GEO GROUP INC
Form 10-Q
August 06, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from __________ to __________

Commission file number 1-14260

The GEO Group, Inc.

(Exact name of registrant as specified in its charter)

Florida	**65-0043078**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification No.)**
One Park Place, 621 NW 53rd Street, Suite 700,	
Boca Raton, Florida	**33487**
(Address of principal executive offices)	**(Zip Code)**

(561) 893-0101

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

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

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

As of August 2, 2018, the registrant had 121,780,605 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2018 AND 2017

(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenues	$ 583,509	$ 577,070	$ 1,148,426	$ 1,127,684
Operating expenses	437,797	438,445	864,506	853,152
Depreciation and amortization	31,313	31,866	63,239	60,815
General and administrative expenses	47,448	52,206	89,280	94,792
Operating income	66,951	54,553	131,401	118,925
Interest income	8,667	12,346	17,766	24,323
Interest expense	(36,919)	(35,983)	(72,788)	(70,983)
Income before income taxes and equity in earnings of affiliates	38,699	30,916	76,379	72,265
Provision for income taxes	3,715	1,400	8,470	3,870
Equity in earnings of affiliates, net of income tax provision (benefit) of $(269), $597, $436 and $1,208, respectively	2,341	1,426	4,336	2,913
Net income	37,325	30,942	72,245	71,308
Net loss attributable to noncontrolling interests	96	50	163	87
Net income attributable to The GEO Group, Inc.	$ 37,421	$ 30,992	$ 72,408	$ 71,395
Weighted-average common shares outstanding:				
Basic	120,274	122,125	121,017	117,885
Diluted	120,659	122,895	121,461	118,702
Net income per common share attributable to The GEO Group, Inc.:				
Basic:				

Net income per common share attributable to The GEO Group, Inc. - basic	$	0.31	$	0.25	$	0.60	$	0.61
Diluted:								
Net income per common share attributable to The GEO Group, Inc. - diluted	$	0.31	$	0.25	$	0.60	$	0.60
Dividends declared per share	$	0.47	$	0.47	$	0.94	$	0.94

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

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THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2018 AND 2017

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$ 37,325	$ 30,942	$ 72,245	$ 71,308
Other comprehensive income, net of tax:				
Foreign currency translation adjustments	(5,035)	513	(4,540)	2,206
Pension liability adjustment, net of tax provision (benefit) of $(491), $25, $(463) and $51, respectively	625	64	730	111
Change in fair value of derivative instrument classified as cash flow hedge, net of tax provision of $402, $229, $532 and $144, respectively	2,278	1,295	3,014	816
Total other comprehensive income (loss), net of tax	(2,132)	1,872	(796)	3,133
Total comprehensive income	35,193	32,814	71,449	74,441
Comprehensive loss attributable to noncontrolling interests	117	51	176	85
Comprehensive income attributable to The GEO Group, Inc.	$ 35,310	$ 32,865	$ 71,625	$ 74,526

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

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THE GEO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2018 AND DECEMBER 31, 2017

(In thousands, except share data)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 65,451	$ 81,377
Restricted cash and cash equivalents	58,720	44,932
Accounts receivable, less allowance for doubtful accounts of $4,447 and $4,574, respectively	377,768	389,916
Contract receivable, current portion	9,398	18,142
Prepaid expenses and other current assets	35,763	45,342
Total current assets	547,100	579,709
Restricted Cash and Investments	25,297	27,999
Property and Equipment, Net	2,124,553	2,078,123
Assets Held for Sale		3,915
Non-Current Contract Receivable	396,360	404,309
Deferred Income Tax Assets	26,277	26,277
Goodwill	776,379	778,951
Intangible Assets, Net	243,549	255,339
Other Non-Current Assets	67,055	72,286
Total Assets	$ 4,206,570	$ 4,226,908
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 90,327	$ 92,587
Accrued payroll and related taxes	69,062	71,732
Accrued expenses and other current liabilities	189,261	176,324
Current portion of capital lease obligations, long-term debt and non-recourse debt	25,127	28,920
Total current liabilities	373,777	369,563
Non-Current Deferred Income Tax Liabilities	8,757	8,757
Other Non-Current Liabilities	89,882	96,702
Capital Lease Obligations	5,329	6,059
Long-Term Debt	2,289,409	2,181,544

Non-Recourse Debt	346,479	365,364
Commitments, Contingencies and Other (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, 187,500,000 shares authorized, 124,794,570 and 124,008,303 issued and 121,677,087 and 124,008,003 outstanding, respectively	1,248	1,240
Additional paid-in capital	1,198,930	1,190,906
(Distributions) in excess of earnings/earnings in excess of distributions	(11,068)	31,541
Accumulated other comprehensive loss	(25,229)	(24,446)
Treasury stock, 3,117,483 and 0 shares, at cost, respectively	(70,446)	
Total shareholders equity attributable to The GEO Group, Inc.	1,093,435	1,199,241
Noncontrolling interests	(498)	(322)
Total shareholders equity	1,092,937	1,198,919
Total Liabilities and Shareholders Equity	$ 4,206,570	$ 4,226,908

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

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THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

FOR THE SIX MONTHS ENDED

JUNE 30, 2018 AND 2017

(In thousands)

