands)			
	Foreign currency translation adjustments, net of tax attributable to The GEO Group, Inc. [1]	Unrealized (loss)/gain on derivatives, net of tax	Pension adjustments, net of tax	Total
Beginning balance	\$ 5,755	\$ (457)	\$ (2,628)	\$ 2,670
Current-period other comprehensive (loss) income	(6,589)	140	81	(6,368)
Ending Balance	\$ (834)	\$ (317)	\$ (2,547)	\$ (3,698)

^[1] The foreign currency translation, net of tax, related to noncontrolling interests was not significant at June 30, 2013 or December 31, 2012, respectively.

6. EQUITY INCENTIVE PLANS

As of June 30, 2013, under the 2006 Stock Incentive Plan (2006 Plan), the Company had 1,704,344 shares of common stock available for issuance pursuant to future awards that may be granted under the plan of which up to 404,104 shares were available for the issuance of awards other than stock options.

Stock Options

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. A summary of the activity of stock option awards issued and outstanding under Company plans is as follows for the six months ended June 30, 2013:

	Shares (in thousands)	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2012	1,198	\$ 18.92	6.85	\$ 11,090
Options granted				
Options exercised	(234)	\$ 17.43		
Options forfeited/canceled/expired	(5)	\$ 21.34		
Options outstanding at June 30, 2013	959	\$ 19.28	6.75	\$ 14,074
Options vested and expected to vest at June 30, 2013	929	\$ 19.21	6.71	\$ 13,701
Options exercisable at June 30, 2013	594	\$ 18.23	6.13	\$ 9,346

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The Company did not grant any stock options during the six months ended June 30, 2013. For the six months ended June 30, 2013 and July 1, 2012, the amount of stock-based compensation expense related to stock options was \$0.7 million and \$1.4 million, respectively. As of June 30, 2013, the Company had \$1.8 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 1.8 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 Company has issued share-based awards with service-based, performance-based and market-based vesting criteria.

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A summary of the activity of restricted stock outstanding is as follows for the six months ended June 30, 2013:

	Shares (in thousands)	Wtd. Avg. Grant Date Fair Value
Restricted stock outstanding at December 31, 2012	670	\$ 18.14
Granted	345	37.40
Vested	(131)	21.29
Forfeited/canceled		
Restricted stock outstanding at June 30, 2013	884	\$ 23.00

During the six months ended June 30, 2013, the Company granted 345,060 shares of restricted stock to certain employees and executive officers. Of these awards, 92,810 are performance-based awards which will be forfeited if the Company does not achieve certain annual metrics during 2013, 2014 and 2015.

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 (Target Award) can vest at the end of a three-year performance period if GEO meets certain total shareholder return (TSR) performance targets, as compared to the total shareholder return of a peer group of companies, during 2013, 2014 and 2015; and (ii) up to 25% of the shares of restricted stock (Target Award) can vest at the end of a three-year period if GEO meets certain return on capital employed (ROCE) performance targets in 2013, 2014 and 2015. 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 26.6%; (ii) beta of 0.681; and (iii) risk free rate of 0.42%.

For the six months ended June 30, 2013 and July 1, 2012, the Company recognized \$2.6 million and \$2.1 million, respectively, of compensation expense related to its restricted stock awards. As of June 30, 2013, the Company had \$18.2 million of unrecognized compensation costs related to non-vested restricted stock awards, including non-vested restricted stock awards with performance-based and market-based vesting, that are expected to be recognized over a weighted average period of 3.1 years.

Employee Stock Purchase Plan

The Company adopted The GEO Group Inc. 2011 Employee Stock Purchase Plan (the Plan). 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, for sale to eligible employees.

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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 six months ended June 30, 2013, 4,625 shares were issued out of the Company's treasury stock in connection with the Plan.

