GEO GROUP INC
Form 10-Q
May 14, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended April 4, 2010

OR

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

For the transition period from __________ to __________

Commission file number 1-14260

The GEO Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Florida	65-0043078
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

One Park Place, 621 NW 53rd Street, Suite 700, Boca Raton, Florida	33487
(Address of Principal Executive Offices)	(Zip Code)

(561) 893-0101
(Registrant s Telephone Number, Including Area Code)
(Former Name, Former Address and Former Fiscal Year
if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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

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

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

Yes o No þ

At May 12, 2010, 49,197,425 shares of the registrant s common stock were issued and outstanding.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRTEEN WEEKS ENDED
APRIL 4, 2010 AND MARCH 29, 2009
(In thousands, except per share data)
(UNAUDITED)

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Revenues	$ 287,542	$ 259,061
Operating expenses	226,382	202,327
Depreciation and amortization	9,238	9,816
General and administrative expenses	17,448	17,236
Operating income	34,474	29,682
Interest income	1,229	1,090
Interest expense	(7,814)	(7,204)
Income before income taxes, equity in earnings of affiliate and discontinued operations	27,889	23,568
Provision for income taxes	10,807	9,141
Equity in earnings of affiliate, net of income tax provision of $786 and $250	590	644
Income from continuing operations	17,672	15,071
Loss from discontinued operations, net of tax benefit of $0 and $228		(366)
Net income	$ 17,672	$ 14,705
Weighted-average common shares outstanding:		
Basic	50,711	50,697
Diluted	51,640	51,723
Income per common share:		
Basic:		
Income from continuing operations	$ 0.35	$ 0.30
Loss from discontinued operations		(0.01)
Net income per share-basic	$ 0.35	$ 0.29
Diluted:		
Income from continuing operations	$ 0.34	$ 0.29
Loss from discontinued operations		(0.01)
Net income per share-diluted	$ 0.34	$ 0.28

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

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THE GEO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
APRIL 4, 2010 AND JANUARY 3, 2010
(In thousands, except share data)

	April 4, 2010 (Unaudited)	January 3, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 30,276	$ 33,856
Restricted cash	13,306	13,313
Accounts receivable, less allowance for doubtful accounts of $425 and $429	179,848	200,756
Deferred income tax asset, net	17,020	17,020
Other current assets	13,116	14,689
Total current assets	253,566	279,634
Restricted Cash	23,300	20,755
Property and Equipment, Net	1,003,917	998,560
Assets Held for Sale	4,348	4,348
Direct Finance Lease Receivable	36,969	37,162
Goodwill	40,147	40,090
Intangible Assets, Net	17,032	17,579
Other Non-Current Assets	47,461	49,690
	$ 1,426,740	$ 1,447,818
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 44,591	$ 51,856
Accrued payroll and related taxes	32,684	25,209
Accrued expenses	88,225	80,759
Current portion of capital lease obligations, long-term debt and non-recourse debt	19,990	19,624
Total current liabilities	185,490	177,448
Deferred Income Tax Liability	7,060	7,060
Other Non-Current Liabilities	34,056	33,142
Capital Lease Obligations	14,233	14,419
Long-Term Debt	462,391	453,860
Non-Recourse Debt	91,922	96,791
Commitments and Contingencies (Note 13)		
Shareholders Equity		
Preferred stock, $0.01 par value, 30,000,000 shares authorized, none issued or outstanding		
Common stock, $0.01 par value, 90,000,000 shares authorized, 68,070,408 and 67,704,008 issued and 49,227,524 and 51,629,005 outstanding	492	516

Additional paid-in capital		353,988		351,550
Retained earnings		383,599		365,927
Accumulated other comprehensive income		5,661		5,496
Treasury stock 18,842,884 and 16,075,003 shares, at cost, at April 4, 2010 and January 3, 2010		(112,705)		(58,888)
Total shareholders equity attributable to The GEO Group Inc.		631,035		664,601
Noncontrolling interest		553		497
Total shareholders equity		631,588		665,098
	$	1,426,740	$	1,447,818

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

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THIRTEEN WEEKS ENDED
APRIL 4, 2010 AND MARCH 29, 2009
(In thousands)
(UNAUDITED)

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Cash Flow from Operating Activities:		
Net Income	$ 17,672	$ 14,705
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	9,238	9,816
Amortization of debt issuance costs	1,272	1,153
Restricted stock expense	816	876
Stock option plan expense	376	298
Provision for doubtful accounts		285
Equity in earnings of affiliates, net of tax	(590)	(644)
Income tax benefit of equity compensation	(112)	
Changes in assets and liabilities:		
Accounts receivable	21,275	21,138
Other current assets	1,686	1,228
Other assets	2,413	477
Accounts payable and accrued expenses	2,501	(1,724)
Accrued payroll and related taxes	7,211	(8,202)
Other liabilities	976	2,395
Net cash provided by operating activities of continuing operations	64,734	41,801
Net cash provided by operating activities of discontinued operations		5,447
Net cash provided by operating activities	64,734	47,248
Cash Flow from Investing Activities:		
Just Care purchase price adjustment	(41)	
Proceeds from sale of assets	100	
(Increase) decrease in restricted cash	(2,257)	1,039
Capital expenditures	(15,737)	(23,414)
Net cash used in investing activities	(17,935)	(22,375)
Cash Flow from Financing Activities:		
Payments on long-term debt	(12,799)	(14,345)
Proceeds from long-term debt	15,000	18,000
Termination of interest rate swap agreement		1,031
Payments for purchase of treasury shares	(53,845)	
Proceeds from the exercise of stock options	1,138	
Income tax benefit of equity compensation	112	

Debt issuance costs		(322)
Net cash (used in) provided by financing activities	(50,394)	4,364
Effect of Exchange Rate Changes on Cash and Cash Equivalents	15	(883)
Net Increase (Decrease) in Cash and Cash Equivalents	(3,580)	28,354
Cash and Cash Equivalents, beginning of period	33,856	31,655
Cash and Cash Equivalents, end of period	$ 30,276	$ 60,009
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	$ 8,412	$ 30,352

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

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THE GEO GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements of The GEO Group, Inc., a Florida corporation (the Company , or GEO), included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to the Company s Annual Report on Form 10-K for the year ended January 3, 2010. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Quarterly Report on Form 10-Q have been made. Results of operations for the thirteen weeks ended April 4, 2010 are not necessarily indicative of the results for the entire fiscal year ending January 2, 2011.

The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2010 for the fiscal year ended January 3, 2010.

Changes in Estimates

The Company periodically performs assessments of the useful lives of its assets. In evaluating useful lives, the Company considers how long assets will remain functionally efficient and effective, given competitive factors, economic environment, technological advancements and quality of construction. If the assessment indicates that assets can and will be used for a longer or shorter period than previously anticipated, the useful lives of the assets are revised, resulting in a change in estimate. Changes in estimates are accounted for on a prospective basis by depreciating the assets current carrying values over their revised remaining useful lives.

During the thirteen weeks ended April 4, 2010, the Company completed a depreciation study on its owned correctional facilities. Based on the results of the depreciation study, the Company revised the estimated useful lives of certain buildings from its historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. The basis for the change in the useful life of the Company s owned correctional facilities is due to the expectation that these facilities are capable of being used for a longer period than previously anticipated based on quality of construction and effective building maintenance. The Company accounted for the change in the useful lives as a change in estimate which is accounted for prospectively beginning January 4, 2010. For the thirteen weeks ended April 4, 2010, the change resulted in a reduction in depreciation and amortization expense of $0.9 million, an increase in income from continuing operations and net income of $0.6 million and an increase in diluted earnings per share of $0.01.

