GEO GROUP INC
Form 10-K
February 26, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014

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)	**(I.R.S. Employer Identification No.)**
One Park Place, Suite 700, 621 Northwest 53rd Street Boca Raton, Florida	**33487-8242**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (561) 893-0101

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

Large accelerated filer	x	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 Act). Yes ¨ No x

The aggregate market value of the 72,229,335 voting and non-voting shares of common stock held by non-affiliates of the registrant as of June 30, 2014 (based on the last reported sales price of such stock on the New York Stock Exchange on such date, the last business day of the registrant s quarter ended June 30, 2014 of $35.73 per share) was approximately $2.6 billion.

As of February 23, 2015, the registrant had 74,202,455 shares of common stock outstanding.

Certain portions of the registrant s definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 for its 2015 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this report, are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

As used in this report, the terms we, us, our, GEO and the Company refer to The GEO Group, Inc., its consolidated subsidiaries and its unconsolidated affiliates, unless otherwise expressly stated or the context otherwise requires.

General

We are a fully-integrated real estate investment trust (REIT) specializing in the ownership, leasing and management of correctional, detention and re-entry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa and the United Kingdom. We own, lease and operate a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers, as well as community based re-entry facilities. We develop new facilities based on contract awards, using our project development expertise and experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency. We provide innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. We also provide secure transportation services for offender and detainee populations as contracted domestically and in the United Kingdom through our joint venture GEO Amey PECS Ltd. (GEOAmey). As of December 31, 2014, our worldwide operations included the management and/or ownership of approximately 79,000 beds at 98 correctional, detention and community based facilities, including idle facilities and 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.

We provide a diversified scope of services on behalf of our government clients:

- our correctional and detention management services involve the provision of security, administrative, rehabilitation, education, and food services, primarily at adult male correctional and detention facilities;
- our community-based services involve supervision of adult parolees and probationers and the provision of temporary housing, programming, employment assistance and other services with the intention of the successful reintegration of residents into the community;
- our youth services include residential, detention and shelter care and community-based services along with rehabilitative and educational programs;
- we provide comprehensive electronic monitoring and supervision services;
- we develop new facilities, using our project development experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency;
- we provide secure transportation services for offender and detainee populations as contracted; and
- our services are provided at facilities which we either own, lease or are owned by our customers.

We began operating as a REIT for federal income tax purposes effective January 1, 2013. As a result of the REIT conversion, we reorganized our operations and moved non-real estate components into taxable REIT subsidiaries (TRS). We are a Florida corporation and our predecessor corporation prior to the REIT conversion was originally organized in 1984.

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Business Segments

We conduct our business through four reportable business segments: our U.S. Corrections & Detention segment; our GEO Care segment; our International Services segment and our Facility Construction & Design segment. We have identified these four reportable segments to reflect our current view that we operate four distinct business lines, each of which constitutes a material part of our overall business. Our U.S. Corrections & Detention segment primarily encompasses our U.S.-based privatized corrections and detention business. Our GEO Care segment, which conducts its services in the U.S., consists of our community based services business, our youth services business and our electronic monitoring and supervision service. Effective January 1, 2015, we regained ownership of our GEO Care trade name in connection with the termination of the license agreement related to the sale of the residential treatment services (RTS) operating component on December 31, 2012 and as a result renamed our GEO Community Services segment the GEO Care segment. Refer to Note 2-Discontinued Operations in the notes to our audited consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K. Our International Services segment primarily consists of our privatized corrections and detention operations in South Africa, Australia, and the United Kingdom. Our Facility Construction & Design segment primarily contracts with various states, local and federal agencies, as well as international agencies, for the design and construction of facilities for which we generally have been, or expect to be, awarded management contracts. Financial information about these segments for years 2014, 2013 and 2012 is contained in Note 16 Business Segments and Geographic Information included in the notes to our audited consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

