

GEO GROUP INC
Form 10-Q
May 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended April 1, 2012

OR

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

For the transition period from to

Commission file number 1-14260

The GEO Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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Florida
(State or Other Jurisdiction of
Incorporation or Organization)

65-0043078
(IRS Employer
Identification No.)

One Park Place, 621 NW 53rd Street, Suite 700,
Boca Raton, Florida
(Address of Principal Executive Offices)

33487
(Zip Code)

(561) 893-0101
(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year if changed since last report)

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

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

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

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 May 1, 2012, the registrant had 61,435,392 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 COMPREHENSIVE INCOME****FOR THE THIRTEEN WEEKS ENDED****APRIL 1, 2012 AND APRIL 3, 2011****(In thousands, except per share data)****(Unaudited)**

	Thirteen Weeks Ended	
	April 1, 2012	April 3, 2011
Revenues	\$ 412,342	\$ 391,766
Operating expenses	319,128	299,286
Depreciation and amortization	23,215	18,802
General and administrative expenses	27,441	32,788
Operating income	42,558	40,890
Interest income	1,807	1,569
Interest expense	(20,807)	(16,961)
Income before income taxes and equity in earnings of affiliates	23,558	25,498
Provision for income taxes	9,247	9,780
Equity in earnings of affiliates, net of income tax provision of \$321 and \$1,024	748	662
Net income	15,059	16,380
Net (income) loss attributable to noncontrolling interests	(34)	410
Net income attributable to The GEO Group, Inc.	\$ 15,025	\$ 16,790
Weighted-average common shares outstanding:		
Basic	60,768	64,291
Diluted	60,929	64,731
Income per Common Share Attributable to The GEO Group, Inc. Basic	\$ 0.25	\$ 0.26
Income per Common Share Attributable to The GEO Group, Inc. Diluted	\$ 0.25	\$ 0.26
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net of tax provision of \$320 and \$152, respectively	\$ 1,926	\$ 473
Pension liability adjustment, net of tax benefit of \$19 and \$6, respectively	30	9
Gain (loss) on derivative instrument classified as cash flow hedge, net of tax (provision) benefit of \$(17) and \$97, respectively	31	(177)

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Total other comprehensive income, net of tax	1,987	305
Total comprehensive income	17,046	16,685
Comprehensive (income) loss attributable to noncontrolling interests	(62)	417
Comprehensive income attributable to The GEO Group, Inc.	\$ 16,984	\$ 17,102

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

Table of Contents**THE GEO GROUP, INC.****CONSOLIDATED BALANCE SHEETS****APRIL 1, 2012 AND JANUARY 1, 2012****(In thousands, except share data)**

	April 1, 2012 (Unaudited)	January 1, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 48,999	\$ 44,753
Restricted cash and investments (including VIEs ¹ of \$29,373 and \$35,435, respectively)	38,398	42,535
Accounts receivable, less allowance for doubtful accounts of \$2,829 and \$2,453	282,902	292,783
Deferred income tax assets, net	28,726	28,726
Prepaid expenses and other current assets	31,380	50,532
Total current assets	430,405	459,329
Restricted Cash and Investments (including VIEs of \$33,624 and \$38,930, respectively)	61,379	57,912
Property and Equipment, Net (including VIEs of \$161,440 and \$162,665, respectively)	1,717,091	1,706,171
Assets Held for Sale	5,505	4,363
Direct Finance Lease Receivable	31,077	32,146
Deferred Income Tax Assets, Net	1,711	1,711
Goodwill	508,076	508,066
Intangible Assets, Net	195,652	200,342
Other Non-Current Assets	83,322	79,576
Total Assets	\$ 3,034,218	\$ 3,049,616
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 55,830	\$ 69,653
Accrued payroll and related taxes	48,660	38,642
Accrued expenses	111,984	126,857
Current portion of capital lease obligations, long-term debt and non-recourse debt (including VIEs of \$21,000 and \$20,770, respectively)	56,020	53,666
Total current liabilities	272,494	288,818
Deferred Income Tax Liabilities	125,209	125,209
Other Non-Current Liabilities	59,142	56,381
Capital Lease Obligations	12,719	13,087
Long-Term Debt	1,312,832	1,319,068
Non-Recourse Debt (including VIEs of \$102,442 and \$108,335, respectively)	201,653	208,532
Commitments and Contingencies (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, 90,000,000 shares authorized, 85,439,378 and 85,185,158 issued and 61,435,392 and 61,181,172 outstanding, respectively	854	852
Additional paid-in capital	728,061	727,297
Retained earnings	521,789	507,170