2. SHAREHOLDERS EQUITY

Stock repurchase program

On February 22, 2010, the Company announced that its Board of Directors approved a stock repurchase program for up to $80.0 million of the Company s common stock effective through March 31, 2011. The stock repurchase program is implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. During the thirteen weeks ended April 4, 2010, the Company purchased 2.8 million shares of its common stock at a cost of $53.9 million using cash on hand and cash flow from operating activities. Through March 31, 2011, the Company may purchase, at its discretion, additional shares with respect to $26.1 million in funds available from cash on hand, borrowings under the revolving portion of its Third Amended and Restated Credit Facility (the Revolver) and/ or cash flow from operating activities.

Earnings per share

Basic earnings per share is computed by dividing the income from continuing operations available to common shareholders by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share (EPS) were calculated for the thirteen weeks ended April 4, 2010 and March 29, 2009 as follows (in thousands, except per share

data):

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	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Income from continuing operations	$ 17,672	$ 15,071
Basic earnings per share from continuing operations:		
Weighted average shares outstanding	50,711	50,697
Per share amount	$ 0.35	$ 0.30
Diluted earnings per share from continuing operations:		
Weighted average shares outstanding	50,711	50,697
Effect of dilutive securities:		
Stock options and restricted stock	929	1,026
Weighted average shares assuming dilution	51,640	51,723
Per share amount	$ 0.34	$ 0.29

For the thirteen weeks ended April 4, 2010, 56,392 weighted average shares of stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the thirteen weeks ended March 29, 2009, 155,703 weighted average shares of stock underlying options and 7,857 weighted average shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

3. EQUITY INCENTIVE PLANS

The Company had awards outstanding under four equity compensation plans at January 3, 2010: The Wackenhut Corrections Corporation 1994 Stock Option Plan (the 1994 Plan); the 1995 Non-Employee Director Stock Option Plan (the 1995 Plan); the Wackenhut Corrections Corporation 1999 Stock Option Plan (the 1999 Plan); and The GEO Group, Inc. 2006 Stock Incentive Plan (the 2006 Plan and, together with the 1994 Plan, the 1995 Plan and the 1999 Plan, the Company Plans).

On April 29, 2009, the Company s Board of Directors adopted and its shareholders approved several amendments to the 2006 Plan, including an amendment providing for the issuance of an additional 1,000,000 shares of the Company s common stock which increased the total amount of shares of common stock issuable pursuant to awards granted under the plan to 2,400,000 and specifying that up to 1,083,000 of such total shares pursuant to awards granted under the plan may constitute awards other than stock options and stock appreciation rights, including shares of restricted stock. See Restricted Stock below for further discussion. On June 26, 2009, the Company s Compensation Committee of the Board of Directors approved a grant of 163,000 restricted stock awards to certain employees. Additionally, on October 28, 2009, the Company s Compensation Committee of the Board of Directors approved a grant of 439,500 stock option awards. As of April 29, 2010, the Company had 572,644 shares of common stock available for issuance pursuant to future awards that may be granted under the plan.

A summary of the activity of stock option awards issued and outstanding under the Company s Plans is presented below.

	April 4, 2010			
Fiscal Year	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value

	(in thousands)			**(in thousands)**
Options outstanding at January 3, 2010	2,807	$ 10.26	4.80	$ 32,592
Options granted				
Options exercised	(366)	3.11		
Options forfeited/canceled/expired	(19)	20.85		
Options outstanding at April 4, 2010	2,422	$ 11.27	5.08	$ 21,535
Options exercisable at April 4, 2010	1,897	$ 8.85	4.00	$ 21,143

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. For the thirteen weeks ended April 4, 2010 and March 29, 2009, the amount of stock-based compensation expense related to stock options was $0.4 million and $0.3 million respectively. As of April 4, 2010, the Company had $3.1 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 3.0 years.

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Restricted Stock

Shares of restricted stock become unrestricted shares of common stock upon vesting on a one-for-one basis. The cost of these awards is determined using the fair value of the Company s common stock on the date of the grant and compensation expense is recognized over the vesting period. The shares of restricted stock granted under the 2006 Plan vest in equal 25% increments on each of the four anniversary dates immediately following the date of grant. A summary of the activity of restricted stock outstanding is as follows:

	Shares	Wtd. Avg. Grant date Fair value
Restricted stock outstanding at January 3, 2010	383,100	$ 19.66
Granted		
Vested		
Forfeited/canceled		
Restricted stock outstanding at April 4, 2010	383,100	$ 19.66

During the thirteen weeks ended April 4, 2010 and March 29, 2009, the Company recognized $0.8 million and $0.9 million, respectively, of compensation expense related to its outstanding shares of restricted stock. As of April 4, 2010, the Company had $4.5 million of unrecognized compensation expense that is expected to be recognized over a weighted average period of 2.3 years. In May 2010, awards with respect to 155,610 shares of the 383,100 unvested shares at April 4, 2010 of restricted stock vested.

4. DISCONTINUED OPERATIONS

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

Historically, the Company has classified operations as discontinued in the period they are announced as normally all continuing cash flows cease within three to six months of that date. During the fiscal year 2008, the Company discontinued operations at certain of its domestic facilities as further discussed below. The results of operations, net of taxes, are reflected in the accompanying consolidated financial statements as discontinued operations for the thirteen weeks ended March 29, 2009. There were no continuing cash flows from these operations in the thirteen weeks ended April 4, 2010 and as such there are no amounts reclassified to discontinued operations.

U.S. corrections. On November 7, 2008, the Company announced its receipt of notice for the discontinuation of its contract with the State of Idaho, Department of Correction (Idaho DOC) for the housing of approximately 305 out-of-state inmates at the managed-only Bill Clayton Detention Center (the Detention Center) effective January 5, 2009.

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

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Revenues	$	$ 244
Net loss	$	$ (366)
Basic: Loss from discontinued operations per share	$	$ (0.01)
Diluted: Loss from discontinued operations per share	$	$ (0.01)

5. COMPREHENSIVE INCOME

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

	Thirteen Weeks Ended	
	April 4, 2010	**March 29, 2009**
Net income	$ 17,672	$ 14,705
Change in foreign currency translation, net of income tax expense of $351 and $291, respectively	178	495
Pension liability adjustment, net of income tax expense of $7 and $28, respectively	11	44
Unrealized (loss) gain on derivative instruments, net of income tax (benefit) expense of $(13) and $61, respectively	(24)	111
Total comprehensive income, net of tax	$ 17,837	$ 15,355

6. DERIVATIVE FINANCIAL INSTRUMENTS

The Company s primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in interest rates. The Company measures its derivative financial instruments at fair value.

In November 2009, the Company executed three interest rate swap agreements (the Agreements) in the aggregate notional amount of $75.0 million. In January 2010, the Company executed a fourth interest rate swap agreement in the notional amount of $25.0 million. The Company has designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7^{3}/4% Senior Notes due 2017 (7^{3}/4% Senior Notes) due to changes in underlying interest rates. The Agreements, which have payment, expiration dates and call provisions that mirror the terms of the Notes, effectively convert $100.0 million of the Notes into variable rate obligations. Each of the swaps has a termination clause that gives the lender the right to terminate the interest rate swaps at fair market value if they are no longer a lender under the Credit Agreement. In addition to the termination clause, the Agreements also have call provisions which specify that the lender can elect to settle the swap for the call option price. Under the Agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 7^{3}/4% per year calculated on the notional $100.0 million amount, while it makes a variable interest rate payment to the same counterparties equal to the three-month LIBOR plus a fixed margin of between 4.16% and 4.29%, also calculated on the notional $100.0 million amount. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the Notes. Total net gains recognized and recorded in earnings related to these fair value hedges was $0.4 million in the thirteen weeks ended April 4, 2010. As of April 4, 2010 and January 3, 2010, the fair value of the swap liabilities was $1.5 million and $1.9 million, respectively. There was no material ineffectiveness of these interest rate swaps for the thirteen weeks ended April 4, 2010.

