GEO GROUP INC
Form 10-Q
November 08, 2016

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, 2016

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	**65-0043078**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

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

Boca Raton, Florida	**33487**
(Address of principal executive offices)	**(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 4, 2016, the registrant had 75,013,069 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 NINE MONTHS ENDED

SEPTEMBER 30, 2016 AND 2015

(In thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues	$ 554,376	$ 469,866	$ 1,612,911	$ 1,343,181
Operating expenses	415,659	345,966	1,221,002	997,812
Depreciation and amortization	28,783	27,127	85,886	78,628
General and administrative expenses	37,483	33,742	108,448	97,764
Operating income	72,451	63,031	197,575	168,977
Interest income	7,928	2,992	18,387	7,933
Interest expense	(33,428)	(27,314)	(93,864)	(78,610)
Loss on extinguishment of debt			(15,885)	
Income before income taxes and equity in earnings of affiliates	46,951	38,709	106,213	98,300
Provision for income taxes	4,970	1,758	12,000	6,954
Equity in earnings of affiliates, net of income tax provision of $650, $583, $1,850 and $1,712, respectively	1,693	1,340	4,943	3,949
Net income	43,674	38,291	99,156	95,295
Net loss attributable to noncontrolling interests	46	21	123	79
Net income attributable to The GEO Group, Inc.	$ 43,720	$ 38,312	$ 99,279	$ 95,374
Weighted-average common shares outstanding:				
Basic	74,108	73,757	74,010	73,658
Diluted	74,336	73,919	74,283	73,906

Net income per common share attributable to The GEO Group, Inc.:								
Basic:								
Net income per common share attributable to The GEO Group, Inc. basic	$	0.59	$	0.52	$	1.34	$	1.29
Diluted:								
Net income per common share attributable to The GEO Group, Inc. diluted	$	0.59	$	0.52	$	1.34	$	1.29
Dividends declared per share	$	0.65	$	0.62	$	1.95	$	1.86

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

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THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2016 AND 2015

(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	$ 43,674	$ 38,291	$ 99,156	$ 95,295
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	970	(3,014)	2,081	(4,982)
Pension liability adjustment, net of tax provision of $21, $21, $63 and $63, respectively	33	43	98	120
Unrealized (loss) gain on derivative instrument classified as cash flow hedge, net of tax benefit of $81, $604, $893 and $484, respectively	(520)	(3,470)	(5,162)	(2,453)
Total other comprehensive (loss) income, net of tax	483	(6,441)	(2,983)	(7,315)
Total comprehensive income	44,157	31,850	96,173	87,980
Comprehensive loss attributable to noncontrolling interests	36	64	104	145
Comprehensive income attributable to The GEO Group, Inc.	$ 44,193	$ 31,914	$ 96,277	$ 88,125

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

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THE GEO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2016 AND DECEMBER 31, 2015

(In thousands, except share data)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$ 30,123	$ 59,638
Restricted cash and investments	102,652	8,489
Accounts receivable, less allowance for doubtful accounts of $3,134 and $3,088, respectively	341,454	314,097
Current deferred income tax assets		27,914
Prepaid expenses and other current assets	33,443	28,208
Total current assets	507,672	438,346
Restricted Cash and Investments	24,463	20,236
Property and Equipment, Net	1,908,053	1,916,386
Contract Receivable	388,729	174,141
Direct Finance Lease Receivable		1,826
Non-Current Deferred Income Tax Assets	24,154	7,399
Goodwill	615,457	615,438
Intangible Assets, Net	208,970	224,148
Other Non-Current Assets	64,897	64,307
Total Assets	$ 3,742,395	$ 3,462,227
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 81,906	$ 77,523
Accrued payroll and related taxes	46,947	48,477
Accrued expenses and other current liabilities	144,384	135,483
Current portion of capital lease obligations, long-term debt and non-recourse debt	15,638	17,141
Total current liabilities	288,875	278,624
Non-Current Deferred Income Tax Liabilities		11,471
Other Non-Current Liabilities	92,081	87,694
Capital Lease Obligations	7,757	8,693

Long-Term Debt	1,893,980	1,855,810
Non-Recourse Debt	493,303	213,098
Commitments, Contingencies and Other (Note 11)		
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 shares authorized, 74,985,483 and 74,642,859 issued and outstanding, respectively	750	747
Additional paid-in capital	888,975	879,599
Earnings in excess of distributions	112,085	158,796
Accumulated other comprehensive loss	(35,406)	(32,404)
Total shareholders equity attributable to The GEO Group, Inc.	966,404	1,006,738
Noncontrolling interests	(5)	99
Total shareholders equity	966,399	1,006,837
Total Liabilities and Shareholders Equity	$ 3,742,395	$ 3,462,227

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

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THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

FOR THE NINE MONTHS ENDED

SEPTEMBER 30, 2016 AND 2015

(In thousands)

	Nine Months Ended	
	September 30, 2016	**September 30, 2015**
Cash Flow from Operating Activities:		
Net income	$ 99,156	$ 95,295
Net loss attributable to noncontrolling interests	123	79
Net income attributable to The GEO Group, Inc.	99,279	95,374
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	85,886	78,628
Stock-based compensation	9,675	8,602
Loss on extinguishment of debt	15,885	
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	8,330	4,986
Dividends received from unconsolidated joint venture	1,611	
Provision for doubtful accounts	1,783	323
Equity in earnings of affiliates, net of tax	(4,943)	(3,949)
Income tax deficiency (benefit) related to equity compensation	844	(1,252)
Loss on sale/disposal of property and equipment	764	(935)
Deferred tax benefit		
Changes in assets and liabilities, net of effects of acquisitions:		
Changes in accounts receivable, prepaid expenses and other assets	(33,953)	(3,068)
Changes in contract receivable	(205,135)	(74,483)
Changes in accounts payable, accrued expenses and other liabilities	8,216	6,938
Net cash (used in) provided by operating activities	(11,758)	111,164
Cash Flow from Investing Activities:		
Acquisition of LCS, cash consideration		(307,403)
Acquisition of SoberLink, cash consideration		(24,402)
Insurance proceeds damaged property	4,733	1,270
Proceeds from sale of property and equipment	68	49
Change in restricted cash and investments	(97,716)	(11,136)

Capital expenditures	(68,015)	(100,844)
Net cash used in investing activities	(160,930)	(442,466)
Cash Flow from Financing Activities:		
Proceeds from long-term debt	813,077	642,000
Payments on long-term debt	(775,256)	(222,675)
Payments on non-recourse debt	(1,878)	(6,366)
Proceeds from non-recourse debt	273,087	70,117
Taxes paid related to net share settlements of equity awards	(2,336)	(2,748)
Proceeds from issuance of common stock in connection with ESPP	338	321
Debt issuance costs	(20,490)	(5,217)
Income tax (deficiency) benefit related to equity compensation	(844)	1,252
Proceeds from the exercise of stock options	2,367	2,513
Cash dividends paid	(145,991)	(138,454)
Net cash provided by financing activities	142,074	340,743
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,099	(3,647)
Net (Decrease) Increase in Cash and Cash Equivalents	(29,515)	5,794
Cash and Cash Equivalents, beginning of period	59,638	41,337
Cash and Cash Equivalents, end of period	$ 30,123	$ 47,131
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	$ 2,410	$ 7,266

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

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THE GEO GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

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

The Company s unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2016 for the year ended December 31, 2015. The accompanying December 31, 2015 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, 2015. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Quarterly Report on Form 10-Q have been made. Results of operations for the nine months ended September 30, 2016 are not necessarily indicative of the results for the entire year ending December 31, 2016, or for any other future interim or annual periods.