Table of Contents**7. EARNINGS PER SHARE FROM CONTINUING OPERATIONS**

Basic earnings per 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 earnings per share is similar to that of basic earnings per share except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share (EPS) from continuing operations were calculated for the three and six months ended June 30, 2013 and July 1, 2012 as follows (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Income from continuing operations	\$ 34,219	\$ 20,854	\$ 57,657	\$ 34,610
Net (income) loss attributable to noncontrolling interests	(12)	25	(30)	(9)
Net income from continuing operations attributable to The GEO Group, Inc.	34,207	20,879	57,627	34,601
Basic earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	71,083	60,839	70,967	60,803
Per share amount from continuing operations	\$ 0.48	\$ 0.34	\$ 0.81	\$ 0.57
Diluted earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	71,083	60,839	70,967	60,803
Effect of dilutive securities: Stock options and restricted stock	524	227	543	181
Weighted average shares assuming dilution	71,607	61,066	71,510	60,984
Per share amount from continuing operations	\$ 0.48	\$ 0.34	\$ 0.81	\$ 0.57

Three Months

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

For the three months ended July 1, 2012 57,937 weighted average shares of common stock underlying options and 1,642 shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

Six Months

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

For the six months ended July 1, 2012 112,428 weighted average shares of common stock underlying options and 1,584 shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

8. DISCONTINUED OPERATIONS

The Company reports the results of operations of a component of an entity that either has been disposed of or is classified as held for sale or where the management contracts with that component have terminated, either by expiration or otherwise, in discontinued operations. The Company presents such events as discontinued operations so long as the financial results can be clearly identified, the future operations and cash flows are completely eliminated from ongoing operations, and so long as the Company does not have any significant continuing involvement in the operations of the component after the disposal or termination transaction.

When a component of an entity has been disposed of or classified as held for sale or a management contract is terminated, the Company looks at its overall relationship with the customer. If the operations or cash flows of the component have been (or will be) eliminated from the ongoing operations of the entity as a result of the transaction and the entity will not have significant continuing involvement in the operations of the component after the transaction, the results of operations of the component of an entity are reported in discontinued operations. If the Company

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will continue to maintain a relationship generating significant cash flows and having continuing involvement with the customer, the disposal, the asset held for sale classification or the loss of the management contract(s) is not treated as discontinued operations. If the disposal, the asset held for sale classification or the loss of the management contract(s) results in a loss in the overall customer relationship as no future significant cash flows will be generated and the Company will have no continuing involvement with the customer, the results are classified in discontinued operations.

Table of Contents***Divestiture of RTS Operations***

On December 31, 2012, the Company completed the divestiture of its RTS operating component, which was purchased by GEO Care Holdings LLC, an entity owned by certain current and former members of GEO's management team (the MBO Group). Cash proceeds received on December 31, 2012 from the divestiture amounted to \$33.3 million, net of an initial working capital adjustment, subject to a final working capital adjustment determined within 105 days of the transaction closing date. The final working capital adjustment resulted in a net cash sale price of \$32.3 million. In accordance with the purchase agreement, the MBO Group would also be obligated to pay up to an additional \$5.0 million in purchase price on a contingent earn-out basis if certain potential future contract awards are received by RTS. In addition, the purchase agreement provides for (i) a purchase price adjustment in favor of the MBO Group in the event certain client consents are not obtained within one year following the divestiture, and (ii) a purchase price adjustment in favor of the MBO Group if certain key contracts (as defined in the Purchase Agreement) are terminated up to one year following the divestiture. There were no amounts recorded under these earn-out provisions during the three or six months ended June 30, 2013.

In connection with the RTS divestiture, the Company and GEO Care Holdings LLC entered into a services agreement pursuant to which the Company will provide accounting support, information systems services, legal support services, risk management services, property management and design services and office space for a five-year term in return for an annual fee of \$1.8 million payable in equal monthly installments (the Services Agreement). The Company and GEO Care Holdings LLC also executed a license agreement pursuant to which the Company granted to GEO Care Holdings LLC an exclusive license for a five-year term to use the GEO Care service mark and domain name in connection with the RTS business in return for an annual fee of \$0.4 million payable in equal monthly installments (the License Agreement). In addition, the Company and GEO Care Holdings LLC entered into employment agreements with certain executive officers in order to allocate the services to be provided by the executive officers and related compensation and benefits between the Company and GEO Care Holdings LLC. During the three and six months ended June 30, 2013, the Company earned fees under the above noted Services Agreement and License Agreement amounting to an aggregate of \$0.6 million and \$1.2 million, respectively, which have been recorded as an offset to operating expenses in the accompanying consolidated statements of operations.

During the three months ended July 1, 2012, RTS had revenue and pre-tax income of \$41.2 million and \$3.5 million, respectively. During the six months ended July 1, 2012, RTS had revenue and pre-tax income of \$82.4 million and \$5.5 million, respectively. The operating results and cash flows of RTS for the three and six months ended July 1, 2012 have been retrospectively reflected as discontinued operations in the accompanying consolidated statements of operations and cash flows.