	Six Months Ended	
	June 30, 2018	**June 30, 2017**
Cash Flow from Operating Activities:		
Net income	$ 72,245	$ 71,308
Net loss attributable to noncontrolling interests	163	87
Net income attributable to The GEO Group, Inc.	72,408	71,395
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	63,239	60,815
Stock-based compensation	10,787	9,993
Amortization of debt issuance costs, discount and/or premium and other non-cash interest	3,992	7,676
Provision for doubtful accounts	525	1,227
Equity in earnings of affiliates, net of tax	(4,336)	(2,913)
Dividends received from unconsolidated joint venture	3,957	2,359
(Gain) loss on sale/disposal of property and equipment, net	(1,001)	1,909
Changes in assets and liabilities, net of effects of acquisitions:		
Changes in accounts receivable, prepaid expenses and other assets	19,838	44,336
Changes in contract receivable	(4,919)	(122,006)
Changes in accounts payable, accrued expenses and other liabilities	15,763	(24,077)
Net cash provided by operating activities	180,253	50,714
Cash Flow from Investing Activities:		
Acquisition of CEC, net of cash acquired		(354,466)
Insurance proceeds - damaged property	4,036	
Proceeds from sale of property and equipment	1,717	648
Proceeds from sale of assets held for sale	3,797	
Change in restricted investments	(1,490)	(2,963)
Capital expenditures	(107,064)	(67,508)
Net cash used in investing activities	(99,004)	(424,289)

Cash Flow from Financing Activities:		
Proceeds from long-term debt	245,000	1,158,574
Payments on long-term debt	(134,000)	(972,500)
Payments on non-recourse debt	(7,490)	(67,885)
Proceeds from non-recourse debt		91,076
Taxes paid related to net share settlements of equity awards	(4,391)	(4,092)
Proceeds from issuance of common stock under prospectus supplement		275,867
Proceeds from issuance of common stock in connection with ESPP	264	242
Payment for repurchases of common stock	(70,446)	
Debt issuance costs	(990)	(7,587)
Proceeds from the exercise of stock options	1,372	6,150
Cash dividends paid	(115,017)	(110,859)
Net cash (used in) provided by financing activities	(85,698)	368,986
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	(1,881)	1,907
Net Decrease in Cash, Cash Equivalents and Restricted Cash and Cash Equivalents	(6,330)	(2,682)
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, beginning of period	133,545	90,357
Cash, Cash Equivalents and Restricted Cash and Cash Equivalents, end of period	$ 127,215	$ 87,675
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	$ 5,408	$ 8,540

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

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THE GEO GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The GEO Group, Inc., a Florida corporation, and subsidiaries (the Company or GEO) is a fully-integrated real estate investment trust (REIT) specializing in the ownership, leasing and management of correctional, detention and reentry facilities and the provision of community-based services and youth services in the United States, Australia, South Africa and the United Kingdom. The Company owns, leases and operates a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers, as well as community-based reentry facilities and offers an expanded delivery of offender rehabilitation services under its GEO Continuum of Care platform. The GEO Continuum of Care program integrates enhanced in-prison programs, which are evidence-based and include cognitive behavioral treatment and post-release services, and provides academic and vocational classes to life skills and treatment programs while helping individuals reintegrate into their communities. The Company develops new facilities based on contract awards, using its project development expertise and experience to design, construct and finance what it believes are state-of-the-art facilities that maximize security and efficiency. The Company provides innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. The Company also provides secure transportation services for offender and detainee populations as contracted domestically and in the United Kingdom through its joint venture GEO Amey PECS Ltd. (GEOAmey). At June 30, 2018, the Company s worldwide operations include the management and/or ownership of approximately 96,000 beds at 139 correctional and detention facilities, including idle facilities, projects under development and recently awarded contracts, and also include the provision of community supervision services for more than 192,000 offenders and pretrial defendants, including approximately 100,000 individuals through an array of technology products including radio frequency, GPS, and alcohol monitoring devices.

The Company s unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2018 for the year ended December 31, 2017. The accompanying December 31, 2017 consolidated balance sheet has been derived from those audited financial statements. Additional information may be obtained by referring to the Company s Form 10-K for the year ended December 31, 2017. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Quarterly Report on Form 10-Q have been made. Results of operations for the six months ended June 30, 2018 are not necessarily indicative of the results for the entire year ending December 31, 2018, or for any other future interim or annual periods.

2. REVENUE RECOGNITION

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

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

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When a contract includes variable consideration, GEO evaluates the estimate of the variable consideration to determine whether the estimate needs to be constrained; therefore, GEO includes the variable consideration in the transaction price only to the extent that it is probable that a significant reversal of the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration estimates are updated at each reporting date. A limited number of GEO s domestic contracts have provisions upon which a small portion of the revenue for the contract is based on the performance of certain targets. Domestically, revenue based on the performance of certain targets is less than 1% of the Company s consolidated domestic revenues and was not significant during the periods presented. One of GEO s international contracts, related to its Ravenhall correctional facility project (discussed further below), contains a provision where a significant portion of the revenue for the contract is based on the performance of certain targets. These performance targets are based on specific criteria to be met over specific periods of time. Such criteria includes the Company s ability to achieve certain contractual benchmarks relative to the quality of service it provides, non-occurrence of certain disruptive events, effectiveness of its quality control programs and its responsiveness to customer requirements. The performance of these targets are measured quarterly and there was no significant constraint on the estimate of such variable consideration for this contract during the six months ended June 30, 2018.

GEO does not disclose the value of unsatisfied performance obligations for (i) contracts with an expected length of one year or less and (ii) contracts for which revenue is recognized at the amount to which GEO has the right to invoice for services performed, which is generally the case for all of GEO s contracts. Incidental items that are immaterial in the context of the contract are recognized as expense. GEO generally does not incur incremental costs of obtaining a contract with its customers that would meet the requirement for capitalization. There were no assets recognized from costs to obtain a contract with a customer at June 30, 2018 or December 31, 2017.

