GEO GROUP INC
Form 10-Q
November 03, 2009

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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 September 27, 2009

OR

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

For the transition period from __________ to __________

Commission file number 1-14260

The GEO Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Florida (State or Other Jurisdiction of Incorporation or Organization)	65-0043078 (IRS Employer Identification No.)
One Park Place, 621 NW 53rd Street, Suite 700, Boca Raton, Florida (Address of Principal Executive Offices)	33487 (Zip Code)

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

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 þ No o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

At October 28, 2009, 51,366,008 shares of the registrant s common stock were issued and outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED
SEPTEMBER 27, 2009 AND SEPTEMBER 28, 2008
(In thousands, except per share data)
(UNAUDITED)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Revenues	$ 294,865	$ 254,105	$ 830,305	$ 786,553
Operating expenses	234,408	199,252	655,592	628,274
Depreciation and amortization	9,616	9,329	29,062	27,523
General and administrative expenses	15,685	16,944	49,936	51,825
Operating income	35,156	28,580	95,715	78,931
Interest income	1,224	1,878	3,520	5,580
Interest expense	(6,533)	(7,309)	(20,498)	(21,667)
Income before income taxes, equity in earnings of affiliate and discontinued operations	29,847	23,149	78,737	62,844
Provision for income taxes	11,493	8,430	30,324	23,616
Equity in earnings of affiliate, net of income tax provision of $352, $276, $936 and $819	904	778	2,407	2,009
Income from continuing operations	19,258	15,497	50,820	41,237
Income (loss) from discontinued operations, net of tax provision (benefit) of $0, $348, $(216) and $875		362	(346)	1,228
Net income	$ 19,258	$ 15,859	$ 50,474	$ 42,465
Weighted-average common shares outstanding:				
Basic	50,900	50,626	50,800	50,495
Diluted	51,950	51,803	51,847	51,820
Income per common share:				
Basic:				
Income from continuing operations	$ 0.38	$ 0.31	$ 1.00	$ 0.82
Income (loss) from discontinued operations			(0.01)	0.02
Net income per share-basic	$ 0.38	$ 0.31	$ 0.99	$ 0.84
Diluted:				

Income from continuing operations	$ 0.37	$ 0.30	$ 0.98	$ 0.80
Income (loss) from discontinued operations		0.01	(0.01)	0.02
Net income per share-diluted	$ 0.37	$ 0.31	$ 0.97	$ 0.82

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 27, 2009 AND DECEMBER 28, 2008
(In thousands, except share data)

	September 27, 2009 (Unaudited)	December 28, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	$ 24,299	$ 31,655
Restricted cash	13,219	13,318
Accounts receivable, less allowance for doubtful accounts of $549 and $625	224,638	199,665
Deferred income tax asset, net	17,340	17,340
Other current assets	13,347	12,911
Current assets of discontinued operations		7,031
Total current assets	292,843	281,920
Restricted Cash	21,821	19,379
Property and Equipment, Net	969,218	878,616
Assets Held for Sale	4,348	4,348
Direct Finance Lease Receivable	36,822	31,195
Deferred Income Tax Assets, Net	4,417	4,417
Goodwill	22,339	22,202
Intangible Assets, Net	11,596	12,393
Other Non-Current Assets	37,688	33,942
Non-Current Assets of Discontinued Operations		209
	$ 1,401,092	$ 1,288,621
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 65,338	$ 56,143
Accrued payroll and related taxes	22,934	27,957
Accrued expenses	92,887	82,442
Current portion of capital lease obligations, long-term debt and non-recourse debt	19,186	17,925
Current liabilities of discontinued operations		1,459
Total current liabilities	200,345	185,926
Deferred Income Tax Liability	14	14
Other Non-Current Liabilities	33,155	28,876
Capital Lease Obligations	14,601	15,126
Long-Term Debt	408,579	378,448
Non-Recourse Debt	102,415	100,634
Commitments and Contingencies (Note 13)		

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, 67,430,178 and 67,197,775 issued and 51,355,178 and 51,122,775 outstanding		514		511
Additional paid-in capital		347,895		344,175
Retained earnings		350,447		299,973
Accumulated other comprehensive income (loss)		1,381		(7,275)
Treasury stock 16,075,000 shares, at cost, at September 27, 2009 and December 28, 2008		(58,888)		(58,888)
Total shareholders equity attributable to The GEO Group, Inc.		641,349		578,496
Noncontrolling interest		634		1,101
Total shareholders equity		641,983		579,597
	$	1,401,092	$	1,288,621