U.S. Corrections & Detention

On April 19, 2012, the Company announced its discontinuation of its managed-only contract with the State of Mississippi, Department of Corrections for the 1,500-bed East Mississippi Correctional Facility (East Mississippi) effective July 19, 2012. In connection with the discontinuation of East Mississippi, the Company has also discontinued all other management contracts with the State of Mississippi Department of Corrections (MDOC) including its managed-only contracts for the 1,000-bed Marshall County Correctional Facility effective August 13, 2012, and the 1,450-bed Walnut Grove Youth Correctional Facility effective July 1, 2012.

During the three months ended July 1, 2012, revenues and a pre-tax loss relating to the operations of MDOC were \$11.2 million and \$(0.9) million, respectively. During the six months ended July 1, 2012, RTS had revenue and a pre-tax loss of \$22.3 million and \$(0.9) million, respectively. The operating results and cash flows relating to the operations of MDOC for the three and six months ended July 1, 2012 are reflected as discontinued operations in the accompanying consolidated statements of operations and cash flows.

All income from discontinued operations included in the consolidated statements of operations is attributable to The GEO Group, Inc.

9. DERIVATIVE FINANCIAL INSTRUMENTS

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

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As of June 30, 2013, the Company had four interest rate swap agreements in the aggregate notional amount of \$100.0 million. The Company has designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7³/₄% Senior Notes due to changes in underlying interest rates. These swap agreements, which have payment, expiration dates and call provisions that mirror the terms of the 7³/₄% Senior Notes, effectively convert \$100.0 million of the 7³/₄% Senior Notes into variable rate obligations. Each of the swaps has a termination clause that gives the counterparty the right to terminate the interest rate swaps at fair value, as defined in the swap agreements, under certain circumstances. In addition to the termination clause, the agreements also have call provisions which specify that the lender can elect to settle the swap for the call option price. Under the agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 7³/₄% per year calculated on the notional \$100.0 million amount, while it makes a variable interest rate payment to the same counterparties equal to the three-month LIBOR plus a fixed margin of between 4.16% and 4.29%, also calculated on the notional \$100.0 million amount. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the 7³/₄% Senior Notes. Total net losses, entirely offset by a corresponding increase in the fair value of the variable rate portion of the 7³/₄% Senior Notes, recognized and recorded in earnings related to these fair value hedges were \$0.9 million and \$1.6 million during the three months and six months ended June 30, 2013, respectively. As of June 30, 2013 and December 31, 2012, the swap assets' fair values were \$4.6 million and \$6.2 million, respectively, and are included as Other Non-Current Assets in the accompanying consolidated balance sheets. There was no material ineffectiveness of these interest rate swaps during the quarters ended June 30, 2013 or July 1, 2012.

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 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 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 \$0.0 million and \$0.1 million for the three months and six months ended June 30, 2013, respectively. The total fair value of the swap liability as of June 30, 2013 and December 31, 2012 was \$0.5 million and \$0.7 million, respectively, and is recorded as a component of other assets within the accompanying consolidated balance sheets. There was no material ineffectiveness of this interest rate swap for the periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

10. VARIABLE INTEREST ENTITIES AND INVESTMENT IN AFFILIATES

The Company evaluates its joint ventures and other entities in which it has a variable interest (a "VIE"), generally in the form of investments, loans, guarantees, or equity in order to determine if it has a controlling financial interest and is required to consolidate the entity as a result. The reporting entity with a variable interest that provides the entity with a controlling financial interest in the VIE will have both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company consolidates South Texas Local Development Corporation ("STLDC"), a VIE. STLDC was created to finance construction for the development of a 1,904-bed facility in Frio County, Texas. STLDC, the owner of the complex, issued \$49.5 million in taxable revenue bonds and has an operating agreement with the Company, which provides the Company with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract to be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including the payment of all operating expenses whether or not there are sufficient revenues. The bonds have a 10-year term and are non-recourse to the Company. At the end of the 10-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. The carrying value of the facility as of June 30, 2013 and December 31, 2012 was \$25.7 million and \$25.8 million, respectively, and is included in Property and Equipment in the accompanying consolidated balance sheets.

