

GEO GROUP INC
Form 10-Q
April 30, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 1-14260

The GEO Group, Inc.

(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of
incorporation or organization)

65-0043078
(IRS Employer
Identification No.)

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

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

33487
(Zip Code)

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

As of April 26, 2018, the registrant had 123,023,825 shares of common stock outstanding.

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Table of Contents**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****THE GEO GROUP, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****FOR THE THREE MONTHS ENDED****MARCH 31, 2018 AND 2017****(In thousands, except per share data)**

	Three Months Ended	
	March 31, 2018	March 31, 2017
Revenues	\$ 564,917	\$ 550,614
Operating expenses	426,709	414,707
Depreciation and amortization	31,926	28,949
General and administrative expenses	41,832	42,586
Operating income	64,450	64,372
Interest income	9,099	11,977
Interest expense	(35,869)	(35,000)
Income before income taxes and equity in earnings of affiliates	37,680	41,349
Provision for income taxes	4,755	2,470
Equity in earnings of affiliates, net of income tax provision of \$706, and \$611, respectively	1,995	1,487
Net income	34,920	40,366
Net loss attributable to noncontrolling interests	67	37
Net income attributable to The GEO Group, Inc.	\$ 34,987	\$ 40,403
Weighted-average common shares outstanding:		
Basic	121,768	113,599
Diluted	122,304	114,478
Net income per common share attributable to The GEO Group, Inc.:		
Basic:		
Net income per common share attributable to The GEO Group, Inc. - basic	0.29	0.36

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Diluted:

Net income per common share attributable to The GEO Group, Inc. - diluted	0.29	0.35
Dividends declared per share	\$ 0.47	\$ 0.47

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 MONTHS ENDED

MARCH 31, 2018 AND 2017

(In thousands)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	\$ 34,920	\$ 40,366
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	521	1,692
Pension liability adjustment, net of tax provision of \$28 and \$25, respectively	105	47
Change in fair value of derivative instrument classified as cash flow hedge, net of tax (provision) benefit of \$(130) and \$83, respectively	736	(479)
Total other comprehensive income, net of tax	1,362	1,260
Total comprehensive income	36,282	41,626
Comprehensive loss attributable to noncontrolling interests	59	35
Comprehensive income attributable to The GEO Group, Inc.	\$ 36,341	\$ 41,661

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

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THE GEO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

MARCH 31, 2018 AND DECEMBER 31, 2017

(In thousands, except share data)

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 49,235	\$ 81,377
Restricted cash and cash equivalents	56,888	44,932
Accounts receivable, less allowance for doubtful accounts of \$4,902 and \$4,574, respectively	384,637	389,916
Contract receivable, current portion	14,285	18,142
Prepaid expenses and other current assets	31,177	45,342
Total current assets	536,222	579,709
<i>Restricted Cash and Investments</i>	24,394	27,999
<i>Property and Equipment, Net</i>	2,102,011	2,078,123
<i>Assets Held for Sale</i>		3,915
<i>Non-Current Contract Receivable</i>	407,938	404,309
<i>Deferred Income Tax Assets</i>	26,277	26,277
<i>Goodwill</i>	776,395	778,951
<i>Intangible Assets, Net</i>	249,316	255,339
<i>Other Non-Current Assets</i>	70,756	72,286
Total Assets	\$ 4,193,309	\$ 4,226,908
LIABILITIES AND SHAREHOLDERS EQUITY		
<i>Current Liabilities</i>		
Accounts payable	\$ 84,310	\$ 92,587
Accrued payroll and related taxes	57,918	71,732
Accrued expenses and other current liabilities	181,135	176,324
Current portion of capital lease obligations, long-term debt and non-recourse debt	25,189	28,920
Total current liabilities	348,552	369,563
<i>Non-Current Deferred Income Tax Liabilities</i>	8,757	8,757
<i>Other Non-Current Liabilities</i>	92,286	96,702
<i>Capital Lease Obligations</i>	5,698	6,059
<i>Long-Term Debt</i>	2,240,057	2,181,544