Recent Developments

5.875% Senior Notes

On September 25, 2014, we completed an offering of $250.0 million aggregate principal amount of 5.875% senior unsecured notes (the 5.875% Senior Notes). The notes will mature on October 15, 2024 and have a coupon rate and yield to maturity of 5.875%. Interest is payable semi-annually in cash in arrears on April 15 and October 15, beginning April 15, 2015. The 5.875% Senior Notes are guaranteed on a senior unsecured basis by all of our restricted subsidiaries that guarantee obligations. The 5.875% Senior Notes rank equally in right of payment with any of our unsecured, unsubordinated indebtedness and our guarantors, including our 6.625% senior notes due 2021, the 5 $^{7}/_{8}$% senior notes due 2022, the 5.125% senior notes due 2023, and the guarantors guarantees thereof, senior in right of payment to any future indebtedness of the Company and the guarantors that is expressly subordinated to the 5.875% Senior Notes and the guarantees, effectively junior to any secured indebtedness of the Company and the guarantors, including indebtedness under our senior credit facility, to the extent of the value of the assets securing such indebtedness, and structurally junior to all obligations of our subsidiaries that are not guarantors. The sale of the 5.875% Senior Notes was registered under our automatic shelf registration statement on Form S-3 filed on September 12, 2014, as supplemented by the Preliminary Prospectus Supplement filed on September 22, 2014 and the Prospectus Supplement filed on September 24, 2014. We capitalized $4.6 million of deferred financing costs in connection with the offering. At any time on or prior to October 15, 2017, we may on any one or more occasions redeem up to 35% of the aggregate principal amount of outstanding 5.875% Senior Notes issued under the indenture governing the 5.875% Senior Notes (including any additional notes) at a redemption price of 105.875% of their principal amount, plus accrued and unpaid interest, if any, to the redemption date. In addition, we may, at our option, redeem the 5.875% Senior Notes in whole or in part before October 15, 2019 at a redemption price equal to 100% of the principal amount of the 5.875% Senior Notes being redeemed plus a make-whole premium, together with accrued and unpaid interest, if any, to the redemption date. Lastly, we may, at our option, redeem the 5.875% Senior Notes in whole or in part on or after October 15, 2019 at the redemption prices specified in the indenture for each year from 2019 through 2024 and thereafter.

Australia Ravenhall

In connection with a new design and build prison project agreement with the State of Victoria (the State), we entered into a syndicated facility agreement (the Construction Facility) with National Australia Bank

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Limited to provide debt financing for construction of the project. Refer to Note 7 Contract Receivable included in the notes to our audited consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K. The Construction Facility provides for non-recourse funding up to AUD 791.0 million, or $645.3 million, based on exchange rates as of December 31, 2014. 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. After October 2019, 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 $252.9 million, based on exchange rates as of December 31, 2014, which will be used to pay a portion of the outstanding principal. The remaining outstanding principal balance will be repaid over the term of the operating agreement. As of December 31, 2014, $79.4 million was outstanding under the Construction Facility. We also entered into multiple interest rate swap and interest rate cap agreements related to our non-recourse debt in connection with the project. Refer to Note 9 Derivative Financial Instruments included in the notes to our audited consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

Credit Facility

On August 27, 2014, we executed a second amended and restated credit agreement by and among us and GEO Corrections Holdings, Inc., as Borrowers, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto (the Credit Agreement).

The Credit Agreement evidences a credit facility (the Credit Facility) consisting of a $296.3 million term loan (the Term Loan) bearing interest at LIBOR plus 2.50% (with a LIBOR floor of .75%), and a $700 million revolving credit facility (the Revolver) initially bearing interest at LIBOR plus 2.25% (with no LIBOR floor) together with AUD 225 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 interest rate is subject to a pricing grid based upon our total leverage ratio. Amounts to be borrowed by us under the Credit Agreement are subject to the satisfaction of customary conditions to borrowing. The Revolver component is scheduled to mature on August 27, 2019 and the Term Loan component is scheduled to mature on April 3, 2020.

The Credit Agreement contains certain customary representations and warranties, and certain customary covenants that restrict our 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 5.75 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) alter the business we conduct, and (xi) materially impair our lenders security interests in the collateral for its loans.

Events of default under the Credit Agreement include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our 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 us, and (viii) a change in control. We were in compliance with all of the covenants of the Credit Agreement as of December 31, 2014.

