POTLATCH CORP
Form 10-Q
October 27, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2008

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: 1-32729

POTLATCH CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**82-0156045**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

601 West 1st Ave., Suite 1600
Spokane, Washington **99201**
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code: **(509) 835-1500**

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 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.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The number of shares of common stock of the registrant outstanding as of September 30, 2008 was 39,521,295.

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POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Part I

ITEM 1.

Financial Statements

Potlatch Corporation and Consolidated Subsidiaries

Statements of Operations and Comprehensive Income

Unaudited (Dollars in thousands - except per-share amounts)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$ 457,075	$ 420,546	$ 1,289,876	$ 1,189,338
Costs and expenses:				
Depreciation, depletion and amortization	21,069	20,284	57,204	57,752
Materials, labor and other operating expenses	387,436	330,110	1,081,574	960,244
Selling, general and administrative expenses	19,908	23,134	67,285	64,835
Restructuring charge		(140)		2,691
	428,413	373,388	1,206,063	1,085,522
Earnings from continuing operations before interest and taxes	28,662	47,158	83,813	103,816
Interest expense	(8,106)	(7,380)	(25,280)	(22,271)
Interest income	98	1,047	552	1,943
Earnings from continuing operations before taxes	20,654	40,825	59,085	83,488
Income tax benefit	(5,061)	(1,708)	(12,841)	(394)
Earnings from continuing operations	25,715	42,533	71,926	83,882
Discontinued operations:				
Loss from discontinued operations (including losses on disposal of $(387), $-, $(20,403), and $(35,774))	(763)	(2,499)	(24,490)	(42,791)
Income tax benefit	(298)	(979)	(9,551)	(4,096)
	(465)	(1,520)	(14,939)	(38,695)
Net earnings	$ 25,250	$ 41,013	$ 56,987	$ 45,187
Other comprehensive income (loss), net of tax				
Defined benefit pension and other postretirement benefit plans:				
Amortization of actuarial loss included in net periodic cost, net of tax of $787, $1,008, $2,364, and $3,023	$ 1,232	$ 1,576	$ 3,696	$ 4,729
Amortization of prior service credit included in net periodic cost, net of tax of $(167), $(133), $(502), and $(401)	(261)	(210)	(784)	(629)
Curtailment loss, net of tax of $-, $-, $544, and $-			830	
Other comprehensive income, net of tax	971	1,366	3,742	4,100

Comprehensive income	$	26,221	$	42,379	$	60,729	$	49,287
Earnings per common share from continuing operations:								
Basic	$	0.65	$	1.09	$	1.82	$	2.15
Diluted		0.65		1.08		1.81		2.13
Loss per common share from discontinued operations:								
Basic	$	(0.01)	$	(0.04)	$	(0.38)	$	(0.99)
Diluted		(0.01)		(0.04)		(0.38)		(0.98)
Net earnings per common share:								
Basic	$	0.64	$	1.05	$	1.45	$	1.16
Diluted		0.63		1.04		1.43		1.15
Distributions per common share	$	0.51	$	0.49	$	1.53	$	1.47
Average shares outstanding (in thousands):								
Basic		39,515		39,172		39,432		39,050
Diluted		39,793		39,415		39,713		39,316

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

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

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Potlatch Corporation and Consolidated Subsidiaries

Condensed Balance Sheets

Unaudited (Dollars in thousands - except per-share amounts)

	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash	$ 3,790	$ 9,047
Short-term investments	8,453	22,289
Receivables, net	132,249	114,260
Inventories	172,594	169,396
Prepaid expenses	19,986	18,967
Assets held for sale	3,135	
Total current assets	340,207	333,959
Land, other than timberlands	8,250	8,549
Plant and equipment, at cost less accumulated depreciation	473,583	510,776
Timber, timberlands and related deposits, net	566,071	534,513
Pension assets	118,886	108,435
Other assets	21,621	20,972
	$ 1,528,618	$1,517,204
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current installments on long-term debt	$ 410	$ 209
Current notes payable	113,700	110,300
Accounts payable and accrued liabilities	187,520	174,198
Total current liabilities	301,630	284,707
Long-term debt	320,918	321,301
Liability for pensions and other postretirement employee benefits	262,735	261,956
Other long-term obligations	20,026	18,923
Deferred taxes	37,371	51,981
Stockholders equity	585,938	578,336
	$ 1,528,618	$ 1,517,204
Stockholders equity per common share	$ 14.83	$ 14.73
Working capital	$ 38,577	$ 49,252
Current ratio	1.1:1	1.2:1

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

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Potlatch Corporation and Consolidated Subsidiaries

Condensed Statements of Cash Flows

Unaudited (Dollars in thousands)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
CASH FLOWS FROM CONTINUING OPERATIONS		
Net earnings	$ 56,987	$ 45,187
Adjustments to reconcile net earnings to net operating cash flows from continuing operations:		
Loss from discontinued operations	2,493	5,712
Loss on disposal of discontinued operations	12,446	32,983
Depreciation, depletion and amortization	57,204	57,752
Proceeds from sales deposited with a like-kind exchange intermediary	(34,626)	(16,812)
Basis of real estate sold	7,788	879
Deferred taxes	(17,001)	(4,305)
Equity-based compensation expense	5,000	4,284
Employee benefit plans	(5,805)	(8,671)
Other	292	572
Working capital changes	(2,760)	6,156
Excess tax benefit from share-based payment arrangements	(2,103)	(2,447)
Income tax benefit related to stock issued in conjunction with stock compensation plans	1,074	2,955
Net cash provided by operating activities from continuing operations	80,989	124,245
CASH FLOWS FROM INVESTING		
Change in short-term investments	47,600	(6,820)
Additions to plant and properties	(47,589)	(79,238)
Deposits on timberlands	(27,328)	(162,280)
Other, net	205	(501)
Net cash used for investing activities from continuing operations	(27,112)	(248,839)
CASH FLOWS FROM FINANCING		
Change in book overdrafts	(7,033)	2,628
Increase in notes payable	3,400	110,000
Issuance of common stock	3,793	7,955
Repayment of long-term debt	(182)	(3,131)
Distributions to common stockholders	(60,405)	(57,439)
Excess tax benefit from share-based payment arrangements	2,103	2,447
Other, net	(3,107)	(1,421)
Net cash (used for) provided by financing activities from continuing operations	(61,431)	61,039
Cash flows from continuing operations	(7,554)	(63,555)
Cash flows of discontinued operations:		
Operating cash flows	2,282	728
Investing cash flows	15	63,100
Financing cash flows		
Increase (decrease) in cash	(5,257)	273

Cash at beginning of period	9,047	7,759
Cash at end of period	$ 3,790	$ 8,032

Net interest payments (net of amounts capitalized) for the nine months ended September 30, 2008 and 2007 were $18.6 million and $15.3 million, respectively. Net income tax payments (refunds) for the nine months ended September 30, 2008 and 2007 were $(5.6) million and $22.7 million, respectively.

Not included in additions to plant and properties for the nine months ended September 30, 2008 and 2007, were non-cash transactions totaling $51.2 million and $66.5 million, respectively, for the purchase of timberlands.

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

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

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Potlatch Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

Unaudited (Dollars in thousands)

NOTE 1.

General

For purposes of this report, any reference to Potlatch, the company, we, us, and our means Potlatch Corporation and all of its wholly owned subsidiaries, except where the context indicates otherwise.

Potlatch is a real estate investment trust, or REIT, for federal income tax purposes. The REIT tax rules require that we derive most of our income, other than income generated by a taxable REIT subsidiary, from investments in real estate, which for us primarily consists of income from the sale of standing timber. Our wholly owned taxable REIT subsidiary, Potlatch Forest Products Corporation, or Potlatch TRS, holds substantially all of our non-timberland assets, consisting primarily of our manufacturing facilities engaged in the production of wood products, pulp and paperboard and tissue products; assets used for the harvesting of timber and the sale of logs; and selected land parcels that we expect will be sold or developed for higher and better use purposes.

The accompanying Condensed Balance Sheets at September 30, 2008 and December 31, 2007, the Statements of Operations and Comprehensive Income for the quarters and nine months ended September 30, 2008 and 2007, and the Condensed Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 have been prepared in conformity with accounting principles generally accepted in the United States of America. We believe that all adjustments necessary for a fair statement of the results of such interim periods have been included.

On March 27, 2008, we announced the permanent closure of our Prescott, Arkansas lumber mill due to poor market conditions. The mill permanently ceased operations in May 2008. As a result, the Prescott operation has been classified as discontinued operations in the financial statements for the quarter and nine months ended September 30, 2008. Comparative amounts for 2007 related to the results of operations for the Prescott lumber mill have been reclassified to conform to the 2008 presentation.

On March 30, 2007, we entered into a definitive agreement for the sale of our hybrid poplar tree farm in Boardman, Oregon. The sale was completed in May 2007. As a result, the Boardman operation was classified as discontinued operations in the financial statements for the quarter and nine months ended September 30, 2007.

Except for adjustments to the carrying value of the Prescott and Boardman operations, made in conjunction with the closure and sale announcements, respectively, and pursuant to Financial Accounting Standards Board, or FASB, Statement of Financial Accounting Standards, or SFAS, No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, all adjustments were of a normal recurring nature. There were no material nonrecurring adjustments.

On April 17, 2008, we announced that our board of directors authorized management to evaluate a potential spin-off of our pulp-based manufacturing businesses, which would include our Consumer Products and our Pulp and Paperboard segments. Also included in the potential spin-off would be our Lewiston, Idaho lumber mill because it occupies the same site as our pulp-based operations in Lewiston. On July 17, 2008, our board of directors approved the plan to pursue this spin-off of our pulp-based businesses into a publicly traded company called Clearwater Paper Corporation, or Clearwater. We initially planned on capitalizing Clearwater with $175 million of high yield notes, the proceeds of which were going to be paid to us. With the credit markets in the current state of instability, this does not appear to be a viable approach. However, we developed a comparable approach to capitalizing Clearwater, which entails two steps. First, Clearwater will increase its anticipated revolver from $75 million to approximately $120 million, and then immediately draw $50 million and remit that cash to us. Second, Clearwater will retain the obligation to repay the $100 million liability for our credit sensitive debentures. The debentures will remain on our balance sheet post spin-off and a note receivable from Clearwater will be recorded. We expect the transaction to be completed during the fourth quarter of 2008, subject to final board approval based on regulatory, market and other conditions.

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission on February 20, 2008.