2. IMPAIRMENT TESTING

In August 2016, the Department of Justice (DOJ) issued a memorandum regarding the use of public-private partnerships for federal correctional facilities. In this memorandum, the DOJ stated that the Bureau of Prisons (BOP) should either decline to renew or substantially reduce the scope of contract renewals in a manner consistent with the law and the overall decline of the BOP s inmate population. The exact timing of this plan is unknown, and uncertainties exist about the capacity of other BOP facilities to absorb the populations which are currently housed in public-private partnerships.

Although no contracts have been terminated at this time, the Company has determined that the issuance of this statement by the DOJ is considered to be a triggering event that requires certain testing of potential impairment of goodwill for its U.S. Corrections & Detention reporting unit as well as impairment testing for certain long-lived assets and related facility management contract intangible assets.

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The result of this quantitative testing performed during the quarter ended September 30, 2016 showed no impairment in the goodwill of its U.S. Corrections & Detention reporting unit. The calculated fair value of the reporting unit substantially exceeded its carrying value. The Company used a third party valuation firm to determine the estimated fair value of the reporting unit using a discounted cash flow and other valuation models. Growth rates for sales and profits were determined using inputs from the Company s long term planning process. The Company also makes estimates for discount rates and other factors based on market conditions, historical experience and other economic factors.

The result of the long-lived asset impairment, including facility management contracts, testing performed during the quarter ended September 30, 2016 showed no impairment based on the undiscounted cash flows projected to occur over the remaining asset life. Certain assumptions about contract renewals, related rates, residual values and alternative facility uses, including leases and sales, were made in connection with these calculations.

It is reasonably possible that other future events could trigger further impairment testing in future periods. It is also reasonably possible that these events, including potential changes in assumptions, could result in the write down of goodwill or other long-lived assets and that the amounts could be material. The Company will conduct its annual goodwill testing of all reporting units as of October 1, 2016 which is its annual testing date.

Contract Awards

On September 30, 2016, we announced that the BOP had extended our contract for our company-owned D. Ray James Correctional Facility for a two-year renewal term through September 30, 2018 for the housing of up to 1,900 beds with a fixed payment for 1,800 beds compared to our previous contract which contained a fixed payment for 1,962 beds.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill as a result of its business combinations. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the tangible assets and intangible assets acquired net of liabilities assumed, including noncontrolling interests. Changes in the Company s goodwill balances from December 31, 2015 to September 30, 2016 are as follows (in thousands):

	December 31, 2015	Foreign Currency Translation	September 30, 2016
U.S. Corrections & Detention	$ 277,774	$	$ 277,774
GEO Care	337,257		337,257
International Services	407	19	426
Total Goodwill	$ 615,438	$ 19	$ 615,457

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The Company has also recorded other finite and indefinite-lived intangible assets as a result of its various business combinations. The Company s intangible assets include customer relationships, facility management contracts, trade names and technology, as follows (in thousands):

		September 30, 2016			December 31, 2015		
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Facility management contracts and customer relationships	15.6	$ 233,126	$ (83,320)	$ 149,806	$ 233,041	$ (71,538)	$ 161,503
Technology	7.3	33,700	(19,736)	13,964	33,700	(16,255)	17,445
Trade name (Indefinite lived)	Indefinite	45,200		45,200	45,200		45,200
Total acquired intangible assets		$ 312,026	$ (103,056)	$ 208,970	$ 311,941	$ (87,793)	$ 224,148

Amortization expense was $5.1 million and $15.3 million for the three and nine months ended September 30, 2016, respectively. Amortization expense was $5.1 million and $14.2 million for the three and nine months ended September 30, 2015, respectively. Amortization expense was primarily related to the U.S. Corrections & Detention and GEO Care segments amortization of acquired facility management contracts. As of September 30, 2016, the weighted average period before the next contract renewal or extension for the acquired facility management contracts was approximately 1.9 years. Although the facility management contracts acquired have renewal and extension terms in the near term, the Company has historically maintained these relationships beyond the current contractual periods.

Estimated amortization expense related to the Company s finite-lived intangible assets for the remainder of 2016 through 2020 and thereafter is as follows (in thousands):

Fiscal Year	**Total Amortization Expense**
Remainder of 2016	$ 5,089
2017	20,328
2018	17,468
2019	17,140
2020	17,140
Thereafter	86,605
	$ 163,770

4. FINANCIAL INSTRUMENTS

The following tables provide a summary of the Company s significant financial assets and liabilities carried at fair value and measured on a recurring basis as of September 30, 2016 and December 31, 2015 (in thousands):

			Fair Value Measurements at September 30, 2016	
	Carrying Value at September 30, 2016	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Restricted investment:				
Rabbi Trust	$ 15,521	$	$ 15,521	$
Fixed income securities	1,848		1,848	
Liabilities:				
Interest rate swap derivatives	$ 26,896	$	$ 26,896	$

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	Carrying Value at December 31, 2015	Fair Value Measurements at December 31, 2015 — Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted investments:				
Rabbi Trust	$ 13,071	$	$ 13,071	$
Fixed income securities	1,717		1,717	
Interest rate cap derivatives	93		93	
Liabilities:				
Interest rate swap derivatives	$ 20,835	$	$ 20,835	$

The Company s Level 2 financial instruments included in the tables above as of September 30, 2016 and December 31, 2015 consist of interest rate swap derivative liabilities and interest rate cap derivative assets held by the Company s Australian subsidiary, the Company s rabbi trust established for GEO employee and employer contributions to The GEO Group, Inc. Non-qualified Deferred Compensation Plan and an investment in Canadian dollar denominated fixed income securities.

The Australian subsidiary s interest rate swap derivative liabilities and interest rate cap derivative assets are valued using a discounted cash flow model based on projected Australian borrowing rates. The Australian subsidiary s interest rate cap derivative asset was not significant at September 30, 2016. 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.

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5. FAIR VALUE OF ASSETS AND LIABILITIES

The Company s consolidated balance sheets reflect certain financial assets and liabilities at carrying value. The carrying value of certain debt instruments, if applicable, is net of unamortized discount. The following tables present the carrying values of those financial instruments and the estimated corresponding fair values at September 30, 2016 and December 31, 2015 (in thousands):

	Carrying Value as of September 30, 2016	Estimated Fair Value Measurements at September 30, 2016			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 30,123	$ 30,123	$ 30,123	$	$
Restricted cash and investments	111,594	111,594	108,541	3,053	
Liabilities:					
Borrowings under senior credit facility	$ 765,250	$ 751,793	$	$ 751,793	$
5.875% Senior Notes due 2024	250,000	215,938		215,938	
5.125% Senior Notes	300,000	255,375		255,375	
5.875% Senior Notes due 2022	250,000	225,625		225,625	
6.00% Senior Notes	350,000	301,438		301,438	
Non-recourse debt, Australian subsidiary	482,789	482,738		482,738	
Other non-recourse debt, including current portion	42,707	44,221		44,221	

	Carrying Value as of December 31, 2015	Estimated Fair Value Measurements at December 31, 2015			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 59,638	$ 59,638	$ 59,638	$	$
Restricted cash and investments	15,654	15,654	11,536	4,118	
Liabilities:					
Borrowings under senior credit facility	$ 777,500	$ 777,500	$	$ 777,500	$
5.875% Senior Notes due 2024	250,000	245,783		245,783	
5.125% Senior Notes	300,000	285,189		285,189	
5.875% Senior Notes due 2022	250,000	248,125		248,125	
6.625% Senior Notes	300,000	308,625		308,625	
Non-recourse debt, Australian subsidiary	204,539	204,531		204,531	
Other non-recourse debt, including current portion	42,592	43,353		43,353	

The fair values of the Company s cash and cash equivalents, and restricted cash approximates the carrying values of these assets at September 30, 2016 and December 31, 2015. Restricted cash consists of money market funds, bank deposits, commercial paper and time deposits used for payments on the Company s non-recourse debt, asset replacement funds contractually required to be maintained at the Company s Australian subsidiary and contractual commitments related to the design and construction of a new facility in Ravenhall Australia. The fair value of the money market funds and bank deposits is based on quoted market prices (Level 1) and the fair value of commercial paper and time deposits is based on market prices for similar instruments (Level 2).

