

GEO GROUP INC
Form 10-Q
November 12, 2010

Table of Contents

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

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

For the quarterly period ended October 3, 2010

OR

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

For the transition period from to

Commission file number 1-14260

The GEO Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Florida
(State or Other Jurisdiction of
Incorporation or Organization)

65-0043078
(IRS Employer Identification No.)

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

33487
(Zip Code)

(561) 893-0101

(Registrant's Telephone Number, Including Area Code)

(Former Name, Former Address and Former Fiscal Year if changed since last report)

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

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

Indicate by 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

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

At November 5, 2010, 64,447,534 shares of the registrant's common stock were issued and outstanding.

TABLE OF CONTENTS

| | Page |
|---|-------------|
| <u>PART I FINANCIAL INFORMATION</u> | 3 |
| <u>ITEM 1. FINANCIAL STATEMENTS</u> | 3 |
| <u>CONSOLIDATED STATEMENTS OF INCOME FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED OCTOBER 3, 2010 AND SEPTEMBER 27, 2009 (UNAUDITED)</u> | 3 |
| <u>CONSOLIDATED BALANCE SHEETS AS OF OCTOBER 3, 2010 (UNAUDITED) AND JANUARY 3, 2010</u> | 4 |
| <u>CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THIRTY-NINE WEEKS ENDED OCTOBER 3, 2010 AND SEPTEMBER 27, 2009 (UNAUDITED)</u> | 5 |
| <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)</u> | 6 |
| <u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 32 |
| <u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 51 |
| <u>ITEM 4. CONTROLS AND PROCEDURES</u> | 53 |
| <u>PART II OTHER INFORMATION</u> | 53 |
| <u>ITEM 1. LEGAL PROCEEDINGS</u> | 53 |
| <u>ITEM 1A. RISK FACTORS</u> | 54 |
| <u>ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 55 |
| <u>ITEM 3. DEFAULTS UPON SENIOR SECURITIES</u> | 55 |
| <u>ITEM 4. REMOVED AND RESERVED</u> | 55 |
| <u>ITEM 5. OTHER INFORMATION</u> | 55 |
| <u>ITEM 6. EXHIBITS</u> | 55 |
| <u>SIGNATURES</u> | 56 |
| <u>EX-31.1</u> | |
| <u>EX-31.2</u> | |
| <u>EX-32.1</u> | |
| <u>EX-32.2</u> | |
| <u>EX-101 INSTANCE DOCUMENT</u> | |
| <u>EX-101 SCHEMA DOCUMENT</u> | |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u> | |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u> | |
| <u>EX-101 DEFINITION LINKBASE DOCUMENT</u> | |

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED
OCTOBER 3, 2010 AND SEPTEMBER 27, 2009
(In thousands, except per share data)
(UNAUDITED)

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|-----------------------------|----------------------|--------------------------------|----------------------|
| | October | September 27, | October | September 27, |
| | 3, 2010 | 2009 | 3, 2010 | 2009 |
| Revenues | \$ 327,933 | \$ 294,865 | \$ 895,570 | \$ 830,305 |
| Operating expenses | 251,100 | 234,347 | 694,348 | 655,413 |
| Depreciation and amortization | 13,384 | 9,616 | 32,096 | 29,062 |
| General and administrative expenses | 33,925 | 15,685 | 72,028 | 49,936 |
| Operating income | 29,524 | 35,217 | 97,098 | 95,894 |
| Interest income | 1,734 | 1,224 | 4,448 | 3,520 |
| Interest expense | (11,917) | (6,533) | (28,178) | (20,498) |
| Loss on extinguishment of debt | (7,933) | | (7,933) | |
| Income before income taxes, equity in earnings of affiliate and discontinued operations | 11,408 | 29,908 | 65,435 | 78,916 |
| Provision for income taxes | 7,547 | 11,510 | 28,560 | 30,374 |
| Equity in earnings of affiliate, net of income tax provision of \$449, \$352, \$1,672 and \$936 | 1,149 | 904 | 2,868 | 2,407 |
| Income from continuing operations | 5,010 | 19,302 | 39,743 | 50,949 |
| Loss from discontinued operations, net of tax benefit \$216 | | | | (346) |
| Net income | \$ 5,010 | \$ 19,302 | \$ 39,743 | \$ 50,603 |
| Net (income) loss attributable to noncontrolling interests | 271 | (44) | 227 | (129) |
| Net income attributable to The GEO Group Inc. | \$ 5,281 | \$ 19,258 | \$ 39,970 | \$ 50,474 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 57,799 | 50,900 | 52,428 | 50,800 |
| Diluted | 58,198 | 51,950 | 53,044 | 51,847 |
| Income per common share attributable to The GEO Group Inc. (Note 3): | | | | |