As of December 31, 2014, we had $295.5 million in aggregate borrowings outstanding, net of discount, under the Term Loan and $70.0 million in borrowings under the Revolver, and approximately $62.0 million in letters of credit which left $568.0 million in additional borrowing capacity under the Revolver. In addition, we

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have the ability to increase the Senior Credit Facility by an additional $350.0 million, subject to lender demand and prevailing market conditions and satisfying the relevant borrowing conditions thereunder. Refer to Note 14-Debt included in the notes to our audited consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K. At December 31, 2014, we also had approximately AUD 214 million in letters of credit outstanding under the Australian LC Facility in connection with certain performance guarantees related to the Ravenhall Prison Project. Refer to Note 7- Contract Receivable in the notes to the audited consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K for further discussion.

Prospectus Supplement

On May 8, 2013, we filed with the Securities and Exchange Commission a prospectus supplement related to the offer and sale from time to time of our common stock at an aggregate offering price of up to $100.0 million through sales agents. Sales of shares of our common stock under the prospectus supplement and the equity distribution agreements entered into with the sales agents, if any, were to be made in negotiated transactions or transactions that were deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. On July 18, 2014, we filed with the Securities and Exchange Commission a post-effective amendment to its shelf registration statement on Form S-3 (pursuant to which the prospectus supplement had been filed) as a result of our merger into The GEO Group REIT, Inc. (GEO REIT) effective June 27, 2014. During the year ended December 31, 2014, there were approximately 1.5 million shares of common stock sold under the prospectus supplement for net proceeds of $54.7 million. There were no shares of our common stock sold under the prospectus supplement during the year ended December 31, 2013.

In September 2014, we filed with the Securities and Exchange Commission a new automatic shelf registration statement on Form S-3. On November 10, 2014, in connection with the new shelf registration statement, we filed with the Securities and Exchange Commission a new prospectus supplement related to the offer and sale from time to time of our common stock at an aggregate offering price of up to $150 million through sales agents. Sales of shares of our 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, as amended (the Securities Act). There were no shares of our stock sold under this prospectus supplement during the year ended December 31, 2014.

Contract awards and facility activations

The following contract awards and facility activations occurred during 2014:

On February 3, 2014, we announced that we assumed management of the 985-bed Moore Haven Correctional Facility, the 985-bed Bay Correctional Facility, and the 1,884-bed Graceville Correctional Facility under contracts with the Florida Department of Management Services effective February 1, 2014.

On February 3, 2014, we announced that we had increased the contracted capacity at the company-owned Rio Grande Detention Center in Laredo, Texas from 1,500 to 1,900 beds under a contract with the U.S. Marshals Service.

On April 1, 2014, we announced the signing of a contract with the California Department of Corrections and Rehabilitation for the reactivation of our company-owned 260-bed McFarland Female Community Reentry Facility located in McFarland, California.

On April 30, 2014, we announced a 640-bed expansion to the company-owned, 1,300-bed Adelanto Detention Facility in California under an amendment to the existing contract with the City of Adelanto.

On September 10, 2014, we announced that our wholly-owned subsidiary, BI Incorporated (BI) has been awarded a contract by U.S. Immigration and Customs Enforcement (ICE) for the continued provision of case

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management and supervision services under the Intensive Supervision and Appearance Program (ISAP). The contract has a term of five years, inclusive of option periods, effective September 8, 2014. The contract is expected to generate approximately $47 million in annualized revenues.

On September 16, 2014, our newly formed wholly-owned subsidiary, GEO Ravenhall Pty. Ltd. in its capacity as trustee of another newly formed wholly-owned subsidiary, GEO Ravenhall Trust (Project Co), signed the Ravenhall Prison Project Agreement (Ravenhall Contract) with the State for the development and operation of a new 1,000-bed prison in Ravenhall, a locality near Melbourne, Australia under a Public-Private Partnership financing structure. The facility will also have the capacity to house 1,300 inmates should the State have the need for additional beds in the future. We will provide a capital contribution of approximately 20% of the project following the activation of the facility and we anticipate returns on investment consistent with ouir company-owned facilities. The design and construction phase (D&C Phase) of the agreement began in September 2014 with expected completion towards the end of 2017. Once constructed and commercially accepted, our wholly-owned subsidiary, the GEO Group Australasia Pty. Ltd. (GEO Australia) will operate the facility under a 25-year management contract (Operating Phase). We believe the facility will provide unprecedented levels of in-prison and post-release programs aimed at reducing reoffending rates and helping offenders reintegrate back into society.