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The fair values of the Company s 5.875% senior unsecured notes due 2022 (5.875% Senior Notes due 2022), 5.875% senior unsecured notes due 2024 (5.875% Senior Notes due 2024), 6.625% senior unsecured notes due 2021 (6.625 Senior Notes), 6.00% senior unsecured notes due 2026 (6.00% Senior Notes), and the 5.125% senior unsecured notes due 2023 (5.125% Senior Notes), although not actively traded, are based on published financial data for these instruments. On April 18, 2016, the Company completed an offering of $350 million aggregate principal amount of the 6.00% Senior Notes. The Company used part of the net proceeds to fund the tender offer or the repurchase, redemption or other discharge of any and all of its 6.625% Senior Notes. Refer to Note 10 Debt. The fair values of the Company s non-recourse debt related to the Washington Economic Development Finance Authority (WEDFA) is based on market prices for similar instruments. The fair value of the non-recourse debt related to the Company s Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of borrowings under the senior credit facility is based on an estimate of trading value considering the Company s borrowing rate, the undrawn spread and similar instruments.

6. SHAREHOLDERS EQUITY

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

	Common shares			Earnings	Accumulated		
			Additional	in	Other		Total
			Paid-In	Excess of	Comprehensive	Noncontrolling	Shareholders
	Shares	Amount	Capital	Distributions	Loss	Interests	Equity
Balance, December 31, 2015	74,643	$ 747	$ 879,599	$ 158,796	$ (32,404)	$ 99	$ 1,006,837
Proceeds from exercise of stock options	108		2,367				2,367
Tax deficiency related to equity compensation			(844)				(844)
Stock-based compensation expense			9,675				9,675
Restricted stock granted	349	3	(3)				
Restricted stock canceled	(51)						
Dividends paid				(145,990)			(145,990)
Shares withheld for net settlements of share-based awards	(75)		(2,336)				(2,336)
Other adjustments to additional paid-in-capital			179				179
Issuance of common stock ESPP	12		338				338
Net income (loss)				99,279		(123)	99,156
Other comprehensive (loss) income					(3,002)	19	(2,983)
Balance, September 30, 2016	74,986	$ 750	$ 888,975	$ 112,085	$ (35,406)	$ (5)	$ 966,399

During the nine months ended September 30, 2016, 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, limitations on distributions in GEO s existing and future debt instruments, limitations on GEO s ability to fund distributions using cash generated through GEO s taxable REIT subsidiaries (TRSs) and other factors that GEO s Board may deem relevant.

During the nine months ended September 30, 2016 and the year ended December 31, 2015, respectively, GEO declared and paid the following regular cash distributions to its shareholders as follows:

Declaration Date	Record Date	Payment Due	Distribution Per Share	Aggregate Payment Amount (in millions)
February 6, 2015	February 17, 2015	February 27, 2015	$ 0.62	$ 46.0
April 29, 2015	May 11, 2015	May 21, 2015	$ 0.62	$ 46.3
July 31, 2015	August 14, 2015	August 24, 2015	$ 0.62	$ 46.3
November 3, 2015	November 16, 2015	November 25, 2015	$ 0.65	$ 48.5
February 3, 2016	February 16, 2016	February 26, 2016	$ 0.65	$ 48.5
April 20, 2016	May 2, 2016	May 12, 2016	$ 0.65	$ 48.7
July 20, 2016	August 1, 2016	August 12, 2016	$ 0.65	$ 48.7

Prospectus Supplement

In September 2014, the Company filed with the Securities and Exchange Commission an automatic shelf registration statement on Form S-3. On November 10, 2014, in connection with the shelf registration, 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 $150.0 million through sales agents. Sales of shares of the Company s common stock under the prospectus supplement and the equity distribution agreements entered into with the sales agents, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. There were no shares of the Company s stock issued under this prospectus supplement during the year ended December 31, 2015 nor the nine months ended September 30, 2016.

Comprehensive Income (Loss)

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

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

	Nine Months Ended September 30, 2016 (In thousands)			
	Foreign currency translation adjustments,	Unrealized (loss)/gain on derivatives, net of	Pension adjustments, net of tax	Total

	net of tax attributable to The GEO Group, Inc. (1)	tax		
Balance, December 31, 2015	$ (11,747)	$ (17,697)	$ (2,960)	$ (32,404)
Current-period other comprehensive (loss) income	2,062	(5,162)	98	(3,002)
Balance, September 30, 2016	$ (9,685)	$ (22,859)	$ (2,862)	$ (35,406)

(1) The foreign currency translation related to noncontrolling interests was not significant at September 30, 2016 or December 31, 2015.

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7. EQUITY INCENTIVE PLANS

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

Stock Options

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. For options granted during the nine months ended September 30, 2016, the fair value was estimated using the following assumptions: (i) volatility of 25%; (ii) expected term of 5.00 years; (iii) risk free interest rate of 1.45%; and (iv) expected dividend yield of 8.85%. 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, 2016:

	Shares (in thousands)	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2015	749	$ 29.98	6.85	$ 3,057
Options granted	295	29.39		
Options exercised	(108)	21.25		
Options forfeited/canceled/expired	(62)	34.84		
Options outstanding at September 30, 2016	874	$ 30.50	7.21	$ 876
Options vested and expected to vest at September 30, 2016	827	$ 30.33	7.11	$ 876
Options exercisable at September 30, 2016	469	$ 27.37	5.84	$ 876

During the nine months ended September 30, 2016, the Company granted approximately 295,000 options to certain employees which had a weighted-average grant-date fair value of $2.08 per share. For the nine months ended September 30, 2016 and September 30, 2015, the amount of stock-based compensation expense related to stock options was $0.4 million and $0.6 million, respectively. As of September 30, 2016, 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 2.8 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 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.

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A summary of the activity of restricted stock outstanding is as follows for the nine months ended September 30, 2016:

	Shares (in thousands)	Wtd. Avg. Grant Date Fair Value
Restricted stock outstanding at December 31, 2015	863	$ 39.74
Granted	349	30.43
Vested	(258)	35.75
Forfeited/canceled	(51)	38.58
Restricted stock outstanding at September 30, 2016	903	$ 36.52

During the nine months ended September 30, 2016, the Company granted approximately 349,000 shares of restricted stock to certain employees and executive officers. Of these awards, 115,000 are market and performance-based awards which will be forfeited if the Company does not achieve certain annual metrics during 2016, 2017 and 2018.