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | | | | | | |
|--|----|--------|----|--------|----|--------|----|--------|
| Basic: | | | | | | | | |
| Income from continuing operations | \$ | 0.09 | \$ | 0.38 | \$ | 0.76 | \$ | 1.00 |
| Income from discontinued operations | | | | | | | | (0.01) |
| Net income per share-basic | \$ | 0.09 | \$ | 0.38 | \$ | 0.76 | \$ | 0.99 |
| Diluted: | | | | | | | | |
| Income from continuing operations | \$ | 0.09 | \$ | 0.37 | \$ | 0.75 | \$ | 0.98 |
| Loss from discontinued operations | | | | | | | | (0.01) |
| Net income per share-diluted | \$ | 0.09 | \$ | 0.37 | \$ | 0.75 | \$ | 0.97 |
| Comprehensive income: | | | | | | | | |
| Net income | \$ | 5,010 | \$ | 19,302 | \$ | 39,743 | \$ | 50,603 |
| Total other comprehensive income, net of tax | | 5,208 | | 1,858 | | 2,308 | | 8,657 |
| Total comprehensive income | | 10,218 | | 21,160 | | 42,051 | | 59,260 |
| Comprehensive income (loss) attributable to noncontrolling interests | | (214) | | 77 | | (185) | | 129 |
| Comprehensive income attributable to The GEO Group Inc. | \$ | 10,432 | \$ | 21,083 | \$ | 42,236 | \$ | 59,131 |

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

Table of Contents

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

| | October 3, 2010 (Unaudited) | January 3, 2010 |
|---|--|----------------------------|
| ASSETS | | |
| <i>Current Assets</i> | | |
| Cash and cash equivalents | \$ 53,766 | \$ 33,856 |
| Restricted cash and investments (including VIEs ¹ of \$33,079 and \$6,212, respectively) | 40,180 | 13,313 |
| Accounts receivable, less allowance for doubtful accounts of \$622 and \$429 | 261,683 | 200,756 |
| Deferred income tax asset, net | 31,195 | 17,020 |
| Other current assets | 21,443 | 14,689 |
| Total current assets | 408,267 | 279,634 |
| <i>Restricted Cash and Investments</i> (including VIEs of \$26,700 and \$8,182, respectively) | 39,766 | 20,755 |
| <i>Property and Equipment, Net</i> (including VIEs of \$170,986 and \$28,282, respectively) | 1,498,886 | 998,560 |
| <i>Assets Held for Sale</i> | 4,348 | 4,348 |
| <i>Direct Finance Lease Receivable</i> | 36,835 | 37,162 |
| <i>Goodwill</i> | 244,568 | 40,090 |
| <i>Intangible Assets, Net</i> | 92,342 | 17,579 |
| <i>Other Non-Current Assets</i> | 64,948 | 49,690 |
| | \$ 2,389,960 | \$ 1,447,818 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| <i>Current Liabilities</i> | | |
| Accounts payable | \$ 66,799 | \$ 51,856 |
| Accrued payroll and related taxes | 43,690 | 25,209 |
| Accrued expenses | 119,323 | 80,759 |
| Current portion of capital lease obligations, long-term debt and non-recourse debt (including VIEs of \$19,365 and \$4,575, respectively) | 41,173 | 19,624 |
| Total current liabilities | 270,985 | 177,448 |
| <i>Deferred Income Tax Liability</i> | 51,069 | 7,060 |
| <i>Other Non-Current Liabilities</i> | 50,996 | 33,142 |
| <i>Capital Lease Obligations</i> | 13,888 | 14,419 |
| <i>Long-Term Debt</i> | 802,506 | 453,860 |
| <i>Non-Recourse Debt</i> (including VIEs of \$133,251 and \$32,105, respectively) | 191,603 | 96,791 |
| <i>Commitments and Contingencies</i> (Note 12) | | |

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, 84,256,321 and 67,704,008 issued and 64,416,327 and 51,629,005 outstanding

| | | |
|--|--------------|--------------|
| Additional paid-in capital | 644 | 516 |
| Retained earnings | 713,296 | 351,550 |
| Accumulated other comprehensive income | 405,047 | 365,927 |
| Treasury stock 20,074,313 and 16,075,003 shares, at cost, at October 3, 2010 and January 3, 2010 | 7,762 | 5,496 |
| | (138,848) | (58,888) |
| Total shareholders' equity attributable to The GEO Group, Inc. | 987,901 | 664,601 |
| Noncontrolling interests | 21,012 | 497 |
| Total shareholders' equity | 1,008,913 | 665,098 |
| | \$ 2,389,960 | \$ 1,447,818 |

¹ Variable interest entities or VIEs

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

Table of Contents

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THIRTY-NINE WEEKS ENDED
OCTOBER 3, 2010 AND SEPTEMBER 27, 2009
(In thousands)
(UNAUDITED)

| | Thirty-nine Weeks Ended | |
|---|--------------------------------|-------------------------------|
| | October 3, 2010 | September 27, 2009 |
| Cash Flow from Operating Activities: | | |
| Net Income | \$ 39,743 | \$ 50,603 |
| Net (income) loss attributable to noncontrolling interests | 227 | (129) |
| Net income attributable to The Geo Group Inc. | 39,970 | 50,474 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 32,096 | 29,062 |
| Amortization of debt issuance costs | 3,022 | 3,307 |
| Restricted stock expense | 2,529 | 2,652 |
| Stock option plan expense | 1,004 | 705 |
| Provision for doubtful accounts | 140 | 139 |
| Equity in earnings of affiliates, net of tax | (2,868) | (2,407) |
| Income tax charge (benefit) of equity compensation | (786) | 19 |
| Loss on extinguishment of debt | 7,933 | |
| Changes in assets and liabilities, net of acquisition: | | |
| Changes in accounts receivable and other assets | 6,620 | (21,552) |
| Changes in accounts payable, accrued expenses and other liabilities | 13,944 | 11,084 |
| Net cash provided by operating activities of continuing operations | 103,604 | 73,483 |
| Net cash provided by operating activities of discontinued operations | | 5,818 |
| Net cash provided by operating activities | 103,604 | 79,301 |
| Cash Flow from Investing Activities: | | |
| Acquisition, cash consideration | (260,239) | |
| Just Care purchase price adjustment | (41) | |
| Proceeds from sale of assets | 334 | |
| Increase in restricted cash | (2,070) | (1,426) |
| Capital expenditures | (68,284) | (113,714) |
| Net cash used in investing activities | (330,300) | (115,140) |
| Cash Flow from Financing Activities: | | |
| Payments on long-term debt | (342,460) | (18,486) |
| Proceeds from long-term debt | 673,000 | 41,000 |
| Termination of interest rate swap agreement | | 1,719 |
| Payments for purchase of treasury shares | (80,000) | |
| Payments for retirement of common stock | (7,078) | |