The Company does not consolidate its 50% owned South African joint venture interest in South African Custodial Services Pty. Limited ("SACS"), a VIE. SACS joint venture investors are GEO and Kensani Corrections, Pty. Ltd (an independent third party); each partner owns a 50% share. The Company has determined it is not the primary beneficiary of SACS since it does not have the power to direct the activities of SACS that most significantly impact its performance. As such, the Company's investment in this entity is accounted for under the equity method of accounting. SACS was established and subsequently, in 2001, was awarded a 25-year contract to design, finance and build the Kutama Sinthumule Correctional Centre in Louis Trichardt, South Africa. To fund the construction of the prison SACS obtained long-term financing from its equity partners and lenders, the repayment of which is fully guaranteed by the South African government, except in the event of a default by SACS, in which case the government guarantee is reduced to 80%. The Company's maximum exposure for loss under this contract is limited to its investment in the joint venture of \$8.3 million at June 30, 2013 and its guarantees related to SACS that are discussed in Note 11 - Debt.

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The Company does not consolidate its 50% owned joint venture in the United Kingdom. In February 2011, The GEO Group Limited, the Company's wholly-owned subsidiary in the United Kingdom (GEO UK), executed a shareholders agreement (the Shareholders Agreement) with Amey Community Limited (Amey) and Amey UK PLC (Amey Guarantor) to form GEO Amey PECS Limited (GEOAmey), a private company limited by shares incorporated in England and Wales. GEOAmey was formed by GEO UK and Amey (an independent third party) for the purpose of performing prisoner escort and related custody services in England and Wales. In order to form this private company, GEOAmey issued share capital of £100 divided into 100 shares of £1 each and allocated the shares 50/50 to GEO UK and Amey. GEO UK and Amey each have three directors appointed to the board of directors and neither party has the power to direct the activities that most significantly impact the performance of GEOAmey. As such, the Company's investment in this entity is accounted for under the equity method of accounting. Both parties provide lines of credit of £12 million, or \$18.3 million, based on exchange rates in effect as of June 30, 2013, to ensure that GEOAmey can comply with future contractual commitments related to the performance of its operations. As of June 30, 2013, \$18.4 million, including accrued interest, was owed to the Company by GEOAmey under the line of credit. GEOAmey commenced operations on August 29, 2011. Refer to Note 11 Debt for further discussion of the Company's maximum exposure for loss relating to GEOAmey.

11. DEBT

Debt outstanding as of June 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	June 30, 2013	December 31, 2012
Credit Facility:		
Term loan	\$ 300,000	\$ 563,625
Unamortized discount on term loan		(1,195)
Revolver	295,000	235,000
Total Senior Credit Facility	595,000	797,430
5.125% Senior Notes:		
Notes due in 2023	300,000	
6.625% Senior Notes:		
Notes due in 2021	300,000	300,000
7³/₄% Senior Notes:		
Notes due in 2017	250,000	250,000
Unamortized discount on Notes	(2,244)	(2,457)
Swap on Notes	4,599	6,212
Total 7³/₄% Senior Notes	252,355	253,755
Non-Recourse Debt :		
Non-Recourse Debt	112,732	124,947
Unamortized discount on Non-Recourse Debt	(1,250)	(1,465)
Total Non-Recourse Debt	111,482	123,482
Capital Lease Obligations	12,422	12,994
Other debt	335	512
Total debt	1,571,594	1,488,173
Current portion of capital lease obligations, long-term debt and non-recourse debt	(22,341)	(53,882)
Capital Lease Obligations, long-term portion	(11,426)	(11,926)
Non-Recourse Debt	(93,352)	(104,836)
Long-Term Debt	\$ 1,444,475	\$ 1,317,529

Table of Contents***New Credit Agreement***

On April 3, 2013, the Company terminated its Forth Amended and Restated Credit Agreement (Prior Senior Credit Facility), which consisted of a Term Loan A, Term Loan A-2, Term Loan A-3, Term Loan B (Prior Term Loans) and a Revolver (Prior Revolver), and entered into a new credit agreement by and among GEO 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 consists of a \$300 million Term Loan B (the Term Loan B) bearing interest at LIBOR plus 2.50% (with a LIBOR floor of 0.75%), and a \$700 million revolving credit facility (the Revolver) currently bearing interest at LIBOR plus 2.50% (with no LIBOR floor). The Revolver component is scheduled to mature on April 3, 2018 and the Term Loan B component is scheduled to mature on April 3, 2020. The Term Loan B and Revolver may be prepaid in whole or in part by the Company at any time without premium or penalty, subject to certain conditions.