The Company s Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on its variable rate non-recourse debt to 9.7%. The Company has determined the swap, which has a notional amount of $50.9 million, payment and expiration dates, and call provisions that coincide with the terms of the non-recourse debt to be an effective cash flow hedge. Accordingly, the Company records the change in the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. Total net unrealized gain recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was $0.0 million and $0.1 million for the thirteen weeks ended April 4, 2010 and March 29, 2009, respectively. The total value of the swap asset as of April 4, 2010 and January 3, 2010 was $2.0 million and $2.0 million, respectively, and is recorded as a component of other assets within the accompanying consolidated balance sheets. There was no material ineffectiveness of this interest rate swap for the fiscal periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

During the thirteen weeks ended March 29, 2009, one of the Company s lenders with respect to its interest rate swap agreement, notional amount of $25.0 million of the $150.0 million 8^{1}/4% Senior Notes Due 2013, elected to settle the interest rate swap agreement at a price equal to the fair value of the interest rate swap on the respective call date. As a result, the Company realized cash proceeds of $1.0 million.

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Changes in the Company s goodwill balances for the thirteen weeks ended April 4, 2010 were as follows (in thousands):

	Balance as of January 3, 2010	Goodwill Resulting from Business Combination	Foreign Currency Translation	Balance as of April 4, 2010
U.S. corrections	$ 21,692	$	$	$ 21,692

International services		669				16		685
GEO Care		17,729		41				17,770
Total segments	$	40,090	$	41	$	16	$	40,147

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On September 30, 2009, the Company s wholly-owned mental health subsidiary, GEO Care, Inc. (GEO Care), acquired Just Care, Inc. (Just Care), a provider of detention healthcare focusing on the delivery of medical and mental health services. During the quarter ended April 4, 2010, the Company settled certain liabilities at amounts greater than those initially recorded and as such, adjusted goodwill resulting from business combinations by $41,000. The Company expects that there may be additional information about facts and circumstances surrounding the fair value of tax related assets and liabilities that will be finalized during 2010 and any resulting adjustments will be made to goodwill.

Intangible assets consisted of the following (in thousands):

	Useful Life in Years	U.S. Corrections	International Services	GEO Care	Total
Facility management contracts	7-17	$ 14,450	$ 1,875	$	$ 16,325
Facility management contracts acquired	1-13			6,600	6,600
Covenants not to compete	4	1,470			1,470
Gross carrying value of January 3, 2010		15,920	1,875	6,600	24,395
Foreign currency translation			644		644
Gross carrying value as of April 4, 2010		15,920	2,519	6,600	25,039
Accumulated amortization expense		(7,360)	(195)	(452)	(8,007)
Net carrying value at April 4, 2010		$ 8,560	$ 2,324	$ 6,148	$ 17,032

Amortization expense was $0.6 million and $0.4 million for thirteen weeks ended April 4, 2010 and March 29, 2009, respectively and primarily related to the U.S. corrections amortization of intangible assets for acquired management contracts. The Company s weighted average useful life related to the acquired facility management contracts is 12.46 years.

8. FAIR VALUE OF ASSETS AND LIABILITIES

The Company is required to measure certain of its financial assets and liabilities at fair value on a recurring basis. The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company classifies and discloses its fair value measurements in one of the following categories: Level 1-unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; Level 2-quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and Level 3- prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). The Company recognizes transfers between Levels as of the actual date of the event or change in circumstances that cause the transfer.

The following tables provide a summary of the Company s significant financial assets and liabilities carried at fair value and measured on a recurring basis as of April 4, 2010 and January 3, 2010 (in thousands):

		Fair Value Measurements at April 4, 2010		
	Total Carrying Value at April 4, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap derivative assets	$ 1,982	$	$ 1,982	$
Investments other than derivatives	1,620		1,620	
Liabilities:				
Interest rate swap derivative liabilities	$ 1,526	$	$ 1,526	$

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	Total Carrying Value at January 3, 2010	Fair Value Measurements at January 3, 2010		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap derivative assets	$ 2,020	$	$ 2,020	$
Investments other than derivatives	1,527		1,527	
Liabilities:				
Interest rate swap derivative liabilities	$ 1,887	$	$ 1,887	$

The financial instruments included in the Company s Level 2 fair value measurements consist of an interest rate swap asset held by our Australian subsidiary, interest rate swap liabilities of the Company, and also an investment in Canadian dollar denominated fixed income securities. The Australian subsidiary s interest rate swap asset is valued using a discounted cash flow model based on current Australian borrowing rates. The Company s interest rate swap liabilities are based on pricing models which consider prevailing interest rates, credit risk and similar instruments. The Canadian dollar denominated securities, not actively traded, are valued using quoted rates for these and similar securities.

9. FINANCIAL INSTRUMENTS

The Company balance sheet reflects certain financial instruments at carrying value. The following table presents the carrying values of those instruments and the corresponding fair values at April 4, 2010 and January 3, 2010:

	April 4, 2010	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 30,276	$ 30,276
Restricted cash	36,606	36,606
Liabilities:		
Borrowings under the Senior Credit Facility	$221,050	$215,172
7 3/4% Senior Notes	250,000	253,750
Non-recourse debt	109,099	108,998

	January 3, 2010	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 33,856	$ 33,856
Restricted cash	34,068	34,068
Liabilities:		
Borrowings under the Senior Credit Facility	$212,963	$203,769
7 3/4% Senior Notes	250,000	255,000
Non-recourse debt	113,724	113,360

The fair values of the Company s Cash and cash equivalents and Restricted cash approximate the carrying values of these assets at April 4, 2010 and January 3, 2010. The fair values of publicly traded debt and other non-recourse debt

are based on market prices, where available. The fair value of the non-recourse debt related to the Company s Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of the borrowings under the Senior Credit Facility is based on an estimate of trading value considering the Company s borrowing rate, the undrawn spread and similar trades.

10. VARIABLE INTEREST ENTITIES

The Company evaluates its joint ventures and other entities in which it has a variable interest (a VIE), generally in the form of investments, loans, guarantees, or equity in order to determine if it has a controlling financial interest and is required to consolidate the entity as a result. The reporting entity with a variable interest that provides the entity with a controlling financial interest in the VIE will have both of the following characteristics: (i) the power to direct the activities of a VIE that most significantly impact the VIE s

economic performance and (ii) the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company does not consolidate its 50% owned South African joint venture in SACS, a VIE. The Company has determined it is not the primary beneficiary of SACS since it does not have the power to direct the activities of SACS that most significantly impact its performance. As such, this entity is reported as an equity affiliate. SACS was established in 2001, to design, finance and build the Kutama Sinthumule Correctional Centre and was subsequently, awarded a 25-year contract to design, construct, manage and finance a facility in Louis Trichardt, South Africa. To fund the construction of the prison, SACS obtained long-term financing from the government which is fully guaranteed, except in the event of default, for which the government provides an 80% guarantee. The Company s maximum exposure for loss under this contract is limited to its investment in the joint venture of $8.9 million at April 4, 2010 and its guarantees related to SACS discussed in Note 12.

The Company consolidates South Texas Local Development Corporation (STLDC), a VIE. STLDC was created to finance construction for the development of a 1,904-bed facility in Frio County, Texas. STLDC, the owner of the complex, issued $49.5 million in taxable revenue bonds and has an operating agreement with the Company, which provide the Company with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. The bonds have a ten-year term and are non-recourse to the Company. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. See Note 12.

11. NONCONTROLLING INTEREST IN SUBSIDIARY

The Company includes the results of operations and financial position of South African Custodial Management Pty. Limited (SACM or the joint venture), its majority-owned subsidiary, in its consolidated financial statements. SACM was established in 2001 to operate correctional centers in South Africa. The joint venture currently provides security and other management services for the Kutama Sinthumule Correctional Centre in the Republic of South Africa under a 25-year management contract which commenced in February 2002. The Company s share and the second joint venture partner s share in the profits of the joint venture is 88.75% and 11.75%, respectively. There were no changes in the Company s ownership percentage of the consolidated subsidiary during the thirteen weeks ended April 4, 2010. The noncontrolling interest as of April 4, 2010 and January 3, 2010 is included in Total Shareholders Equity in the accompanying Consolidated Balance Sheets. The net income and other comprehensive income attributable to the noncontrolling interest are not material to the Company s results of operations and are not presented separately. There were no contributions from owners or distributions to owners in the thirteen weeks ended April 4, 2010.