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | |
|---|------------|----|---------|
| Proceeds from the exercise of stock options | 5,747 | | 383 |
| Income tax (charge) benefit of equity compensation | 786 | | (19) |
| Debt issuance costs | (5,750) | | (358) |
| Net cash provided by financing activities | 244,245 | | 24,239 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 2,361 | | 4,244 |
| Net Increase in Cash and Cash Equivalents | 19,910 | | (7,356) |
| Cash and Cash Equivalents, beginning of period | 33,856 | | 31,655 |
| Cash and Cash Equivalents, end of period | \$ 53,766 | \$ | 24,299 |
| Supplemental Disclosures: | | | |
| Non-cash Investing and Financing activities: | | | |
| Capital expenditures in accounts payable and accrued expenses | \$ 8,565 | \$ | 20,362 |
| Fair value of assets acquired, net of cash acquired | \$ 677,432 | \$ | |
| Acquisition, equity consideration | \$ 358,076 | \$ | |
| Total liabilities assumed | \$ 242,799 | \$ | |

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

Table of Contents**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 thirty-nine weeks ended October 3, 2010 are not necessarily indicative of the results for the entire fiscal year ending January 2, 2011.

On April 18, 2010, the Company, the Company's wholly-owned subsidiary, GEO Acquisition III, Inc., and Cornell Companies Inc., (Cornell), entered into a definitive merger agreement, as amended on July 22, 2010, pursuant to which the Company acquired Cornell for stock and cash (the Merger). The Company completed the acquisition of Cornell, on August 12, 2010. Cornell is a Houston-based provider of correctional, detention, educational, rehabilitation and treatment services outsourced by federal, state, county and local government agencies for adults and juveniles. As a result of the Merger with Cornell, the Company's worldwide operations include the management and/or ownership of approximately 79,000 beds at 116 correctional, detention and residential treatment facilities including projects under development. Refer to Note 2.

Consolidation

The accompanying consolidated financial statements include the accounts of the Company, our wholly-owned subsidiaries, and the Company's activities relative to the financing of operating facilities (the Company's variable interest entities are discussed further in Note 10). All significant intercompany balances and transactions have been eliminated. Noncontrolling interests in consolidated entities represent equity that other investors have contributed to Municipal Corrections Finance L.P. (MCF) and the noncontrolling interest in South African Custodial Management Pty. Limited (SACM). Non-controlling interests are adjusted for income and losses allocable to the other shareholders in these entities.

Reclassifications

The Company's noncontrolling interest in SACM has been reclassified from operating expenses to noncontrolling interest in the consolidated statements of income as this item has become more significant due to the noncontrolling interest in MCF acquired from Cornell in the Merger. Also, as a result of the acquisition of Cornell, management's review of certain segment financial data was revised with regard to the Bronx Community Re-entry Center and Brooklyn Community Re-entry Center. These facilities now report within the GEO Care segment and are no longer included with U.S. corrections. The segment data has been revised for all periods presented. All prior year amounts have been conformed to the current year presentation.

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. The Company reflects such events as discontinued operations 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. The component unit for which cash flows are considered to be completely eliminated exists at the customer level. 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. The Company has classified the results of operations of its terminated management contracts at certain domestic facilities as discontinued operations for the thirty-nine weeks ended September 27, 2009. There were no continuing cash flows from these operations in the thirteen weeks ended October 3, 2010 or September 27, 2009 or for the thirty-nine weeks ended October 3, 2010, and as such, there are no amounts reclassified to discontinued operations for those periods.

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

Table of Contents

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 first quarter of 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 October 3, 2010, the change resulted in a reduction in depreciation and amortization expense of \$0.9 million, an increase to net income of \$0.6 million and an increase in diluted earnings per share of \$0.01. For the thirty-nine weeks ended October 3, 2010, the change resulted in a reduction in depreciation and amortization expense of \$2.7 million, an increase to net income of \$1.7 million and an increase in diluted earnings per share of \$0.03.

Except as discussed above, 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.