On December 19, 2014, we announced a 626-bed expansion to the company-owned, 532-bed Karnes County Residential Center in Texas under an amendment to our existing contract with Karnes County, Texas. The expansion is expected to generate approximately $20 million in additional annualized revenues.

On December 30, 2014, we announced that we had signed contracts with the Federal Bureau of Prisons (BOP) for the continuation of management at the Moshannon Valley Correctional Center in Pennsylvania and for the reactivation of the company-owned 1,940-bed Great Plains Correction Facility in Oklahoma. The Great Plains Correction Facility was previously included in the Company s idle facilities. Each contract has a term of ten years, inclusive of renewal options. The facilities are expected to generate approximately $76 million in combined annualized revenues.

The following contract award and facility activation occurred subsequent to 2014:

On January 28, 2015, the Company announced that it had signed a contract for the re-activation of the company-owned, 400-bed Mesa Verde Detention Facility in California. The facility will house immigration detainees under an intergovernmental service agreement between the City of McFarland and ICE. The Company completed a $10 million renovation of the facility at the end of 2014 and expects to begin the intake of detainees at the facility during the second quarter of 2015. The facility was previously included in the Company s idle facilities. The facility is expected to generate approximately $17 million in annualized revenues.

Asset Acquisition

On January 26, 2015, we announced that we had signed a definitive agreement to acquire 8 correctional and detention facilities (the LCS Facilities) totaling more than 6,500 beds from LCS Corrections Services, Inc., a privately-held owner and operator of correctional and detention facilities in the United States, and its affiliates (collectively, LCS). Pursuant to the terms of the definitive asset purchase agreement, we acquired the LCS Facilities for approximately $310 million in an all cash transaction, excluding transaction related expenses. We also acquired certain tangible and intangible assets pursuant to the asset purchase agreement. Additionally, LCS has the opportunity to receive an additional payment if the LCS Facilities exceed certain performance targets after the closing over a period of 18 months (the Earnout Payment). The aggregate amount of the purchase price paid at closing and the Earnout Payment, if achieved, will not exceed $350 million. Approximately $298 million of outstanding debt related to the facilities was repaid at closing using the cash consideration paid by us. We did not assume any debt as the result of the transaction. We financed the acquisition of the LCS Facilities with borrowings under our revolving credit facility. We are in the process of completing our preliminary purchase price allocation.

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Idle Facilities

We are currently marketing approximately 3,300 vacant beds at three of our idle facilities to potential customers with the re-activation of the company-owned 400-bed Mesa Verde Detention Facility in January 2015 as discussed above. The annual carrying cost of idle facilities in 2015 is estimated to be $16.0 million, including depreciation expense of $2.6 million. As of December 31, 2014, these facilities had a net book value of $90.5 million. We currently do not have any firm commitment or agreement in place to activate these facilities. Historically, some facilities have been idle for multiple years before they received a new contract award. Currently, our North Lake Correctional Facility located in Baldwin, Michigan has been idle the longest of our idle facility inventory. The facility has been idle since October of 2010. This idle facility is included in the U.S. Corrections & Detention segment. The per diem rates that we charge our clients often vary by contract across our portfolio. However, if all of these idle facilities were to be activated using our U.S. Corrections & Detention average per diem rate in 2014, (calculated as the U.S. Corrections & Detention revenue divided by the number of U.S. Corrections & Detention mandays) and based on the average occupancy rate in our U.S. Corrections & Detention facilities for 2014, we would expect to receive incremental revenue of approximately $80 million and an increase in earnings per share of approximately $.20 to $.25 per share based on our average U.S. Corrections and Detention operating margin.