The timing of revenue recognition may differ from the timing of invoicing to customers. GEO records a receivable when services are performed in advance of receiving consideration and records unearned revenue if consideration is received in advance of the performance of services. Generally, GEO s customers do not provide payment in advance of the performance of services. Therefore, unearned revenue is not significant at June 30, 2018 or December 31, 2017 and revenue recognized during the six months ended June 30, 2018 that was included in the opening balance of unearned revenue was not significant. There have been no significant amounts of revenue recorded in the periods presented from performance obligations either wholly or partially satisfied in prior periods.

The right to consideration under GEO s contracts is only dependent on the passage of time and is therefore considered to be unconditional. Payment terms and conditions vary by contract type, although, with the exception of the contract receivable related to GEO s Ravenhall correctional facility (further discussed below), terms generally include a requirement of payment within 30 days after performance obligations are satisfied and generally do not include a significant financing component. There have been no significant changes in receivable or unearned revenue balances during the period other than regular invoicing and collection activity.

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The following table disaggregates GEO s revenue by major source and also provides a reconciliation with revenue information disclosed for reportable segments in Note 14 - Business Segments and Geographic Information:

	Six Months Ended June 30, 2018				
	U.S. Corrections & Detention	GEO Care	International	Facility Construction and Design	Total
Owned and Leased: Corrections & Detention	$ 535,609	$	$	$	$ 535,609
Owned and Leased: Community-based		84,312			84,312
Owned and Leased: Youth Services		45,901			45,901
Managed Only	192,061	2,477	130,750		325,288
Facility Construction and Design					
Non-residential Services and Other		157,316			157,316
Total Revenues	$ 727,670	$ 290,006	$ 130,750	$	$ 1,148,426

	Six Months Ended June 30, 2017				
	U.S. Corrections & Detention	GEO Care	International	Facility Construction and Design	Total
Owned and Leased - Corrections & Detention	$ 525,195	$	$	$	$ 525,195
Owned and Leased - Community-based		62,613			62,613
Owned and Leased - Youth Services		43,390			43,390
Managed Only	183,574	1,086	84,620		269,280
Facility Construction and Design				91,165	91,165
Non-residential Services and Other		136,041			136,041
Total Revenues	$ 708,769	$ 243,130	$ 84,620	$ 91,165	$ 1,127,684

Owned and Leased - Corrections & Detention

GEO recognizes revenue for corrections & detention housing services where GEO owns or leases the facility as services are performed. GEO provides for the safe and secure housing and care of incarcerated individuals under public-private partnerships with federal, state and local government agencies. This includes providing 24-hour care and supervision, including but not limited to, such services as medical, transportation, food service, laundry services and various programming activities. These tasks are considered to be activities to fulfill the safe and secure housing performance obligation and are not considered to be individually separate promises in the contract. Each of these activities is highly interrelated and GEO performs a significant level of integration of these activities. GEO has identified these activities as a bundle of services and determined that each day of the promised service is distinct. The services provided are part of a series of distinct services that are substantially the same and are measured using the same measure of progress (time-based output method). GEO has determined that revenue for these services are recognized over time as it s customers simultaneously receive and consume the benefits as the services are performed, which is on a continual daily basis, and GEO has a right to payment for performance completed to date. Time-based output methods of revenue recognition are considered to be a faithful depiction of GEO s efforts to fulfill its obligations under its contracts and therefore reflect the transfer of services to its customers. GEO s customers generally pay for these services based on a net rate per day per individual or on a fixed monthly rate.

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Owned and Leased - Community-based

GEO recognizes revenue for community-based reentry services where GEO owns or leases the facility in a manner similar to its corrections and detention services discussed above. GEO provides individuals nearing the end of their sentence with the resources necessary to productively transition back into society. Through its residential reentry centers, GEO provides federal and state parolees and probationers with temporary housing, rehabilitation, substance abuse counseling and vocational and educational programs. These activities are considered to be a bundle of services which are a part of a series of distinct services recognized over time based on the same criteria as discussed above for corrections and detention revenues. GEO s customers also generally pay for these services based on a net rate per day per individual or on a fixed monthly rate.

Owned and Leased - Youth Services

GEO recognizes revenues for youth services where GEO owns or leases the facility in the same manner as discussed above for the housing, supervision, care and rehabilitation of troubled youth residents. The activities to house and care for troubled youth residents are also considered to be a bundle of services which are part of a series of distinct services recognized over time based on the same criteria discussed for the previous two revenue streams. GEO s customers generally pay for these services based on a net rate per day per individual.

Managed Only

GEO recognizes revenue for its managed only contracts in the same manner as its Owned and Leased Corrections & Detention and Owned and Leased Community-based contracts as discussed above. The primary exception is that GEO does not own or lease the facility. The facility is owned by the customer. In certain circumstances, GEO s customers may request that GEO make certain capital improvements to the facility or make other payments related to the facility. These payments are amortized as a reduction of revenues over the life of the contract. GEO s customers generally pay for these services based on a net rate per day per individual or a fixed monthly rate.

Facility Construction and Design

Facility Construction and Design revenues during the six months ended June 30, 2017 consisted of one contract with the Department of Justice in the State of Victoria (the State) for the development and operation of a new 1,300-bed correctional facility (the Facility) in Ravenhall, a locality near Melbourne, Australia. The Facility was completed during the fourth quarter of 2017 and GEO is currently managing the Facility under a 25-year management contract. There were no facility construction and design revenues during the six months ended June 30, 2018. GEO s promise to design and construct the Facility was considered to be a separate and distinct performance obligation from the management obligation which includes the safe and secure housing, care and programming activities for incarcerated individuals similar to the correction & detention services discussed above. For the obligation to manage the Facility, GEO determined revenue should be recorded over time using a time-based output method based on the same criteria as discussed above for correction and detention services. Fees included and priced in the contract for managing the Facility are considered to be stated at their individual estimated stand-alone selling prices using the adjusted market assessment approach. These services are regularly provided by GEO on a stand-alone basis to similar customers within a similar range of amounts. GEO used the expected cost plus margin approach to allocate the transaction price to the construction obligation. GEO was entitled under the contract to receive consideration in the amount of its costs plus a margin.