2. BUSINESS COMBINATION*Purchase price allocation*

Under the terms of the merger agreement, the Company acquired 100% of the outstanding common stock of Cornell for aggregate consideration of \$618.3 million, excluding cash acquired of \$12.9 million and including: (i) cash payments for Cornell's outstanding common stock of \$84.9 million, (ii) payments made on behalf of Cornell related to Cornell's transaction costs accrued prior to the Merger of \$6.4 million, (iii) cash payments for the settlement of certain of Cornell's debt plus accrued interest of \$181.9 million using proceeds from the Company's Credit Agreement (Refer to Note 11), (iv) common stock consideration of \$357.8 million, and (v) the fair value of replacement stock option replacement awards of \$0.2 million. The value of the equity consideration was based on the closing price of the Company's stock on August 12, 2010 of \$22.70.

GEO is identified as the acquiring company for US GAAP accounting purposes. Under the purchase method of accounting, the aggregate purchase price is allocated to Cornell's net tangible and intangible assets based on their estimated fair values as of August 12, 2010, the date of closing and the date that GEO obtained control over Cornell. In order to determine the fair values of a significant portion of the assets acquired and liabilities assumed, the Company engaged third party independent valuation specialists. The preliminary work performed by the third party independent valuation specialists has been considered in management's estimates of certain of the fair values reflected in the purchase price allocation below. For any other assets acquired and liabilities assumed for which the Company is not considering the work of third party independent valuation specialists, the fair value determined by the Company's management represents the price management believes would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. For long term assets, liabilities and the noncontrolling interest in MCF for which there was no active market price available for valuation, the Company used Level 3 inputs to estimate the fair market value.

The allocation of the purchase price for this transaction at August 12, 2010 is preliminary. The Company is in the process of obtaining the information necessary to complete its purchase price allocation. The Company has evaluated and continues to evaluate pre-acquisition contingencies related to Cornell that may have existed at the acquisition date of August 12, 2010. If these pre-acquisition contingencies become probable in nature and estimable before the end of the purchase price allocation period, amounts will be recorded to adjust the acquisition goodwill value for such matters as of the acquisition date of August 12, 2010. If these contingencies become probable in nature and estimable after the end of the purchase price allocation period, amounts will be recorded for such matters in the Company's results of operations. The purchase price was allocated to the fair value of the assets and liabilities as of August 12, 2010 as follows (in '000's):

Table of Contents

| | Purchase price allocation |
|--|--|
| Accounts receivable | \$ 57,761 |
| Prepaid and other current assets | 13,176 |
| Deferred tax asset | 10,934 |
| Restricted assets | 43,183 |
| Property, plant and equipment | 462,797 |
| Intangible assets | 77,600 |
| Out of market lease assets | 472 |
| Other long-term assets | 11,509 |
| Total assets acquired | \$ 677,432 |
| Accounts payable and accrued expenses | (53,646) |
| Fair value of non-recourse debt | (120,943) |
| Out of market lease liabilities | (24,071) |
| Deferred tax liability | (44,009) |
| Other long-term liabilities | (130) |
| Total liabilities assumed | (242,799) |
| Total identifiable net assets | 434,633 |
| Goodwill | 204,382 |
| Fair value of Cornell's net assets | 639,015 |
| Noncontrolling interest | (20,700) |
| Total consideration for Cornell, net of cash acquired | \$ 618,315 |

As shown above, the Company recorded \$204.4 million of goodwill related to the purchase of Cornell. The strategic benefits of the Merger include the combined Company's increased scale and the diversification of service offerings. These factors contributed to the goodwill that was recorded upon consummation of the transaction. Of the goodwill recorded in relation to the Merger, only \$1.5 million of goodwill resulting from a previous Cornell acquisition is deductible for federal income tax purposes; the remainder of goodwill is not deductible. Identifiable intangible assets purchased in the acquisition and their weighted average amortization periods in total and by major intangible asset class, as applicable, are included in the table below (in thousands):

| | Weighted average amortization period | | Fair value as of August 12, 2010 |
|--------------------------------|---|----|--|
| Goodwill | n/a | | 204,382 |
| Identifiable intangible assets | | | |
| Facility Management contracts | 12.5 | \$ | 70,100 |
| Non compete agreements | 1.7 | | 5,700 |
| Trade names | indefinite | | 1,800 |

Total identifiable intangible assets \$ 77,600

As of October 3, 2010 the weighted average period before the next contract renewal for acquired contracts classified as U.S. corrections was 7.33 years and for GEO Care was 1.3 years.

The following table sets forth amortization expense for each of the five succeeding years related to the acquired facility management contracts:

| Fiscal Year | U.S corrections | GEO Care | Total |
|--|----------------------------|-----------------|--------------|
| 2010 | \$ 738 | \$ 667 | \$ 1,405 |
| 2011 | 2,950 | 2,669 | 5,619 |
| 2012 | 2,950 | 2,669 | 5,619 |
| 2013 | 2,950 | 2,669 | 5,619 |
| 2014 | 2,950 | 2,669 | 5,619 |
| 2015 | 2,950 | 2,669 | 5,619 |
| Thereafter | 20,253 | 20,995 | 41,248 |
| Net carrying value as of October 3, 2010 | \$ 35,003 | \$ 34,341 | \$ 69,344 |

Pro forma financial information

The results of operations of Cornell are included in the Company's results of operations beginning after August 12, 2010. The following unaudited pro forma information for 2010 combines the consolidated results of operations of the Company and Cornell as if the acquisition had occurred at the beginning of fiscal year 2010 and the unaudited pro forma information for 2009 combines the consolidated results of operations of the Company and Cornell as if the acquisition had occurred at the beginning of fiscal year 2009. The pro forma amounts are included for comparative purposes and may not necessarily reflect the results of operations that would have resulted had the acquisition been completed at the beginning of the applicable period and may not be indicative of the results that will be attained in the future (in thousands, except per share data):