Quality of Operations

We operate each facility in accordance with our company-wide policies and procedures and with the standards and guidelines required under the relevant management contract. For many facilities, the standards and guidelines include those established by the American Correctional Association, or ACA. The ACA is an independent organization of corrections professionals, which establishes correctional facility standards and guidelines that are generally acknowledged as a benchmark by governmental agencies responsible for correctional facilities. Many of our contracts in the United States require us to seek and maintain ACA accreditation of the facility. We have sought and received ACA accreditation and re-accreditation for all such facilities. We achieved a median re-accreditation score of 99.8% as of December 31, 2014. Approximately 87.7% of our 2014 U.S. Corrections & Detention revenue was derived from ACA accredited facilities for the year ended December 31, 2014. We have also achieved and maintained accreditation by The Joint Commission (TJC), at three of our correctional facilities and at nine of our youth services locations. We have been successful in achieving and maintaining accreditation under the National Commission on Correctional Health Care, or NCCHC, in a majority of the facilities that we currently operate. The NCCHC accreditation is a voluntary process which we have used to establish comprehensive health care policies and procedures to meet and adhere to the ACA standards. The NCCHC standards, in most cases, exceed ACA Health Care Standards and we have achieved this accreditation at six of our U.S. Corrections & Detention facilities and at two youth services locations. Additionally, BI has achieved a certification for ISO 9001:2008 for the design, production, installation and servicing of products and services produced by the Electronic Monitoring business units, including electronic home arrest and electronic monitoring technology products and monitoring services, installation services, and automated caseload management services.

Business Development Overview

We intend to pursue a diversified growth strategy by winning new clients and contracts, expanding our government services portfolio and pursuing selective acquisition opportunities. Our primary potential customers include: governmental agencies responsible for local, state and federal correctional facilities in the United States; governmental agencies responsible for correctional facilities in Australia, South Africa and the United Kingdom; federal, state and local government agencies in the United States responsible for community-based services for adult and juvenile offenders; federal, state and local government agencies responsible for monitoring community-based parolees, probationers and pretrial defendants; and other foreign governmental agencies. We achieve organic growth through competitive bidding that begins with the issuance by a government agency of a request for proposal, or RFP. We primarily rely on the RFP process for organic growth in our U.S. and international corrections operations as well as in our community based re-entry services and electronic monitoring services business.

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For our facility management contracts, our state and local experience has been that a period of approximately 60 to 90 days is generally required from the issuance of a request for proposal to the submission of our response to the request for proposal; that between one and four months elapse between the submission of our response and the agency s award for a contract; and that between 1 and 4 months elapse between the award of a contract and the commencement of facility construction or management of the facility, as applicable.

For our facility management contracts, our federal experience has been that a period of approximately 60 to 90 days is generally required from the issuance of a request for proposal to the submission of our response to the request for proposal; that between 12 and 18 months elapse between the submission of our response and the agency s award for a contract; and that between 4 and 18 weeks elapse between the award of a contract and the commencement of facility construction or management of the facility, as applicable.

If the state, local or federal facility for which an award has been made must be constructed, our experience is that construction usually takes between nine and twenty-four months to complete, depending on the size and complexity of the project. Therefore, management of a newly constructed facility typically commences between ten and twenty-eight months after the governmental agency s award.

For the services provided by BI, state, local and federal experience has been that a period of approximately 30 to 90 days is generally required from the issuance of an RFP or Invitation to Bid, or ITB, to the submission of our response; that between one and three months elapse between the submission of our response and the agency s award for a contract; and that between one and three months elapse between the award of a contract and the commencement of a program or the implementation of program operations, as applicable.

The term of our local, state and federal contracts range from one to five years and some contracts include provisions for optional renewal years beyond the initial contract term. Contracts can, and are periodically, extended beyond the contract term and optional renewal years through alternative procurement processes including sole source justification processes, cooperative procurement vehicles and agency decisions to add extension time periods.

We believe that our long operating history and reputation have earned us credibility with both existing and prospective customers when bidding on new facility management contracts or when renewing existing contracts. Our success in the RFP process has resulted in a pipeline of new projects with significant revenue potential.

During 2014, we entered into eight new or expansion projects representing an aggregate of 7,720 additional beds compared to five new or expansion projects representing an aggregate of 5,354 beds during 2013.