The Company has accounted for the termination of the Prior Term Loans component of its Prior Senior Credit Facility as an extinguishment of debt and has accounted for the termination of the Prior Revolver component of the Prior Senior Credit Facility based upon the borrowing capacity accounting guidance for modification of revolving credit arrangements. Loan costs of \$10.2 million were incurred in connection with the Credit Agreement transaction, of which \$1.1 million was expensed as incurred as this amount was associated with the extinguishment of the Prior Term Loan component, and \$9.1 million has been capitalized as deferred financing fees and is included in Other Non-Current Assets in the accompanying consolidated balance sheet as of June 30, 2013, and will be amortized to interest expense using an effective interest method throughout the term of the Revolver or Term Loan B as applicable. In addition, the Company wrote off \$1.1 million in unamortized debt discount and \$3.3 million of unamortized deferred financing costs pertaining to the Prior Term Loans related to the termination of the Prior Senior Credit Facility. The remaining unamortized deferred financing fees pertaining to the Prior Revolver will be amortized to interest expense using an effective interest method throughout the term of the Revolver.

As of June 30, 2013, the Company had \$300.0 million in aggregate borrowings outstanding under the Term Loan B, \$295.0 million in borrowings under the Revolver, and approximately \$58.2 million in letters of credit which left \$346.8 million in additional borrowing capacity under the Revolver. The weighted average interest rate on outstanding borrowings under the Credit Agreement as of June 30, 2013 was 3.0%.

Indebtedness under the Revolver bears interest based on the Total Leverage Ratio, as defined in the Credit Agreement, as of the most recent determination date, as defined, in each of the instances below at the stated rate:

LIBOR borrowings	LIBOR plus 1.75% to 2.75%.
Base rate borrowings	Prime Rate plus 0.75% to 1.75%.
Letters of credit	1.75% to 2.75%.
Unused Revolver	0.35% to 0.375%.

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 indebtedness, (ii) create, incur, assume or permit liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) make restricted payments, (vi) issue, sell or otherwise dispose of capital stock, (vii) engage in transactions with affiliates, (viii) allow the total leverage ratio or senior secured leverage ratio to exceed certain maximum ratios or allow the interest coverage ratio to be less than a certain ratio, (ix) cancel, forgive, make any voluntary or optional payment or prepayment on, or redeem or acquire for value any senior notes, (x) alter the business the Company conducts, and (xi) materially impair the Company s lenders security interests in the collateral for its loans.

The Credit Agreement requires the Company to meet certain financial covenants as follows: (i) the Company must not exceed a Total Leverage Ratio (as defined) of 5.75 to 1.00; (ii) the Company must not exceed a Senior Secured Leverage Ratio (as defined) of 3.50 to 1.00; (iii) there is an Interest Coverage Ratio (as defined) under which the lenders will not permit a ratio of less than 3.00 to 1.00 relative to (a) Adjusted EBITDA for any period of four consecutive fiscal quarters to (b) Interest Expense, less that attributable to non-recourse debt of unrestricted subsidiaries.

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 representations 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) material environmental liability claims which have been asserted against the Company, and (viii) a change in control. All of the obligations under the Credit Agreement are unconditionally guaranteed by certain of the Company s subsidiaries and secured by substantially all of the Company s present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, including but not limited to (i) a first-priority pledge of substantially all of the outstanding capital stock owned by the Company and each guarantor, and (ii) perfected first-priority security interests in substantially all of the Company s, and each guarantors, present and future tangible

and intangible assets and the present and future tangible and intangible assets of each guarantor. The

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Company's failure to comply with any of the covenants under its Credit Agreement could cause an event of default under such documents and result in an acceleration of all outstanding senior secured indebtedness. The Company believes it was in compliance with all of the covenants of the Credit Agreement as of June 30, 2013.