Table of Contents

| | Thirteen weeks ended | | Thirty-nine weeks ended | |
|--|----------------------|-----------------------|-------------------------|-----------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Revenues | \$ 373,001 | \$ 398,571 | \$ 1,145,511 | \$ 1,139,909 |
| Net income (loss) | (8,143) | 9,361 | 32,464 | 47,099 |
| Net income (loss) attributable to The GEO Group Inc., shareholders | (8,352) | 8,972 | 30,172 | 46,033 |
| Net income (loss) per share basic | \$ (0.14) | \$ 0.13 | \$ 0.58 | \$ 0.69 |
| Net income (loss) per share diluted | \$ (0.14) | \$ 0.13 | \$ 0.57 | \$ 0.68 |

The Company has included \$53.6 million in revenue and \$4.5 million in net income in its consolidated statement of income for the thirteen and thirty-nine weeks ended October 3, 2010 related to Cornell activity since August 12, 2010, the date of acquisition.

During the second and third fiscal quarters of 2010, the Company incurred \$2.1 million and \$13.5 million, respectively in non-recurring direct transaction related expenses which are recorded as operating expenses in the Company's consolidated statements of income. Also included in operating expenses is \$0.5 million for retention bonuses paid to Cornell employees as compensation for services performed after the acquisition date.

3. SHAREHOLDERS EQUITY**Stock repurchases**

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 and thirty-nine weeks ended October 3, 2010, the Company purchased 0.1 million and 4.0 million shares of its common stock, respectively, at an aggregate cost of \$2.7 million and \$80.0 million, respectively, using cash on hand and cash flow from operating activities. As a result, the Company has completed repurchases of shares of its common stock under the share repurchase program approved in February 2010. Included in the shares repurchased for the thirty-nine weeks ended October 3, 2010 were 1,055,180 shares repurchased from executive officers at an aggregate cost of \$22.3 million.

Noncontrolling interests

Upon acquisition of Cornell, the Company assumed MCF as a variable interest entity and allocated a portion of the purchase price to the noncontrolling interest based on the estimated fair value of MCF as of August 12, 2010. The noncontrolling interest in MCF represents 100% of the equity in MCF which was contributed by its partners at inception in 2001. The Company includes the results of operations and financial position of MCF, its variable interest entity, in its consolidated financial statements. MCF owns eleven facilities which it leases to the Company.

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 and the second joint venture partner's shares in the profits of the joint venture are 88.75% and 11.75%, respectively. There were no changes in the Company's ownership percentage of the consolidated subsidiary during the thirty-nine weeks ended October 3, 2010. The noncontrolling interest as of October 3, 2010 and January 3, 2010 is included in Total Shareholders' Equity in the accompanying Consolidated Balance Sheets. There were no contributions from owners or distributions to owners in the thirty-nine weeks ended October 3, 2010.

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

Table of Contents

| | Common shares | | Treasury shares | | Additional | Accumulated Other | Retained | Noncontrolling | Total |
|---|---------------|--------|-----------------|-----------|-----------------|-----------------------------|----------|----------------|----------------------|
| | Shares | Amount | Shares | Amount | Paid-In Capital | Comprehensive Income (Loss) | Earnings | Interests | Shareholder s Equity |
| Balance | | | | | | | | | |
| January 3, 2010 | 51,629 | 516 | (16,075) | (58,888) | 351,550 | 5,496 | 365,927 | 497 | 665,098 |
| Stock option and restricted stock award transactions, net | 1,336 | 13 | | | 10,053 | | | | 10,066 |
| Acquisition of Cornell | 15,764 | 158 | | | 357,918 | | | 20,700 | 378,776 |
| Common stock retirements | (314) | (3) | | | (6,225) | | (850) | | (7,078) |
| Common stock repurchases | (3,999) | (40) | (3,999) | (79,960) | | | | | (80,000) |
| Comprehensive income (loss): | | | | | | | | | |
| Net income (loss): | | | | | | | 39,970 | (227) | 39,743 |
| Change in foreign currency translation, net | | | | | | 2,571 | | 42 | 2,613 |
| Pension liability, net | | | | | | 34 | | | 34 |
| Unrealized gain on derivative instruments, net | | | | | | (339) | | | (339) |
| Total comprehensive income (loss) | | | | | | 2,266 | 39,970 | (185) | 42,051 |
| Balance | | | | | | | | | |
| October 3, 2010 | 64,416 | 644 | (20,074) | (138,848) | 713,296 | 7,762 | 405,047 | 21,012 | 1,008,913 |

4. EQUITY INCENTIVE PLANS

The Company had awards outstanding under four equity compensation plans at July 4, 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 August 12, 2010, the Company's Board of Directors adopted and its shareholders approved an amendment to the 2006 Plan to increase the number of shares of common stock subject to awards under the 2006 Plan by 2,000,000 shares from 2,400,000 to 4,400,000 shares of common stock. The 2006 Plan specifies 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. As of October 3, 2010, the Company had 2,527,264 shares of common stock available for issuance pursuant to future awards that may be granted under the plan. As a result of the acquisition of Cornell, the Company issued 35,750 replacement stock option awards with an aggregate fair value of \$0.2 million which is included in the purchase price consideration. These awards are fully vested and must be exercised within 90 days of August 12, 2010.