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NOTE 2.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB board having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practice. SFAS No. 157 (as amended by FASB Staff Position, or FSP, FAS No. 157-2) is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, for financial assets and liabilities, and nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In November 2007, the effective date was partially deferred by the FASB for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair market value in the financial statements on a nonrecurring basis. With the exception of the deferred portion of SFAS No. 157, we adopted this Statement effective January 1, 2008, which did not have a material effect on our financial condition and results of operations. We are currently reviewing the deferred portion of this Statement to determine what effect, if any, it will have on our financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. This Statement requires all companies to report noncontrolling or minority interests in subsidiaries as equity in the consolidated financial statements. The intention of SFAS No. 160 is to eliminate the diversity in practice regarding the accounting for transactions between a company and noncontrolling interests. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently reviewing this Statement to determine what effect, if any, it will have on our financial condition and results of operations.

In December 2007, the FASB also issued SFAS No. 141 (Revised 2007), Business Combinations. This revised Statement, which we refer to as SFAS No. 141R, is intended to simplify existing guidance and converge rulemaking under U.S. GAAP with international accounting rules. SFAS No. 141R will significantly change the accounting for business combinations in a number of areas, including the treatment of contingent consideration, contingencies, acquisition costs and restructuring costs. Also under this Statement, changes in deferred tax asset valuation allowances and acquired income tax uncertainties in a business combination after the measurement period will have an impact on income tax expense. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. Adoption of this Statement is not expected to have a material effect on our financial condition and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133. This Statement amends and expands the disclosure requirements by requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of, and gains and losses on, derivative instruments, and disclosures about credit risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently reviewing this Statement to determine what effect, if any, it will have on our financial condition and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. This Statement is effective November 15, 2008. This Statement is not expected to result in a change in our current practice.

NOTE 3.

Income Taxes

As a REIT, if we meet certain requirements, we generally will not be subject to federal corporate income taxes on our ordinary and capital gains income from our real estate investments that we distribute to our shareholders. We will, however, be subject to corporate taxes on built-in gains (the excess of fair market value at January 1, 2006 over tax basis on that date) with respect to the sale of any real property owned at such date by the REIT within the first ten years following our conversion. The built-in gains tax is eliminated or deferred if sale proceeds are reinvested in like-kind property in accordance with the like-kind exchange provisions of the Internal Revenue Code. The built-in gains tax is not applicable to the sale of timber pursuant to a stumpage sales agreement.

We will continue to incur federal and state corporate income taxes on earnings from our manufacturing operations and real estate activities conducted by Potlatch TRS. For the quarter ended September 30, 2008, we recorded an income tax benefit of $5.1 million, compared to $1.7 million for the quarter ended September 30, 2007, related to continuing operations. The income tax benefit for the third quarter of 2008 was due primarily to operating losses of Potlatch TRS. The income tax benefit for the third quarter of 2007 was the result of an income tax benefit of $3.5 million due to the final determinations of amounts owed to the Internal Revenue Service for the years 1995-2004. Excluding this benefit, the company recorded an income tax provision of $1.8 million in the third quarter of 2007, which was largely related to pre-tax income of Potlatch TRS.

For the nine months ended September 30, 2008, we recorded an income tax benefit of $12.8 million, compared to $0.4 million for the same period in 2007, related to continuing operations. The income tax benefit for the first nine months of 2008 was largely related to operating losses of Potlatch TRS. The income tax benefit for the first nine months of 2007 was largely due to the income tax benefit resulting from final determination of amounts owed to the Internal Revenue Service for the years 1995-2004, net of an income tax provision of $2.6 million with respect to operating income of Potlatch TRS.

Our federal income tax returns from 1995 through 2004 have been examined by the Internal Revenue Service, and the resulting deficiency paid in 2007. Amended state tax returns reflecting the federal adjustments have been filed and associated taxes and interest paid.

A review of the company s tax positions at September 30, 2008, pursuant to the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, indicates that no uncertain tax positions were taken during the first nine months of 2008, and no information came to light that would require derecognition of previously taken positions.

We reflect accrued interest related to tax obligations, as well as penalties, in our provision for income taxes. During the quarters ended September 30, 2008 and 2007, we reflected less than $0.1 million in each quarter, for interest and penalties. For the nine months ended September 30, 2008 and 2007, we reflected less than $0.1 million and approximately $0.4 million, respectively, for interest and penalties. At September 30, 2008 and December 31, 2007, we had less than $0.1 million and approximately $0.1 million, respectively, accrued for the payment of interest and penalties.

NOTE 4.

Restructuring Charge

In January 2007, we recorded a pre-tax charge of $2.8 million associated with a restructuring within our Resource segment. The charge represented estimated severance benefit costs for 35 employees. A reduction to this charge of $0.1 million was recorded in the third quarter of 2007. There were no restructuring charges in the first nine months of 2008.

NOTE 5.

Discontinued Operations

On March 27, 2008, we announced the permanent closure of our Prescott, Arkansas lumber mill due to poor market conditions. The mill continued processing its remaining inventory of logs and permanently ceased operations in May 2008, affecting approximately 182 employees. As a result of this closure, we recorded an after-tax charge of $12.4 million for the nine months ended September 30, 2008. The charge represents estimated costs associated with the adjustment of assets to estimated fair market value, as well as approximately $1.4 million in severance benefits, approximately $0.8 million associated with the curtailment of the hourly defined benefit pension plan for the Prescott employees, and approximately $0.6 million in other costs associated with the closure. For the quarter and nine months ended September 30, 2008, after-tax operating losses of $0.2 million and $2.5 million, respectively, which were previously included in the operating results of our Wood Products segment, are classified as discontinued

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operations in the Statements of Operations and Comprehensive Income. For the quarter and nine months ended September 30, 2007, we recorded after-tax operating losses of $1.4 million and $1.9 million, respectively. Revenues for the Prescott operation, which were previously included in our Wood Products segment revenues, were $18.7 million for the nine months ended September 30, 2008, and $15.5 million and $47.6 million for the quarter and nine months ended September 30, 2007, respectively.

The assets of the Prescott lumber mill are presented in the Condensed Balance Sheets under the caption Assets held for sale at September 30, 2008. Included in the Assets held for sale amount are the estimated fair market values of storeroom inventories and property, plant and equipment. There are no liabilities associated with the Prescott assets held for sale.

In March 2007, we announced the sale of our hybrid poplar tree farm in Boardman, Oregon, for $65 million in cash. The sale was completed in May 2007. We applied a large portion of the proceeds from this sale to our acquisition in the first quarter of 2007 of 76,000 acres of timberlands in Wisconsin through a tax-efficient Internal Revenue Code section 1031 like-kind exchange. As a result of the sale, we recorded an after-tax charge of $33.0 million for the nine months ended September 30, 2007. The charge represented estimated costs associated with the adjustment of the carrying value of the assets involved in the sale to fair market value, as well as approximately $0.3 million in severance benefits and approximately $0.2 million in transaction and other costs associated with the sale. For the quarter and nine months ended September 30, 2007, after-tax operating losses of $0.1 million and $3.8 million, respectively, which were previously included in the operating results of our Resource segment, are classified as discontinued operations in the Statements of Operations and Comprehensive Income. Revenues for the hybrid poplar tree farm, which were previously included in our Resource segment revenues, were $2.5 million for the nine months ended September 30, 2007.

NOTE 6.

Like-Kind Exchanges

In order to acquire and sell assets, primarily timberlands, in a tax-efficient manner, we enter into like-kind exchange, or LKE, tax-deferred transactions. There are two main types of LKE transactions: forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property; and reverse transactions, in which property is acquired and similar property is subsequently sold by us. Both forward and reverse transactions must be completed within prescribed time periods under Internal Revenue Code section 1031.

We use a qualified LKE intermediary to facilitate LKE transactions. Proceeds from forward transactions are held by the intermediary and are classified as a restricted non-current asset because the funds must be reinvested in similar properties. If the acquisition of suitable LKE properties is not completed within 180 days of the sale of the company-owned property, the proceeds are distributed to us by the intermediary and are reclassified as available cash and applicable income taxes are determined. Proceeds from reverse transactions are not restricted because the funds are not subject to risk, earn interest and are available upon demand; therefore, these proceeds are included in short-term investments. In the case of reverse transactions in which we have not yet completed LKE sales of company-owned land to match with property purchased on our behalf by the intermediary, the amount associated with the property purchased on our behalf but not yet matched with LKE sales is classified as a long-term asset and included in Timber, timberlands and related deposits, net in our Condensed Balance Sheets and as Deposits on timberlands in the investing activities section of our Condensed Statements of Cash Flows. Amounts deposited with a third party towards the potential future purchase of property that are not matched with LKE sales are also included in Timber, timberlands and related deposits, net in our Condensed Balance Sheets and as Deposits on timberlands in our Condensed Statements of Cash Flows. All proceeds, when received by the qualified intermediary, are included as non-cash adjustments to net earnings from continuing operations in the Condensed Statements of Cash Flows.

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NOTE 7.

Earnings per Common Share

Earnings per common share from continuing operations are computed by dividing earnings from continuing operations by the weighted average number of common shares outstanding in accordance with SFAS No. 128, Earnings Per Share. The following table reconciles the number of common shares used in calculating the basic and diluted earnings per common share from continuing operations:

(Dollars in thousands - except per-share amounts)	**Quarter Ended September 30, 2008**	**Quarter Ended September 30, 2007**	**Nine Months Ended September 30, 2008**	**Nine Months Ended September 30, 2007**
Earnings from continuing operations	$ 25,715	$ 42,533	$ 71,926	$ 83,882
Basic average common shares outstanding	39,514,730	39,171,841	39,431,879	39,050,280
Incremental shares due to:				
Common stock options	63,295	76,888	58,639	79,692
Performance shares	180,723	151,484	188,876	170,450
Restricted stock units	33,977	14,348	34,096	15,529
Diluted average common shares outstanding	39,792,725	39,414,561	39,713,490	39,315,951
Basic earnings per common share from continuing operations	$ 0.65	$ 1.09	$ 1.82	$ 2.15
Diluted earnings per common share from continuing operations	$ 0.65	$ 1.08	$ 1.81	$ 2.13

For the quarter ended September 30, 2008, options to purchase 75,394 shares of common stock were excluded from the computation of diluted earnings per common share because their effect was anti-dilutive. For the nine months ended September 30, 2008, 2,000 restricted stock units and options to purchase 75,394 shares of common stock were excluded from the computation of diluted earnings per common share because their effect was anti-dilutive. For the quarter ended September 30, 2007, 1,000 restricted stock units, 7,400 performance shares and options to purchase 145,565 shares of common stock were excluded from the computation of diluted earnings per common share because their effect was anti-dilutive. For the nine months ended September 30, 2007, 6,654 restricted stock units, 7,400 performance shares and options to purchase 145,565 shares of common stock were excluded from the computation of diluted earnings per common share because their effect was anti-dilutive.

NOTE 8.