5.125% Senior Notes

On March 19, 2013, the Company completed an offering of \$300.0 million aggregate principal amount of senior unsecured notes. The 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, beginning October 1, 2013. The 5.125% Senior Notes are guaranteed on a senior unsecured basis by all of the Company's restricted subsidiaries that guarantee obligations under the amended and restated Senior Credit Facility, the Company's 6.625% Senior Notes, and the Company's 7¾% Senior Notes. The 5.125% Senior Notes and the guarantees are the Company's general unsecured senior obligations and rank equally in right of payment with all of the Company's and the guarantors' existing and future unsecured senior debt, including the Company's 7¾% Senior Notes and 6.625% Senior Notes. The 5.125% Senior Notes and the guarantees are effectively subordinated to any of the Company's and the guarantors' existing and future secured debt to the extent of the value of the assets securing such debt, including all anticipated borrowings under the amended and restated Senior Credit Facility. The 5.125% Senior Notes are structurally subordinated to all existing and future liabilities (including trade payables) of the Company's subsidiaries that do not guarantee the 5.125% Senior Notes.

At any time on or prior to April 1, 2016, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding 5.125% Senior Notes issued under the indenture governing the 5.125% Senior Notes (including any additional notes) at a redemption price of 105.125% of their principal amount plus accrued and unpaid interest and Liquidated Damages (as defined in the indenture), if any, to the redemption date, with the net cash proceeds of one or more equity offerings (as defined in the indenture); provided, that: (1) at least 65% of the aggregate principal amount of notes issued under the indenture (including any additional notes) remains outstanding immediately after the occurrence of such redemption (excluding notes held by us and our Subsidiaries); and (2) the redemption occurs within 90 days of the date of the closing of such equity offering.

At any time prior to April 1, 2018, the Company may, at its option, redeem all or a part of the 5.125% Senior Notes upon not less than 30 days nor more than 60 days' prior notice at a redemption price equal to the sum of (i) 100% of the principal amount thereof, plus (ii) the Applicable Premium (as defined in the indenture) as of the date of redemption, plus (iii) accrued and unpaid interest and Liquidated Damages, if any, to the date of redemption. On or after April 1, 2018, the Company may, at its option, redeem all or a part of the 5.125% Senior Notes upon not less than 30 days nor more than 60 days' notice at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Liquidated Damages, if any, on the 5.125% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on April 1 of the years indicated below:

Year	Percentage
2018	102.563
2019	101.708
2020	100.854
2021 and thereafter	100.000

The indenture contains certain covenants, including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 17-Condensed Consolidating Financial Information). The Company believes it was in compliance with all of the covenants of the indenture as of June 30, 2013.

Under the terms of a registration rights agreement dated as of March 19, 2013 among GEO, the guarantors and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as the representative of the initial purchasers of the 5.125% Senior Notes (the Registration Rights Agreement), GEO has agreed to register under the Securities Act notes having terms identical in all material respects to the 5.125% Senior Notes (the Exchange Notes) and to make an offer to exchange the Exchange Notes for the 5.125% Senior Notes. Pursuant to the terms of the Registration Rights Agreement GEO has agreed to file a registration statement with respect to an offer to exchange the Exchange Notes for the 5.125% Senior Notes on or prior to 75 days after the closing of the offering of the 5.125% Senior Notes and to use its reasonable best efforts to have the registration statement declared effective on or prior to 180 days after the closing of the offering of the 5.125% Senior Notes. If GEO fails to satisfy certain filing and other obligations described in the Registration Rights Agreement, GEO will be

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obligated to pay additional interest of 0.25% per annum for the first 90-day period and an additional 0.25% per annum with respect to each subsequent 90-day period thereafter, until GEO's registration obligations are fulfilled, up to a maximum of 1.00% per annum. GEO filed the registration statement on May 30, 2013.

A portion of the proceeds received from the 5.125% Senior Notes were used on the date of financing to repay the Revolver loans outstanding under the Senior Credit Facility. As discussed above, on April 3, 2013, the Company's Senior Credit Facility was refinanced and a portion of the proceeds of the 5.125% Senior Notes were used to pay a portion of the outstanding term loans and a portion of the Revolver credit draws outstanding under the Senior Credit Facility.

7³/₄% Senior Notes

Interest on the 7³/₄% Senior Notes accrues at the stated rate. The Company pays interest semi-annually in arrears on April 15 and October 15 of each year. On or after October 15, 2013, the Company may, at its option, redeem all or a part of the 7³/₄% Senior Notes at the redemption prices set forth in the indenture governing the 7³/₄% Senior Notes. The indenture contains certain covenants including limitations and restrictions on the Company and its subsidiary guarantors (Refer to Note 17-Condensed Consolidating Financial Information). The Company believes it was in compliance with all of the covenants of the indenture as of June 30, 2013.