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

| Fiscal Year | October 3, 2010 | | | |
|--|-----------------------------|--------------------------------|---|--|
| | Shares (in thousands) | Wtd. Avg. Exercise Price | Wtd. Avg. Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
| Options outstanding at January 3, 2010 | 2,807 | \$10.26 | 4.80 | \$ 32,592 |
| Options granted | 36 | 16.33 | | |
| Options exercised | (1,301) | 4.44 | | |
| Options forfeited/canceled/expired | (47) | 20.64 | | |
| Options outstanding at October 3, 2010 | 1,495 | \$15.16 | 6.04 | \$ 12,726 |
| Options exercisable at October 3, 2010 | 985 | \$12.63 | 4.77 | \$ 10,870 |

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. For the thirteen and thirty-nine weeks ended October 3, 2010, the amount of stock-based compensation expense related to stock options was \$0.3 million and \$1.0 million, respectively. For the thirteen and thirty-nine weeks ended September 27, 2009, the amount of stock-based compensation expense related to stock options was \$0.2 million and \$0.7 million, respectively. As of October 3, 2010, the Company had \$2.5 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 2.6 years.

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

Table of Contents

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 | 40,280 | 22.70 |
| Vested | (194,850) | 18.31 |
| Forfeited/canceled | (3,250) | 20.77 |
| Restricted stock outstanding at October 3, 2010 | 225,280 | \$ 21.36 |

During the thirteen and thirty-nine weeks ended October 3, 2010, the Company recognized \$0.9 million and \$2.5 million, respectively, of compensation expense related to its outstanding shares of restricted stock. During the thirteen and thirty-nine weeks ended September 27, 2009, the Company recognized \$0.8 million and \$2.7 million, respectively, of compensation expense related to its outstanding shares of restricted stock. As of October 3, 2010, the Company had \$3.7 million of unrecognized compensation expense that is expected to be recognized over a weighted average period of 1.9 years.

5. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the income from continuing operations attributable to The GEO Group Inc., shareholders by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share (EPS) were calculated for the thirteen and thirty-nine weeks ended October 3, 2010 and September 27, 2009 as follows (in thousands, except per share data):

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|---|-----------------------------|-------------------------------|--------------------------------|-------------------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Income from continuing operations | \$ 5,010 | \$ 19,302 | \$ 39,743 | \$ 50,603 |
| Net (income) loss attributable to noncontrolling interests | 271 | (44) | 227 | (129) |
| Income from continuing operations attributable to The GEO Group Inc. | \$ 5,281 | \$ 19,258 | \$ 39,970 | \$ 50,474 |
| Basic earnings per share from continuing operations attributable to The GEO Group Inc.: | | | | |
| Weighted average shares outstanding | 57,799 | 50,900 | 52,428 | 50,800 |
| Per share amount | \$ 0.09 | \$ 0.38 | \$ 0.76 | \$ 1.00 |
| Diluted earnings per share from continuing operations attributable to The GEO Group Inc.: | | | | |
| Weighted average shares outstanding | 57,799 | 50,900 | 52,428 | 50,800 |

| | | | | |
|---|---------|---------|---------|---------|
| Effect of dilutive securities: | | | | |
| Stock options and restricted stock | 399 | 1,050 | 616 | 1,047 |
| Weighted average shares assuming dilution | 58,198 | 51,950 | 53,044 | 51,847 |
| Per share amount | \$ 0.09 | \$ 0.37 | \$ 0.75 | \$ 0.98 |

Thirteen Weeks

For the thirteen weeks ended October 3, 2010, 23,807 weighted average shares of stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive. No shares of restricted stock were anti-dilutive.

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

Thirty-nine Weeks

For the thirty-nine weeks ended October 3, 2010, 21,655 weighted average shares of stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive. No shares of restricted stock were anti-dilutive.

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

Table of Contents**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 7³/₄% Senior Notes due 2017 ("7³/₄% 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 counterparty the right to terminate the interest rate swaps at fair market value, under certain circumstances. 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 7³/₄% 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 \$3.3 million and \$9.2 million in the thirteen and thirty-nine weeks ended October 3, 2010, respectively. As of October 3, 2010 and January 3, 2010, the fair value of the swap assets (liabilities) was \$7.3 million and \$(1.9) million, respectively and are included as Other Non-Current Assets or as Long-Term Debt, as appropriate, in the accompanying balance sheets. There was no material ineffectiveness of these interest rate swaps for the fiscal periods ended October 3, 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 (loss) recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was \$(0.2) million and \$0.3 million for the thirteen and thirty-nine weeks ended October 3, 2010, respectively. Total net gain recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was \$0.1 million and \$1.0 million for the thirteen and thirty-nine weeks ended September 27, 2009, respectively. The total value of the swap asset as of October 3, 2010 and January 3, 2010 was \$1.5 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 thirty-nine weeks ended September 27, 2009, both of the Company's lenders with respect to an aggregate \$50.0 million notional amount of interest rate swaps on the \$150.0 million 8¹/₄% Senior Notes Due 2013 (the Company repaid this debt in October 2009), elected to settle the swap agreements at a price equal to the fair value of the interest rate swaps on the respective call dates. As a result, the Company realized cash proceeds of \$1.7 million.