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Accumulated other comprehensive income	3,889	1,930
Treasury stock 24,003,986 shares at cost	(214,031)	(214,031)
Total shareholders' equity attributable to The GEO Group, Inc.	1,040,562	1,023,218
Noncontrolling interests	9,607	15,303
Total shareholders' equity	1,050,169	1,038,521
Total Liabilities and Shareholders' Equity	\$ 3,034,218	\$ 3,049,616

¹ Variable interest entities or VIEs

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

FOR THE THIRTEEN WEEKS ENDED

APRIL 1, 2012 AND APRIL 3, 2011

(In thousands)

(Unaudited)

	Thirteen Weeks Ended	
	April 1, 2012	April 3, 2011
Cash Flow from Operating Activities:		
Net Income	15,059	\$ 16,380
Net (income) loss attributable to noncontrolling interests	(34)	410
Net income attributable to The GEO Group, Inc.	15,025	16,790
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	23,215	18,802
Amortization of debt issuance costs, discount and/or premium	690	226
Restricted stock expense	1,016	738
Stock option plan expense	490	1,323
Provision for doubtful accounts	403	407
Equity in earnings of affiliates, net of tax	(748)	(662)
Income tax provision (benefit) of equity compensation	342	(172)
Loss on sale of property and equipment	323	132
Dividends received from unconsolidated joint venture		5,402
Changes in assets and liabilities, net of acquisition:		
Changes in accounts receivable, prepaid expenses and other assets	29,455	29,142
Changes in accounts payable, accrued expenses and other liabilities	(1,351)	(3,051)
Net cash provided by operating activities	68,860	69,077
Cash Flow from Investing Activities:		
Acquisition, cash consideration, net of cash acquired		(409,607)
Proceeds from sale of property and equipment	158	250
Proceeds from sale of assets held for sale	297	
Change in restricted cash and investments	791	3,199
Capital expenditures	(48,832)	(38,696)
Net cash used in investing activities	(47,586)	(444,854)
Cash Flow from Financing Activities:		
Payments on long-term debt	(64,075)	(21,666)
Proceeds from long-term debt	53,000	461,000
Distribution to noncontrolling interests	(5,758)	(4,012)
Proceeds from the exercise of stock options	231	983
Payments for retirement of common stock	(1,035)	
Income tax (provision) benefit of equity compensation	(342)	172
Debt issuance costs	(44)	(9,277)

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Net cash (used in) provided by financing activities	(18,023)	427,200
Effect of Exchange Rate Changes on Cash and Cash Equivalents	995	(5,193)
Net Increase in Cash and Cash Equivalents	4,246	46,230
Cash and Cash Equivalents, beginning of period	44,753	39,664
Cash and Cash Equivalents, end of period	\$ 48,999	\$ 85,894
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	\$ 8,239	\$ 21,834

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 leading provider of government-outsourced services specializing in the management of correctional, detention, mental health, residential treatment and re-entry facilities, and the provision of community based services and youth services domestically and internationally. The Company develops new facilities based on contract awards, using its project development expertise and experience to design, construct and finance what it believes are state-of-the-art facilities that maximize security and efficiency. GEO provides innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. The Company also provides secure transportation services for offender and detainee populations as contracted domestically and in the United Kingdom through its joint venture GEO Amey PECS Ltd. (GEOAmey). As of April 1, 2012, the Company's worldwide operations included the management and/or ownership of approximately 79,000 beds at 113 correctional, detention and residential treatment facilities, including projects under development, and also included the provision of monitoring of more than 70,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states.

The Company's Consolidated Statement of Comprehensive Income for the thirteen weeks ended April 3, 2011 includes a stub period for BII Holding Corporation, the indirect owner of 100% of the equity interests of B.I. Incorporated (BI) which the Company acquired on February 10, 2011. If the financial results of BI had been included for the entire thirteen weeks ended April 3, 2011, the Company's revenue and net income attributable to GEO, on a pro forma basis, would have been \$405.4 million and \$20.1 million, respectively.