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 THIRTY-NINE WEEKS ENDED
SEPTEMBER 27, 2009 AND SEPTEMBER 28, 2008
(In thousands)
(UNAUDITED)

	Thirty-nine Weeks Ended	
	September 27, 2009	**September 28, 2008**
Cash Flow from Operating Activities:		
Net income	$ 50,474	$ 42,465
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	29,062	27,523
Amortization of debt issuance costs	3,307	2,043
Amortization of unearned stock-based compensation	2,652	2,198
Stock-based compensation expense	705	707
Provision for doubtful accounts	139	302
Equity in earnings of affiliates, net of tax	(2,407)	(2,009)
Income tax charge (benefit) of equity compensation	19	(713)
Changes in assets and liabilities:		
Accounts receivable	(21,350)	(23,276)
Other current assets	137	2,594
Other assets	(339)	(717)
Accounts payable and accrued expenses	13,653	2,771
Accrued payroll and related taxes	(7,306)	(8,830)
Other liabilities	4,737	(569)
Net cash provided by operating activities of continuing operations	73,483	44,489
Net cash provided by operating activities of discontinued operations	5,818	4,745
Net cash provided by operating activities	79,301	49,234
Cash Flow from Investing Activities:		
Decrease in restricted cash	(1,426)	(77)
Proceeds from sale of assets		1,035
Capital expenditures	(113,714)	(98,757)
Net cash used in investing activities of continuing operations	(115,140)	(97,799)
Net cash used in investing activities of discontinued operations		
Net cash used in investing activities	(115,140)	(97,799)
Cash Flow from Financing Activities:		
Payments on debt	(18,486)	(92,846)
Termination of interest rate swap agreements	1,719	
Proceeds from the exercise of stock options	383	491

Income tax (charge) benefit of equity compensation		(19)		713
Proceeds from long-term debt		41,000		124,000
Debt issuance costs		(358)		(1,046)
Net cash provided by financing activities		24,239		31,312
Effect of Exchange Rate Changes on Cash and Cash Equivalents		4,244		(537)
Net Increase in Cash and Cash Equivalents		(7,356)		(17,790)
Cash and Cash Equivalents, beginning of period		31,655		44,403
Cash and Cash Equivalents, end of period	$	24,299	$	26,613
Supplemental Disclosures:				
Non-cash Investing and Financing activities:				
Capital expenditures in accounts payable and accrued expenses	$	20,362	$	12,949

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 unaudited consolidated financial statements of The GEO Group, Inc., a Florida corporation (the Company , or GEO), 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. Additional information may be obtained by referring to the Company s Annual Report on Form 10-K for the year ended December 28, 2008. 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 thirty-nine weeks ended September 27, 2009 are not necessarily indicative of the results for the entire fiscal year ending January 3, 2010.

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 18, 2009 for the fiscal year ended December 28, 2008.

Certain prior period amounts related to discontinued operations (Note 5) and noncontrolling interest (Note 11) have been reclassified to conform to the current period presentation.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FAS No. 168) to establish the FASB Accounting Standards Codification (FASB ASC) as the source of authoritative non-Securities and Exchange Commission (the FASB ASC does not supersede Securities and Exchange Commission rules or regulations) accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP). In addition to establishing the FASB ASC, FAS No. 168 also modifies the GAAP hierarchy to include only two levels of GAAP: authoritative and non-authoritative. FAS No. 168 became effective for companies in periods ending after September 15, 2009 and will continue to be authoritative until integrated into the FASB ASC. The Company adopted FAS No. 168 in its fiscal period ending September 27, 2009, as set forth in the transition guidance found in the FASB ASC *Generally Accepted Accounting Principles*. As FAS No. 168 was not intended to change or alter existing GAAP, it had no impact upon the Company s financial condition, results of operations and cash flows. In all filings prior to this Quarterly Report on Form 10-Q, the Company made certain references to prior authoritative standards issued by the FASB using pre-Codification references. As a result of the adoption of FAS No. 168, the references in the Company s Notes to Unaudited Consolidated Financial Statements have been updated in this Quarterly Report on Form 10-Q to reflect the appropriate topical references to the FASB ASC.

2. BUSINESS ACQUISITION

On August 31, 2009, the Company announced that its mental health subsidiary, GEO Care, Inc. (GEO Care), signed a definitive agreement to acquire Just Care, Inc. (Just Care), a provider of detention healthcare focusing on the delivery of medical and mental health services. Just Care manages the 354-bed Columbia Regional Care Center (the Facility) located in Columbia, South Carolina. The Facility houses medical and mental health residents for the State of South Carolina and the State of Georgia as well as special needs detainees under custody of the U.S. Marshals Service and U.S. Immigration and Customs Enforcement. The Facility is operated by Just Care under a long-term lease with the State of South Carolina. The Company paid $40.0 million, consistent with the terms of the merger agreement, at closing on September 30, 2009.

3. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the income from continuing operations available to common shareholders by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share (EPS) were calculated for the thirteen and thirty-nine weeks ended September 27, 2009 and September 28, 2008 as follows (in thousands, except per share data):

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	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Income from continuing operations	$ 19,258	$ 15,497	$ 50,820	$ 41,237
Basic earnings per share:				
Weighted average shares outstanding	50,900	50,626	50,800	50,495
Per share amount	$ 0.38	$ 0.31	$ 1.00	$ 0.82
Diluted earnings per share:				
Weighted average shares outstanding	50,900	50,626	50,800	50,495
Effect of dilutive securities:				
Stock options and restricted stock	1,050	1,177	1,047	1,325
Weighted average shares assuming dilution	51,950	51,803	51,847	51,820
Per share amount	$ 0.37	$ 0.30	$ 0.98	$ 0.80

Thirteen Weeks

For the thirteen weeks ended September 27, 2009, 23,684 weighted average shares of stock underlying options and 8,668 weighted average shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the thirteen weeks ended September 28, 2008, 404,448 weighted average shares of stock underlying options and no shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

Thirty-nine Weeks

For the thirty-nine weeks ended September 27, 2009, 82,936 weighted average shares of stock underlying options and 10,075 of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the thirty-nine weeks ended September 28, 2008, 375,015 weighted average shares of stock underlying options and no shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

4. EQUITY INCENTIVE PLANS

The Company had awards outstanding under four equity compensation plans at September 27, 2009: The Wackenhut Corrections Corporation 1994 Stock Option Plan (the 1994 Plan); the 1995 Non-Employee Director Stock Option Plan (the 1995 Plan); the Wackenhut Corrections Corporation 1999 Stock Option Plan (the 1999 Plan); and The GEO Group, Inc. 2006 Stock Incentive Plan (the 2006 Plan and, together with the 1994 Plan, the 1995 Plan and the 1999 Plan, the Company Plans).

On April 29, 2009, the Company s Board of Directors adopted and its shareholders approved several amendments to the 2006 Plan, including an amendment providing for the issuance of an additional 1,000,000 shares of the Company s common stock which increased the total amount of shares of common stock issuable pursuant to awards granted under the plan to 2,400,000 and specifying that up to 1,083,000 of such total shares pursuant to awards granted under the plan may constitute awards other than stock options and stock appreciation rights, including shares of restricted stock. See Restricted Stock below for further discussion. On June 26, 2009, the Company s Compensation Committee of the Board of Directors approved a grant of 163,000 restricted stock awards to certain employees. As of September 27, 2009, the Company had 960,044 shares of common stock available for issuance pursuant to future awards that may be granted under the plan of which up to 234,844 were available for the issuance of awards other than stock options.

A summary of the status of stock option awards issued and outstanding under the Company s Plans as of September 27, 2009 is presented below.

Fiscal Year	**Shares (in thousands)**	**Wtd. Avg. Exercise Price**	**Wtd. Avg. Remaining Contractual Term**	**Aggregate Intrinsic Value (in thousands)**
Options outstanding at December 28, 2008	2,808	$ 8.03	4.6	$ 29,751
Options granted	7	16.59		
Options exercised	(97)	3.96		
Options forfeited/canceled/expired	(44)	22.47		
Options outstanding at September 27, 2009	2,674	$ 7.96	3.9	$ 31,251
Options exercisable at September 27, 2009	2,353	$ 6.50	3.3	$ 30,736

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. For the thirteen and thirty-nine weeks ended September 27, 2009, the amount of stock-based compensation expense related to stock options was $0.2 million and

$0.7 million, respectively. For the thirteen and thirty-nine weeks ended September 28, 2008, the amount of stock-based compensation expense related to stock options was $0.3 million and $0.7 million, respectively. The weighted average grant date fair value of options granted during the thirty-nine weeks ended September 27, 2009 was $5.77 per share. As of September 27, 2009, the Company had $1.6 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 2.2 years.