During the design and construction phase, GEO determined that revenue should be recorded over time and applied cost based input methods using the actual costs incurred relative to the total estimated costs (percentage of completion basis) to determine progress towards contract completion and to calculate the corresponding amount of revenue and gross profit to recognize. Cost based input methods of revenue recognition are considered to be a faithful depiction of GEO s efforts to satisfy long-term

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construction contracts and therefore reflect the transfer of goods to the customer as the customer controls the work in progress as the Facility is constructed. Cost based input methods of revenue recognition also require GEO to make estimates of net contract revenues and costs to complete the project. Significant judgment was required to evaluate the costs to complete the project, including materials, labor, contingencies and other costs. If estimated total costs on the contract are greater than the net contract revenues, the entire estimated loss on the contract is recognized in the period the loss becomes known. The cumulative effect of revisions to estimates related to net contract revenues or costs to complete are recorded in the period in which the revisions to estimates are identified and the amounts can be reasonably estimated. Typically, the Company enters into fixed price contracts and does not perform additional work unless approved change orders are in place. Costs attributable to unapproved change orders are expensed in the period in which the costs are incurred if the Company believes that it is not probable that the costs will be recovered through a change in the contract price. If the Company believes that it is probable that the costs will be recovered through a change in the contract price, costs related to unapproved change orders are expensed in the period in which they are incurred, and contract revenue is recognized to the extent of the costs incurred. Revenue in excess of the costs attributable to unapproved change orders is not recognized until the change order is approved. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. For the periods presented, there were no changes in job performance, job conditions and estimated profitability that required a revision to the estimated costs and income recorded.

GEO was the primary developer of the project and subcontracted with a bonded international design and build contractor to design and construct the Facility. As the primary contractor for the project, GEO determined that it was primarily responsible for fulfilling the promise to develop and provide the Facility to the State, including overall responsibility for the acceptability of the project in meeting the State s specifications. Therefore, GEO was considered to be a principal in the transaction and construction revenues and construction costs were recorded on a gross basis.

The cost of the project during the design and construction phase was funded by debt financing along with a capital contribution by GEO which was made in January 2017. GEO s promise to provide the equity contribution was considered to be a separate and distinct performance obligation that is separate from the construction and facility management obligations. The contribution represents a significant financing element which provided a benefit to the State. Costs incurred and estimated earnings in excess of billings are classified as contract receivable in the accompanying consolidated balance sheets. The contract receivable will be satisfied, through a State contribution which was made in November 2017 upon commercial acceptance of the Facility, and by quarterly payments to be made over the 25-year operating phase. The timing of these payments provide the State with a significant benefit of financing for the Facility as the payments by the State occur significantly after performance (construction of the Facility). Therefore, the contract receivable has been recorded at net present value based on the timing of expected future settlement. Interest income is calculated using an effective interest rate of 8.97% and has been presented separately from facility design and construction revenue. Interest income also includes an equity return for GEO s capital contribution.

Non-residential Services and Other

Non-residential Services and Other revenue consists of the Company s contracts with federal and various state and local governments to provide location, alcohol and drug detecting electronic monitoring and case management services to individuals on an as needed or as requested basis. This category also includes the Company s day reporting centers.

GEO recognizes revenues for electronic monitoring and case management services as the services are performed. Services provided consist of community-based supervision (home visits), in-person reporting, telephonic reporting and GPS and other electonic monitoring as well as overall contract management services. The rates for the various services are considered to be stated at their individual stand-alone selling prices. GEO has determined that the services to be provided are recognized over time based on the unit of occurrence of the various services as its customer simultaneously receives and consumes the benefits as the services are performed and GEO has a right to payment for performance completed to date. Generally, these services are paid based on a net rate per occurrence and a monthly fee for management services.

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Certain of the Company s electronic monitoring contracts include providing monitoring equipment and related monitoring services activities (using internal proprietary software platforms) to its customers. These tasks are considered to be activities to fulfill the promise to provide electronic monitoring services to individuals and are not considered to be individually separate promises in the contract. In the context of the contract, the equipment and monitoring service is not considered to be capable of being distinct as the customer typically cannot benefit from the equipment or monitoring service on its own or with other readily available resources. Management has identified these activities as a bundle of services and determined that each day or unit of the promised service is distinct. These services are part of a series of distinct services that are substantially the same and are measured using the same measure of progress (time-based output method) and are therefore accounted for as a single performance obligation. GEO has determined that services are recognized over time as the customer simultaneously receives and consumes the benefits as the services are performed and GEO has a right to payment for performance completed to date.

Services provided for GEO s day reporting centers are similar to its Owned and Leased Community-based services discussed above with the exception of temporary housing.

3. BUSINESS COMBINATIONS

Community Education Centers Acquisition

On April 5, 2017, the Company completed its acquisition of Community Education Centers (CEC), pursuant to a definitive merger agreement entered into on February 12, 2017 between the Company, GEO/DE/MC/01 LLC, and CEC Parent Holdings LLC. Under the terms of the merger agreement, the Company acquired 100% of the voting interests in CEC for an aggregate consideration of $353.6 million. The Company does not believe that any of the goodwill recorded as a result of the CEC acquisition will be deductible for federal income tax purposes.