12. DEBT

The Senior Credit Facility

On October 5, 2009, on October 15, 2009, and again on December 4, 2009, the Company completed amendments to the Senior Credit Facility through the execution of Amendment Nos. 5, 6, and 7, respectively, to the Amended and Restated Credit Agreement (as amended, the Senior Credit Facility) between the Company, as Borrower, certain of its subsidiaries, as Guarantors, and BNP Paribas, as Lender and as Administrative Agent. As of April 4, 2010, the Company s Senior Credit Facility is comprised of a $154.1 million Term Loan B bearing interest at LIBOR plus 2.00% and maturing in January 2014 and the $330.0 million Revolver which currently bears interest at LIBOR plus 3.25% and matures in September 2012. The Company has the ability to increase its borrowing capacity under the Senior Credit Facility by another $200.0 million subject to lender demand, market conditions and existing borrowings.

As of April 4, 2010, the Company had $154.1 million outstanding under the Term Loan B, and its $330.0 million Revolver had $67.0 million outstanding in loans, $45.2 million outstanding in letters of credit and $217.8 million available for borrowings, which the Company refers to as its Unused Revolver, after considering its debt covenants.

The Company intends to use future borrowings from the Revolver for the purposes permitted under the Senior Credit Facility, including for general corporate purposes.

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Indebtedness under the Revolver bears interest in each of the instances below at the stated rate:

	Interest Rate under the Revolver
LIBOR borrowings	LIBOR plus 2.75% to 3.50%.
Base rate borrowings	Prime Rate plus 1.75% to 2.50%.
Letters of credit	2.75% to 3.50%.
Unused Revolver	0.50% to 0.75%.

The Company is required to maintain the following Total Leverage Ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period:

Period	Total Leverage Ratio
Through the penultimate day of fiscal year 2010	≤4.00 to 1.00
From the last day of the fiscal year 2010 through the penultimate day of fiscal year 2011	≤3.75 to 1.00
From the last day of the fiscal year 2011 through the penultimate day of fiscal year 2012	≤3.25 to 1.00
Thereafter	≤3.00 to 1.00

The Credit Agreement also requires the Company to maintain the following Senior Secured Leverage Ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period:

Period	Senior Secured Leverage Ratio
Through the penultimate day of fiscal year 2011	≤3.00 to 1.00
From the last day of the fiscal year 2011 through the penultimate day of fiscal year 2012	≤2.50 to 1.00
From the last day of the fiscal year 2012 through the penultimate day of fiscal year 2013	≤2.25 to 1.00
Thereafter	≤2.00 to 1.00

All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of the Company s existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of the Company s present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, as specified in the Credit Agreement. In addition, the Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict the Company s ability to be party to certain transactions, as further specified in the Credit Agreement. Events of default under the Senior Credit Facility include, but are not limited to, (i) the Company s failure to pay principal or interest when due, (ii) the Company s material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental state of claims which are asserted against it, and (viii) a change of control. The Company s failure to comply with any of the covenants under its Senior Credit Facility could cause an event of default under such documents and result in an acceleration of all of the outstanding senior secured indebtedness. The Company believes it was in compliance with all of the covenants of the Senior Credit Facility as of April 4, 2010.

7³/4% Senior Notes

In October, 2009, the Company completed a private offering of $250.0 million in aggregate principal amount of its 7 3/4% Senior Notes due 2017. These senior unsecured notes pay interest semi-annually in cash in arrears on April 15 and October 15 of each year, beginning on April 15, 2010. The Company realized net proceeds of $246.4 million at the close of the transaction, net of the discount on the notes of $3.6 million. The Company used the net proceeds of the offering to fund the repurchase of all of its 8 1/4% Senior Notes due 2013 and pay down part of the Revolver.

The 7 3/4% Senior Notes and the guarantees are unsecured, senior obligations of GEO and these obligations and rank as follows: pari passu with any unsecured, senior indebtedness of GEO and the guarantors; senior to any future indebtedness of GEO and the guarantors that is expressly subordinated to the notes and the guarantees; effectively junior to any secured indebtedness of GEO and the guarantors, including indebtedness under the Company s Senior Credit Facility, to the extent of the value of the assets securing such indebtedness; and effectively junior to all

obligations of the Company s subsidiaries that are not guarantors After October 15, 2013, the Company may, at its option, redeem all or a part of the 7 3/4% Senior Notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and liquidated damages, if any,

on the 7^{3}/4% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

Year	Percentage
2013	103.875%
2014	101.938%
2015 and thereafter	100.000%

Before October 15, 2013, the Company may redeem some or all of the 7^{3}/4% Senior Notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make-whole premium together with accrued and unpaid interest and liquidated damages, if any. In addition, at any time on or prior to October 15, 2012, the Company may redeem up to 35% of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 107.750% of theaggregate principal amount of the notes to be redeemed, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption.

The indenture governing the notes contains certain covenants, including limitations and restrictions on the Company and its restricted subsidiaries ability to: incur additional indebtedness or issue preferred stock; make dividend payments or other restricted payments; create liens; sell assets; enter into transactions with affiliates; and enter into mergers, consolidations, or sales of all or substantially all of our assets. As of the date of the indenture, all of the Company s subsidiaries, other than CSC of Tacoma, LLC, GEO International Holdings, Inc., certain dormant domestic subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries. In addition, there is a cross-default provision which becomes enforceable upon failure of payment of indebtedness at final maturity. The Company s unrestricted subsidiaries will not be subject to any of the restrictive covenants in the indenture. The Company believes it was in compliance with all of the covenants of the Indenture governing the 7^{3}/4% Senior Notes as of April 4, 2010.

Non-Recourse Debt

South Texas Detention Complex

The Company has a debt service requirement related to the development of the South Texas Detention Complex, a 1,904-bed detention complex in Frio County, Texas acquired in November 2005 from Correctional Services Corporation (CSC). CSC was awarded the contract in February 2004 by the Department of Homeland Security, U.S. Immigration and Customs Enforcement (ICE) for development and operation of the detention center. In order to finance its construction, South Texas Local Development Corporation (STLDC) was created and issued $49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 4.34% and 5.07%. Additionally, the Company is owed $5.0 million in the form of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

The Company has an operating agreement with STLDC, the owner of the complex, which provides it with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract with ICE be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten-year term and are non-recourse to the Company and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. The Company has determined that it is the primary beneficiary of STLDC and consolidates the entity as a result. The carrying value of the facility as of April 4, 2010 and January 3, 2010 was $27.2 million and $27.2 million, respectively and is included in property and equipment in the accompanying balance sheets.

On February 1, 2010, STLDC made a payment from its restricted cash account of $4.6 million for the current portion of its periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of April 4, 2010, the remaining balance of the debt service requirement under the STLDC financing agreement is

$32.1 million, of which $4.8 million is due within the next twelve months. Also, as of April 4, 2010, included in current restricted cash and non-current restricted cash is $6.3 million and $4.7 million, respectively, of funds held in trust with respect to the STLDC for debt service and other reserves.

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Northwest Detention Center

On June 30, 2003, CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington, referred to as the Northwest Detention Center, which was completed and opened for operation in April 2004. The Company began to operate this facility following its acquisition in November 2005. In connection with the original financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a $57.0 million note payable to the Washington Economic Development Finance Authority, referred to as WEDFA, an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance back to CSC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to the Company and the loan from WEDFA to CSC is non-recourse to the Company. These bonds mature in February 2014 and have fixed coupon rates between 3.50% and 4.10%.