In addition to pursuing organic growth through the RFP process, we will from time to time selectively consider the financing and construction of new facilities or expansions to existing facilities on a speculative basis without having a signed contract with a known customer. We also plan to leverage our experience and scale of service offerings to expand the range of government-outsourced services that we provide. We will continue to pursue selected acquisition opportunities in our core services and other government services areas that meet our criteria for growth and profitability. We have engaged and intend in the future to engage independent consultants to assist us in developing privatization opportunities and in responding to requests for proposals, monitoring the legislative and business climate, and maintaining relationships with existing customers.

Facility Design, Construction and Finance

We offer governmental agencies consultation and management services relating to the design and construction of new correctional and detention facilities and the redesign and renovation of older facilities including facilities we own, lease or manage as well as facilities we do not own, lease or manage. Domestically, as of December 31, 2014, we have provided services for the design and construction of approximately 51 facilities and for the redesign, renovation and expansion of approximately 48 facilities. Internationally, as of

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December 31, 2014, we have provided services for the design and construction of 11 facilities and for the redesign, renovation and expansion of 1 facility.

Contracts to design and construct or to redesign and renovate facilities may be financed in a variety of ways. Governmental agencies may finance the construction of such facilities through any of the following methods:

- a one time general revenue appropriation by the governmental agency for the cost of the new facility;
- general obligation bonds that are secured by either a limited or unlimited tax levy by the issuing governmental entity; or
- revenue bonds or certificates of participation secured by an annual lease payment that is subject to annual or bi-annual legislative appropriations.

We may also act as a source of financing or as a facilitator with respect to the financing of the construction of a facility. In these cases, the construction of such facilities may be financed through various methods including the following:

- funds from equity offerings of our stock;
- cash on hand and/or cash flows from our operations;
- borrowings by us from banks or other institutions (which may or may not be subject to government guarantees in the event of contract termination);
- funds from debt offerings of our notes; or
- lease arrangements with third parties.

If the project is financed using direct governmental appropriations, with proceeds of the sale of bonds or other obligations issued prior to the award of the project, then financing is in place when the contract relating to the construction or renovation project is executed. If the project is financed using project-specific tax-exempt bonds or other obligations, the construction contract is generally subject to the sale of such bonds or obligations. Generally, substantial expenditures for construction will not be made on such a project until the tax-exempt bonds or other obligations are sold; and, if such bonds or obligations are not sold, construction and therefore, management of the facility, may either be delayed until alternative financing is procured or the development of the project will be suspended or entirely canceled. If the project is self-financed by us, then financing is generally in place prior to the commencement of construction.

Under our construction and design management contracts, we generally agree to be responsible for overall project development and completion. We typically act as the primary developer on construction contracts for facilities and subcontract with bonded National and/or Regional Design Build Contractors. Where possible, we subcontract with construction companies that we have worked with previously. We make use of an in-house staff of architects and operational experts from various correctional disciplines (e.g. security, medical service, food service, inmate programs and facility maintenance) as part of the team that participates from conceptual design through final construction of the project. This staff coordinates all aspects of the development with subcontractors and provides site-specific services.

When designing a facility, our architects use, with appropriate modifications, prototype designs we have used in developing prior projects. We believe that the use of these designs allows us to reduce the potential of cost overruns and construction delays and to reduce the number of correctional officers required to provide security at a facility, thus controlling costs both to construct and to manage the facility. Our facility designs also maintain security because they increase the area under direct surveillance by correctional officers and make use of additional electronic surveillance.

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The following table sets forth the current expansion and development projects and their stage of completion for the Company s facilities:

Facilities Under Construction	Additional Beds	Capacity Following Expansion/ Construction	Estimated Completion Date	Customer	Financing
Adelanto Expansion	640	1,940	Q3 2015	City of Adelanto, CA	GEO
Karnes Residential Expansion	626	1,158	Q4 2015	Karnes County, TX	GEO
Ravenhall Prison Development	1,300	1,300	Q4 2017	Department of Justice, State of Victoria	GEO

Competitive Strengths

Leading Corrections Provider Uniquely Positioned to Offer a Continuum of Care

We are the second largest provider of privatized correctional and detention facilities worldwide and the largest provider of community-based re-entry services, youth services and electronic monitoring services in the U.S. corrections industry. We believe these leading market positions and our diverse and complementary service offerings enable us to meet the growing demand from our clients for comprehensive services throughout the entire corrections lifecycle. Our continuum of care enables us to provide consistency and continuity in case management, which we believe results in a higher quality of care for offenders, reduces recidivism, lowers overall costs for our clients, improves public safety and facilitates successful reintegration of offenders back into society. In 2015, we are making an additional $5 million dollar annual investment to expand our continuum of care platform of programs.