The allocation of the purchase price was complete as of March 31, 2018. During the three months ended March 31, 2018, the Company made measurement period adjustments to provisional amounts with respect to the CEC acquisition that were recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. These adjustments related to the Company s valuation of accounts payable and accrued expenses. Of the total measurement period adjustments, accounts payable and accrued expenses decreased by $1.0 million related to an accrual for a legal settlement that was funded out of cash held in escrow and by $1.4 million related to a contingency for unclaimed property. The remaining

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measurement period adjustments were not individually significant. The final purchase price allocation and adjustments made to the estimated acquisition date fair values during the three months ended March 31, 2018 are as follows (in thousands):

	Acquisition Date Estimated Fair Value as of December 31, 2017		Measurement Period Adjustments		Final Acquisition Date Fair Value as of March 31, 2018	
Accounts Receivable	$	32,869	$		$	32,869
Prepaid and other current assets		4,397				4,397
Property and equipment		126,510				126,510
Intangible assets		76,000				76,000
Favorable lease assets		3,110				3,110
Deferred income tax assets		4,116		44		4,160
Other non-current assets		4,327				4,327
Total assets acquired	$	251,329	$	44	$	251,373
Accounts payable and accrued expenses		51,651		(1,339)		50,312
Unfavorable lease liabilities		1,299				1,299
Other non-current liabilities		10,479		(1,166)		9,313
Total liabilities assumed	$	63,429	$	(2,505)	$	60,924
Total identifiable net assets		187,900		2,549		190,449
Goodwill		165,656		(2,549)		163,107
Total consideration paid, net of cash acquired	$	353,556	$		$	353,556

The Company recognized a reduction of operating expenses of $2.3 million related to CEC during the three months ended June 30, 2018 as a result of a recovery of funds held in escrow after the measurement period had ended.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company has recorded goodwill as a result of its various business combinations. On April 5, 2017, the Company completed its acquisition of CEC. Refer to Note 3 - Business Combinations. Goodwill is recorded as the difference, if any, between the aggregate consideration paid for an acquisition and the fair value of the tangible assets and intangible assets acquired net of liabilities assumed, including noncontrolling interests. Changes in the Company s goodwill balances from December 31, 2017 to June 30, 2018 are as follows (in thousands):

	December 31, 2017	June 30, 2018

			Acquisition Adjustments		Foreign Currency Translation		
U.S. Corrections & Detention	$	317,005	$	(639)	$		$	316,366
GEO Care		461,499		(1,910)				459,589
International Services		447				(23)		424
Total Goodwill	$	778,951	$	(2,549)	$	(23)	$	776,379

The Company has also recorded other finite and indefinite-lived intangible assets as a result of its various business combinations. Refer to Note 3 - Business Combinations for a discussion of the Company s recent acquisition of CEC. The

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Company s intangible assets include facility management contracts, covenants not to compete, trade names and technology, as follows (in thousands):

		June 30, 2018			December 31, 2017		
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Facility management contracts	16.3	$ 308,449	$ (117,128)	$ 191,321	$ 308,518	$ (106,724)	$ 201,794
Covenants not to compete	1	700	(700)		700	(517)	183
Technology	7.3	33,700	(26,672)	7,028	33,700	(25,538)	8,162
Trade name (Indefinite lived)	Indefinite	45,200		45,200	45,200		45,200
Total acquired intangible assets		$ 388,049	$ (144,500)	$ 243,549	$ 388,118	$ (132,779)	$ 255,339

Amortization expense was $11.7 million and $11.6 million for the six months ended June 30, 2018 and 2017, respectively. Amortization expense was primarily related to the U.S. Corrections & Detention and GEO Care segments amortization of acquired facility management contracts. As of June 30, 2018, the weighted average period before the next contract renewal or extension for the acquired facility management contracts was approximately 1.4 years. Although the facility management contracts acquired have renewal and extension terms in the near term, the Company has historically maintained these relationships beyond the current contractual periods.

Estimated amortization expense related to the Company s finite-lived intangible assets for the remainder of 2018 through 2022 and thereafter is as follows (in thousands):

Fiscal Year	**Total Amortization Expense**
Remainder of 2018	$ 11,171
2019	22,305
2020	22,306
2021	19,782
2022	18,138
Thereafter	104,647
	$ 198,349

5. FINANCIAL INSTRUMENTS

The following tables provide a summary of the Company s significant financial assets and liabilities carried at fair value and measured on a recurring basis as of June 30, 2018 and December 31, 2017 (in thousands):

	Carrying Value at June 30, 2018		Fair Value Measurements at June 30, 2018 Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)
Assets:						
Restricted investment:						
Rabbi Trust	$	22,253	$	$	22,253	$
Fixed income securities		1,839			1,839	
Liabilities:						
Interest rate swap derivatives	$	10,445	$	$	10,445	$

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	Carrying Value at December 31, 2017	Fair Value Measurements at December 31, 2017		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted investments:				
Rabbi Trust	$ 20,763	$	$ 20,763	$
Fixed income securities	1,902		1,902	
Liabilities:				
Interest rate swap derivatives	$ 13,992	$	$ 13,992	$

The Company s Level 2 financial instruments included in the tables above as of June 30, 2018 and December 31, 2017 consist of interest rate swap derivative liabilities held by the Company s Australian subsidiary, the Company s rabbi trust established for GEO employee and employer contributions to The GEO Group, Inc. Non-qualified Deferred Compensation Plan and an investment in Canadian dollar denominated fixed income securities.