Equity-Based Compensation

At September 30, 2008, we had three stock incentive plans, the 1995, 2000 and 2005 plans, under which stock option, performance share or restricted stock unit, or RSU, grants were outstanding. All of these plans have received stockholder approval. We were originally authorized to issue up to 1.7 million shares, 1.4 million shares and 1.6 million shares under our 1995 Stock Incentive Plan, 2000 Stock Incentive Plan and 2005 Stock Incentive Plan, respectively. At September 30, 2008, no shares were available for future use under the 1995 Stock Incentive Plan, while approximately 115,800 and 768,200 shares were authorized for future use under the 2000 and 2005 Stock Incentive Plans, respectively. All exercises of stock options or distributions upon settlement of performance share awards or RSU awards are made through the issuance of new shares.

For the quarter ended September 30, 2008, we recorded equity-based compensation expense of $2.0 million, of which $1.8 million related to performance shares and $0.2 million related to RSUs. For the quarter ended September 30, 2007, we recorded equity-based compensation expense of $1.4 million, of which $1.3 million related to performance shares and $0.1 million related to RSUs. For the nine months ended September 30, 2008, we recorded equity-based compensation expense of $5.0 million, of which $4.3 million related to performance shares and $0.7 million related to RSUs. For the nine months ended September 30, 2007, we recorded equity-based

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compensation expense of $4.3 million, of which $3.9 million related to performance shares and $0.4 million related to RSUs. The net income tax benefit recognized in the Statements of Operations and Comprehensive Income for equity-based compensation expense totaled $0.8 million and $0.6 million for the quarters ended September 30, 2008 and 2007, respectively, and $2.0 million and $1.7 million for the nine months ended September 30, 2008 and 2007, respectively.

Outside directors of the company are granted an annual award of common stock units, which are credited to an account established on behalf of each director. These accounts are then credited with additional common stock units equal in value to the distributions that are paid on the same amount of common stock. Upon separation from service as a director, the common stock units held by the director in his or her deferred account will be converted to cash based upon the then market price of the common stock and paid to the director.

Directors of the company can also each elect to defer compensation in the form of common stock units. We record compensation expense or income during each reporting period based on the amount of compensation deferred during the period and the increase or decrease in the value of the company s common stock. We recorded director deferred compensation expense totaling $0.2 million and $0.3 million for the quarters ended September 30, 2008 and 2007, respectively, and $0.4 million for both the nine months ended September 30, 2008 and 2007.

As required by SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123R), $2.1 million and $2.4 million of cash flows for the nine months ended September 30, 2008 and 2007, respectively, representing the realized tax benefit related to the excess of the deductible amount over the compensation cost recognized, have been classified as a financing cash inflow and an operating cash outflow in the Condensed Statements of Cash Flows.

STOCK OPTIONS

All outstanding stock options were granted with an exercise price equal to the market price on the date of grant, vested over the two-year period from the grant date, and expire not later than 10 years from the date of grant. No new stock options were granted in 2008 or 2007.

A summary of outstanding stock options as of September 30, 2008, and changes during the nine months ended September 30, 2008, is presented below:

(Dollars in thousands, except per-share amounts)	Shares	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1	509,284	$ 25.08	
Shares exercised	(143,319)	26.47	$ 2,760
Shares cancelled	(30)	35.44	
Outstanding and exercisable at September 30	365,935	24.54	7,996

There were no unvested stock options outstanding during the nine months ended September 30, 2008. The aggregate intrinsic value of stock options exercised during the nine months ended September 30, 2007 was $5.2 million.

The following table summarizes information about stock options outstanding at September 30, 2008:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Avg. Remaining Contractual Life	Weighted Avg. Exercise Price
$15.8849 to $19.0779	79,000	3.78 years	$ 17.47
$21.3279 to $25.1112	158,299	3.88 years	21.87
$27.5226 to $35.4393	128,636	4.10 years	32.16
$15.8849 to $35.4393	365,935	3.93 years	24.54

Cash received from stock option exercises for the nine months ended September 30, 2008 and 2007 was $3.8 million and $8.0 million, respectively. The actual tax benefit realized for the tax deductions from option exercises

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totaled $0.1 million and $0.9 million for the quarters ended September 30, 2008 and 2007, respectively, and $1.1 million and $1.9 million for the nine months ended September 30, 2008 and 2007, respectively.

PERFORMANCE SHARES

Performance share awards granted under the stock incentive plans have a three year performance period, and shares are issued at the end of the period if the performance measure is met. The performance measure is a comparison of the percentile ranking of our total shareholder return compared to the total shareholder return performance of a selected peer group. The number of shares actually issued, as a percentage of the amount subject to the performance share award, could range from 0% 200%. Performance share awards granted under our stock incentive plans do not represent common stock, and therefore the holders do not have voting rights unless and until shares are issued upon settlement. If shares are issued at the end of the three-year performance measurement period, the recipients will receive dividend equivalents at the time of payment equal to the distributions that would have been paid on the shares earned had the recipient owned the shares during the three-year period.

Due to the adoption of SFAS No. 123R, the fair value of all performance share awards after January 1, 2006, is estimated using a Monte Carlo simulation model. For the purpose of recognizing compensation expense, performance share awards granted prior to the adoption of SFAS No. 123R are valued at the market value of the company s stock at the date of grant.

A summary of outstanding performance share awards as of September 30, 2008, and changes during the nine months ended September 30, 2008 is presented below:

(Dollars in thousands, except per-share amounts)	Shares	Weighted Avg. Grant Date Fair Value	Aggregate Intrinsic Value
Unvested shares outstanding at January 1	244,933	$ 50.80	
Granted	91,491	52.75	
Forfeited	(12,688)	50.04	
Unvested shares outstanding at September 30	323,736	51.38	$ 13,964

As of September 30, 2008, there was $5.6 million of unrecognized compensation cost related to non-vested performance share awards. The cost is expected to be recognized over a weighted average period of 1.6 years.

Included in the unvested shares total as of September 30, 2008 are 100,615 performance shares that are currently tied to Potlatch s total stockholder return over the 36-month period ending December 31, 2008. In connection with the proposed spin-off of our pulp-based businesses, which is anticipated to occur prior to December 31, 2008, the performance period for these performance shares has been compressed to a 33-month period ending September 30, 2008, resulting in the accelerated recognition of $0.3 million of expense in the third quarter of 2008.

RESTRICTED STOCK UNITS

Our 2005 Stock Incentive Plan also allows for awards to be issued in the form of RSUs. During 2008 and 2007, certain officers and other select employees of the company were granted RSU awards that will accrue dividend equivalents based on distributions paid during the RSU vesting period. The dividend equivalents will be converted into additional RSUs that will vest in the same manner as the underlying RSUs to which they relate. The terms of certain of the awards state that 20% of the RSUs vest on each of the first and second anniversaries of the grant date of the awards, with the remaining 60% vesting on the third anniversary. The terms of certain other RSUs provide for vesting of such RSUs upon the expiration of a set period of approximately three years.

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A summary of the status of outstanding RSU awards as of September 30, 2008, and changes during the nine months ended September 30, 2008, is presented below:

(Dollars in thousands, except per-share amounts)	Shares	Weighted Avg. Grant Date Fair Value	Aggregate Intrinsic Value
Unvested shares outstanding at January 1	31,875	$ 48.84	
Granted	27,869	41.57	
Vested	(8,411)	48.67	
Forfeited	(575)	41.38	
Unvested shares outstanding at September 30	50,758	44.96	$ 2,203

For RSU awards granted during the period, the fair value of each share was estimated on the date of grant using the grant date market price of our common stock. The total fair value of share awards vested during the period was $0.4 million, using the grant date market price of our common stock.

As of September 30, 2008, there was $1.2 million of total unrecognized compensation cost related to non-vested RSU awards. The cost is expected to be recognized over a weighted average period of 1.5 years.

NOTE 9.

Inventories

Inventories at the balance sheet dates consist of:

(Dollars in thousands)	September 30, 2008	December 31, 2007
Raw materials	$ 91,711	$ 65,517
Finished goods	80,883	103,879
	$ 172,594	$ 169,396

NOTE 10.

Pension and Other Postretirement Employee Benefit Plans

The following table details the components of net periodic cost (benefit) of our pension and other postretirement employee benefit plans:

Quarters ended September 30:

	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
(Dollars in thousands)	2008	2007	2008	2007
Service cost	$ 2,836	$ 3,002	$ 648	$ 623
Interest cost	9,439	8,566	4,005	3,822
Expected return on plan assets	(15,427)	(15,604)		
Amortization of prior service cost (credit)	513	547	(941)	(890)
Amortization of actuarial loss	1,017	1,304	1,002	1,280

Curtailments				
Net periodic cost (benefit)	$ (1,622)	$ (2,185)	$ 4,714	$ 4,835

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Nine months ended September 30:

(Dollars in thousands)	Pension Benefit Plans 2008	Pension Benefit Plans 2007	Other Postretirement Employee Benefit Plans 2008	Other Postretirement Employee Benefit Plans 2007
Service cost	$ 8,508	$ 9,006	$ 1,944	$ 1,870
Interest cost	28,317	25,700	12,013	11,467
Expected return on plan assets	(46,281)	(46,814)		
Amortization of prior service cost (credit)	1,539	1,642	(2,825)	(2,672)
Amortization of actuarial loss	3,052	3,912	3,008	3,840
Curtailments	268			
Net periodic cost (benefit)	$ (4,597)	$ (6,554)	$ 14,140	$ 14,505

The pension benefits presented above do not include a $1.3 million pre-tax charge related to the closure of the Prescott lumber mill. The amount is included in Loss from discontinued operations in the Statements of Operations and Comprehensive Income for the nine months ended September 30, 2008.

Of the $1.0 million reported as Other comprehensive income, net of tax, on our Statements of Operations and Comprehensive Income for the quarter ended September 30, 2008, $0.9 million and $0.1 million related to our defined benefit pension and other postretirement employee benefit plans, respectively. Of the $3.7 million reported as Other comprehensive income, net of tax, on our Statements of Operations and Comprehensive Income for the nine months ended September 30, 2008, $2.8 million related to our defined benefit pension plans, $0.1 million related to our other postretirement employee benefit plans and $0.8 million related to the curtailment associated with the Prescott lumber mill closure and the curtailment of our Lewiston, Idaho fire department hourly pension plan.

As discussed in the notes to our financial statements for the year ended December 31, 2007, no minimum contributions to our qualified pension plans are estimated for 2008 due to the funded status of those plans at December 31, 2007. However, we estimate contributions will total approximately $1.8 million in 2008 for our non-qualified pension plan. As of September 30, 2008, $1.3 million of contributions had been made. We do not anticipate funding our other postretirement employee benefit plans in 2008 except to pay benefit costs as incurred during the year by plan participants.

NOTE 11.