The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the thirteen weeks ended April 4, 2010 in relation to the WEDFA bond indenture. As of April 4, 2010, the remaining balance of the debt service requirement is $31.6 million, of which $5.9 million is classified as current in the accompanying balance sheet.

As of April 4, 2010, included in current restricted cash and non-current restricted cash is $7.0 million and $7.3 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

The Company s wholly-owned Australian subsidiary financed the development of a facility and subsequent expansion in 2003 with long-term debt obligations. These obligations are non-recourse to the Company and total $45.4 million and $45.4 million at April 4, 2010 and January 3, 2010, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million, which, at April 4, 2010, was $4.6 million. This amount is included in restricted cash and the annual maturities of the future debt obligation are included in non-recourse debt.

Guarantees

In connection with the creation of South African Custodial Services Ltd., referred to as SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. The Company guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or $8.3 million, to SACS senior lenders through the issuance of letters of credit. Additionally, SACS is required to fund a restricted account for the payment of certain costs in the event of contract termination. The Company has guaranteed the payment of 60% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 8.4 million South African Rand, or $1.2 million, as security for its guarantee. The Company s obligations under this guarantee expire upon SACS release from its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in the Company s outstanding letters of credit under its Revolver.

The Company has agreed to provide a loan, of up to 20.0 million South African Rand, or $2.8 million, referred to as the Standby Facility, to SACS for the purpose of financing SACS obligations under its contract with the South African government. No amounts have been funded under the Standby Facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company s obligations under the Standby Facility expire upon the earlier of full funding or SACS s release from its obligations under its debt agreements. The lenders ability to draw on the Standby Facility is limited to certain circumstances, including termination of the contract.

The Company has also guaranteed certain obligations of SACS to the security trustee for SACS lenders. The Company secured its guarantee to the security trustee by ceding its rights to claims against SACS in respect of any loans or other finance agreements, and by pledging the Company s shares in SACS. The Company s liability under the guarantee is limited to the cession and pledge of shares. The guarantee expires upon expiration of the cession and pledge agreements.

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is Canadian Dollar (CAD) 2.5 million, or $2.5 million, commencing in 2017. The Company has a liability of $1.6 million and $1.5 million related to this exposure as April 4,

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2010 and January 3, 2010, respectively. To secure this guarantee, the Company has purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its consolidated balance sheet. The Company does not currently operate or manage this facility.

At April 4, 2010, the Company also had nine letters of guarantee outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling $9.1 million.

13. COMMITMENTS AND CONTINGENCIES

Litigation, Claims and Assessments

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that its Australian subsidiary formerly operated. The claim (No. SC 656 of 2006 to be heard by the Supreme Court of the Australian Capital Territory) relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUD 18 million or $16.6 million, plus interest. The Company believes that it has several defenses to the allegations underlying the litigation and the amounts sought and intends to vigorously defend its rights with respect to this matter. The Company has established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of legal counsel in connection with this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and the Company s preliminary review of the claim and related reserve for loss, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on its financial condition, results of operations or cash flows. The Company is uninsured for any damages or costs that it may incur as a result of this claim, including the expenses of defending the claim.

During the fourth fiscal quarter of 2009, the Internal Revenue Service (IRS) completed its examination of the Company s U.S. federal income tax returns for the years 2002 through 2005. Following the examination, the IRS notified the Company that it proposes to disallow a deduction that the Company realized during the 2005 tax year. The Company has appealed this proposed disallowed deduction with the IRS s appeals division and believes it has valid defenses to the IRS s position. However, if the disallowed deduction were to be sustained on appeal, it could result in a potential tax exposure to the Company of up to $15.4 million. The Company believes in the merits of its position and intends to defend its rights vigorously, including its rights to litigate the matter if it cannot be resolved favorably at the IRS s appeals level. If this matter is resolved unfavorably, it may have a material adverse effect on the Company s financial position, results of operations and cash flows.

The Company is currently under examination by the Internal Revenue Service for its U.S. income tax returns for fiscal years 2006 through 2008 and expects this examination to be concluded in 2010. Based on the status of the audit to date, the Company does not expect the outcome of the audit to have a material adverse impact on its financial condition, results of operation or cash flows.

The Company s South Africa joint venture is in discussions with the South African Revenue Service (SARS) with respect to the deductibility of certain expenses for the tax periods 2002 through 2004. The joint venture operates the Kutama Sinthumule Correctional Centre and accepted inmates from the South African Department of Correctional Services in 2002. SARS has notified the Company that it proposes to disallow these deductions. The Company has appealed these proposed disallowed deductions with SARS and believes it has defenses in these matters. However, if resolved unfavorably, the Company s maximum exposure would be $2.6 million.

The Company is currently developing a number of projects using company financing. The Company s management estimates that these existing capital projects will cost approximately $197 million, of which $173.7 million was spent during fiscal years 2008 and 2009 and through First Quarter of 2010. The Company has future committed capital projects for which it estimates its remaining capital requirements to be approximately $23.3 million, which will be spent through fiscal year 2010. Capital expenditures related to facility maintenance costs are expected to range between $10.0 million and $15.0 million for fiscal year 2010. In addition to these current estimated capital requirements for 2010 and 2011, the Company is currently in the process of bidding on, or evaluating potential bids

for the design, construction and management of a number of new projects. In the event that the Company wins bids for these projects and decides to self-finance their construction, its capital requirements in 2010 and/or 2011 could materially increase.

The nature of the Company s business exposes it to various types of claims or litigation against the Company, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, indemnification claims by its customers and other third parties, contractual claims and claims for personal injury or other damages resulting from contact with the Company s facilities, programs, personnel or prisoners, including damages arising from a prisoner s

escape or from a disturbance or riot at a facility. Except as otherwise disclosed above, the Company does not expect the outcome of any pending claims or legal proceedings to have a material adverse effect on its financial condition, results of operations or cash flows.

Contract Termination

On April 4, 2010, the Company s wholly-owned Australian subsidiary completed the transition of its management of the Melbourne Custody Center (the Center) to another service provider. The Center was operated on behalf of the Victoria Police to house prisoners, escort and guard prisoners for the Melbourne Magistrate Courts and to provide primary healthcare.

14. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments

The Company conducts its business through four reportable business segments: the U.S. corrections segment; the International services segment; the GEO Care segment; and the Facility construction and design segment. The Company has identified these four reportable segments to reflect the current view that the Company operates four distinct business lines, each of which constitutes a material part of its overall business. The U.S. corrections segment primarily encompasses U.S.-based privatized corrections and detention business. The International services segment primarily consists of privatized corrections and detention operations in South Africa, Australia and the United Kingdom. The GEO Care segment, which is operated by the Company s wholly-owned subsidiary GEO Care, Inc., comprises privatized mental health and residential treatment services business, all of which is currently conducted in the U.S. The Facility construction and design segment consists of contracts with various state, local and federal agencies for the design and construction of facilities for which the Company has management contracts. Disclosures for business segments are as follows (in thousands):

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Revenues:		
U.S. corrections	$ 192,511	$ 191,770
International services	45,880	25,678
GEO Care	34,700	28,603
Facility construction and design	14,451	13,010
Total revenues	$ 287,542	$ 259,061
Depreciation and amortization:		
U.S. corrections	$ 7,951	$ 9,084
International services	435	332
GEO Care	852	400
Facility construction and design		
Total depreciation and amortization	$ 9,238	$ 9,816
Operating income:		
U.S. corrections	$ 45,837	$ 41,493
International services	1,791	1,867
GEO Care	3,346	3,479
Facility construction and design	948	79
Operating income from segments	51,922	46,918
General and administrative expenses	(17,448)	(17,236)

Total operating income	$ 34,474	$ 29,682

	April 4, 2010	**January 3, 2010**
Segment assets:		
U.S. corrections	$ 1,176,390	$ 1,145,571
International services	96,573	95,659
GEO Care	58,819	107,908
Facility construction and design	11,056	13,736
Total segment assets	$ 1,342,838	$ 1,362,874

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Pre-Tax Income Reconciliation of Segments

The following is a reconciliation of the Company s total operating income from its reportable segments to the Company s income before income taxes, equity in earnings of affiliates, discontinued operations and minority interest, in each case, during the thirteen weeks ended April 4, 2010 and March 29, 2009, respectively.