The Australian subsidiary s interest rate swap derivative liabilities are valued using a discounted cash flow model based on projected Australian borrowing rates. The Company s restricted investment in the rabbi trust is invested in Company owned life insurance policies which are recorded at their cash surrender values. These investments are valued based on the underlying investments held in the policies separate account. The underlying assets are equity and fixed income pooled funds that are comprised of Level 1 and Level 2 securities. The Canadian dollar denominated securities, not actively traded, are valued using quoted rates for these and similar securities.

During the six months ended June 30, 2018, the Company transferred certain accounts receivable balances that had a carrying value of approximately $6.9 million to an unrelated third party. The transfer was accounted for as a sale and the Company has no continuing involvement with the transferred assets. The Company received cash proceeds in connection with the sale of approximately $6.9 million, and as such, there was no gain or loss in connection with the transaction.

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6. FAIR VALUE OF ASSETS AND LIABILITIES

The Company s consolidated balance sheets reflect certain financial assets and liabilities at carrying value. The carrying value of certain debt instruments, if applicable, is net of unamortized discount. The following tables present the carrying values of those financial instruments and the estimated corresponding fair values at June 30, 2018 and December 31, 2017 (in thousands):

	Carrying Value as of June 30, 2018	Estimated Fair Value Measurements at June 30, 2018			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 65,451	$ 65,451	$ 65,451	$	$
Restricted cash and investments	61,764	61,764	59,794	1,970	
Liabilities:					
Borrowings under senior credit facility	$ 1,170,968	$ 1,175,906	$	$ 1,175,906	$
5.875% Senior Notes due 2024	250,000	246,553		246,553	
5.125% Senior Notes	300,000	294,009		294,009	
5.875% Senior Notes due 2022	250,000	253,740		253,740	
6.00% Senior Notes	350,000	339,493		339,493	
Non-recourse debt	368,143	368,929		368,929	

	Carrying Value as of December 31, 2017	Estimated Fair Value Measurements at December 31, 2017			
		Total Fair Value	Level 1	Level 2	Level 3
Assets:					
Cash and cash equivalents	$ 81,377	$ 81,377	$ 81,377	$	$
Restricted cash and investments	52,168	52,168	49,884	2,284	
Liabilities:					
Borrowings under senior credit facility	$ 1,064,599	$ 1,070,514	$	$ 1,070,514	$
5.875% Senior Notes due 2024	250,000	262,095		262,095	
5.125% Senior Notes	300,000	303,918		303,918	
5.875% Senior Notes due 2022	250,000	258,338		258,338	
6.00% Senior Notes	350,000	362,835		362,835	
Non-recourse debt	393,737	394,671		394,671	

The fair values of the Company s cash and cash equivalents, and restricted cash approximates the carrying values of these assets at June 30, 2018 and December 31, 2017. Restricted cash consists of money market funds, bank deposits, commercial paper and time deposits used for asset replacement funds and other funds contractually required to be maintained at the Company s Australian subsidiary. The fair value of the money market funds and bank deposits is based on quoted market prices (Level 1) and the fair value of commercial paper and time deposits is based on market prices for similar instruments (Level 2).

The fair values of the Company s 5.875% senior unsecured notes due 2022 (5.875% Senior Notes due 2022), 5.875% senior unsecured notes due 2024 (5.875% Senior Notes due 2024), 6.00% senior unsecured notes due 2026 (6.00%

Senior Notes), and the 5.125% senior unsecured notes due 2023 (5.125% Senior Notes), although not actively traded, are based on published financial data for these instruments. The fair values of the Company s non-recourse debt related to the Washington Economic Development Finance Authority (WEDFA) and the Company s Australian subsidiary are estimated based on market prices of 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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7. RESTRICTED CASH AND CASH EQUIVALENTS

The following table provides a reconciliation of cash, cash equivalents and restricted cash and cash equivalents reported on the consolidated balance sheets that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	June 30, 2018	June 30, 2017
Cash and Cash Equivalents	$ 65,451	$ 65,901
Restricted cash and cash equivalents - current	58,720	17,378
Restricted cash and investments - non-current	25,297	23,020
Less Restricted investments - non-current	(22,253)	(18,624)
Total cash, cash equivalents and restricted cash and cash equivalents shown in the statement of cash flows	$ 127,215	$ 87,675

Amounts included in restricted cash and cash equivalents are attributable to certain contractual cash restriction requirements at the Company s wholly owned Australian subsidiary related to non-recourse debt and asset replacement funds contractually required to be maintained and other guarantees. Restricted investments - non-current (included in Restricted Cash and Investments in the accompanying consolidated balance sheets) consists of the Company s rabbi trust established for employee and employer contributions to The GEO Group, Inc. Non-qualified Deferred Compensation Plan and is not considered to be a restricted cash equivalent. Refer to Note 5 - Financial Instruments.

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8. SHAREHOLDERS EQUITY

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

	Common shares			Earnings in Excess of Distributions /(Distributions) in Excess of Earnings	Accumulated Other Comprehensive Loss	Treasury shares			
	Shares	Amount	Additional Paid-In Capital			Shares	Amount	Noncontrolling Interests	Total Shareholders Equity
Balance, January 1, 2018	124,008	$ 1,240	$ 1,190,906	$ 31,541	$ (24,446)		$	$ (322)	$ 1,198,919
Proceeds from exercise of stock options	77	1	1,371						1,372
Stock-based compensation expense			10,787						10,787
Restricted stock granted	896	9	(9)						
Restricted stock canceled	(28)								
Dividends paid				(115,017)					(115,017)
Shares withheld for net settlements of share-based awards [1]	(171)	(2)	(4,389)						(4,391)
Issuance of common stock - ESPP	12		264						264
Repurchases of common stock	(3,117)					3,117	(70,446)		(70,446)
Net income (loss)				72,408				(163)	72,245

Other comprehensive loss					(783)			(13)	(796)
Balance, June 30, 2018	121,677	$ 1,248	$ 1,198,930	$ (11,068)	$ (25,229)	3,117	$ (70,446)	$ (498)	$ 1,092,937

[1] During the six months ended June 30, 2018, the Company withheld shares through net share settlements to satisfy statutory tax withholding requirements upon vesting of shares of restricted stock held by employees.