The Company's unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 1, 2012 for the fiscal year ended January 1, 2012. Additional information may be obtained by referring to the Company's Form 10-K (File No. 001-14260). In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Form 10-Q have been made. Results of operations for the thirteen weeks ended April 1, 2012 are not necessarily indicative of the results for the entire fiscal year ending December 30, 2012.

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The Company has recorded goodwill as a result of its business combinations. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the net tangible assets, other intangible assets acquired and liabilities assumed. Changes in goodwill from January 1, 2012 to April 1, 2012 are related to fluctuations in foreign currency exchange rates.

The Company has also recorded other finite and indefinite lived intangible assets as a result of business combinations and also in connection with the purchase of additional shares in the Company's consolidated South African joint venture. During the thirteen weeks ended April 1, 2012, the Company performed the annual impairment test on the BI trade name, an indefinite lived intangible asset, and determined that the fair value of the trade name exceeded the carrying value; as such, no impairment charge was recorded. Changes in gross carrying amount from January 1, 2012 are related to fluctuations in foreign currency exchange rates. The Company's intangible assets include facility management contracts, non-compete agreements, the BI trade name and technology as follows (in thousands):

	April 1, 2012		January 1, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Facility management contracts	\$ 158,707	\$ (26,257)	\$ 132,450	\$ 158,604	\$ (22,985)	\$ 135,619
Covenants not to compete	8,570	(7,110)	1,460	8,570	(6,347)	2,223
Technology	21,200	(3,458)	17,742	21,200	(2,700)	18,500
Trade name	44,000		44,000	44,000		44,000
Total acquired intangible assets	\$ 232,477	\$ (36,825)	\$ 195,652	\$ 232,374	\$ (32,032)	\$ 200,342

Amortization expense relative to the Company's finite lived intangible assets was \$4.8 million and \$4.1 million, respectively, for the thirteen weeks ended April 1, 2012 and April 3, 2011. As of April 1, 2012, the weighted average period before the next contract renewal or extension for all of the facility management contracts was approximately 1.4 years.

Estimated amortization expense related to the Company's finite-lived intangible assets for the remainder of fiscal year 2012 through fiscal year 2016 and thereafter is as follows (in thousands):

Fiscal Year	Total Amortization Expense
Remainder of 2012	\$ 13,322
2013	15,203
2014	14,987
2015	14,957
2016	14,864
Thereafter	78,319
	\$ 151,652

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The following tables provide a summary of the Company's significant financial assets carried at fair value and measured on a recurring basis as of April 1, 2012 and January 1, 2012 (in thousands):

Fair Value Measurements at April 1, 2012				
	Total Carrying	Quoted Prices in	Significant Other	Significant
	Value at	Active	Observable	Unobservable
	April 1, 2012	Markets	Inputs	Inputs (Level 3)
		(Level	(Level 2)	
		1)		
Assets:				
Interest rate swap derivative assets	\$ 7,258	\$	\$ 7,258	\$
Restricted investments:				
Guaranteed Investment Contract	\$ 5,742	\$	\$ 5,742	\$
Guaranteed Repurchase Agreements	\$ 35,656	\$	\$ 35,656	\$
Rabbi Trust	\$ 8,711	\$ 6,585	\$ 2,126	\$
Fixed income securities	\$ 2,048	\$	\$ 2,048	\$

Fair Value Measurements at January 1, 2012				
	Total Carrying	Quoted Prices in	Significant Other	Significant
	Value at	Active	Observable	Unobservable
	January 1, 2012	Markets	Inputs	Inputs (Level 3)
		(Level	(Level 2)	
		1)		
Assets:				
Interest rate swap derivative assets	\$ 7,440	\$	\$ 7,440	\$
Restricted investments:				
Guaranteed Investment Contract	\$ 5,742	\$	\$ 5,742	\$
Guaranteed Repurchase Agreements	\$ 33,821	\$	\$ 33,821	\$
Rabbi Trust	\$ 8,016	\$ 5,898	\$ 2,118	\$
Fixed income securities	\$ 2,013	\$	\$ 2,013	\$