	Thirteen Weeks Ended	
	April 4, 2010	**March 29, 2009**
Total operating income from segments	$ 51,922	$ 46,918
Unallocated amounts:		
General and administrative expenses	(17,448)	(17,236)
Net interest expense	(6,585)	(6,114)
Income before income taxes, equity in earnings of affiliate and discontinued operations	$ 27,889	$ 23,568

Asset Reconciliation of Segments

The following is a reconciliation of the Company s reportable segment assets to the Company s total assets as of April 4, 2010 and January 3, 2010, respectively.

	April 4, 2010	**January 3, 2010**
Reportable segment assets	$ 1,342,838	$ 1,362,874
Cash	30,276	33,856
Deferred income tax	17,020	17,020
Restricted cash	36,606	34,068
Total assets	$ 1,426,740	$ 1,447,818

Sources of Revenue

The Company derives most of its revenue from the management of privatized correctional and detention facilities. The Company also derives revenue from the management of residential treatment facilities and from the construction and expansion of new and existing correctional, detention and residential treatment facilities. All of the Company s revenue is generated from external customers.

	Thirteen Weeks Ended	
	April 4, 2010	**March 29, 2009**
Revenues:		
Correctional and detention	$ 238,391	$ 217,448
GEO Care	34,700	28,603
Facility construction and design	14,451	13,010
Total revenues	$ 287,542	$ 259,061

Equity in earnings of affiliate includes the Company s joint venture in South Africa, SACS. This entity is accounted for under the equity method of accounting and the Company s investment in SACS is presented as a component of other non-current assets in the accompanying consolidated balance sheets.

A summary of financial data for SACS is as follows (in thousands):

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Statement of Operations Data		
Revenues	$10,761	$ 7,572
Operating income	4,092	2,847
Net income	1,180	1,287

	April 4, 2010	January 3, 2010
Balance Sheet Data		
Current assets	$25,405	$ 33,808
Non-current assets	47,911	47,453
Current liabilities	3,317	2,888
Non-current liabilities	52,112	53,877
Shareholders equity	17,887	24,496

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During the thirteen weeks ended April 4, 2010, the Company s consolidated South African subsidiary received a dividend of $3.9 million from SACS which reduced the Company s investment in its joint venture. As of April 4, 2010 and January 3, 2010, the Company s investment in SACS was $8.9 million and $12.2 million, respectively. The investment is included in other non-current assets in the accompanying consolidated balance sheets.

15. BENEFIT PLANS

The Company has two non-contributory defined benefit pension plans covering certain of the Company s executives. Retirement benefits are based on years of service, employees average compensation for the last five years prior to retirement and social security benefits. Currently, the plans are not funded. The Company purchased and is the beneficiary of life insurance policies for certain participants enrolled in the plans. There were no significant transactions between the employer or related parties and the plan during the period.

As of April 4, 2010, the Company had non-qualified deferred compensation agreements with two key executives. These agreements were modified in 2002, and again in 2003. The current agreements provide for a lump sum payment when the executives retire, no sooner than age 55. As of April 4, 2010, both executives had reached age 55 and are eligible to receive the payments upon retirement.

The following table summarizes key information related to the Company s pension plans and retirement agreements. The table illustrates the reconciliation of the beginning and ending balances of the benefit obligation showing the effects during the period attributable to each of the following: service cost, interest cost, plan amendments, termination benefits, actuarial gains and losses. The Company s liability relative to its pension plans and retirement agreements was $16.5 million and $16.2 million as of April 4, 2010 and January 3, 2010, respectively, and is included in Other Non-Current liabilities in the accompanying balance sheets. The assumptions used in the Company s calculation of accrued pension costs are based on market information and the Company s historical rates for employment compensation and discount rates, respectively.

	April 4, 2010	January 3, 2010
	(in thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	$ 16,206	$ 19,320
Service cost	131	563
Interest cost	187	717
Actuarial gain		(1,047)
Benefits paid	(61)	(3,347)
Projected benefit obligation, end of period	$ 16,463	$ 16,206
Change in Plan Assets		
Plan assets at fair value, beginning of period	$	$
Company contributions	61	3,347
Benefits paid	(61)	(3,347)
Plan assets at fair value, end of period	$	$
Unfunded Status of the Plan	$ (16,463)	$ (16,206)
Amounts Recognized in Accumulated Other Comprehensive Income		
Prior service cost	31	41
Net loss	1,006	1,014
Accrued pension cost	$ 1,037	$ 1,055

	April 4, 2010	March 29, 2009
Components of Net Periodic Benefit Cost		
Service cost	$ 131	$ 141
Interest cost	187	179
Amortization of:		
Prior service cost	10	10
Net loss	8	62
Net periodic pension cost	$ 336	$ 392
Weighted Average Assumptions for Expense		
Discount rate	5.75%	5.75%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	4.50%	5.00%

The Company expects to pay benefits of $0.2 million in the fiscal year ended January 2, 2011.

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16. RECENT ACCOUNTING STANDARDS

The Company implemented the following accounting standards in the thirteen weeks ended April 4, 2010:

In December 2009, the FASB issued ASU No. 2009-17, previously known as FAS No. 167, Amendments to FASB Interpretation No. FIN 46(R) (SFAS No. 167). ASU No. 2009-17 amends the manner in which entities evaluate whether consolidation is required for VIEs. The consolidation requirements under the revised guidance require a company to consolidate a VIE if the entity has all three of the following characteristics (i) the power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity s economic performance, (ii) the obligation to absorb the expected losses of the legal entity, and (iii) the right to receive the expected residual returns of the legal entity. Further, this guidance requires that companies continually evaluate VIEs for consolidation, rather than assessing based upon the occurrence of triggering events. As a result of adoption, which was effective for the Company s interim and annual periods beginning after November 15, 2009, companies are required to enhance disclosures about how their involvement with a VIE affects the financial statements and exposure to risks. The implementation of this standard in the thirteen weeks ended April 4, 2010 did not have a material impact on the Company s financial position, results of operations and cash flows.

In January 2010, the FASB issued ASU No. 2010-2 which addresses implementation issues related to changes in ownership provisions of consolidated subsidiaries, investees and joint ventures. The amendment clarifies that the scope of the decrease in ownership provisions outlined in the current consolidation guidance apply to (i) a subsidiary or group of assets that is a business or nonprofit activity, (ii) a subsidiary that is a business or nonprofit activity and is transferred to an equity method investee or joint venture and (iii) to an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in an entity. The amendment also makes certain other clarifications and expands disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of the current consolidation guidance. These amendments became effective for the Company in the thirteen weeks ended April 4, 2010, its first interim reporting period after December 15, 2009. The implementation of this standard did not have a material impact on the Company s financial position, results of operations and cash flows.

In January 2010, the FASB issued ASU No. 2010-6 which requires additional disclosures relative to transfers of assets and liabilities between Levels 1 and 2 of the fair value hierarchy. Additionally, the amendment requires companies to present activity in the reconciliation for Level 3 fair value measurements on a gross basis rather than on a net basis. This update also provides clarification to existing disclosures relative to the level of disaggregation and disclosure of inputs and valuation techniques for fair value measurements that fall into either Level 2 or Level 3. This amendment became effective for the Company in the thirteen weeks ended April 4, 2010, its first interim reporting period after December 15, 2009, except for disclosures related to activity in Level 3 fair value measurements which are effective for the Company s first reporting period beginning after December 15, 2010. The implementation of this standard did not have a material impact on the Company s financial position, results of operations and cash flows.