Restricted Stock

A summary of restricted stock issued as of December 28, 2008 and changes during thirty-nine weeks ended September 27, 2009 follows:

	Shares	Wtd. Avg. Grant date Fair value
Restricted stock outstanding at December 28, 2008	425,684	$19.54
Granted	163,000	18.56
Vested	(176,597)	18.27
Forfeited/canceled	(27,487)	20.68
Restricted stock outstanding at September 27, 2009	384,600	$19.63

During the thirteen and thirty-nine weeks ended September 27, 2009, the Company recognized $0.8 million and $2.7 million, respectively, of compensation expense related to its outstanding shares of restricted stock. During the thirteen and thirty-nine weeks ended September 28, 2008, the Company recognized $0.8 million and $2.2 million, respectively, of compensation expense related to its outstanding shares of restricted stock. As of September 27, 2009, the Company had $6.0 million of unrecognized compensation expense that is expected to be recognized over a weighted average period of 2.5 years.

5. DISCONTINUED OPERATIONS

The termination of any of the Company s management contracts by expiration or otherwise, may result in the classification of the operating results of such management contract, net of taxes, as a discontinued operation. In accordance with FASB ASC *Presentation of Financial Statements*, presentation as discontinued operations is appropriate so long as the financial results can be clearly identified, the operations and cash flows are completely eliminated from ongoing operations, and so long as the Company does not have any significant continuing involvement in the operations of the component after the disposal or termination transaction.

Historically, the Company has classified operations as discontinued in the period they are announced as normally all continuing cash flows cease within three to six months of that date. During the fiscal years 2009 and 2008, the Company discontinued operations at certain of its domestic and international subsidiaries. The results of operations, net of taxes, and the assets and liabilities of these operations, each as further described below, have been reflected in the accompanying consolidated financial statements as discontinued operations for the thirteen and thirty-nine weeks ended September 27, 2009 and September 28, 2008, respectively. Assets, primarily consisting of accounts receivable, and liabilities have been presented separately in the accompanying consolidated balance sheets for all periods presented.

U.S. corrections. On November 7, 2008, the Company announced its receipt of notice for the discontinuation of its contract with the State of Idaho, Department of Correction (Idaho DOC) for the housing of approximately 305 out-of-state inmates at the managed-only Bill Clayton Detention Center (the Detention Center) effective January 5, 2009. On August 29, 2008, the Company announced its discontinuation of its contract with Delaware County, Pennsylvania for the management of the county-owned 1,883-bed George W. Hill Correctional Facility effective December 31, 2008.

International services. On December 22, 2008, the Company announced the closure of its U.K.-based transportation division, Recruitment Solutions International (RSI). The Company purchased RSI, which provided transportation services to The Home Office Nationality and Immigration Directorate, for approximately $2 million in 2006. As a result of the termination of its transportation business in the United Kingdom, the Company wrote off assets of $2.6 million including goodwill of $2.3 million.

GEO Care. On June 16, 2008, the Company announced the discontinuation by mutual agreement of its contract with the State of New Mexico Department of Health for the management of the Fort Bayard Medical Center effective June 30, 2008.

The following are the revenues and income (loss) related to discontinued operations for the periods presented (in thousands):

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	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Revenues	$	$ 11,312	$ 290	$ 36,259
Net income (loss)	$	$ 362	$ (346)	$ 1,228
Basic earnings per share	$0.00	$ 0.00	$(0.01)	$ 0.02
Diluted earnings per share	$0.00	$ 0.01	$(0.01)	$ 0.02

6. COMPREHENSIVE INCOME

The components of the Company s comprehensive income, net of tax, are as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 27, 2009	September 28, 2008	September 27, 2009	September 28, 2008
Net income	$ 19,258	$ 15,859	$ 50,474	$ 42,465
Change in foreign currency translation, net of income tax expense (benefit) of $648, $(1,497), $2,318 and $(1,133), respectively	1,662	(2,779)	7,475	(2,104)
Pension liability adjustment, net of income tax expense of $28, $29, $86 and $86, respectively	44	44	132	132
Unrealized gain (loss) on derivative instruments, net of income tax expense (benefit) of $65, $(1,182), $577 and $(1,027), respectively	119	(1,781)	1,050	(1,527)
Comprehensive income	$ 21,083	$ 11,343	$ 59,131	$ 38,966

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Changes in the Company s goodwill balances for the thirty-nine weeks ended September 27, 2009 were as follows (in thousands):

	Balance as of December 28, 2008	Foreign Currency Translation	Balance as of September 27, 2009
U.S. corrections	$ 21,692	$	$ 21,692
International services	510	137	647
Total segments	$ 22,202	$ 137	$ 22,339

Intangible assets consisted of the following (in thousands):