The vesting of these performance-based restricted stock grants are subject to the achievement by GEO of two annual performance metrics as follows: (i) up to 50% of the shares of restricted stock (TSR Target Award) can vest at the end of a three year performance period if GEO meets certain total shareholder return (TSR) performance targets, as compared to the total shareholder return of a peer group of companies, over a three year period from January 1, 2016 to December 31, 2018 and (ii) up to 50% of the shares of restricted stock (ROCE Target Award) can vest at the end of a three year period if GEO meets certain return on capital employed (ROCE) performance targets over a three year period from January 1, 2016 to December 31, 2018. These market and performance awards can vest at between 0% and 200% of the target awards for both metrics. The number of shares shown for the performance-based awards is based on the target awards for both metrics.

The metric related to ROCE is considered to be a performance condition. For share-based awards that contain a performance condition, the achievement of the targets must be probable before any share-based compensation expense is recorded. The Company reviews the likelihood of which the target in the range will be achieved and if deemed probable, compensation expense is recorded at that time. If subsequent to initial measurement there is a change in the estimate of the probability of 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 23.5%; (ii) beta of 1.04; and (iii) risk free rates of 1.08%.

For the nine months ended September 30, 2016 and September 30, 2015, the Company recognized $9.2 million and $8.0 million, respectively, of compensation expense related to its restricted stock awards. As of September 30, 2016, the Company had $22.8 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 2.4 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, 2016, 11,976 shares of the Company s common stock were issued in connection with the Plan.

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8. EARNINGS PER SHARE

Basic earnings per common share is computed by dividing the net income from continuing operations attributable to The GEO Group, Inc. by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per share except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share were calculated for the nine months ended September 30, 2016 and 2015 as follows (in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Net income	$ 43,674	$ 38,291	$ 99,156	$ 95,295
Net loss attributable to noncontrolling interests	46	21	123	79
Net income attributable to The GEO Group, Inc.	43,720	38,312	99,279	95,374
Basic earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	74,108	73,757	74,010	73,658
Per share amount	$ 0.59	$ 0.52	$ 1.34	$ 1.29
Diluted earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	74,108	73,757	74,010	73,658
Dilutive effect of equity incentive plans	228	162	273	248
Weighted average shares assuming dilution	74,336	73,919	74,283	73,906
Per share amount	$ 0.59	$ 0.52	$ 1.34	$ 1.29

Three Months

For the three months ended September 30, 2016, 614,128 weighted average shares of common stock underlying options were excluded from the computation of diluted earnings per share (EPS) because the effect would be anti-dilutive. There were 238,561 common stock equivalents from restricted shares that were anti-dilutive.

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

Nine Months

For the nine months ended September 30, 2016, 566,610 weighted average shares of common stock underlying options were excluded from the computation of diluted earnings per share because the effect would be anti-dilutive. There were 222,521 common stock equivalents from restricted shares that were anti-dilutive.

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

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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Australia Fulham

The Company s Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on its variable rate non-recourse debt (related to its Fulham facility) to 9.7%. The Company has determined the swap, which has a notional amount of AUD 50.9 million, or $38.9 million, based on exchange rates in effect as of September 30, 2016, 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 were not significant for the nine months ended September 30, 2016 and 2015. The total fair value of the swap liability was not significant as of September 30, 2016 and December 31, 2015, respectively, and is recorded as a component of other non-current liabilities within the accompanying consolidated balance sheets. There was no material ineffectiveness of this interest rate swap for the periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

Australia Ravenhall

The Company s Australian subsidiary has entered into interest rate swap agreements to fix the interest rate on its variable rate non-recourse debt related to a prison project in Ravenhall, a locality near Melbourne, Australia to 3.3% during the design and construction phase and 4.2% during the project s operating phase. The swaps notional amounts coincide with construction draw fixed commitments throughout the project. At September 30, 2016, the swaps had a notional amount of approximately AUD 626 million, or $478 million, based on exchange rates at September 30, 2016, related to the outstanding draws for the design and construction phase and approximately AUD 466 million, or $356 million, based on exchange rates at September 30, 2016 related to future construction draws. The Company has determined that the swaps have payment, expiration dates, and provisions that coincide with the terms of the non-recourse debt and are therefore considered to be effective cash flow hedges. Accordingly, the Company records the change in the fair value of the interest rate swaps in accumulated other comprehensive income, net of applicable income taxes. Total unrealized loss recorded in other comprehensive income, net of tax, related to this cash flow hedge was $5.2 million during the nine months ended September 30, 2016. The total fair value of the swap liability as of September 30, 2016 was $26.9 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 approximately $237 million, based on exchange rates at September 30, 2016, 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. Total losses related to a decrease in the fair value of the interest rate cap assets were not significant during the nine months ended September 30, 2016. The total fair value of the interest rate cap assets was not significant as of September 30, 2016 and December 31, 2015, respectively, and is recorded as a component of other non-current assets within the accompanying consolidated balance sheets.

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10. DEBT

Debt outstanding as of September 30, 2016 and December 31, 2015 consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Senior Credit Facility:		
Term loan	$ 290,250	$ 292,500
Unamortized debt issuance costs on term loan	(403)	(486)
Revolver	475,000	485,000
Total Senior Credit Facility	$ 764,847	$ 777,014
6.00% Senior Notes:		
Notes Due in 2026	350,000	
Unamortized debt issuance costs	(5,895)	
Total 6.00% Senior Notes Due in 2026	344,105	
5.875% Senior Notes:		
Notes Due in 2024	250,000	250,000
Unamortized debt issuance costs	(3,868)	(4,140)
Total 5.875% Senior Notes Due in 2024	246,132	245,860
5.125% Senior Notes:		
Notes Due in 2023	300,000	300,000
Unamortized debt issuance costs	(4,933)	(5,358)
Total 5.125% Senior Notes Due in 2023	295,067	294,642
5.875% Senior Notes		
Notes Due in 2022	250,000	250,000
Unamortized debt issuance costs	(4,088)	(4,564)
Total 5.875% Senior Notes Due in 2022	245,912	245,436
6.625% Senior Notes:		
Notes Due in 2021		300,000
Unamortized debt issuance costs		(5,198)
Total 6.625% Senior Notes Due in 2021		294,802
Non-Recourse Debt	525,929	247,679
Unamortized debt issuance costs on non-recourse debt	(21,135)	(21,369)
Unamortized discount on non-recourse debt	(433)	(548)
Total Non-Recourse Debt	504,361	225,762
Capital Lease Obligations	8,992	9,856
Other debt	1,262	1,370

Total debt	2,410,678	2,094,742
Current portion of capital lease obligations, long-term debt and non-recourse debt	(15,638)	(17,141)
Capital Lease Obligations, long-term portion	(7,757)	(8,693)
Non-Recourse Debt, long-term portion	(493,303)	(213,098)
Long-Term Debt	$ 1,893,980	$ 1,855,810

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-03, *Interest-Imputation of Interest,* which is intended to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. In accordance with ASU No. 2015-03, the Company adopted the new standard during the nine months ended September 30, 2016 and has applied the new guidance on a retrospective basis. Refer to Note 14 Recent Accounting Pronouncements.

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Amended Credit Agreement

On May 19, 2016 (the Amendment Effective Date), GEO executed Amendment No. 1, among GEO and GEO Corrections Holdings, Inc. (together with GEO, the Borrowers), GEO Australasia Holdings Pty Ltd (GEO Australasia Holdings), GEO Australasia Finance Holdings Pty Ltd as trustee for the GEO Australasia Finance Holding Trust (the Australian Trust) (the Australian Trustee , and together with GEO Australasia Holdings, collectively, the Australian Borrowers), the guarantors party thereto, the issuing lenders party thereto, the lenders party thereto and BNP Paribas, as administrative agent (the Amendment), to the Second Amended and Restated Credit Agreement, dated as of August 27, 2014, by and among the Borrowers, BNP Paribas, as administrative agent, and the lenders who are, or may from time to time become, a party thereto (the Existing Credit Agreement).