Contingencies

The following updates information included in the 2007 Annual Report on Form 10-K:

Beginning in February 2006, a series of private antitrust lawsuits were filed against us and certain other manufacturers of oriented strand board (OSB) by plaintiffs who claim they purchased OSB at artificially high prices. The cases were consolidated into two Consolidated Amended Class Action Complaints in the United States District Court for the Eastern District of Pennsylvania under the caption In Re OSB Antitrust Litigation, one on behalf of direct purchasers of OSB and the other on behalf of indirect purchasers. The complaints allege that the defendant OSB manufacturers violated federal and state antitrust laws by purportedly conspiring from mid-2002 to the present to drive up the price of OSB. The consolidated indirect purchaser complaint also alleges that defendants violated various states unfair competition laws and common law. Each consolidated complaint seeks an unspecified amount of monetary damages to be trebled as provided under the antitrust laws and other relief. The court certified a nationwide class of direct purchasers who bought OSB structural panel products directly from one of the defendants during the period from June 1, 2002 to February 24, 2006. It also certified a nationwide class of indirect purchaser end users who purchased new OSB manufactured or sold by one of the defendants during the same time period; this class excludes persons who only bought OSB that was incorporated into a house or other structure. The claims of the nationwide indirect purchaser class are limited to injunctive relief. However, the court also certified a multistate class of indirect purchasers in 17 states whose members may recover compensation as allowed by state law. Although we vigorously deny any wrongdoing, on March 28, 2008, we tentatively settled the claims of the direct purchaser class for $2.7 million, solely in order to avoid the further expense and burden of the ongoing litigation. On April 17, 2008, we tentatively settled the indirect purchaser class action claims for $0.3 million. Both settlements have been preliminarily approved by the court, but remain subject to final court approval. We sold our OSB manufacturing facilities to Ainsworth Lumber Co. Ltd. in September 2004.

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NOTE 12.

Segment Information

ollars in thousands)

	Quarter Ended September 30, 2008	2007	Nine Months Ended September 30, 2008		2007									
gment Revenues														
source	$ 94,552	$ 99,707	$ 199,893	$	231,411									
al Estate	6,750	3,679	43,198		12,335									
ood Products														
mber	68,655	77,513	191,351		229,735									
ywood	11,353	14,247	39,361		41,963	George C. Zoley		1,545,000		123.5%	1,908,075	N/A	1,908,075	123.5
an R. Evans	281,378	123.5%	347,501	+50%			521,252		185%					
David Donahue	225,000	123.5%	277,875	+50%			416,813		185%					
an J. Bulfin	220,319	123.5%	272,094	+50%			408,140		185%					
omas M. erdsma	194,994	123.5%	240,818	+50%			361,227		185%					

(1) Since the Corporate Financial Performance factor was greater than 100%, NEOs, other than the Chief Executive Officer, were eligible for individual performance multipliers on their award.

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Equity Compensation. Our Compensation Committee has historically granted awards under our equity compensation plans to our key employees and members of our board of directors to create a more performance-oriented culture and to further align the interests of management and our shareholders.

Our current equity compensation plan is The GEO Group, Inc. 2014 Stock Incentive Plan (the 2014 Plan), which was approved by our shareholders at our 2014 annual meeting of shareholders. The 2014 Plan replaced our 2006 Stock Incentive Plan (the 2006 Plan) and since the date our shareholders approved the 2014 Plan, no further grants can be made under the 2006 Plan although there are outstanding awards under the 2006 Plan. Since the adoption of the 2006 Plan and the 2014 Plan, we have issued 2,878,406 shares of restricted stock (excluding cancelled shares) and stock options representing the right to acquire 2,384,350 shares of common stock. Beginning in 2012, our restricted stock grants to our executive officers have performance-based vesting which we believe is appropriate to foster a performance-oriented culture and align the interests of management and our shareholders. Further, we believe this approach is consistent with the approach taken by our peers in the equity REIT sector and our industry, and is reflective of the performance-based compensation program that our shareholders support. As of March 3, 2017, there was a total of 1,200,746 shares of common stock reserved for future issuance in connection with future awards under the 2014 Plan.

Our Compensation Committee has historically granted awards under our equity compensation plans either at the time of our annual shareholders meeting or following the end of our fiscal year in connection with the completion of our annual compensation cycle; however, we have varied our practice in recent years. For example, on June 1, 2013 and May 14, 2015, we granted restricted stock awards to employees, management and non-employee directors. In the future, we may from time to time grant equity awards throughout the year. Equity compensation awards are priced as of the close of business on the date of grant.

The amounts of awards granted under our equity compensation plans are determined by the Compensation Committee after taking into account the following factors: the recommendations of the Chief Executive Officer, the availability of awards for issuance companywide, the overall performance of the Company and the individual performances of the grantees.

Under the 2006 Plan and the 2014 Plan, shares of restricted stock may have performance-based or time-based vesting. If the vesting is performance based, vesting is tied to the achievement of predetermined metrics set by the Compensation Committee and included in the applicable equity grant instrument. If vesting is time based, the shares vest at the rate of 25% per year in each of the four years following the date of grant, subject to vesting acceleration in the case of a change in control as defined in our plan. Beginning in 2012, our restricted stock grants to our executive officers have performance-based vesting. Except for stock option awards to Mr. Zoley prior to 2008, and stock option awards granted to non-employee directors in 2009, which all vested immediately on the date of grant, stock options vest 20% immediately and an additional 20% on each of the four anniversary dates immediately following the grant date.

We believe that equity compensation awards offer significant motivation to our officers and employees and serve to align their interests with those of our shareholders. While the Compensation Committee will continually evaluate the use of equity compensation both types and amounts it intends to continue to use such awards as part of the company s overall compensation program.

2016 Equity Incentive Awards

On February 12, 2016, GEO granted performance-based restricted stock to our named executive officers that vest on March 11, 2019 based on two performance metrics measured from January 1, 2016 to December 31, 2018 as follows: (i) 50% of the award is determined based on GEO s relative total shareholder return as compared to the FTSE NAREIT EQUITY REIT INDEX and (ii) 50% of the award is determined based on GEO s return on capital employed (ROCE) performance against targets using an average of ROCE over 2016, 2017 and 2018. For 2016, 100% of our equity incentive awards provided to the NEOs were in the form of performance-based

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restricted stock awards which was much more performance oriented than the mix of performance and time vested equity awards observed across the peer group. On average, the peers deliver approximately 50% of their long-term incentive to NEOs in time-vested equity.

The following table lists the number of performance-based shares of restricted stock granted to each named executive officer in 2016:

Executive	Number of Performance Shares Granted in 2016
George C. Zoley	50,000
Brian R. Evans	12,500
J. David Donahue	12,500
John J. Bulfin	10,000
Thomas M. Wierdsma	10,000

Specifically, the performance targets for the performance-based restricted stock grants are:

Performance Metric	Metric Weighting	Threshold	Target	Maximum
Relative TSR	50%	P30	P50	P90
Return on Capital Employed	50%	+1% of WACC	9%	12%
	Payouts (% of Target)	30%	100%	200%

The threshold required for payment under the ROCE metric is set at +1% of our weighted average cost of capital (WACC) over the three-year measurement period to ensure that payments only occur during periods of positive returns. The WACC is a product of the cost of our capital over the performance period and will not be known until the performance period has concluded.

Additionally, we have adopted a performance governor that caps payouts under the Relative TSR metric at 100% of target if GEO s absolute TSR is negative over the 3-year period.

In 2016, the Compensation Committee approved a shift in the mix of the performance metrics from 75% Relative TSR/25% ROCE to 50% Relative TSR/50% ROCE for the following reasons:

The level of balance better aligns with market practices for the weighting of TSR metrics in long-term incentive plans.

Increases the emphasis on delivering significant operating returns, which the Compensation Committee believes translates to sustainable long-term shareholder returns over time.

Continues to maintain a significant portion of long-term incentives contingent on shareholder return outperformance against the REIT industry.

Equity Incentive Outcomes for 2014 to 2016 Performance Cycle

On February 20, 2014, the Compensation Committee granted target awards of performance-based restricted stock vesting over a three year period beginning January 1, 2014 provided that certain TSR performance goals and ROCE goals were met as of December 31, 2016. Specifically, the performance targets were:

Performance Metric	**Metric Weighting**	**Threshold**	**Target**	**Maximum**
Relative TSR	75%	P30	P50	P90
Return on Capital Employed	25%	+1% of WACC	9%	12%
	Payouts (% of Target)	30%	100%	200%

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The Compensation Committee engaged Pay Governance to calculate the final TSR rank and payout calculations for the TSR component of these awards. Pay Governance determined that based upon their calculations for the Company and the FTSE NAREIT Equity REITs Index, the Company s 2014-2016 TSR of 33.7% places the Company in the 37th percentile of the peer group which results in a TSR component payout of 54.5%. Management of the Company calculated the return on capital employed component of the performance-based restricted stock to be 11.4% which results in a ROCE component payout of 179.9% of the target award. Based on the calculations of the TSR component and the ROCE component, management of the Company certified to the Compensation Committee that when the TSR component is combined with the ROCE component, the combined equity payout is 85.9% of the target award. As a result of the information provided to the Compensation Committee by Pay Governance and management, the Compensation Committee approved the vesting of the performance-based restricted stock in the amounts provided below:

Performance-Based Restricted Stock: 2014-2016 Cycle

Executive(1)	Shares at Target	Performance Factor	Shares Earned
George C. Zoley	40,000	85.9%	34,342
Brian R. Evans	10,000	85.9%	8,586
John J. Bulfin	7,500	85.9%	6,439
Thomas M. Wierdsma	7,500	85.9%	6,439

(1) Mr. Donahue did not receive a grant of performance-based restricted stock in 2014. Mr. Donahue was appointed Senior Vice President and President of GEO Corrections and Detention in February 2016.

2017 Compensation Actions

Equity Incentive Awards

Effective March 1, 2017, GEO granted performance-based restricted stock to our named executive officers that vests on March 10, 2020 based on two performance metrics measured from January 1, 2017 to December 31, 2019 as follows: (i) up to 50% of the shares of restricted stock in each award vest if GEO meets certain TSR performance targets for the 3-year period; and (ii) up to 50% of the shares of restricted stock in each award can vest if GEO meets certain ROCE performance targets for the 3-year period. For 2017, 100% of the equity grants made to executives were performance based.

The following lists the number of performance-based shares granted to each named executive officer:

Executive	Number of Performance Based Restricted Stock Granted in March 2017
George C. Zoley	50,000
Brian R. Evans	12,500
J. David Donahue	12,500
John J. Bulfin	10,000
Thomas M. Wierdsma	10,000

Other Benefits and Perquisites. Our executive compensation program includes other benefits and perquisites as more fully reflected on the table set forth below titled All Other Compensation. These benefits and perquisites are reviewed annually by the Compensation Committee with respect to amounts and appropriateness. Currently, the benefits and perquisites which the named executive officers are eligible to receive fall into four general categories: (i) retirement benefits pursuant to our executive retirement agreement in the case of Mr. Zoley and pursuant to our senior officer retirement plan in the case of the other named executive officers; (ii) benefits under certain other deferred compensation plans; (iii) value attributable to life insurance we afford our named executive officers beyond that which is offered to our other employees generally; and (iv) travel and entertainment perquisites, such as an automobile allowance, club dues and personal use of the corporate jet. For 2016,

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Mr. Zoley was allotted thirty (30) hours of personal use of the corporate aircraft. For 2016, the Board authorized the allotment of five (5) hours of personal use of the corporate aircraft for Mr. Evans.