Attractive REIT Profile

Key characteristics of our business make us a highly attractive REIT. We are in a real estate intensive industry. Since our inception, we have financed and developed dozens of facilities. We have a diversified set of investment grade customers in the form of government agencies which are required to pay us on time by law. We have historically experienced customer retention in excess of 90%. Our strong and predictable occupancy rates generate a stable and sustainable stream of revenue. This stream of revenue combined with our low maintenance capital expenditure requirement translates into steady predictable cash flow. The REIT structure also allows us to pursue growth opportunities due to the capital intensive nature of corrections/detention business.

Large Scale Operator with National Presence

We operate the sixth largest correctional system in the U.S. by number of beds, including the federal government and all 50 states. We currently have correctional operations in approximately 33 states and offer electronic monitoring services in every state. In addition, we have extensive experience in overall facility operations, including staff recruitment, administration, facility maintenance, food service, security, and in the supervision, treatment and education of inmates. We believe our size and breadth of service offerings enable us to generate economies of scale which maximize our efficiencies and allows us to pass along cost savings to our clients. Our national presence also positions us to bid on and develop new facilities across the U.S.

Long-Term Relationships with High-Quality Government Customers

We have developed long-term relationships with our federal, state and other governmental customers, which we believe enhance our ability to win new contracts and retain existing business. We have provided correctional and detention management services to the United States Federal Government for 28 years, the State of California

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for 27 years, the State of Texas for approximately 27 years, various Australian state government entities for 23 years and the State of Florida for approximately 21 years. These customers accounted for approximately 66.2% of our consolidated revenues for the fiscal year ended December 31, 2014.

Recurring Revenue with Strong Cash Flow

Our revenue base is derived from our long-term customer relationships, with contract renewal rates and facility occupancy rates both approximating 90% over the past five years. We have been able to expand our revenue base by continuing to reinvest our strong operating cash flow into expansionary projects and through strategic acquisitions that provide scale and further enhance our service offerings. Our consolidated revenues have grown from $877.0 million in 2007 to $1.7 billion in 2014. We expect our operating cash flow to be well in excess of our anticipated annual maintenance capital expenditure needs, which would provide us significant flexibility for growth in capital expenditures, future dividend payments in connection with operating as a REIT, acquisitions and/or the repayment of indebtedness.

Sizeable International Business

Our international infrastructure, which leverages our operational excellence in the U.S., allows us to aggressively target foreign opportunities that our U.S. based competitors without overseas operations may have difficulty pursuing. We currently have international operations in Australia, South Africa and the United Kingdom. Our international services business generated approximately $254 million of revenues, representing approximately 15% of our consolidated revenues for the year ended December 31, 2014. Included in our international revenues are construction revenues related to our prison project in Ravenhall, Australia which are presented in our Facility Design & Construction segment. We believe we are well positioned to continue benefiting from foreign governments initiatives to outsource correctional services.

Experienced, Proven Senior Management Team

Our Chief Executive Officer and The Founder, George C. Zoley, Ph.D., has led our Company for 30 years and has established a track record of growth and profitability. Under his leadership, our annual consolidated revenues from continuing operations have grown from $40.0 million in 1991 to $1.7 billion in 2014. Mr. Zoley is one of the pioneers of the industry, having developed and opened what we believe to be one of the first privatized detention facilities in the U.S. in 1986. Our Chief Financial Officer, Brian R. Evans, has been with our Company for over 14 years and has led our conversion to a REIT as well as the integration of our recent acquisitions and financing activities. Our top seven senior executives have an average tenure with our Company of over 10 years.