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Changes in the Company's goodwill balances for the thirty-nine weeks ended October 3, 2010 were as follows (in thousands):

| | Goodwill Resulting from | Foreign | |
|----------------------|--|-----------------|----------------------|
| Balance as of | Business | Currency | Balance as of |

| | January 3, 2010 | Combinations | Translation | October 3, 2010 |
|------------------------|----------------------------|---------------------|--------------------|----------------------------|
| U.S. corrections | \$ 21,692 | \$ 153,882 | \$ | \$ 175,574 |
| International services | 669 | | 55 | 724 |
| GEO Care | 17,729 | 50,541 | | 68,270 |
| Total segments | \$ 40,090 | \$ 204,423 | \$ 55 | \$ 244,568 |

On August 12, 2010, the Company acquired Cornell and recorded goodwill representing the strategic benefits of the Merger including the combined Company's increased scale and the diversification of service offerings. Goodwill resulting from business combinations includes the excess of the Company's purchase price over net assets of Cornell acquired and also includes the effects of a purchase price adjustment related to the acquisition of Just Care. Intangible assets consisted of the following (in thousands):

Table of Contents

| | Useful Life | U.S. Corrections | International Services | GEO Care | Total |
|---|----------------|---------------------|---------------------------|-------------|-----------|
| Facility management contracts | 7-17 | \$ 14,450 | \$ 1,875 | \$ | \$ 16,325 |
| Facility management contracts | 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 |
| Facility management contracts | | 35,400 | | 34,700 | 70,100 |
| Covenants not to compete | | 2,879 | | 2,821 | 5,700 |
| Trade name | | | | 1,800 | 1,800 |
| Foreign currency translation | | | 758 | | 758 |
| Gross carrying value as of October 3, 2010 | | 54,199 | 2,633 | 45,921 | 102,753 |
| Accumulated amortization expense | | (8,636) | (275) | (1,500) | (10,411) |
| Net carrying value at October 3, 2010 | | \$ 45,563 | \$ 2,358 | \$ 44,421 | \$ 92,342 |

On August 21, 2010, the Company acquired Cornell and recorded identifiable intangible assets related to acquired management contracts, non-compete agreements for certain former Cornell executives and for the trade name associated with Cornell's youth services business which is now part of the Company's GEO Care reportable segment. Amortization expense was \$1.8 million and \$2.9 million for the thirteen and thirty-nine weeks ended October 3, 2010, respectively and primarily related to the amortization of intangible assets for acquired management contracts. Amortization expense was \$0.4 million and \$1.3 million for the thirteen and thirty-nine weeks ended September 27, 2009, respectively and primarily related to the amortization of intangible assets for acquired management contracts. The Company's weighted average useful life related to its acquired facility management contracts is 12.48 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. All of the Company's interest rate swap derivatives were in the Company's favor as of October 3, 2010 and are presented as assets in the table below and in the accompanying balance sheet. 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 October 3, 2010 and January 3, 2010 (in thousands):

**Fair Value Measurements at October 3,
2010**

| | Total Carrying Value at October 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 | \$ 8,761 | \$ | \$ 8,761 | \$ |
| Investments Canadian governmental issued securities | 1,773 | | 1,773 | |

| | Fair Value Measurements at January 3, 2010 | | | |
|---|--|--|--|--|
| | Total Carrying Value 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 Canadian governmental issued securities | 1,527 | | 1,527 | |
| Liabilities: | | | | |
| Interest rate swap derivative liabilities | \$ 1,887 | \$ | \$ 1,887 | \$ |

The financial investments included in the Company's Level 2 fair value measurements as of October 3, 2010 and January 3, 2010 consist of an interest rate swap asset held by our Australian subsidiary, other interest rate swap assets and liabilities of the Company, and also an investment in Canadian dollar denominated fixed income securities. The Australian subsidiary's interest rate swap asset is

Table of Contents

valued using a discounted cash flow model based on projected Australian borrowing rates. The Company's other interest rate swap assets and 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's 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 October 3, 2010 and January 3, 2010:

| | October 3, 2010 | Estimated Fair Value |
|--|----------------------------|---------------------------------|
| | Carrying Value | |
| Assets: | | |
| Cash and cash equivalents | \$ 53,766 | \$ 53,766 |
| Cash, Restricted, including current portion | 79,946 | 79,946 |
| Liabilities: | | |
| Borrowings under the Credit Agreement | \$ 558,053 | \$560,438 |
| 7 ³ / ₄ % Senior Notes | 253,953 | 260,313 |
| Non-recourse debt, including current portion | 222,512 | 224,740 |
| | January 3, 2010 | Estimated Fair Value |
| | Carrying Value | |
| Assets: | | |
| Cash and cash equivalents | \$ 33,856 | \$ 33,856 |
| Cash, Restricted, including current portion | 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, including current portion | 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 October 3, 2010 and January 3, 2010. Restricted cash consists of debt service funds used for payments on the Company's non-recourse debt. The fair values of our 7³/₄% Senior Notes and certain non-recourse debt are based on market prices, where available, or similar instruments. 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 non-recourse debt related to MCF is estimated using a discounted cash flow model based on the Company's current borrowing rates for similar instruments. The fair value of the borrowings under the Credit Agreement is based on an estimate of trading value considering the Company's borrowing rate, the undrawn spread and similar instruments.