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 17-Condensed Consolidating Financial Information). The Company believes it was in compliance with all of the covenants of the indenture governing the 6.625% Senior Notes as of June 30, 2013.

Non-Recourse Debt***South Texas Detention Complex***

As of June 30, 2013, the remaining balance of the debt service requirement under the STLDC financing agreement for the \$49.5 million taxable revenue bonds maturing in February 2016 with fixed coupon rates between 4.63% and 5.07%, is \$17.2 million, of which \$5.5 million is due within the next twelve months. Also, as of June 30, 2013, included in current restricted cash and investments and non-current restricted cash and investments is \$6.3 million and \$16.9 million, respectively, of funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

As of June 30, 2013, the remaining balance of the 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) maturing in October 2014 and October 2021 with fixed coupon rates ranging from 4.10% to 5.25%, respectively, is \$67.7 million, of which \$6.5 million is classified as current in the accompanying consolidated balance sheet.

The payment of principal and interest on 2011 Revenue Bonds issued by WEDFA is non-recourse to GEO. None of the bonds nor CSC's obligations under the loan from WEDFA are obligations of GEO nor are they guaranteed by GEO.

As of June 30, 2013, included in current restricted cash and investments and non-current restricted cash and investments is \$9.3 million and \$4.1 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

The non-recourse obligations to the Company total \$27.8 million (AUD 30.4 million) and \$34.8 million (AUD 33.6 million), based on the exchange rates in effect at June 30, 2013 and December 31, 2012, 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 June 30, 2013, was \$4.6 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.

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In connection with the creation of SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. As of June 30, 2013, the Company guaranteed obligations amounting to 34.8 million South African Rand, or \$3.5 million based on exchange rates as of June 30, 2013. 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 34.8 million South African Rand is secured by outstanding letters of credit under the Company's Revolver as of June 30, 2013.

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 \$2.0 million based on exchange rates as of June 30, 2013, referred to as the Shareholder's Loan, to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under the standby facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company's obligations under the Shareholder's Loan expire upon the earlier of full funding or SACS' release from its obligations under its debt agreements. The lender's ability to draw on the Shareholder's Loan is limited to certain circumstances, including termination of the contract.

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

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 \$2.4 million, based on exchange rates as of June 30, 2013, commencing in 2017. The Company has a liability of \$2.2 million and \$2.0 million related to this exposure included in Other Non-Current Liabilities as of June 30, 2013 and December 31, 2012, 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 June 30, 2013 and December 31, 2012, respectively, on its consolidated balance sheets. The Company does not currently operate or manage this facility.

At June 30, 2013, the Company also had eight letters of guarantee outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$11.1 million.

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 £12.1 million, or \$18.4 million based on exchange rates as of June 30, 2013, was outstanding as of June 30, 2013. The Company's maximum exposure relative to the joint venture is its note receivable of \$18.4 million, including accrued interest of \$0.2 million, 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.

12. COMMITMENTS, CONTINGENCIES AND OTHER TAX MATTERS***Litigation, Claims and Assessments***

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities formerly operated by its Australian subsidiary. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In August 2007, a lawsuit (Commonwealth of Australia v. Australasian Correctional Services PTY, Limited No. SC 656) was filed against the Company in the Supreme Court of the Australian Capital Territory seeking damages of up to approximately AUD 18 million or \$16.5 million based on exchange rates as of June 30, 2013, plus interest. The pre-judgment interest rate in Australia is currently 7.00%. The Company had established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of legal counsel in connection with this matter. In May 2013, the case was settled. The settlement was within the Company's reserves and did not have a material impact on the Company's consolidated balance sheet or results of operations as of and for the three and six months ended June 30, 2013.

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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

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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.

Construction 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 range from \$31.0 million to \$35.0 million of which \$24.0 million was spent through the second quarter of 2013. The Company estimates the remaining capital requirements related to these capital projects will range from \$7.0 million to \$11.0 million which will be spent through fiscal year 2013. Capital expenditures related to facility maintenance costs are expected to range between \$30.0 million and \$35.0 million for fiscal year 2013.