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

The Company's Level 2 financial instruments included in the tables above as of April 1, 2012 and January 1, 2012 consist of an interest rate swap asset held by the Company's Australian subsidiary, other interest rate swap assets of the Company, an investment in Canadian dollar denominated fixed income securities, a guaranteed investment contract which is a restricted investment related to CSC of Tacoma LLC and an Investment Repurchase Agreement (Repo Agreement) related to Municipal Correctional Finance, L.P. (MCF), the Company's consolidated VIE. As of April 1, 2012, the Repo Agreement consisted of guaranteed investments of \$23.8 million and \$11.9 million for the debt service reserve fund and the bond fund payment account, respectively. As of January 1, 2012 the Repo Agreement consisted of guaranteed investments of \$23.9 million and \$9.9 million for the debt service reserve fund and the bond fund payment account, respectively. The Repo Agreement is considered a Level 2 restricted investment since its fair value is estimated by using market interest rates for similar securities. The Australian subsidiary's interest rate swap asset is valued using a discounted cash flow model based on projected Australian borrowing rates. The Company's other interest rate swap assets and liabilities are based on pricing models which consider prevailing interest rates, credit risk and similar instruments. The Canadian dollar denominated securities, not actively traded, are valued using quoted rates for these and similar securities. The restricted investment in the guaranteed investment contract is valued using quoted rates for these and similar securities.

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The Company's consolidated balance sheet reflects certain financial assets and liabilities at carrying value. The following tables present the carrying values of those financial instruments and the estimated corresponding fair values at April 1, 2012 and January 1, 2012 (in thousands):

	Carrying Value as of April 1, 2012	Estimated Fair Value Measurements at April 1, 2012			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 48,999	\$ 48,999	\$ 48,999	\$	\$
Restricted cash	49,668	49,668	49,668		
Liabilities:					
Borrowings under Senior Credit Facility	\$ 778,797	\$ 783,144	\$	\$ 783,144	\$
7 ³ / ₄ % Senior Notes	247,238	269,845		269,845	
6.625% Senior Notes	300,000	314,439		314,439	
Non-recourse debt, Australian subsidiary	39,443	40,770		40,770	
Other non-recourse debt, including current portion	195,894	200,152		200,152	

	Carrying Value as of January 1, 2012	Estimated Fair Value Measurements at January 1, 2012			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	\$ 44,753	\$ 44,753	\$ 44,753	\$	\$
Restricted cash	52,868	52,868	52,868		
Liabilities:					
Borrowings under Senior Credit Facility	\$ 782,962	\$ 785,917	\$	\$ 785,917	\$
7 ³ / ₄ % Senior Notes	247,141	262,033		262,033	
6.625% Senior Notes	300,000	300,375		300,375	
Non-recourse debt, Australian subsidiary	40,345	41,347		41,347	
Other non-recourse debt, including current portion	201,453	206,712		206,712	

The fair values of the Company's Cash and cash equivalents, and restricted cash approximates the carrying values of these assets at April 1, 2012 and January 1, 2012. Restricted cash consists of debt service funds used for payments on the Company's non-recourse debt. The fair values of the Company's 7³/₄% senior unsecured notes due 2017 (7³/₄% Senior Notes) and the 6.625% senior unsecured notes due 2021 (6.625% Senior Notes), although not actively traded, are based on published financial data for these instruments. The fair values of the Company's non-recourse debt related to South Texas Local Development Corporation (STLDC) and Washington Economic Development Finance Authority (WEDFA) are based on market prices for similar instruments. The fair value of the non-recourse debt related to the Company's Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of the non-recourse debt related to MCF is estimated using a discounted cash flow model based on the Company's current 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.

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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		Additional		Accumulated		Treasury shares		Noncontrolling		Total	
			Paid-In		Other				Interests		Shareholder s	
	Shares	Amount	Capital	Retained Earnings	Comprehensive Income (Loss)	Shares	Amount	Interests	Equity			
Balance January 1, 2012	61,181	\$ 852	\$ 727,297	\$ 507,170	\$ 1,930	24,004	\$ (214,031)	\$ 15,303	\$ 1,038,521			
Stock option and restricted stock award transactions	324	3	228									231
Tax provision related to equity compensation			(342)									(342)
Stock based compensation expense			1,506									1,506
Cancellation of restricted stock	(12)											
Retirement of common stock	(58)	(1)	(628)	(406)								(1,035)
Distribution to noncontrolling interest								(5,758)				(5,758)
Total comprehensive income				15,025								