REIT Distributions

As a REIT, GEO is required to distribute annually at least 90% of its REIT taxable income (determined without regard to the dividends paid deduction and by excluding net capital gain) and began paying regular quarterly REIT dividends in 2013. The amount, timing and frequency of future dividends, however, will be at the sole discretion of GEO s Board of Directors (the Board) and will be declared based upon various factors, many of which are beyond GEO s control, including, GEO s financial condition and operating cash flows, the amount required to maintain REIT status, limitations on distributions in GEO s existing and future debt instruments, limitations on GEO s ability to fund distributions using cash generated through GEO s taxable REIT subsidiaries (TRSs) and other factors that GEO s Board may deem relevant.

During the six months ended June 30, 2018 and the year ended December 31, 2017 GEO declared and paid the following regular cash distributions to its shareholders as follows:

Declaration Date	Record Date	Payment Date	Distribution Per Share	Aggregate Payment Amount (in millions)
February 6, 2017	February 17, 2017	February 27, 2017	$ 0.47	$ 52.5
April 25, 2017	May 9, 2017	May 19, 2017	$ 0.47	$ 58.4
July 10, 2017	July 21, 2017	July 28, 2017	$ 0.47	$ 58.3
October 12, 2017	October 23, 2017	October 30, 2017	$ 0.47	$ 58.3
February 5, 2018	February 16, 2018	February 27, 2018	$ 0.47	$ 58.3
April 11, 2018	April 23, 2018	May 3, 2018	$ 0.47	$ 57.4

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Stock Buyback Program

On February14, 2018, the Company announced that its Board of Directors authorized a stock buyback program authorizing the Company to repurchase up to a maximum of $200.0 million of its shares of common stock. The stock buyback program will be funded primarily with cash on hand, free cash flow and borrowings under the Company s Revolver. The program is effective through October 20, 2020. The stock buyback program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission (SEC) requirements. The stock buyback program does not obligate the Company to purchase any specific amount of our common stock and may be suspended or extended at any time at the discretion of the Company s Board of Directors. During the six months ended June 30, 2018, the Company purchased 3,117,483 shares of its common stock at a cost of $70.4 million primarily purchased with proceeds from the Company s Revolver. The Company believes it has the ability to continue to fund the stock buyback program, its debt service requirements and its maintenance and growth capital expenditure requirements, while maintaining sufficient liquidity for other corporate purposes.

Prospectus Supplement

On October 20, 2017, the Company filed with the SEC an automatic shelf registration on Form S-3. Under this shelf registration, the Company may, from time to time, sell any combination of securities described in the prospectus in one or more offerings. Each time that the Company may sell securities, the Company will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities being offered. On November 9, 2017, in connection with the shelf registration, the Company filed with the SEC a prospectus supplement related to the offer and sale from time to time of the Company s common stock at an aggregate offering price of up to $150 million through sales agents. Sales of shares of the Company s common stock under the prospectus supplement and the equity distribution agreements entered into with the sales agents, if any, may be made in negotiated transactions or transactions that are deemed to be at the market offerings as defined in Rule 415 under the Securities Act of 1933. There were no shares of common stock sold under this prospectus supplement during the six months ended June 30, 2018.

Comprehensive Income (Loss)

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

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

	Six Months Ended June 30, 2018 (In thousands)			
	Foreign currency translation adjustments, net of tax attributable to	Change in fair value of derivatives, net of tax	Pension adjustments, net of tax	Total

The GEO Group, Inc. (1)				
Balance, January 1, 2018	$ (7,470)	$ (11,892)	$ (5,084)	$ (24,446)
Current-period other comprehensive (loss) income	(4,527)	3,014	730	(783)
Balance, June 30, 2018	$ (11,997)	$ (8,878)	$ (4,354)	$ (25,229)

(1) The foreign currency translation related to noncontrolling interests was not significant at June 30, 2018 or December 31, 2017.

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9. EQUITY INCENTIVE PLANS

The Board has adopted The GEO Group, Inc. 2018 Stock Incentive Plan (the 2018 Plan), which was approved by the Company s shareholders on April 24, 2018. The 2018 Plan replaced the 2014 Stock Incentive Plan (the 2014 Plan). As of the date the 2018 Plan was adopted, it provided for a reserve of 4,600,000 shares of common stock that may be issued pursuant to awards granted under the 2018 Plan. The Company filed a Form S-8 registration statement related to the 2018 Plan on May 11, 2018.