Business Strategies

Provide High Quality, Comprehensive Services and Cost Savings Throughout the Corrections Lifecycle

Our objective is to provide federal, state and local governmental agencies with a comprehensive offering of high quality, essential services at a lower cost than they themselves could achieve. We believe government agencies facing budgetary constraints will increasingly seek to outsource a greater proportion of their correctional needs to reliable providers that can enhance quality of service at a reduced cost. We believe our expanded and diversified service offerings uniquely position us to bundle our high quality services and provide a comprehensive continuum of care for our clients, which we believe will lead to lower cost outcomes for our clients and larger scale business opportunities for us.

Maintain Disciplined Operating Approach

We refrain from pursuing contracts that we do not believe will yield attractive profit margins in relation to the associated operational risks. In addition, although we engage in facility development from time to time without having a corresponding management contract award in place, we endeavor to do so only where we have

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determined that there is medium to long-term client demand for a facility in that geographical area. We have also elected not to enter certain international markets with a history of economic and political instability. We believe that our strategy of emphasizing lower risk and higher profit opportunities helps us to consistently deliver strong operational performance, lower our costs and increase our overall profitability.

Pursue International Growth Opportunities

As a global provider of privatized correctional services, we are able to capitalize on opportunities to operate existing or new facilities on behalf of foreign governments. We have seen increased business development opportunities including opportunities to cross sell our expanded service offerings in recent years in the international markets in which we operate and are currently exploring opportunities for several new projects. We will continue to actively bid on new international projects in our current markets and in new markets that fit our target profile for profitability and operational risk.

Selectively Pursue Acquisition Opportunities

We intend to continue to supplement our organic growth by selectively identifying, acquiring and integrating businesses that fit our strategic objectives and enhance our geographic platform and service offerings. Since 2005, and including the acquisition of Protocol Criminal Justice, Inc. (Protocol) and the LCS Facilities, we have completed eight acquisitions for total consideration, including debt assumed, in excess of $1.7 billion. Our management team utilizes a disciplined approach to analyze and evaluate acquisition opportunities, which we believe has contributed to our success in completing and integrating our acquisitions.

Facilities and Day Reporting Centers

The following table summarizes certain information with respect to: (i) U.S. and international detention and corrections facilities; (ii) community-based services facilities; and (iii) residential and non-residential youth services facilities. The information in the table includes the facilities that we (or a subsidiary or joint venture of GEO) owned, operated under a management contract, had an agreement to provide services, had an award to manage or was in the process of constructing or expanding as of December 31, 2014:

Facility Name & Location	Capacity(1)	Primary Customer	Facility Type	Security Level	Commencement of Current Contract(2)	Base Period	Renewal Options	Managed Leased/ Owned
Corrections & Detention Western Region:								
Adelanto Detention Facility, Adelanto, CA(3)	1,300	ICE - IGA	Federal Detention	Minimum/ Medium	May 2011	5 years	None	Owned
Alhambra City Jail, Los Angeles, CA	67	Los Angeles County	City Jail	All Levels	July 2008	3 years	Two, One-year, Plus 1 Year Extension	Managed
Arizona State-Prison Florence West Florence, AZ	750	AZ DOC	State DUI/ RTC Correctional	Minimum	October 2002	10 years	Two, Five-year	Managed
Arizona State-Prison Phoenix West Phoenix, AZ	500	AZ DOC	State DWI Correctional	Minimum	July 2002	10 years	Two, Five-year	Managed
Aurora/ICE Processing Center Aurora, CO	1,532	ICE / USMS	Federal Detention	All Levels	September 2011/ October 2012	2 years / 2 years	Four, Two-year / Four, Two-year	Owned

Baldwin Park City Jail, Baldwin Park, CA	32	Los Angeles County	City Jail	All Levels	July 2003	3 years	Three, Three-year	Managed

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Facility Name & Location	Capacity(1)	Primary Customer	Facility Type	Security Level	Commencement of Current Contract(2)	Base Period	Renewal Options	Managed Leased/ Owned
Central Arizona Correctional Facility Florence, AZ	1,280	AZ DOC	State Sex Offender Correctional	Minimum/ Medium	De			