Executive Retirement Agreement. Mr. Zoley has an executive retirement agreement that requires us to pay him a lump sum amount on the date that his employment with GEO ends. Such amount is determined by his age at the time of retirement with the amount increasing by approximately 4% per year up to age 71. Mr. Zoley s retirement agreement formerly included a tax gross-up provision for taxes applicable to his lump sum retirement payment. In 2012, Mr. Zoley agreed to amend his retirement agreement to eliminate the tax gross-up provision. In exchange for this amendment, the amount of the lump sum retirement payment which Mr. Zoley was entitled to receive was proportionally increased so that Mr. Zoley would be entitled to receive substantially the same net benefit he would otherwise have received if the tax gross-up had remained in place. Mr. Zoley s benefits under the executive retirement agreement are fully vested and he will therefore be entitled to receive the amount called for by the agreement whenever his employment with GEO is terminated for any reason, whether by GEO or by him. If Mr. Zoley had retired at December 31, 2016, we would have had to pay him a total of $7.7 million. The $7.7 million will be delivered in a lump-sum amount and equates to $239,287 annually when divided by his 32 years of service with the company. The amount owed under the retirement agreement to Mr. Zoley would be payable from the general assets of GEO.

Senior Officer Retirement Plan. Messrs. Evans, Bulfin, Wierdsma and Donahue participate in our senior officer retirement plan, which is offered to all of our Senior Vice Presidents. The senior officer retirement plan is a defined benefit plan and, subject to certain maximum and minimum provisions, provides for the payment to the officer of a monthly retirement benefit based on a percentage of the officer s final average annual salary earned during the employee s last five years of credited service (excluding bonus) multiplied by the employee s years of credited service. A participant will vest in his or her benefits under the senior officer retirement plan upon the completion of ten (10) years of service. The amount of benefit increases for each full year beyond ten (10) years of service except that there are no further increases after twenty-five (25) years of service. The maximum target benefit under the senior officer retirement plan is 45% of final average salary. Reduced benefits are payable for lesser service and early retirement. Benefits under the senior officer retirement plan are offset 100% by social security benefits received by the officer and are computed on the basis of a straight-life annuity. The plan also provides for pre-retirement death and disability benefits. Amounts owing under the plan are payable from the general assets of the Company.

Deferred Compensation Plans. Our named executive officers are currently excluded from participating in our 401(k) plan by virtue of their compensation level. Accordingly, we have established a deferred compensation plan for certain employees, including the named executive officers, which permits them to defer up to 100% of their compensation to provide for their retirement. Under the deferred compensation plan, the Company may make matching contributions on a discretionary basis. Mr. Evans and Mr. Bulfin are the only named executive officers who currently participate in the deferred compensation plan.

Excess Group Life Insurance. We pay rates for the life insurance policies of our named executive officers above the level that is excludable under applicable tax rules. Payments in connection with the resulting excess coverage are treated as imputed income to the officers and are not deductible by the Company.

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How Each Compensation Element Fits into the Overall Compensation Objectives and Affects Decisions Regarding Other Elements

In establishing compensation packages for executive officers, numerous factors are considered, including the particular executive s experience, expertise and performance, the Company s overall performance and compensation packages available in the marketplace for similar positions. In arriving at amounts for each component of compensation, our Compensation Committee strives to strike an appropriate balance between base compensation and incentive compensation, including equity based compensation and cash awards under the Senior Management Performance Award Plan. The committee also endeavors to properly allocate between cash and non-cash compensation (subject to the availability of equity compensation awards under our then current equity compensation plans), and between annual and long-term compensation.

When considering the marketplace, particular emphasis is placed upon compensation packages available at a comparable group of peer companies.

As discussed earlier, Pay Governance completed in 2012 a report on behalf of the Compensation Committee to evaluate its executive compensation program in light of the marketplace to make sure the program is competitive. Additionally, Pay Governance completed in 2015 an assessment of Mr. Zoley s total compensation in light of the marketplace and the ISS peer group specifically. The Compensation Committee intends to continue this practice on a periodic basis in the future.

Executive and Director Stock Ownership Guidelines

The Company adopted stock ownership guidelines in 2012 applicable to our senior executive officers, including our named executive officers, and our board members. The guidelines require our CEO to maintain equity holdings in GEO equal in value to at least 5x his annual base salary, our other executive officers to maintain equity holdings in GEO equal in value to at least 3x their annual base salaries, and our non-employee directors to maintain equity holdings in GEO equal in value to at least 3x their annual retainers. All officers and directors must satisfy the stock ownership guidelines five years from September 1, 2012 or the date of their appointment as director or a senior executive office, if appointed after September 1, 2012.

Clawback/Recoupment Policy

The Company maintains a clawback policy providing that any incentive payment awarded by GEO to an executive officer (including a named executive officer) under any GEO incentive compensation plan may be recouped by GEO in the event of material fraud or misconduct by the recipient, among other triggers.

Prohibited Transactions Under the Insider Trading Policy

The Company prohibits certain transactions in the Company s securities under the terms of its insider trading policy, including engaging in short sales of the Company s securities, trading in options, warrants, puts and calls or similar instruments on the Company s securities and holding Company securities in margin accounts.

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CONCLUSION

We believe that our compensation programs appropriately reward executive performance and closely align the interests of our named executive officers and key employees with the interests of our shareholders, while also enabling the Company to attract, retain, and motivate talented executives. The Compensation Committee will continue to evolve and administer our compensation program in a manner that the Compensation Committee believes will be in the best interests of our shareholders. The Compensation Committee monitors the results of the advisory vote on our executive compensation (referred to as the say-on-pay vote) and incorporates such results as one of many factors considered in connection with the discharge of its responsibilities.

SUBMITTED BY THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS:

Richard H. Glanton, Chairman

Anne N. Foreman

Christopher C. Wheeler

Compensation Policies and Practices as They Relate to Risk Management

Our executive compensation program is designed to attract and retain our officers and to motivate them to increase shareholder value on both an annual and longer term basis primarily by generating increasing levels of revenue and net income. To that end, compensation packages include significant forms of incentive compensation to ensure that an executive officer s interest is aligned with the interests of our shareholders in generating revenue and net income. Based upon the Compensation Committee s regular review of the Company s compensation policies and practices, the Compensation committee determined that the risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on the Company.

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SUMMARY COMPENSATION TABLE

The following table shows compensation earned by each of the named executive officers of GEO during 2016, 2015 and 2014, for services in all capacities while they were employees of GEO, and the capacities in which the services were rendered. For purposes of this proxy statement, GEO s named executive officers are (i) the Chief Executive Officer of GEO, (ii) the Chief Financial Officer of GEO, and (iii) each of the three most highly compensated executive officers of GEO other than the Chief Executive Officer and the Chief Financial Officer.

Name and Principal Position	Year	Salary ($)	Stock Awards ($)(1)	Non-Equity Incentive Plan Compensation ($)(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(3)	All Other Compensation ($)(4)	Total ($)
George C. Zoley	2016	1,030,000	1,637,500	1,908,075	287,683	312,963	5,176,221
	2015	1,000,000	3,669,250	1,440,000	277,347	221,867	6,608,464
Chairman of the Board,							
CEO & Founder	2014	1,214,730	1,271,800	1,406,857	265,289	158,321	4,316,997
Brian R. Evans	2016	562,755	409,375	521,252	150,083	26,940	1,670,405
	2015	546,364	660,125	262,255	55,996	12,834	1,537,574
Senior Vice President							
& CFO	2014	530,450	317,950	414,626	242,369	11,827	1,517,222
J. David Donahue	2016	500,000	409,375	416,813	93,302	6,678	1,426,168
Senior Vice President &							
President, U.S. Corrections and							
Detention, & Int l Operations							
John J. Bulfin	2016	489,597	327,500	408,140	219,354	7,128	1,451,719
	2015	475,337	528,100	205,346	121,402	6,335	1,336,520
Senior Vice President,							
General Counsel & Secretary	2014	461,492	238,463	324,653	294,901	6,011	1,325,520
Thomas M. Wierdsma,	2016	433,321	327,500	361,227	133,081	2,653	1,257,782
	2015	420,700	528,100	181,742	103,932	2,653	1,237,127
Senior Vice President,							
Project Development	2014	408,447	238,463	287,336	135,054	2,653	1,071,953

(1) This column reflects the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification Topic 718 (FASB 718) with respect to stock awards granted during

2016, 2015 and 2014 for each named executive officer. Stock awards granted in 2016, 2015 and 2014 were performance based awards and will be earned if the Company achieves its performance based targets. Assumptions used in the calculation of the amounts related to stock awards are described in Note 1 to the Company s audited financial statements for the year ended December 31, 2016, included in the Company s Annual Report on Form 10-K filed with the SEC on February 27, 2017.

(2) We regard our Senior Management Performance Award Plan as our annual bonus plan. The column of this table titled Non-Equity Incentive Plan Compensation consists solely of amounts accrued in 2016, 2015 and 2014, and paid in 2017, 2016 and 2015, respectively, under our Senior Management Performance Award Plan with respect to each of our named executive officers. Please see Compensation Discussion & Analysis and Certain Material Executive Compensation Agreements and Arrangements for a further description of our Senior Management Performance Award Plan. In 2016, the target adjusted net income after tax and revenue was $143,500,000 and $2,189,000, respectively. The actual 2016 results achieved for adjusted net income after tax and revenue was $164,600,000 and $2,180,000, respectively.

(3) Figures in this column consist of amounts accrued in 2016, 2015 and 2014 and with respect to each named executive officer s executive retirement agreement or senior officer retirement arrangement. Please see Compensation Discussion & Analysis and Certain Material Executive Compensation Agreements and Arrangements for a further description of our executive retirement agreement and our senior officer retirement arrangements.