Stock Options

The Company uses a Black-Scholes option valuation model to estimate the fair value of each time based or performance based option awarded. For options granted during the six months ended June 30, 2018, the fair value was estimated using the following assumptions: (i) volatility of 39.69%; (ii) expected term of 5.0 years; (iii) risk free interest rate of 2.84%; and (iv) expected dividend yield of 8.70% A summary of the activity of stock option awards issued and outstanding under Company plans is as follows for the six months ended June 30, 2018:

	Shares (in thousands)	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 1, 2018	1,230	$ 25.02	7.33	$ 3,117
Options granted	475	21.60		
Options exercised	(77)	19.24		
Options forfeited/canceled/expired	(67)	26.67		
Options outstanding at June 30, 2018	1,561	$ 24.19	7.71	$ 7,376
Options vested and expected to vest at June 30, 2018	1,445	$ 24.20	7.58	$ 6,846
Options exercisable at June 30, 2018	688	$ 23.68	6.06	$ 3,629

On April 24, 2018, the Company granted approximately 475,000 options to certain employees which had a grant date fair value of $3.64. For the six months ended June 30, 2018 and June 30, 2017, the amount of stock-based compensation expense related to stock options was $0.4 million and $0.9 million, respectively. As of June 30, 2018, the Company had $2.6 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 3.2 years.

Restricted Stock

Compensation expense for nonvested stock awards is recorded over the vesting period based on the fair value at the date of grant. Generally, the restricted stock awards vest in equal increments over either a three or four-year period. The fair value of restricted stock awards, which do not contain a market-based vesting condition, is determined using the closing price of the Company s common stock on the date of grant. The Company has historically issued share-based awards with service-based, performance-based and market-based vesting criteria.

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A summary of the activity of restricted stock outstanding is as follows for the six months ended June 30, 2018:

	Shares (in thousands)	Wtd. Avg. Grant Date Fair Value
Restricted stock outstanding at January 1, 2018	1,770	$ 30.47
Granted	896	22.80
Vested	(568)	28.55
Forfeited/canceled	(28)	26.04
Restricted stock outstanding at June 30, 2018	2,070	$ 27.56

During the six months ended June 30, 2018, the Company granted approximately 896,000 shares of restricted stock to certain employees and executive officers. Of these awards, 352,500 are market and performance-based awards which will be forfeited if the Company does not achieve certain annual metrics during 2018, 2019 and 2020.

The vesting of these performance-based restricted stock grants are subject to the achievement by GEO of two annual performance metrics as follows: (i) up to 50% of the shares of restricted stock (TSR Target Award) can vest at the end of a three year performance period if GEO meets certain total shareholder return (TSR) performance targets, as compared to the total shareholder return of a peer group of companies, over a three year period from January 1, 2018 to December 31, 2020 and (ii) up to 50% of the shares of restricted stock (ROCE Target Award) can vest at the end of a three year period if GEO meets certain return on capital employed (ROCE) performance targets over a three year period from January 1, 2018 to December 31, 2020. These market and performance awards can vest at between 0% and 200% of the target awards for both metrics. The number of shares shown for the performance-based awards is based on the target awards for both metrics.

The metric related to ROCE is considered to be a performance condition. For share-based awards that contain a performance condition, the achievement of the targets must be probable before any share-based compensation expense is recorded. The Company reviews the likelihood of which the target in the range will be achieved and if deemed probable, compensation expense is recorded at that time. If subsequent to initial measurement there is a change in the estimate of the probability of meeting the performance condition, the effect of the change in the estimated quantity of awards expected to vest is recognized by cumulatively adjusting compensation expense. If ultimately the performance targets are not met, for any awards where vesting was previously deemed probable, previously recognized compensation expense will be reversed in the period in which vesting is no longer deemed probable. The fair value of these awards was determined based on the closing price of the Company s common stock on the date of grant.

The metric related to TSR is considered to be a market condition. For share-based awards that contain a market condition, the probability of satisfying the market condition must be considered in the estimate of grant-date fair value and previously recorded compensation expense is not reversed if the market condition is never met. The fair value of these awards was determined based on a Monte Carlo simulation, which calculates a range of possible outcomes and the probabilities that they will occur, using the following key assumptions: (i) volatility of 44.5%; (ii) beta of 1.05; and (iii) risk free rate of 2.58%.

For the six months ended June 30, 2018 and June 30, 2017, the Company recognized $10.4 million and $9.1 million, respectively, of compensation expense related to its restricted stock awards. As of June 30, 2018, the Company had

$42.3 million of unrecognized compensation costs related to non-vested restricted stock awards, including non-vested restricted stock awards with performance-based and market-based vesting, that are expected to be recognized over a weighted average period of 2.6 years.

Employee Stock Purchase Plan

The Company previously adopted The GEO Group Inc. 2011 Employee Stock Purchase Plan (the Plan or ESPP) which was approved by the Company s shareholders. The purpose of the Plan, which is qualified under Section 423 of the Internal Revenue Service Code of 1986, as amended, is to encourage stock ownership through payroll deductions by the employees of GEO and designated subsidiaries of GEO in order to increase their identification with the Company s goals and secure a proprietary interest in the Company s success. These deductions are used to purchase shares of the Company s common stock at a 5% discount from the then current market price. The Company has made available up to 750,000 shares of its common stock, which were registered with the Securities and Exchange Commission on May 4, 2012, as amended on July 18, 2014, for sale to eligible employees under the Plan.

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The Plan is considered to be non-compensatory. As such, there is no compensation expense required to be recognized. Share purchases under the Plan are made on the last day of each month. During the six months ended June 30, 2018, 12,035 shares of the Company s common stock were issued in connection with the Plan.

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10. EARNINGS PER SHARE

Basic earnings per share of common stock is computed by dividing the net income from continuing operations attributable to The GEO Group, Inc. by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per share except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share were calculated for the three months ended June 30, 2018 and 2017 as follows (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	$ 37,325	$ 30,942	$ 72,245	$ 71,308
Net loss attributable to noncontrolling interests	96	50	163	87
Net income attributable to The GEO Group, Inc.	37,421	30,992	72,408	71,395
Basic earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	120,274	122,125	121,017	117,885