Facility Purchase

On May 7, 2013, the Company executed a definitive agreement for the purchase of the land, buildings and improvements, and tangible personal property and fixtures of the 1,287 bed Joe Corley Detention Center (the "Center") located in Montgomery County, Texas for a purchase price of approximately \$65.0 million. The Center was previously managed by the Company under a managed-only contract with Montgomery County and will continue to house federal detainees for U.S. Immigration and Customs Enforcement and the U.S. Marshals Service under an Intergovernmental Services Agreement. The transaction closed on June 7, 2013.

Employment Agreement

On April 29, 2013, GEO and Mr. George C. Zoley, the Company's Chief Executive Officer, entered into the First Amendment to Third Amended and Restated Executive Employment Agreement (the "Amendment"). The Amendment modifies Mr. Zoley's employment agreement by eliminating the automatic cost of living increase applicable to his annual base salary and instead provides that his annual base salary may be increased in the sole discretion of the Board for cost of living increases to be determined by the Board. Additionally, the Amendment modifies the termination payment Mr. Zoley would receive in the event of a termination of employment other than a termination by GEO for cause (as defined in the Third Amended and Restated Executive Employment Agreement) or a termination by Mr. Zoley without good reason (as defined in the Third Amended and Restated Executive Employment Agreement) from three times the amount of Mr. Zoley's base salary plus annual bonus to two times the amount of Mr. Zoley's base salary plus annual bonus.

On May 29, 2013, the Company and the Chief Executive Officer entered into the Second Amendment to Third Amended and Restated Executive Employment Agreement (the "Amendment"). The Amendment modifies the Chief Executive Officer's employment agreement by decreasing the maximum target annual performance award he may receive from 150% of his annual base salary to 100% of his annual base salary.

Idle Facilities

The Company is currently marketing approximately 6,000 vacant beds at seven of its idle facilities to potential customers. The carrying values of these idle facilities, which are included in Property and Equipment, Net and Assets Held for Sale in the consolidated balance sheets, totaled \$237.3 million as of June 30, 2013, excluding equipment and other assets that can be easily transferred for use at other facilities.

Other Tax Matters

As a result of the REIT conversion as more fully discussed in Note 1 Basis of Presentation, the Company reorganized its operations and moved non-real estate components into TRS. The TRS structure requires the provisions of services between affiliated companies which are conducted at arm's length subject to applicable tax law and promulgated tax regulations. The Company has, with the assistance of its tax advisors, undertaken substantial analysis to determine and document the appropriateness of the arm's length compensation used in compliance with such tax rules which is reviewed on a periodic basis.

During 2013 GEO had a tax benefit relating to its REIT conversion as well as a net release of tax reserves primarily due to the settlement of IRS audit years 2010 and 2011, partially offset by an initial reserve for uncertain tax positions relating to the REIT conversion. Together these items had a favorable impact to the effective tax rate and resulted in a tax benefit of \$7.3 million and \$6.4

million for the three months and six months ended June 30, 2013, respectively.

13. BUSINESS SEGMENTS AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments

The Company conducts its business through four reportable business segments: the U.S. Corrections & Detention segment; the GEO Community Services segment; the International Services segment; and the Facility Construction & Design segment. The Facility Construction & Design segment did not have any operating activity during the 2013 and 2012 periods presented. The GEO Community Services segment was previously referred to as the GEO Care segment but was renamed concurrent with the divestiture of RTS. The U.S. Corrections and Detention and the GEO Community Services segments have been retroactively reclassified during the three and six months ended July 1, 2012 for the results of discontinued operations. Refer to Note 8 Discontinued Operations. In addition, the Company has reclassified the results of its operations in Canada to the International Services segment for all periods presented. Canada's results, which were previously included in the U.S. Corrections &

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Detention segment, were not significant during 2013 or 2012. The Company's segment revenues from external customers and a measure of segment profit are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenues:				
U.S. Corrections & Detention	\$ 254,043	\$ 245,916	\$ 502,815	\$ 480,710
GEO Community Services	75,072	72,767	149,013	145,025
International Services	52,538	52,490	106,856	105,480
Total revenues	\$ 381,653	\$ 371,173	\$ 758,684	\$ 731,215
Operating income:				
U.S. Corrections & Detention	\$ 56,631	\$ 59,762	\$ 110,723	\$ 106,861
GEO Community Services	18,854	17,093	36,259	33,342
International Services	3,265	2,215	5,067	5,950
Operating income from segments	\$ 78,750	\$ 79,070	\$ 152,049	\$ 146,153

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):