The Amendment amends certain terms of the Existing Credit Agreement to effect a revolving credit increase in the amount of $200.0 million, increases to the total leverage thresholds used in the determination of the applicable interest rates, and certain other modifications (the Existing Credit Agreement as so modified, the Amended Credit Agreement).

The Amendment provides that each lender (including each Increasing Lender and each Assuming Lender as defined in the Amended Credit Agreement) that executed a lender addendum as a revolving credit lender agrees to provide a revolving credit commitment, inclusive of letters of credit issued thereunder, to the Borrowers at the Amendment Effective Time in an aggregate principal amount equal to $900.0 million (the Revolving Credit Commitment) on the terms set forth in the Amended Credit Agreement. In addition, the Amendment increases the principal amount of letters of credit that may be issued under the Revolving Credit Commitment from $175.0 million to $300.0 million.

The Amendment further provides that each Revolving Credit Lender (including each applicable Increasing Lender and each Assuming Lender) that executed a lender addendum as a multicurrency subfacility lender agrees to provide a multicurrency subfacility commitment to the Borrowers and the Australian Borrowers at the Amendment Effective Time in an aggregate principal amount equal to $100.0 million (the Multicurrency Subfacility Commitment) on the terms set forth in the Amended Credit Agreement. The aggregate amount of loans and letters of credit that may be issued under the Revolving Credit Commitment and the Multicurrency Subfacility Commitment may not exceed $900.0 million.

Giving effect to the Amendment, the Amended Credit Agreement currently evidences a Credit Facility (the Credit Facility) consisting of a $291.0 million Term Loan (the Term Loan) bearing interest at LIBOR plus 2.50% (with a LIBOR floor of .75%), and a $900.0 million revolving credit facility (the Revolver) initially bearing interest at LIBOR plus 2.25% (with a LIBOR floor of 0.00%) together with AUD225.0 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). The Amended Credit Agreement also includes a $100.0 million Multicurrency Subfacility Commitment that is part of the Revolver and a $300.0 million letter of credit subfacility that is part of the Revolver. The Amended Credit Agreement also has an accordion feature of $450.0 million, subject to lender demand and prevailing market conditions and satisfying the relevant borrowing conditions. The Term Loan Maturity Date under the Amended Credit Agreement did not change from the Existing Credit Agreement and is April 3, 2020. The Amendment amended the termination date for the Revolving Credit Commitment component to May 19, 2021; provided, that if on October 3, 2019 both the maturity dates of all Term Loans and Incremental Term Loans have not been extended to November 19, 2021 or a later date, and the senior secured leverage ratio exceeds 2.50 to 1.00, then the termination date of the Revolving Credit Commitments will be October 3, 2019. The Amendment amended the maturity date for the performance letter of credit component of the Australian LC Facility to October 1, 2016, and the maturity date for the financial letter of credit component of the Australian LC Facility to February 15, 2017. On September 9, 2016, the performance letter of credit component of the Australian LC Facility was reduced by AUD110 million after the Company executed a Letter of Offer by and among GEO and HSBC Bank Australia Limited (the Letter of Offer) providing for a bank guarantee line and bank guarantee/standby sub-facility in an aggregate amount of AUD100 million as further discussed below.

The Amended Credit Agreement contains certain customary representations and warranties, and certain customary covenants that restrict GEO s ability to, among other things (i) create, incur or assume any indebtedness, (ii) create, incur, assume or permit liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) make certain restricted payments, (vi) issue, sell or otherwise dispose of capital stock, (vii) engage in transactions with affiliates, (viii) allow the total leverage ratio to exceed 6.25 to 1.00, allow the senior secured leverage ratio to exceed 3.50 to 1.00, or allow the interest coverage ratio to be less than 3.00 to 1.00, (ix) cancel, forgive, make any voluntary or optional payment or prepayment on, or redeem or acquire for value any senior notes, except as permitted, (x) allow the Australian Trustee to resign or retire as trustee of the Australian Trust or cause or permit any other person to become an additional trustee of the Australian Trust or take, or omit to take any action, which might or would result in the retirement, removal or replacement of the Australian Trustee as trustee of the Australian Trust, except as permitted, (xi) alter the business GEO conducts, and (xii) materially impair GEO s lenders security interests in the collateral for its loans.

Events of default under the Amended Credit Agreement include, but are not limited to, (i) GEO s or any Australian Borrower s failure to pay principal or interest when due, (ii) GEO s material breach of any representation or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) certain material environmental liability claims which have been asserted against GEO, (viii) unless the Australian Borrower Resignation Date (as defined in the Amended Credit Agreement) has occurred, certain events involving the Australian Trustee or the Australian Trust occur including the Australian Trustee ceases to be the trustee of the Australian Trust or the Australian Trust is terminated, and (ix) a change in control.

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

The Australian Borrowers are wholly owned foreign subsidiaries of GEO, and became party to the Amended Credit Agreement by executing the Amendment. Pursuant to the Amendment, GEO designated each of the Australian Borrowers as restricted subsidiaries under the Amended Credit Agreement. However, the Australian Borrowers are not obligated to pay or perform any obligations under the Amended Credit Agreement other than their own obligations as Australian Borrowers under the Amended Credit Agreement. The Australian Borrowers do not pledge any of their assets to secure any obligations under the Amended Credit Agreement.

On August 18, 2016, the Company executed a Letter of Offer by and among GEO and HSBC Bank Australia Limited (the Letter of Offer) providing for a bank guarantee line and bank guarantee/standby sub-facility in an aggregate amount of AUD100 million, or $76.3 million, based on exchange rates in effect as of September 30, 2016 (collectively, the Bank Guarantee Facility). The Bank Guarantee Facility allows GEO to provide letters of credit to assure performance of certain obligations of its wholly owned subsidiary relating to its prison project in Ravenhall, located near Melbourne, Australia and replaced the performance letter of credit discussed above which was previously included in the Amended Credit Agreement. The Bank Guarantee Facility is unsecured. The issuance of letters of credit under the Bank Guarantee Facility is subject to the satisfaction of the conditions precedent specified in the Letter of Offer. Letters of credit issued under the bank guarantee lines are due on demand and letters of credit issued under the bank guarantee/standby sub-facility cannot have a duration exceeding twelve months. The Bank Guarantee Facility may be terminated by HSBC on 90 days written notice. As of September 30, 2016, there was AUD100 million in letters of credit issued under the Bank Guarantee Facility.

As of September 30, 2016, the Company had $290.3 million in aggregate borrowings outstanding under the Term Loan, $475.0 million in borrowings under the Revolver, and approximately $53.6 million in letters of credit which left $371.4 million in additional borrowing capacity under the Revolver. The weighted average interest rate on outstanding borrowings under the Amended Credit Agreement as of September 30, 2016 was 3.0%.