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(4) The following sets forth for each named executive officer the description and amount of each item comprising each officer s total compensation appearing in the All Other Compensation column for 2016, 2015 and 2014:

Executive	Year	Auto Allowance ($)(a)	Club Dues ($)	Excess Group Life Insurance ($)(b)	Aircraft Usage ($)(c)	Total All Other Compensation ($)
George C. Zoley	2016		181,567	3,564	127,832	312,963
	2015	92,036	7,415	3,427	118,989	221,867
	2014	1,684	6,926	3,564	146,147	158,321
Brian R. Evans	2016	12,024		810	14,106	26,940
	2015	12,024		810		12,834
	2014	11,017		810		11,827
J. David Donahue	2016	6,057		621		6,678
John J. Bulfin	2016	4,079		3,049		7,128
	2015	3,286		3,049		6,335
	2014	2,962		3,049		6,011
Thomas M. Wierdsma	2016			2,653		2,653
	2015			2,653		2,653
	2014			2,653		2,653

(a) Under our executive automobile policy, the executive is required to make contribution to GEO in circumstances where the cost of the executive automobile exceeds the overall cost allowance as determined under the policy.

(b) We pay rates for the life insurance policies of our named executive officers above the level that is excludable under applicable tax rules. The resulting excess coverage represented in this column is treated as imputed income to the officers.

(c) We provided certain perquisites to the named executive officers in 2016 for personal use of the Company s leased aircraft. For 2016, Mr. Zoley was allotted thirty 30 hours of aircraft usage and utilized 29 hours. For purposes of the Summary Compensation Table, we determine the aggregate incremental cost to us for personal use of company aircraft using a method that takes into account the cost of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs and other variable costs. Since the aircraft is used primarily for business travel, the calculation does not include the fixed costs that do not change based on usage, such as pilots salaries, aircraft acquisition costs and the cost of maintenance not related to trips.

CERTAIN MATERIAL EXECUTIVE COMPENSATION AGREEMENTS AND ARRANGEMENTS

The following executive compensation agreements and arrangements are material to an understanding of the amounts paid and/or payable to our named executive officers disclosed in the table above.

Executive Employment Agreements

Effective August 22, 2012, we entered into a Third Amended and Restated Executive Employment Agreement with Mr. Zoley, which was amended by the First Amendment, dated April 29, 2013, the Second Amendment, dated May 29, 2013, and the Third Amendment, dated May 14, 2015 (collectively, the Employment Agreement). The Employment Agreement has a continuously rolling three-year term.

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The Employment Agreement provides that Mr. Zoley is entitled to receive a target annual performance award of up to a maximum of 150% of his annual base salary in accordance with the Senior Management Performance Award Plan.

The Employment Agreement provides that upon the termination of the agreement for any reason other than by GEO for cause (as defined in the Employment Agreement) or by Mr. Zoley without good reason (as defined in the Employment Agreement), he will be entitled to receive a termination payment equal to 2 (two) times his annual base salary plus target bonus for the fiscal year in which his employment is terminated or, if greater, the target bonus for the fiscal year immediately prior to such termination. In addition, the Employment Agreement provides that upon such termination, GEO will transfer all of its interest in any automobile used by the executive pursuant to its employee automobile policy and pay the balance of any outstanding loans or leases on such automobile so that the executive owns the automobile outright. In the event such automobile is leased, the Employment Agreement provides that GEO will pay the residual cost of the lease.

Upon the termination of the Employment Agreement by GEO for cause or by Mr. Zoley without good reason, Mr. Zoley will be entitled to only the amount of compensation that is due through the effective date of the termination, including any performance award that may be due and payable to him under the terms of the Senior Management Performance Award Plan. The Employment Agreement includes a non-competition covenant that runs through the three-year period following the termination of the executive s employment, and customary confidentiality provisions.

The Employment Agreement reflects an annual base salary for Mr. Zoley for 2016 of $1,000,000 subject to increases in the sole discretion of the Board, to be determined by the board of directors. Additionally, the Employment Agreement provides that all outstanding unvested stock options and restricted stock granted to Mr. Zoley fully vest immediately upon a termination without cause as such term is defined in his employment agreements, as approved by the Compensation Committee. However, any restricted stock that is still subject to performance based vesting at the time of such termination shall only vest when, and to the extent, the Compensation Committee of the board of directors certifies that the performance goals have been met.

Senior Officer Employment Agreements

We have senior officer employment agreements with Messrs. Evans, Donahue, Bulfin and Wierdsma. The employment agreements have rolling two-year terms which continue until each executive reaches age 67 absent their earlier termination.

The amounts of base salaries that were paid to each of these executives during fiscal years 2016, 2015 and 2014 are set forth in the Summary Compensation Table above. The executives are also entitled to receive a target annual incentive bonus in accordance with the terms of our Senior Management Performance Award Plan which is further described below.

The senior officer employment agreements provide that upon the termination of the agreement for any reason other than by GEO for cause (as defined in the employment agreement) or by the voluntary resignation of the executive, the executive will be entitled to receive a termination payment equal to the following: (1) two years of the executive s then current annual base salary; plus (2) the continuation of the executive s employee benefits (as defined in the employment agreement) for a period of two years, plus (3) the dollar value of the sum of paid vacation time that the executive was entitled to take immediately prior to the termination which was not in fact taken by the executive. In addition, the employment agreements provide that upon such termination of the executive, we will transfer all of our interest in any automobile used by the executive pursuant to our employee automobile policy and pay the balance of any outstanding loans or leases on such automobile so that the executive owns the automobile outright. In the event such automobile is leased, the employment agreements provide that we will pay the residual cost of the lease. Also, upon such termination, all of the executive s unvested stock options will fully vest immediately.

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Upon the termination of the employment agreements by us for cause or by the voluntary resignation of the executive, the executive will be entitled to only the amount of salary, bonus, and employee benefits that is due through the effective date of the termination. Each employment agreement includes a non-competition covenant that runs through the two-year period following the termination of the executive s employment, and customary confidentiality provisions.

Under the terms of the agreements, annual base salaries for 2016 approved by the Compensation Committee for Messrs. Evans, Donahue, Bulfin and Wierdsma were $562,755, $500,000, $489,597 and $433,321, respectively. Additionally, all outstanding unvested stock options and restricted stock granted to each of Messrs. Zoley, Evans, Donahue, Bulfin and Wierdsma fully vest immediately upon a termination without cause as such term is defined in each of their employment agreements, as approved by the compensation committee. Performance based awards will only vest upon the determination by the Compensation Committee that the established performance goals have been met.

Executive Retirement Agreement

We also have an executive retirement agreement with Mr. Zoley. The retirement agreement provides that upon the later of (i) the date he actually retires from employment with GEO, or (ii) his 55th birthday, GEO will make a lump sum payment to Mr. Zoley. See Potential Payments Upon Termination or Change in Control for the amount we would have had to pay Mr. Zoley as of December 31, 2016 pursuant to his executive retirement agreement had he retired at his current age as of that date.

The retirement agreement provides that if the executive should die after his 55th birthday but before he retires from GEO, GEO shall immediately pay to the executive s beneficiary(ies) or estate the amount GEO would have paid to the executive had he retired immediately prior to his death. The retirement agreement includes non-competition provisions that run for a two-year period after the termination of the executive s employment. Mr. Zoley has reached the age of 55.

Senior Officer Retirement Plan

GEO maintains a senior officer retirement plan for all of its Senior Vice Presidents, including Mr. Evans, Mr. Donahue, Mr. Bulfin and Mr. Wierdsma. The senior officer retirement plan is a non-qualified defined benefit plan and, subject to certain maximum and minimum provisions, provides for the payment to the officer of a monthly retirement benefit based on a percentage of the officer s final average annual salary earned during the employee s last five years of credited service (excluding bonus) multiplied by the employee s years of credited service. A participant will vest in his or her benefits under the senior officer retirement plan upon the completion of ten (10) years of service, provided such participant remains continuously employed by the Company until at least age fifty five (55). The amount of benefit increases for each full year beyond ten (10) years of service except that there are no further increases after twenty-five (25) years of service. The maximum target benefit under the senior officer retirement plan is 45% of final average annual salary. Reduced benefits are payable for lesser service and early retirement. Benefits under the senior officer retirement plan are offset one hundred percent (100%) by social security benefits received (or estimated social security benefits to be received, if applicable) by the officer and are computed on the basis of a straight-life annuity. The plan also provides for pre-retirement death and disability benefits. Amounts owing under the plan are payable from the general assets of the company.

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GRANTS OF PLAN-BASED AWARDS

The following sets forth information regarding the grants of plan-based awards to the named executive officers for the year ended December 31, 2016.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock Awards
Name	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)	(#)(2)(3)	(#)	($/Sh)	($)(2)
George C. Zoley		772,500	1,545,000	2,317,500							
	3/10/2016							50,000			1,637,500
Brian R. Evans		140,689	281,378	633,101							
	3/10/2016							12,500			409,375
J. David Donahue		112,500	225,000	506,250							
	3/10/2016							12,500			409,375
John J. Bulfin		110,160	220,319	495,718							
	3/10/2016							10,000			327,500
Thomas M. Wierdsma		97,497	194,994	438,737							
	3/10/2016							10,000			327,500

(1) These columns reflects the threshold, target and maximum amounts that our named executive officers were eligible to receive under our Senior Management Performance Award Plan with respect to year 2016. For a description of how these amounts have been calculated, please see Compensation Discussion & Analysis Why Each Element of Compensation is Paid and How the Amount of Each Element is Determined Annual Cash Incentive Compensation. For information on the amounts that our named executive officers actually received under our Senior Management Performance Award Plan for 2016, please see the Non-Equity Incentive Compensation column of the Summary Compensation table above. For the purposes of the maximum calculations in this column, we have assumed that our Senior Vice Presidents would have received the maximum discretionary adjustments for which they are eligible.

(2) The percentage of the shares related to the return on capital employed metric was valued on our closing stock price on March 10, 2016 while the percentage of the shares related to the total shareholder return metric was valued based on a Monte Carlo simulation model.

(3) All of these awards were granted pursuant to our 2014 stock incentive plan.

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OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth certain information regarding equity-based awards held by our named executive officers as of December 31, 2016.

	Option Awards					Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(1)	Market Value of Shares or Units of Stock That Have Not Vested ($)(2)
George C. Zoley						165,000	5,928,450
Brian R. Evans	2,312			18.23	10/28/2019	35,000	1,257,550
	6,936			21.29	3/1/2021		
J. David Donahue	1,156			18.23	10/28/2019	20,750	745,548
	3,468			21.29	3/1/2021		
John J. Bulfin						27,500	988,075
Thomas M. Wierdsma						27,500	988,075

(1) All shares in this column consist of restricted stock awards. The stock awards granted on March 1, 2014 cliff vest on March 15, 2017 based on the achievement of certain performance criteria. The awards granted on March 2, 2015 and June 1, 2015 will cliff vest on March 1, 2018 based on the achievement of certain performance criteria. The awards granted on March 10, 2016 cliff vest on March 10, 2019 based on the achievement of certain performance criteria.

(2) Amounts in this column have been calculated using an assumed stock price of $35.93 the closing price of our common stock on December 30, 2016, the last business day of our fiscal year 2016.