The following accounting standard has an implementation date subsequent to the period ended April 4, 2010 and as such, has not yet been adopted by the Company. The Company does not anticipate that the adoption of this standard will have a material impact on its financial position, results of operations or cash flows.

In October 2009, the FASB issued ASU No. 2009-13 which provides amendments to revenue recognition criteria for separating consideration in multiple element arrangements. As a result of these amendments, multiple deliverable arrangements will be separated more frequently than under existing GAAP. The amendments, among other things, establish the selling price of a deliverable, replace the term fair value with selling price and eliminate the residual method so that consideration would be allocated to the deliverables using the relative selling price method. This amendment also significantly expands the disclosure requirements for multiple element arrangements. Although this standard can be adopted earlier than its effective date, the Company has not elected to early adopt and as such, this guidance will become effective for the Company prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010.

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17. SUBSEQUENT EVENTS

New contracts and contract terminations

On April 14, 2010, the Company announced that the State of Florida has issued a Notice of Intent to Award contracts for the 1,884-bed Graceville Correctional Facility located in Graceville, Florida and the 985-bed Moore Haven Correctional Facility located in Moore Haven, Florida to another operator. These contracts will terminate effective September 26, 2010 and August 1, 2010, respectively.

On May 5, 2010, the Company announced the signing of a contract with the State of Florida, Department of Management Services (the Department) for the management of the 2,000-bed Blackwater River Correctional Facility (Blackwater) located in Santa Rosa County, Florida. Under the terms of the managed-only contract, Blackwater is scheduled to open and begin the intake of inmates on November 1, 2010. The ramp-up of the population is expected to be completed in the first quarter of 2011. This facility has 2,000 beds and will house medium and close-custody security adult male inmates with a minimum occupancy guarantee of 90 percent.

Merger with Cornell Companies

On April 19, 2010, the Company, along with Cornell Companies, Inc. (Cornell) announced that their respective boards of directors approved a definitive merger agreement which provides that the Company will acquire Cornell. If the merger is approved, stockholders of Cornell will have the option to elect to receive either (x) 1.3 shares of the Company s common stock for each share of Cornell common stock or (y) an amount of cash consideration equal to the greater of (i) the fair market value of one share of the Company s common stock plus $6.00 or (ii) the fair market value of 1.3 shares of the Company s common stock. In order to preserve the tax-deferred treatment of the transaction, no more than 20% of the outstanding shares of Cornell s common stock may be exchanged for the cash consideration. If elections are made such that the aggregate cash consideration to be received by Cornell stockholders would exceed $100 million in the aggregate, such excess amount may be paid at the Company s election in shares of its common stock or in cash. Based on the closing stock price of the Company s common stock as of April 29, 2010, and assuming the maximum cash election, the Company would issue approximately 15.8 million shares of stock in connection with the merger. The Company will assume or refinance approximately $300 million of Cornell debt, comprising of approximately $180 million in recourse debt and approximately $120 million in non-recourse debt related to Cornell s special purpose entity Municipal Corrections Finance, L.P. (MCF) bonds, excluding cash.

On April 27, 2010, GEO, along with Cornell and Cornell s directors, were named in a purported stockholder class action complaint filed by Todd Shelby, individually and on behalf of all others similarly situated, in the district court of Harris County, Texas. The complaint alleges, among other things, that Cornell s directors breached their fiduciary duties by entering into the merger agreement without first taking steps to obtain adequate, fair and maximum consideration for Cornell s stockholders by shopping the company or initiating an auction process, by structuring the transaction to take advantage of Cornell s current low stock valuation, and by structuring the transaction to benefit GEO while making an alternative transaction either prohibitively expensive or otherwise impossible, and that the corporate defendants have aided and abetted such breaches by Cornell s directors. The plaintiffs are seeking, among other things, both an injunction prohibiting the merger and a constructive trust in an unspecified amount over any benefits improperly received by the defendants as a result of their alleged wrongful conduct. One of the conditions to the closing of the merger is that there not be any legal prohibition preventing the consummation of the merger, which would include the injunction sought by the plaintiffs in this case if it were to be granted. As a result, if the plaintiffs are successful in obtaining the injunction they seek, the merger may be blocked or delayed, or there could be substantial costs to GEO. It is possible that other similar lawsuits may be filed in the future. GEO cannot estimate any possible loss from this or similar future litigation at this time.

On May 5, 2010, the Company filed a preliminary joint merger proxy statement with Cornell and a prospectus relating to shares of the Company s common stock issuable as consideration in connection with the consummation of the merger. The preliminary joint merger proxy statement includes a proposal to the Company s shareholders seeking approval for the issuance of shares of the Company s common stock in connection with the merger agreement executed on April 18, 2010, as discussed below and a proposal to amend the 2006 Plan to increase the number of shares of common stock subject to awards under the 2006 Plan.

18. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On October 20, 2009, the Company completed an offering of $250.0 million aggregate principal amount of its 7 3/4% Senior Notes due 2017 (the Original Notes). The Original Notes were sold to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and outside the United States only to non-U.S. persons in accordance with Regulation S promulgated under the Securities Act. In connection with the sale of the Original Notes, the Company entered into a

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Registration Rights Agreement with the initial purchasers of the Original Notes party thereto, pursuant to which the Company and its Subsidiary Guarantors (as defined below) agreed to file a registration statement with respect to an offer to exchange the Original Notes for a new issue of substantially identical notes registered under the Securities Act (the Exchange Notes , and together with the Original Notes, the $7^3/4$% Senior Notes). The $7^3/4$% Senior Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly-owned domestic subsidiaries (the Subsidiary Guarantors).

The following condensed consolidating financial information, which has been prepared in accordance with the requirements for presentation of Rule 3-10(d) of Regulation S-X promulgated under the Securities Act, presents the condensed consolidating financial information separately for:

(i) The GEO Group, Inc., as the issuer of the $7^3/4$% Senior Notes;

(ii) The Subsidiary Guarantors, on a combined basis, which are guarantors of the $7^3/4$% Senior Notes;

(iii) The Company s other subsidiaries, on a combined basis, which are not guarantors of the $7^3/4$% Senior Notes (the Subsidiary Non-Guarantors);

(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Company, the Subsidiary Guarantors and the Subsidiary Non-Guarantors and (b) eliminate the investments in the Company s subsidiaries; and

(v) The Company and its subsidiaries on a consolidated basis.

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CONDENSED CONSOLIDATING BALANCE SHEET
(dollars in thousands)

	As of April 4, 2010				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 8,643	$ 715	$ 20,918	$	$ 30,276
Restricted cash			13,306		13,306
Accounts Receivable, net	106,968	37,226	35,654		179,848
Deferred income tax asset, net	12,197	1,354	3,469		17,020
Other current assets, net	3,713	1,761	7,642		13,116
Total current assets	131,521	41,056	80,989		253,566
Restricted Cash	3,506		19,794		23,300
Property and Equipment, Net	443,682	488,359	71,876		1,003,917
Assets Held for Sale	3,083	1,265			4,348
Direct Finance Lease Receivable			36,969		36,969
Intercompany Receivable	18,663	14,212	1,782	(34,657)	
Goodwill	34	39,428	685		40,147
Intangible Assets, net		14,708	2,324		17,032
Investment in Subsidiaries	620,537			(620,537)	
Other Non-Current Assets	22,847	1,866	22,748		47,461
	$ 1,243,873	$ 600,894	$ 237,167	$ (655,194)	$ 1,426,740
Current Liabilities					
Accounts payable	$ 25,805	$ 10,887	$ 7,899	$	$ 44,591
Accrued payroll and related taxes	16,729	3,162	12,793		32,684
Accrued expenses	62,606	4,665	20,954		88,225
Current portion of debt	3,650	720	15,620		19,990
Total current liabilites	108,790	19,434	57,266		185,490
Deferred Income Tax Liability	6,652		408		7,060
Intercompany Payable	1,782	15,197	17,678	(34,657)	
Other Non-Current Liabilities	32,670	1,297	89		34,056
Capital Lease Obligations		14,233			14,233
Long-Term Debt	462,391				462,391
Non-Recourse Debt			91,922		91,922
Commintments & Contingencies (Note 13)					
Total Shareholders Equity	631,588	550,733	69,804	(620,537)	631,588