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6.00% Senior Notes due 2026

On April 18, 2016, the Company completed an offering of $350 million aggregate principal amount of 6.00% senior notes due 2026. The 6.00% Senior Notes were offered and sold in a registered offering pursuant to an underwriting agreement, dated as of April 11, 2016 (the Underwriting Agreement) among the Company, certain of the Company s domestic subsidiaries, as guarantors and Wells Fargo Securities, LLC, as representative for the underwriters named therein. The 6.00% Senior Notes were issued by the Company pursuant to the Indenture, dated as of September 25, 2014 (the Base Indenture), by and between the Company and Wells Fargo Bank, National Association, as trustee, as supplemented by a Second Supplemental Indenture, dated as of April 18, 2016 (the Second Supplemental Indenture and together with the Base Indenture, the Indenture), by and among the Company, the guarantors and the trustee which governs the terms of the 6.00% Senior Notes. The sale of the 6.00% Senior Notes was registered under GEO s existing shelf registration statement on Form S-3 filed on September 12, 2014, as amended (File No. 333-198729). The 6.00% Senior Notes were issued at a coupon rate and yield to maturity of 6.00%. Interest on the 6.00% Senior Notes is payable semi-annually on April 15 and October 15 of each year, commencing on October 15, 2016. The 6.00% Senior Notes mature on April 15, 2026. The Company used the net proceeds to fund the tender offer and the redemption of all of its 6.625% Senior Notes (see discussion below), to pay all related fees, costs and expenses and for general corporate purposes including repaying borrowings under the Company s Revolver. Loan costs of approximately $6 million were incurred and capitalized in connection with the offering.

6.625% Senior Notes due 2021

On February 10, 2011, the Company completed a private offering of $300.0 million in aggregate principal amount of its 6.625% Senior Notes. Interest on the 6.625% Senior Notes accrued at the stated rate. The Company paid interest semi-annually in arrears on February 15 and August 15 of each year.

On April 11, 2016, the Company announced that it had commenced a cash tender offer for any and all of its $300.0 million aggregate principal amount of its 6.625% Senior Notes due 2021. On April 18, 2016, the Company completed the purchase of $231.0 million in aggregate principal amount of its 6.625% Senior Notes validly tendered in connection with the Company s tender offer on or prior to the expiration time. On May 20, 2016, the Company completed the redemption of the remaining 6.625% Senior Notes in connection with the terms of the notice of redemption delivered to the note holders on April 20, 2016 pursuant to the terms of the indenture governing the 6.625% Senior Notes. The Company financed the purchase of the 6.625% Senior Notes under the tender offer with part of the net cash proceeds from the 6.00% Senior Notes (see discussion above). As a result of the tender offer and redemption, the Company incurred a $15.9 million loss on extinguishment of debt related to the tender premium and deferred costs associated with the 6.625% Senior Notes.

5.875% Senior Notes due 2024

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

5.125% Senior Notes due 2023

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

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5.875% Senior Notes due 2022

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

Non-Recourse Debt

Northwest Detention Center

The remaining balance of the original debt service requirement under the $54.4 million note payable (2011 Revenue Bonds) to WEDFA will mature in October 2021 with fixed coupon rates of 5.25%, is $43.1 million, of which $6.5 million is classified as current in the accompanying consolidated balance sheet as of September 30, 2016. The payment of principal and interest on the 2011 Revenue Bonds issued by WEDFA is non-recourse to GEO.

As of September 30, 2016, included in current restricted cash and investments and non-current restricted cash and investments is $8.4 million of funds held in trust for debt service and other reserves with respect to the above mentioned note payable to WEDFA.

Australia Fulham

The non-recourse obligation of the Company totaled $4.6 million (AUD 6.0 million) and $9.0 million (AUD 12.4 million), based on the exchange rates in effect at September 30, 2016 and December 31, 2015, 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, 2016, was $3.8 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. The Construction Facility provides for non-recourse funding up to AUD 791.0 million, or approximately $603.9 million, based on exchange rates as of September 30, 2016. Construction draws will be funded throughout the project according to a fixed utilization schedule as defined in the syndicated facility agreement. The term of the Construction Facility is through October 2019 and bears interest at a variable rate quoted by certain Australian banks plus 200 basis points. Upon completion of the prison, the Construction Facility will be converted to a term loan with payments due quarterly beginning in 2018 through 2041. In accordance with the terms of the Construction Facility, upon completion and commercial acceptance of the prison, in accordance with the prison contract, the State will make a lump sum payment of AUD 310 million, or approximately $237 million, based on exchange rates as of September 30, 2016, 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, 2016, approximately $478 million was outstanding under the Construction Facility. The Company also entered into interest rate swap and interest rate cap agreements related to its non-recourse debt in connection with the project. Refer to

Note 9 Derivative Financial Instruments.

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Guarantees

Australia

The Company has entered into certain guarantees in connection with the financing and construction performance of a facility in Australia. The obligations amounted to approximately AUD 215.0 million, or $164.1 million, based on exchange rates as of September 30, 2016. These guarantees are secured by outstanding letters of credit under the Company s Revolver as of September 30, 2016.

At September 30, 2016, the Company also had thirteen other letters of credit outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling $20.1 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, 2016, the Company guaranteed obligations amounting to 15.0 million South African Rand, or $1.1 million based on exchange rates as of September 30, 2016. 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 7.4 million South African Rand is secured by outstanding letters of credit under the Company s Revolver as of September 30, 2016.

In addition to the above, the Company has also agreed to provide a loan, if required, of up to 20 million South African Rand, or $1.4 million based on exchange rates as of September 30, 2016, 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. SACS ability to draw on the Shareholder s Loan is limited to certain circumstances, including termination of the contract.

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

Canada

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a trust. The potential estimated exposure of these obligations is Canadian Dollar 1.5 million, or $1.1 million, based on exchange rates as of September 30, 2016, commencing in 2017. The liability related to this exposure is included in Other Non-Current Liabilities as of September 30, 2016 and December 31, 2015, 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, 2016 and December 31, 2015 on its consolidated balance sheets. The Company does not currently operate or manage this facility.

United Kingdom

In connection with the creation of GEOAmey, the Company and its joint venture partner guarantee the availability of working capital in equal proportion to ensure that GEOAmey can comply with current and future contractual commitments related to the performance of its operations. The Company and the 50% joint venture partner have each extended a £12 million line of credit, or $15.6 million, based on exchange rates as of September 30, 2016, of which £4.5 million, or $5.8 million, based on exchange rates as of September 30, 2016, was outstanding as of September 30, 2016. During the nine months ended September 30, 2016, GEOAmey made principal payments in the amount of £4 million. The Company s maximum exposure relative to the joint venture is its note receivable of approximately $5.8 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.

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11. COMMITMENTS, CONTINGENCIES AND OTHER

Litigation, Claims and Assessments

On August 25, 2016, a purported shareholder class action lawsuit was filed against the Company, its Chief Executive Officer, George C. Zoley (Mr. Zoley), and its Chief Financial Officer, Brian R. Evans (Mr. Evans), in the United States District Court for the Southern District of Florida. The complaint alleges that the Company and Messrs. Zoley and Evans made false and misleading statements regarding the Company s business, operational and compliance policies. The lawsuit alleges that it is brought by John J. Mulvaney individually and on behalf of a class consisting of all persons other than the defendants who purchased or otherwise acquired the Company s securities during the alleged class period between March 1, 2012 through and including August 17, 2016. The complaint alleges that the Company and Messrs. Zoley and Evans violated Section 10(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Rule 10b-5 promulgated thereunder, and alleges that Messrs. Zoley and Evans violated Section 20(a) of the Exchange Act. The complaint seeks damages, interest, attorneys fees, expert fees, other costs, and such other relief as the court may deem proper. The Company intends to take all necessary steps to vigorously defend itself and Messrs. Zoley and Evans. The Company has not recorded an accrual relating to this matter at this time, as a loss is not considered probable or reasonably estimable at this preliminary stage of the lawsuit.