OPTION EXERCISES AND STOCK VESTED

The following table sets forth certain information regarding stock option exercises by, and the vesting of stock-based awards of, each of the named executive officers of GEO during 2016.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting	Value Realized on Vesting ($)

	(#)		**(#)**	
George C. Zoley	11,560	127,738	26,246	806,015
Brian R. Evans			6,511	199,953
J. David Donahue			6,880	212,220
John J. Bulfin			4,883	149,957
Thomas M. Wierdsma			4,883	149,957

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PENSION BENEFITS

The following table sets forth certain information with respect to each plan that provides for payments to each of the named executive officers of GEO at, following, or in connection with retirement from GEO.

Name	Plan Name	Number of Years of Credited Service (#)(1)	Present Value of Accumulated Benefit ($)(2)	Payments During Last Fiscal Year
George C. Zoley	Executive Retirement Agreement	n/a	7,657,192	
Brian R. Evans	Senior Officer Retirement Plan	16	816,117	
J. David Donahue	Senior Officer Retirement Plan	7		
John J. Bulfin	Senior Officer Retirement Plan	16	1,261,806	
Thomas M. Wierdsma	Senior Officer Retirement Plan	9		

(1) The benefit of Mr. Zoley under his executive retirement agreement is triggered upon the attainment of the retirement age of 55 years old without regard to years of credited service. Mr. Zoley is 55 or older and therefore all of his benefits under his executive retirement agreement are fully vested.

(2) This column reflects amounts relating to each named executive officer s retirement agreement or retirement plan. The assumptions used in GEO s actuarial calculation of pension costs are based on payments in the form of a life annuity using market information and GEO s historical rates for employment compensation. Such actuarial assumptions are based using mortality tables for healthy participants and include a discount rate of 4.50% and a rate of compensation increase of 4.4%. Please see Certain Material Executive Compensation Agreements and Arrangements for a description of our executive and senior officer retirement agreements and arrangements.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table sets forth for each named executive officer the payments that we would have been required to make as of December 31, 2016, (i) pursuant to the officer s employment agreement, in connection with the termination of the officer s employment as of that date by GEO without cause or by the officer for good reason (as such terms are defined in each officer s employment agreement), (ii) pursuant to the officer s employment agreement, in connection with the termination of the officer s employment as of that date by GEO for cause (as defined in each officer s employment agreement) or by the officer upon the officer s resignation, and (iii) pursuant to the officer s retirement agreement or arrangement, in connection with the termination of the officer s employment as of that date for any reason (including due to the retirement, death or disability of the officer). All of the payments in the table would have been payable pursuant to the employment and retirement agreements and arrangements described more fully above under Certain Material Executive Compensation Agreements and Arrangements. All amounts in the table would have been payable in lump sums from the general assets of GEO.

Name	Payment Due Pursuant to Officer s Employment Agreement upon Termination either	Payment Due Pursuant to Officer s Employment Agreement upon a Termination by	Payment Due Pursuant to Officer s Retirement Agreement or Arrangement upon

	by Company Without Cause or by Officer for Good Reason ($)(1)(2)(3)(4)	Company With Cause or Resignation by Officer ($)(2)(4)	a Termination for Any Reason ($)(2)(4)(5)
George C. Zoley	6,306,963		7,657,192
Brian R. Evans	1,172,949		816,117
J. David Donahue	1,376,804		
John J. Bulfin	1,023,599		1,261,806
Thomas M. Wierdsma	991,708		

(1) Our current employment agreements with our named executive officers do not provide for any payments in connection with a change in control. Each officer would only have received the amount set

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forth in this column in connection with a change in control on December 31, 2016, if such officer was terminated by GEO without cause or the officer terminated his employment for good reason, in each case, in connection with the change in control. Currently, only the employment agreement with Mr. Zoley contains a right of the officer to terminate employment for good reason.

(2) In the event of a termination for any reason of any named executive officer on December 31, 2016, such officer would also have been entitled to receive the amounts set forth in the column of this table titled Payment Due Pursuant to Officer s Retirement Agreement or Arrangement Upon a Termination For Any Reason pursuant to the officer s retirement agreement or arrangement.

(3) All amounts are calculated using each named executive officer s annual base salary on December 31, 2016.

(4) Although no named executive officer is eligible to receive a payment in connection with a termination for cause or a resignation pursuant to the officer s employment agreement, each officer is entitled to receive all accrued and unpaid amounts under the officer s employment agreement through the date of termination.

(5) The benefits of Messrs. Zoley, Evans, and Bulfin under the retirement agreement in the case of Mr. Zoley and the Senior Office Retirement Plan in the case of Messrs. Evans, and Bulfin are fully vested and those officers would therefore have been entitled to receive the amounts set forth in this column if their employment with GEO had been terminated for any reason on December 31, 2016, whether by GEO or the officer, regardless of whether cause or good reason existed, and including in the event of a termination due to the retirement, death or disability of the officer. Please see Certain Material Executive Compensation Agreements and Arrangements for a description of our executive and senior officer retirement agreements and arrangements.

DIRECTORS COMPENSATION

The following table shows the compensation earned by each director who was not an officer during fiscal year 2016.

Name	Fees Earned or Paid in Cash($)(1)	Stock Awards(2)(4)	Option Awards(3)(4)	All Other Compensation ($)	Total($)
Clarence E. Anthony	187,412	88,170			275,582
Norman A. Carlson(5)	50,000				50,000
Anne N. Foreman	194,500	88,170			282,670
Richard H. Glanton	237,500	88,170			325,670
Christopher C. Wheeler	187,500	88,170			275,670
Julie Myers Wood	170,000	88,170			258,170

(1) These amounts consist of: (i) an annual retainer fee which was paid at a rate of $75,000 per year; (ii) a payment of $10,000 to the chairperson of the Audit and Finance Committee; (iii) a payment of $2,000 to each member of the Audit and Finance Committee; (iv) a payment of $5,000 for each committee, other than the Audit and Finance Committee, with respect to which a director served as chairperson; (v) a payment of $3,000 for each board meeting attended by each director (minimum four per year); (vi) a payment of $2,500 for each committee meeting attended by that committee s chairperson; (vii) a payment of $2,000 for each committee meeting attended by each board member; and (viii) a per diem of $3,000 for various board related activities such as continuing education and other activities related to company business. The lead independent director receives an additional annual retainer of $25,000.

(2)

This column reflects the aggregate grant date fair value with respect to stock awards during 2016 for each director who is not a named executive officer. Each director received 3,000 shares of restricted stock on March 10, 2016. The grant date fair value of the March 10, 2016 awards as calculated in accordance with FASB 718 was $29.39 per share, which was the closing price of our common stock on the grant date.

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(3) There were no stock options awarded to directors during 2016.

(4) The table below sets forth the aggregate number of shares of common stock subject to stock awards and option awards held by each director who is not a named executive officer outstanding as of the end of 2016.

Name	Stock Awards	Option Awards
Clarence A. Anthony	7,125	5,780
Norman A. Carlson	1,875	11,560
Anne N. Foreman	7,125	11,560
Richard H. Glanton	7,125	
Christopher C. Wheeler	7,125	1,156
Julie Myers Wood	5,875	

(5) Norman A. Carlson retired from the board of directors and all committee positions effective December 31, 2014. Mr. Carlson was appointed Director Emeritus effective January 1, 2015. As consideration for his service as Director Emeritus, Mr. Carlson will receive an annual retainer of $50,000 to be paid quarterly so long as he retains the title of Director Emeritus. Mr. Carlson s stock option awards and restricted stock awards will continue to vest according to the terms of The GEO Group, Inc. 2014 Stock Incentive Plan so long as he retains the title of Director Emeritus.

COMPENSATION COMMITTEE REPORT

In accordance with the powers and duties of the Compensation Committee as set forth in its charter, the committee hereby reports the following:

1. The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K set forth elsewhere in this proxy statement; and

2. Based on the review and discussion referred to in the preceding paragraph, the Compensation Committee recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement.

By the Compensation Committee:

Richard H. Glanton (Chairman)

Anne N. Foreman

Christopher C. Wheeler

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AUDIT AND FINANCE COMMITTEE REPORT

In accordance with the powers and duties of the Audit and Finance Committee as set forth in its charter, the committee hereby reports the following:

1. The Audit and Finance Committee has reviewed and discussed the audited financial statements for the fiscal year with management;

2. The Audit and Finance Committee has discussed with the independent accountants the matters required to be discussed by Auditing Standard No. 1301, Communications with Audit Committees, adopted by the Public Company Accounting Oversight Board (the PCAOB) as then modified or supplemented;

3. The Audit and Finance Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant s communications with the audit committee concerning independence, and has discussed with the independent accountant the independent accountant s independence;

4. Based on the review and discussions referred to in paragraphs 1.) through 3.) above, the Audit and Finance Committee recommends to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the fiscal year for filing with the Securities and Exchange Commission;

5. The Audit and Finance Committee has reviewed all fees, both audit related and non-audit related, of the independent accountant and considers the provision of non-audit services to be compatible with the maintenance of the independent accountant s independence; and

6. All members of the Audit and Finance Committee are independent as independence is defined in Sections 303 of the NYSE s current listing standards.

By the Audit and Finance Committee:

Richard H. Glanton (Chairman)

Clarence E. Anthony

Christopher C. Wheeler

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In 2016, David Meehan, Divisional Vice President of Business Development for GEO Care, received compensation of $382,923. Mr. Meehan is the son-in-law of George Zoley, our Chairman, CEO and Founder. In 2016, Larry Zoley, Director of Network Services & Integration, received compensation of $149,213. Mr. Zoley is the brother of George Zoley, our Chairman, CEO and Founder. Also in 2016, Chris Zoley, Director of Business Development received compensation of $148,866. Mr. Zoley is the son of George Zoley, our Chairman, CEO and Founder. Guidepost, Ms. Wood s current employer, has a consulting agreement with B.I. Incorporated, one of the Company s subsidiaries. Ms. Wood is a member of the Board of Directors of GEO. For the year ended December 31, 2016, $180,187 was paid in the aggregate pursuant to the consulting agreement. The consulting agreement was extended through December 31, 2017. The current monthly retainer payment is $15,000 per month. These relationships did not require any separate approvals under our applicable policies and procedures. Except for these relationships, there were no material relationships or related party transactions during fiscal year 2016 requiring disclosure pursuant to Item 404 of Regulation S-K. Under its charter, our Audit and Finance Committee has the authority to review and approve certain transactions involving more than $100,000 between GEO and any director, officer or employee of GEO. Our Audit and Finance Committee has reviewed and approved the related party transactions described above. The Compensation Committee did not determine, review or approve any of the compensation paid pursuant to the above related party transactions as they were not paid to executive officers.