$ 1,243,873	$ 600,894	$ 237,167	$ (655,194)	$ 1,426,740

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CONDENSED CONSOLIDATING BALANCE SHEET (Continued)
(dollars in thousands)

	As of January 3, 2010				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	$ 12,376	$ 5,333	$ 16,147	$	$ 33,856
Restricted cash			13,313		13,313
Accounts Receivable, net	110,643	53,457	36,656		200,756
Deferred income tax asset, net	12,197	1,354	3,469		17,020
Other current assets, net	4,428	2,311	7,950		14,689
Total current assets	139,644	62,455	77,535		279,634
Restricted Cash	2,900		17,855		20,755
Property and Equipment, Net	438,504	489,586	70,470		998,560
Assets Held for Sale	3,083	1,265			4,348
Direct Finance Lease Receivable			37,162		37,162
Intercompany Receivable	3,324	13,000	1,712	(18,036)	
Goodwill	34	39,387	669		40,090
Intangible Assets, net		15,268	2,311		17,579
Investment in subsidiaries	650,605			(650,605)	
Other Non-Current Assets	23,431		26,259		49,690
	$ 1,261,525	$ 620,961	$ 233,973	$ (668,641)	$ 1,447,818
Current Liabilities					
Accounts payable	$ 35,949	$ 6,622	$ 9,285	$	$ 51,856
Accrued payroll and related taxes	6,729	5,414	13,066		25,209
Accrued expenses	55,720	2,890	22,149		80,759
Current portion of debt	3,678	705	15,241		19,624
Total current liabilites	102,076	15,631	59,741		177,448
Deferred Income Tax Liability	6,652		408		7,060
Intercompany Payable	1,712		16,324	(18,036)	
Other Non-Current Liabilities	32,127	1,015			33,142
Capital Lease Obligations		14,419			14,419
Long-Term Debt	453,860				453,860
Non-Recourse Debt			96,791		96,791
Commintments & Contingencies					
Total shareholders equity	665,098	589,896	60,709	(650,605)	665,098
	$ 1,261,525	$ 620,961	$ 233,973	$ (668,641)	$ 1,447,818

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(dollars in thousands)

	For the Thirteen Weeks Ended April 4, 2010				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 152,860	$ 86,996	$ 60,490	$ (12,804)	$ 287,542
Operating Expenses	131,019	55,975	52,192	(12,804)	226,382
Depreciation and Amortization	4,212	4,047	979		9,238
General and Administrative Expenses	8,880	5,055	3,513		17,448
Operating Income	8,749	21,919	3,806		34,474
Interest Income	301	346	1,169	(587)	1,229
Interest Expense	(5,759)	(508)	(2,134)	587	(7,814)
Income Before Income Taxes, Equity in Earnings of Affliates, and Discontinued Operations	3,291	21,757	2,841		27,889
Provision for Income Taxes	1,323	8,750	734		10,807
Equity in Earnings of Affiliates, net of income tax			590		590
Income from Continuing Operations Before Equity Income of Consolidated Subsidiaries	1,968	13,007	2,697		17,672
Income in Consolidated Subsidiaries, net of income tax	15,704			(15,704)	
Net Income	$ 17,672	$ 13,007	$ 2,697	$ (15,704)	$ 17,672

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (Continued)
(dollars in thousands)

	For the Thirteen Weeks Ended March 29, 2009				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ 149,473	$ 83,391	$ 38,797	$ (12,600)	$ 259,061
Operating Expenses	129,540	53,313	32,074	(12,600)	202,327
Depreciation and Amortization	4,119	4,503	1,194		9,816
General and Administrative Expenses	9,484	5,291	2,461		17,236
Operating Income	6,330	20,284	3,068		29,682
Interest Income	210	320	1,014	(454)	1,090
Interest Expense	(5,263)	(324)	(2,071)	454	(7,204)
Income Before Income Taxes, Equity in Earnings of Affliates, and Discontinued Operations	1,277	20,280	2,011		23,568
Provision for Income Taxes	496	7,876	769		9,141
Equity in Earnings of Affiliates, net of income tax			644		644
Income from Continuing Operations Before Equity Income of Consolidated Subsidiaries	781	12,404	1,886		15,071
Equity in Income of Consolidated Subsidiaries	14,290			(14,290)	
Income from Continuing Operations	15,071	12,404	1,886	(14,290)	15,071
Loss from Discontinued Operations, net of income tax	(366)	(173)		173	(366)
Net Income	$ 14,705	$ 12,231	$ 1,886	$ (14,117)	$ 14,705

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Thirteen Weeks Ended April 4, 2010			
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Consolidated
Operating activities:				
Net cash (used in) provided by operating activities	$ 54,412	$ (2,588)	$ 12,910	$ 64,734
Cash Flow from Investing Activities:				
Just Care purchase price adjustment		(41)		(41)
Proceeds from sale of assets		100		100
Purchase of shares in consolidated affiliate				
Change in restricted cash			(2,257)	(2,257)
Capital expenditures	(13,610)	(1,918)	(209)	(15,737)
Net cash used in investing activities	(13,610)	(1,859)	(2,466)	(17,935)
Cash Flow from Financing Activities:				
Payments on long-term debt	(6,940)	(171)	(5,688)	(12,799)
Proceeds from long-term debt	15,000			15,000
Payments for purchase of treasury shares	(53,845)			(53,845)
Income tax benefit of equity compensation	112			112
Proceeds from the exercise of stock options	1,138			1,138
Debt issuance costs				
Net cash used in by financing activities	(44,535)	(171)	(5,688)	(50,394)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			15	15
Net Increase (Decrease) in Cash and Cash Equivalents	(3,733)	(4,618)	4,771	(3,580)
Cash and Cash Equivalents, beginning of period	12,376	5,333	16,147	33,856
Cash and Cash Equivalents, end of period	$ 8,643	$ 715	$ 20,918	$ 30,276

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS (Continued)
(dollars in thousands)

	For the Thirteen Weeks Ended March 29, 2009			
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Consolidated
Operating activities:				
Net cash provided by operating activities	$ 32,084	$ 3,796	$ 11,368	$ 47,248
Cash Flow from Investing Activities:				
Dividend from subsidiary	3,640		(3,640)	
Change in restricted cash			1,039	1,039
Capital expenditures	(19,330)	(3,637)	(447)	(23,414)
Net cash used in investing activities	(15,690)	(3,637)	(3,048)	(22,375)
Cash Flow from Financing Activities:				
Proceeds from long-term debt	18,000			18,000
Income tax benefit of equity compensation				
Debt issuance costs	(322)			(322)
Termination of interest rate swap agreement	1,031			1,031
Payments on long-term debt	(8,940)	(176)	(5,229)	(14,345)
Proceeds from the exercise of stock options				
Net cash provided by (used in) financing activities	9,769	(176)	(5,229)	4,364
Effect of Exchange Rate Changes on Cash and Cash Equivalents			(883)	(883)
Net Increase (Decrease) in Cash and Cash Equivalents	26,163	(17)	2,208	28,354
Cash and Cash Equivalents, beginning of period	15,807	130	15,718	31,655
Cash and Cash Equivalents, end of period	$ 41,970	$ 113	$ 17,926	$ 60,009

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THE GEO GROUP, INC.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Information

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, intend plan, believe, seek, estimate or continue or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or cautionary statements, include, but are not limited to:

our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;