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

Commitments

The Company currently has contractual commitments for a number of projects using Company financing. The Company s management estimates that the cost of these existing capital projects will be approximately $108.7 million of which $14 million was spent through the first nine months of 2016. The Company estimates the remaining capital requirements related to these capital projects will be $94.7 million which will be spent through 2017. Included in these commitments is a contractual commitment to provide a capital contribution towards the design and construction of a prison project in Ravenhall, a locality near Melbourne, Australia, which is estimated to be approximately $84 million as of September 30, 2016. 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 million, or $604 million, based on exchange rates as of September 30, 2016. Refer to Note 10 Debt.

Idle Facilities

The Company is currently marketing approximately 3,300 vacant beds at four of its idle facilities to potential customers. The carrying values of these idle facilities, which are included in Property and Equipment, Net in the accompanying consolidated balance sheets, totaled $34.2 million as of September 30, 2016, excluding equipment and other assets that can be easily transferred for use at other facilities.

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Other

A recently completed state non-income tax audit included tax periods for which a state tax authority had a number of years ago processed a substantial tax refund. At the completion of the audit fieldwork, the Company received a notice of audit findings disallowing deductions that were previously claimed by the Company, approved by the state tax authority and served as the basis for the approved refund claim. If the state tax authority disallows the deductions, which were previously granted by the same state tax authority, a non-income tax assessment of $14.8 million plus interest could occur. The Company disagrees with the audit findings and if assessed intends to take all necessary steps to vigorously defend its position. The Company has not deemed it necessary to record an accrual relating to this matter, as a loss is not considered probable at this time.

12. BUSINESS SEGMENTS AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Revenues:				
U.S. Corrections & Detention	$ 344,452	$ 320,526	$ 1,024,395	$ 910,465
GEO Care	99,779	86,517	289,722	248,531
International Services	40,416	38,031	116,468	117,228
Facility Construction & Design (1)	69,729	24,792	182,326	66,957
Total revenues	$ 554,376	$ 469,866	$ 1,612,911	$ 1,343,181
Operating income from segments:				
U.S. Corrections & Detention	$ 77,865	$ 74,017	$ 220,292	$ 200,224
GEO Care	30,007	20,702	80,558	58,426
International Services	1,866	1,647	4,702	6,732
Facility Construction & Design (1)	196	407	471	1,359
Operating income from segments	$ 109,934	$ 96,773	$ 306,023	$ 266,741

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

quarterly over the life of the contract. Refer to Note 9 Derivative Financial Instruments and Note 10 Debt for additional information.

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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, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Total operating income from segments	$ 109,934	$ 96,773	$ 306,023	$ 266,741
Unallocated amounts:				
General and Administrative Expenses	(37,483)	(33,742)	(108,448)	(97,764)
Net Interest Expense	(25,500)	(24,322)	(75,477)	(70,677)
Loss on Extinguishment of Debt			(15,885)	
Income before income taxes and equity in earnings of affiliates	$ 46,951	$ 38,709	$ 106,213	$ 98,300

Equity in Earnings of Affiliates

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

The Company has recorded $1.1 million and $2.9 million in earnings, net of tax, for SACS operations during the three and nine months ended September 30, 2016, and $1.2 million and $3.4 million in earnings, net of tax, for SACS operations during the three and nine months ended September 30, 2015, respectively, 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, 2016 and December 31, 2015, the Company s investment in SACS was $10.3 million and $9.9 million, respectively.

The Company has recorded $0.7 million and $2.1 million in earnings, net of tax, for GEO Amey s operation during the three and nine months ended September 30, 2016 and $0.2 million and $0.6 million in earnings, net of tax, for GEOAmey s operations during the three and nine months ended September 30, 2015, respectively, net of income tax provision, in the accompanying consolidated statements of operations. As of September 30, 2016 and December 31, 2015, the Company s investment in GEOAmey was $0.2 million and $(1.5) 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 10 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, 2016		Year Ended December 2015
Change in Projected Benefit Obligation				
Projected benefit obligation, beginning of period	$	25,935	$	25,826
Service cost		746		1,173
Interest cost		866		1,082
Actuarial gain				(1,818)
Benefits paid		(339)		(328)
Projected benefit obligation, end of period	$	27,208	$	25,935
Change in Plan Assets				
Plan assets at fair value, beginning of period	$		$	
Company contributions		339		328
Benefits paid		(339)		(328)
Plan assets at fair value, end of period	$		$	
Unfunded Status of the Plan	$	(27,208)	$	(25,935)

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	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Components of Net Periodic Benefit Cost				
Service cost	$ 249	$ 293	$ 746	$ 860
Interest cost	289	271	866	812
Net loss	53	107	160	320
Net periodic pension cost	$ 591	$ 671	$ 1,772	$ 1,992

The long-term portion of the pension liability as of September 30, 2016 and December 31, 2015 was $26.9 million and $25.1 million, respectively, and is included in Other Non-Current Liabilities in the accompanying consolidated balance sheets.

14. RECENT ACCOUNTING PRONOUNCEMENTS

The Company implemented the following accounting standards during the nine months ended September 30, 2016:

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU No. 2015-03, *Interest-Imputation of Interest,* which is intended to simplify the presentation of debt issuance costs. The amendments require that debt issuance costs related to a recognized debt liability be presented as a direct reduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance in this update does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements, the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the debt issuance costs ratable over the term of the line-of-credit agreement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. In accordance with ASU No. 2015-03, the Company has applied the new guidance on a retrospective basis. As a result, the Company has reclassified debt issuance costs of $40.8 million and $41.1 million from Other Non-Current Assets to a direct reduction of Long-Term Debt and Non-Recourse Debt in the accompanying consolidated balance sheets at September 30, 2016 and December 31, 2015, respectively. In accordance with the SEC guidance discussed above, the Company continues to present debt issuance costs related to its Revolver as an asset which is included in Other Non-Current Assets. The implementation of this standard during the nine months ended September 30, 2016 did not have a material impact on the Company s financial position, results of operations or cash flows. Refer to Note 10 Debt.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes,* which simplifies the presentation of deferred income taxes by requiring that all deferred income tax assets and liabilities be classified as non-current in a classified statement of financial position. ASU No. 2015-17 is effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods with earlier application permitted. The Company early adopted this standard during the nine months ended September 30, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of the Company s net current deferred tax asset and net non-current deferred tax liability to the net non-current deferred tax asset in the accompanying consolidated balance sheet as of September 30, 2016. The prior reporting period was not retroactively adjusted. The implementation of this standard during the nine months ended September 30, 2016 did not have a material impact on the Company s financial position, results of operations or cash flows.