<i>Non-Recourse Debt</i>	359,387	365,364
<i>Commitments, Contingencies and Other</i> (Note 13)		
<i>Shareholders Equity</i>		
Preferred stock, \$0.01 par value, 30,000,000 shares authorized, none issued or outstanding		
Common stock, \$0.01 par value, 187,500,000 shares authorized, 123,853,267 and 124,008,303 issued and 122,005,156 and 124,008,003 outstanding, respectively	1,239	1,240
Additional paid-in capital	1,192,779	1,190,906
Earnings in excess of distributions	8,209	31,541
Accumulated other comprehensive loss	(23,092)	(24,446)
Treasury stock, 1,848,111 and 0 shares, at cost, respectively	(40,182)	
Total shareholders equity attributable to The GEO Group, Inc.	1,138,953	1,199,241
Noncontrolling interests	(381)	(322)
Total shareholders equity	1,138,572	1,198,919
Total Liabilities and Shareholders Equity	\$ 4,193,309	\$ 4,226,908

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 THREE MONTHS ENDED

MARCH 31, 2018 AND 2017

(In thousands)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Cash Flow from Operating Activities:		
Net income	\$ 34,920	\$ 40,366
Net loss attributable to noncontrolling interests	67	37
Net income attributable to The GEO Group, Inc.	34,987	40,403
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	31,386	28,949
Stock-based compensation	5,827	4,963
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	2,138	3,806
Provision for doubtful accounts	195	378
Equity in earnings of affiliates, net of tax	(1,995)	(1,487)
Dividends received from unconsolidated joint venture	736	2,359
(Gain) loss on sale/disposal of property and equipment, net	(350)	110
Changes in assets and liabilities, net of effects of acquisitions:		
Changes in accounts receivable, prepaid expenses and other assets	2,940	51,709
Changes in contract receivable	6,298	(69,098)
Changes in accounts payable, accrued expenses and other liabilities	(17,061)	(14,210)
Net cash provided by operating activities	65,101	47,882
Cash Flow from Investing Activities:		
Insurance proceeds - damaged property	4,504	
Proceeds from sale of property and equipment		689
Proceeds from sale of assets held for sale	3,797	
Change in restricted investments	(505)	(2,058)
Capital expenditures	(52,147)	(34,421)
Net cash used in investing activities	(44,351)	(35,790)
Cash Flow from Financing Activities:		

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Proceeds from long-term debt	102,000	1,083,148
Payments on long-term debt	(43,000)	(918,500)
Payments on non-recourse debt	(5,600)	(67,171)
Proceeds from non-recourse debt		36,020
Taxes paid related to net share settlements of equity awards	(4,356)	(3,434)
Proceeds from issuance of common stock under prospectus supplement		276,036
Proceeds from issuance of common stock in connection with ESPP	140	122
Payment for repurchases of common stock	(40,182)	
Debt issuance costs		(7,371)
Proceeds from the exercise of stock options	260	3,882
Cash dividends paid	(58,238)	(52,504)
Net cash (used in) provided by financing activities	(48,976)	350,228
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	3,930	2,679
Net (Decrease) Increase in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	(24,296)	364,999
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, beginning of period	133,545	90,357
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, end of period	\$ 109,249	\$ 455,356
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	\$ 1,814	\$ 1,312

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, and 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). At March 31, 2018, after its acquisition of Community Education Centers (CEC) (Refer to Note 3 - Business Combinations), the Company's worldwide operations include the management and/or ownership of approximately 96,000 beds at 141 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 192,000 offenders and pretrial defendants, including approximately 100,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

The Company's unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2018 for the year ended December 31, 2017. The accompanying December 31, 2017 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, 2017. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Quarterly Report on Form 10-Q have been made. Results of operations for the three months ended March 31, 2018 are not necessarily indicative of the results for the entire year ending December 31, 2018, or for any other future interim or annual periods.

2. REVENUE RECOGNITION

On January 1, 2018, the Company adopted Accounting Standards Codification (ASC) Topic 606, Revenue from Contracts with Customers using the modified retrospective method applied to those contracts that were not completed as of January 1, 2018. The adoption of this standard did not result in a significant change to the Company's historical revenue recognition policies and there were no significant adjustments that required a cumulative adjustment to retained earnings upon transition.

Revenue is recognized when control of the promised goods or services is transferred to GEO's customers, in an amount that reflects the consideration GEO expects to be entitled to in exchange for those goods or services. Sales, value added and other taxes GEO collects concurrent with revenue producing activities and are subsequently remitted to governmental authorities are excluded from revenues.

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When a contract includes variable consideration, GEO evaluates the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, GEO includes the variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration estimates are updated at each reporting date. A limited number of GEO's domestic contracts have provisions upon which a small portion of the revenue for the contract is based on the perfo