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COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2016, Richard H. Glanton, Anne N. Foreman and Christopher C. Wheeler served on our Compensation Committee. None of the members of the Compensation Committee served as an officer or employee of GEO or any of GEO s subsidiaries during fiscal year 2016 or any prior year. There were no material transactions between GEO and any of the members of the Compensation Committee during fiscal year 2016. None of our executive officers has served on the Compensation Committee or the board of directors of any company, one of whose executive officers served on our board or our Compensation Committee.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires that GEO s directors, executive officers and persons who beneficially own 10% or more of GEO s common stock file with the SEC initial reports of ownership and reports of changes in ownership of our stock and our other equity securities. To GEO s knowledge, based solely on a review of the copies of such reports furnished to GEO and written representations that no other reports were required, during the year ended December 31, 2016, all such filing requirements applicable to GEO s directors, executive officers and greater than 10% beneficial owners were complied with.

PROPOSAL 2:

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

The Audit and Finance Committee of our board of directors has appointed Grant Thornton LLP as our independent registered public accountants for the 2017 fiscal year. The Audit and Finance Committee is responsible for the appointment, oversight and termination of our independent registered public accountants. We are seeking the ratification of our shareholders of this appointment, although our Audit and Finance Committee is not bound by any shareholder action on this matter.

If the appointment of Grant Thornton LLP as our independent registered public accountants is not ratified by our shareholders, the Audit and Finance Committee will reconsider its appointment, but may nevertheless retain Grant Thornton LLP. Also, even if the appointment of Grant Thornton LLP as our independent registered public accountants is ratified by our shareholders, the Audit and Finance Committee may direct the appointment of a different independent auditor at any time during the year if the Audit and Finance Committee determines, in its discretion, that such a change would be in our best interests. Grant Thornton LLP has advised GEO that no partner or employee of Grant Thornton LLP has any direct financial interest or any material indirect interest in GEO other than receiving payment for its services as independent certified public accountants.

Recommendation of the Board of Directors

The board of directors unanimously recommends a vote FOR the ratification of Grant Thornton LLP as our independent registered public accountants for the 2017 fiscal year.

PROPOSAL 3:

ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we provide our shareholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As described above in detail under the heading Compensation Discussion and Analysis, we seek to closely align the interests of our named executive officers with the interests of our shareholders. Our compensation programs are designed to attract, retain and motivate our named executive officers to increase shareholder value on both an annual and a longer term basis primarily by generating increasing levels of revenue, net income, net

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operating income, adjusted funds from operations, total shareholder return and return on capital employed, while at the same time avoiding the encouragement of unnecessary or excessive risk taking.

The vote on this resolution is not intended to address any specific element of compensation; rather, the vote relates to the compensation of our named executive officers, as described in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission. The vote is advisory, which means that the vote is not binding on the Company, our board of directors or the Compensation Committee. Although non-binding, our board of directors and Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

Accordingly, we ask our shareholders to vote on the following resolution at the annual meeting:

RESOLVED, that the compensation paid to the company s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

Recommendation of the Board of Directors

The board of directors unanimously recommends a vote FOR the approval of the compensation of our named executive officers, as disclosed in this proxy statement.

PROPOSAL 4:

ADVISORY VOTE ON THE FREQUENCY OF HOLDING FUTURE ADVISORY VOTES ON EXECUTIVE COMPENSATION

The Dodd-Frank Act also states that company shareholders may cast an advisory vote on how frequently they would like an advisory vote on the compensation of our named executive officers to be held. This non-binding, advisory vote provides shareholders the opportunity to indicate whether they prefer an advisory vote on named executive officer compensation once every one, two, or three years (or to abstain from voting). We are required under the Dodd-Frank Act to solicit shareholder preferences regarding the frequency of future advisory votes on executive compensation at least once every six years.

At the 2011 annual meeting of shareholders, the Board of Directors recommended holding the non-binding advisory vote on executive compensation (say-on-pay) every three years. The company shareholders voted in favor of holding the say-on-pay vote every year. The Board accepted our shareholders recommendation and currently, shareholders are provided with the opportunity to cast an advisory (non-binding) vote to approve the compensation of our Named Executive Officers every year.

Recommendation of the Board of Directors

The Board of Directors recommends that the shareholders vote for one year for the frequency of holding future advisor votes on executive compensation.

SHAREHOLDER PROPOSAL AND NOMINATIONS DEADLINE

As more specifically provided in our Amended and Restated Bylaws, no business may be brought before an annual meeting by a shareholder unless the shareholder has provided proper notice to us not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year s annual meeting. Accordingly, since our annual meeting for 2017 is scheduled for April 27, 2017, any shareholder proposal to be considered at the 2018 annual meeting must be properly submitted to us not earlier than January 27, 2018 nor later than February 26, 2018. These requirements are separate from the Securities and Exchange Commission s requirements that a stockholder must meet in order to have a proposal included in our proxy statement. For the 2018 annual meeting, under the Securities and Exchange Commission s requirements, any stockholder proposals and recommendations for director nominees must be received by GEO no later than November 17, 2017, in order to be included in our 2018 proxy statement.

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As we announced in April of 2016 in advance of our 2016 annual meeting, we intend to amend our Bylaws to adopt proxy access provisions prior to the date of our 2017 annual meeting that are generally in-line with the following guidelines: a shareholder, or a to be determined number of shareholders forming a group, who has/have owned three percent or more of our outstanding common stock continuously for a consecutive period of three years or longer may nominate directors to be included in our proxy materials not to exceed 20 percent of the seats on our Board of Directors. Our management and Nominating & Corporate Governance Committee is in the process of finalizing its consultation and governance process on this issue. We will announce the adoption of proxy access provisions by filing a Form 8-K that will contain the text of the amended Bylaws and detailed information regarding the submission of proxy access nominations.

ANNUAL SHAREHOLDER MEETING GUIDELINES

Place, Date and Time

The GEO Group s Annual Shareholder Meeting will be held virtually on April 27, 2017 at 11:00 am (ET). You can access the meeting at www.virtualshareholdermeeting.com/GEO2017. You will need to have your 16-digit Control Number included on your Notice or your proxy card (if you received a printed copy of the proxy materials) to join the Annual Meeting.

HOUSEHOLDING

As permitted by rules adopted by the Securities and Exchange Commission, we are delivering a single Notice of Internet Availability of Proxy Materials, annual report and proxy statement, as applicable, to any household at which two or more shareholders reside if we believe the shareholders are members of the same family, unless otherwise instructed by one or more of the shareholders. We will promptly deliver separate copies of these documents upon the written or oral request of any shareholders at a shared address to which a single copy of the documents were delivered.

If your household received a single set of any of these documents, but you would prefer to receive your own copy, or if you share an address with another stockholder and together both of you would like to receive only a single set of these documents, please follow these instructions:

If your shares are registered in your own name, please contact our transfer agent, Computershare, and inform them of your request by calling them at (800) 635-9270 or writing them at 480 Washington Boulevard, Jersey City, New Jersey 07310.

If an intermediary, such as a broker or bank, holds your shares, please contact Broadridge and inform them of your request by calling them at (800) 542-1061 or writing them at Householding Department, 51 Mercedes Way, Edgewood, New York 11717. Be sure to include your name, the name of your brokerage firm and your account number.

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OTHER MATTERS

The board of directors knows of no other matters to come before the shareholders meeting.

By Order of the Board of Directors,

John J. Bulfin

Senior Vice President, General Counsel

and Corporate Secretary

March 17, 2017

A copy of GEO s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, including the financial statements and the schedules thereto, but excluding exhibits thereto, which has been filed with the SEC will be made available without charge to interested shareholders upon written request to Director, Corporate Relations, The GEO Group, Inc., 621 NW 53rd Street, Suite 700, Boca Raton, Florida 33487.

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THE GEO GROUP, INC.

621 NW 53RD STREET

SUITE 700

BOCA RATON, FL 33487

VOTE BY INTERNET

Before The Meeting - Go to **www.proxyvote.com or scan the QR Barcode above**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

During The Meeting - Go to **www.virtualshareholdermeeting.com/GEO2017**

You may attend the Meeting via the Internet and vote during the Meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

E23822-P88406 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

THE GEO GROUP, INC.

	For All	**Withhold All**	**For All Except**	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
The Board of Directors recommends you vote FOR the following:				

1. Election of Directors
   Nominees:

01)	Clarence E. Anthony	04)	Christopher C. Wheeler
02)	Anne N. Foreman	05)	Julie Myers Wood
03)	Richard H. Glanton	06)	George C. Zoley

The Board of Directors recommends you vote FOR proposals 2 and 3:	**For**	**Against**	**Abstain**
2. To ratify the appointment of Grant Thornton LLP as the Company s independent registered public accountants for the 2017 fiscal year.			
3. To hold an advisory vote to approve named executive officer compensation.			

The Board of Directors recommends you vote 1 YEAR for proposal 4:	**1 Year**	**2 Years**	**3 Years**	**Abstain**

4. To hold an advisory vote on the frequency of the advisory vote on executive compensation.

For address change/comments, mark here.

(see reverse for instructions)

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com.

E23823-P88406

THE GEO GROUP, INC.

Annual Meeting of Shareholders

April 27, 2017 11:00 AM

This Proxy is solicited by the Board of Directors

The undersigned hereby appoints George C. Zoley and John J. Bulfin as Proxy, each with the power to appoint his substitute, and hereby authorizes each to represent and to vote, as designated on the reverse side, all the shares of Common Stock of The GEO Group, Inc. held of record by the undersigned on March 3, 2017, at the Annual Meeting of Shareholders to be held virtually at *www.virtualshareholdermeeting.com/GEO2017,* at 11:00 A.M. (EDT), April 27, 2017 or at any adjournment thereof. This Voting Instruction Form also instructs MassMutual Financial Group as Trustee of The GEO Group, Inc. 401(k) Plan, to vote by Proxy at the virtual Annual Meeting of Shareholders, all the shares of Common Stock of The GEO Group, Inc. for which the undersigned shall be entitled to instruct in the manner appointed on the other side hereof. MassMutual Financial Group will vote the shares represented by this Voting Instruction Form that is properly completed, signed, and received by MassMutual Financial Group before 12 P.M. EDT on April 26, 2017. Please note that if this Voting Instruction Form is not properly completed and signed, or if it is not received by The Trustee as indicated above, shares allocated to a participant s account will not be voted. MassMutual Financial Group will hold your voting instructions in complete confidence except as may be necessary to meet legal requirements. MassMutual Financial Group makes no recommendation regarding any voting instruction.

This Proxy is solicited by the Board of Directors and will be voted in accordance with the instructions specified on the reverse side. If no instructions are specified, this Proxy will be voted FOR the election of the nominees, FOR Proposals 2 and 3, and 1 year on Proposal 4.

Address Changes/Comments:

(If you noted any Address Changes and/or Comments above, please mark corresponding box on the reverse side.)

Continued and to be signed on reverse side