The following accounting standards will be adopted in future periods:

In October 2016, the FASB issued ASU No. 2016-17, *Consolidation Interest Held through Related Parties that are Under Common Control*, which amends the current consolidation guidance on how a reporting entity that is the single decision maker of a VIE should treat indirect interests in the entity held through related parties that are under common control with the

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reporting entity when determining whether it is the primary beneficiary of that VIE. The primary beneficiary of a VIE is the reporting entity that has a controlling financial interest in a VIE, and therefore consolidates the VIE. A reporting entity has an indirect interest in a VIE if it has a direct interest in a related party that, in turn, has a direct interest in the VIE. The amendments in this update are effective for public companies for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. 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 October 2016, the FASB issued ASU No. 2016-16, *Income Taxes Intra-Entity Transfers of Assets Other Than Inventory,* which requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Prior to this ASU, an entity was prohibited from recognizing the income tax consequences of an intra-entity asset transfer until the asset had been sold to an outside party. The amendments in ASU No. 2016-16 are effective for public companies for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. 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 August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows,* which clarified the presentation and classification in the statement of cash flows for eight specific cash flow issues with the objective of reducing diversity in practice. These cash flow issues include debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies (including bank-owned life insurance policies), distributions received from equity method investees, beneficial interests in securitization transactions and also addresses separately identified cash flows and the application of the predominance principle. The amendments in ASU No. 2016-15 are effective for public companies for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. 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 June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses,* which changes the methodology for recognizing credit losses for entities holding financial assets that are not accounted for at fair value through net income. The amendments in this update affect loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The main objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the current incurred loss methodology with a methodology that reflects expected credit losses and requires consideration in a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in ASU No. 2016-13 are effective for public companies for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. 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 April 2016, the FASB amended ASU No. 2016-10, *Revenue from Contracts with Customers*, which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. This amendment clarifies that before an entity can identify its performance obligations in a contract with a customer, the entity first identifies the promised goods or services in the contract. An entity is not required to assess whether promised goods or services are performance obligations if they are immaterial in the context of the contract with the customer. Also, an entity is permitted, as an accounting policy election, to account for shipping and handling activities that occur after the customer has obtained control of a good as an activity to fulfill the promise to transfer the good rather than as an additional promised service. The amendment also includes implementation guidance on determining whether an entity s promise to grant a license provides a customer with either a right to use the entity s intellectual property (which is satisfied at a point in time) or a right to access the entity s intellectual property (which is satisfied over time). The amendments in ASU No. 2016-10 are effective for public companies for annual periods beginning after December 15, 2017. 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 March 2016, the FASB issued ASU No. 2016-09, *Compensation-Stock Compensation (Topic 718)*, as a part of its Simplification Initiative. Key areas of the amendments in this standard are (i) all excess tax benefits from stock plan transactions should be recognized in the income statement as opposed to being recognized in additional paid-in capital; (ii) the tax withholding threshold for triggering liability accounting on a net settlement transaction has been increased from the minimum statutory rate to the maximum statutory rate; and (iii) an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The amendments in ASU No. 2016-09 are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted. The implementation of this standard is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers Principal versus Agent Considerations (Reporting Revenue Gross versus Net),* which clarifies the implementation guidance on principal versus agent considerations. This amendment clarifies that when another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service itself (entity is a principal) or to arrange for that good or service to be provided by the other party (entity is an agent). When (or as) an entity that is a principal satisfies a performance obligation, the entity recognizes revenue in the gross amount of consideration it expects to be entitled in exchange for the specified good or service transferred to the customer. When (or as) an entity that is an agent satisfies a performance obligation, the entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging the specified good or service to be provided by the other party. An entity is a principal if it controls the specified good or service before that good or service is transferred to the customer. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customer. The amendments in ASU No. 2016-08 are effective for public companies for annual periods beginning after December 15, 2017. 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 March 2016, the FASB issued ASU 2016-07, *Investments-Equity Method and Joint Ventures*, as a part of its Simplification Initiative. The amendments in this standard eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments in ASU 2016-07 also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this standard are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. The implementation of this standard is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

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In March 2016, the FASB issued ASU 2016-05, *Derivatives and Hedging,* which clarifies that a change in the counter party to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in ASU 2016-05 are effective for public companies for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. An entity has an option to apply the amendments in this standard on either a prospective basis or a modified retrospective basis, with early adoption permitted. The implementation of this standard is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

In February 2016, FASB issued ASU 2016-02, *Leases*, which requires entities to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about leasing arrangements. For finance leases and operating leases, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term with each initially measured at the present value of the lease payments. The amendments in ASU 2016-02 are effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. 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.

15. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

As of September 30, 2016, the Company s 6.00% Senior Notes, 5.125% Senior Notes, the 5.875% Senior Notes due 2022 and the 5.875% Senior Notes due 2024 were fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly-owned domestic subsidiaries (the Subsidiary Guarantors). The following condensed consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(d) of Regulation S-X promulgated under the Securities Act, presents the condensed consolidating financial information separately for:

(i) The GEO Group, Inc., as the issuer of the notes;

(ii) The Subsidiary Guarantors, on a combined basis, which are 100% owned by The GEO Group, Inc., and which are guarantors of the notes;

(iii) The Company s other subsidiaries, on a combined basis, which are not guarantors of the notes (the Non-Guarantor Subsidiaries);

(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Company, the Subsidiary Guarantors and the Subsidiary Non-Guarantors and (b) eliminate the investments in the Company s subsidiaries; and

(v) The Company and its subsidiaries on a consolidated basis.

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)

(unaudited)

	For the Three Months Ended September 30, 2016				
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 173,920	$ 410,329	$ 112,708	$ (142,581)	$ 554,376
Operating expenses	144,748	314,009	99,483	(142,581)	415,659
Depreciation and amortization	6,339	21,502	942		28,783
General and administrative expenses	11,727	18,180	7,576		37,483
Operating income	11,106	56,638	4,707		72,451
Interest income	4,765	422	8,029	(5,288)	7,928
Interest expense	(16,324)	(13,525)	(8,867)	5,288	(33,428)
Loss on extinguishment of debt					
Income (loss) before income taxes and equity in earnings of affiliates	(453)	43,535	3,869		46,951
Income tax provision	(9)	4,032	947		4,970
Equity in earnings of affiliates, net of income tax provision			1,693		1,693
Income before equity in income of consolidated subsidiaries	(444)	39,503	4,615		43,674
Income from consolidated subsidiaries, net of income tax provision	44,118			(44,118)	
Net income	43,674	39,503	4,615	(44,118)	43,674
Net loss attributable to noncontrolling interests			46		46
Net income attributable to The GEO Group, Inc.	$ 43,674	$ 39,503	$ 4,661	$ (44,118)	$ 43,720
Net income	$ 43,674	$ 39,503	$ 4,615	$ (44,118)	$ 43,674
Other comprehensive income, net of tax		33	450		483
Total comprehensive income	$ 43,674	$ 39,536	$ 5,065	$ (44,118)	$ 44,157
			36		36

Comprehensive loss attributable to noncontrolling interests					
Comprehensive income attributable to The GEO Group, Inc.	$ 43,674	$ 39,536	$ 5,101	$ (44,118)	$ 44,193

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(dollars in thousands)

(unaudited)

	For the Three Months Ended September 30, 2015				
	The GEO Group, Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 175,353	$ 369,004	$ 65,388	$ (139,879)	$ 469,866
Operating expenses	142,002	288,303	55,540	(139,879)	345,966
Depreciation and amortization	6,007	20,002	1,118		27,127
General and administrative expenses	12,285	16,876	4,581		33,742
Operating income	15,059	43,823	4,149		63,031
Interest income	5,820	431	2,870	(6,129)	2,992
Interest expense	(15,419)	(14,320)	(3,704)	6,129	(27,314)
Income before income taxes and equity in earnings of affiliates	5,460	29,934	3,315		38,709
Income tax provision		869	889		1,758
Equity in earnings of affiliates, net of income tax provision			1,340		1,340
Income before equity in income of consolidated subsidiaries	5,460	29,065	3,766		38,291
Income from consolidated subsidiaries, net of income tax provision	32,831			(32,831)	
Net income	38,291	29,065	3,766	(32,831)	38,291
Net loss attributable to noncontrolling interests			21		21