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 South African Custodial Services Pty. Limited (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 and was subsequently awarded a 25-year contract to design, finance and build the Kutama Sinthumule Correctional Centre in Louis Trichardt, South Africa. To fund the construction of the prison, SACS obtained long-term financing from its equity

Table of Contents

partners and lenders, the repayment of which is fully guaranteed by the South African government, except in the event of default, in which case the government guarantee is reduced to 80%. The Company's maximum exposure for loss under this contract is limited to its investment in the joint venture of \$11.8 million at October 3, 2010 and its guarantees related to SACS discussed in Note 11.

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 provides 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 to 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 the payment of 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 11.

As a result of the acquisition of Cornell in August 2010, the Company assumed the variable interest in MCF. MCF was created in August 2001 as a special limited partnership for the purpose of acquiring, owning, leasing and operating low to medium security adult and juvenile correction and treatment facilities. At its inception, MCF purchased assets representing eleven facilities from Cornell and leased those assets back to Cornell under a Master Lease Agreement (the Lease). These assets were purchased from Cornell using proceeds from the 8.47% Bonds due 2016, which are limited non-recourse obligations of MCF and collateralized by the bond reserves, assignment of subleases and substantially all assets related to the eleven facilities. Under the terms of the Lease with Cornell, assumed by the Company, the Company will lease the assets for the remainder of the 20-year base term, which ends in 2021, and has options at its sole discretion to renew the Lease for up to approximately 25 additional years. This entity is included in the accompanying consolidated financial statements and all intercompany transactions are eliminated in consolidation.

11. DEBT**Credit Agreement**

On August 4, 2010, the Company entered into a new \$750.0 million senior credit facility, through the execution of a Credit Agreement (the Credit Agreement), by and among GEO, as Borrower, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto. The Credit Agreement is comprised of (i) a \$150.0 million Term Loan A (Term Loan A), initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015, (ii) a \$200.0 million Term Loan B (Term Loan B) initially bearing interest at LIBOR plus 3.25% with a LIBOR floor of 1.50% and maturing August 4, 2016 and (iii) a Revolving Credit Facility (Revolver) of \$400.0 million initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015.

Indebtedness under the Revolver and the Term Loan A bears interest based on the Total Leverage Ratio as of the most recent determination date, as defined, in each of the instances below at the stated rate:

| | Interest Rate under the Revolver and Term Loan A |
|---------------------------------|---|
| LIBOR borrowings | LIBOR plus 2.00% to 3.00%. |
| Base rate borrowings | Prime Rate plus 1.00% to 2.00%. |
| Letters of credit | 2.00% to 3.00%. |
| Unused Term Loan A and Revolver | 0.375% to 0.50%. |

The Credit Agreement contains certain customary representations and warranties, and certain customary covenants that restrict the Company's ability to, among other things as permitted (i) create, incur or assume indebtedness, (ii) create, incur, assume or permit liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) make restricted payments, (vi) issue, sell or otherwise dispose of capital stock, (vii) engage in transactions with affiliates, (viii) allow the total leverage ratio or senior secured leverage ratio to exceed certain

maximum ratios or allow the interest coverage ratio to be less than 3.00 to 1.00, (ix) cancel, forgive, make any voluntary or optional payment or prepayment on, or redeem or acquire for value any senior notes, (x) alter the business the Company conducts, and (xi) materially impair the Company's lenders' security interests in the collateral for its loans.

The Company must not exceed 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 - Maximum Ratio |
|---|---|
| August 4, 2010 through and including the last day of the fiscal year 2011 | 4.50 to 1.00 |
| First day of fiscal year 2012 through and including that last day of fiscal year 2012 | 4.25 to 1.00 |
| Thereafter | 4.00 to 1.00 |

The Credit Agreement also does not permit the Company to exceed the following Senior Secured Leverage Ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period:

Table of Contents

| Period | Senior Secured Leverage Ratio - Maximum Ratio |
|---|--|
| August 4, 2010 through and including the last day of the fiscal year 2011 | 3.25 to 1.00 |
| First day of fiscal year 2012 through and including that last day of fiscal year 2012 | 3.00 to 1.00 |
| Thereafter | 2.75 to 1.00 |

Additionally, there is an Interest Coverage Ratio under which the lender will not permit a ratio of less than 3.00 to 1.00 relative to (a) Adjusted EBITDA for any period of four consecutive fiscal quarters to (b) Interest Expense, less that attributable to non-recourse debt of unrestricted subsidiaries.

Events of default under the Credit Agreement 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 representations or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental liability claims which have been asserted against the Company, and (viii) a change in control. All of the obligations under the Credit Agreement are unconditionally guaranteed by certain of the Company's subsidiaries and 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, including but not limited to (i) a first-priority pledge of substantially all of the outstanding capital stock owned by the Company and each guarantor, and (ii) perfected first-priority security interests in substantially all of the Company's, and each guarantors, present and future tangible and intangible assets and the present and future tangible and intangible assets of each guarantor. The Company believes it was in compliance with all of the covenants of the Credit Agreement as of October 3, 2010.

On August 4, 2010, GEO used approximately \$280 million in aggregate proceeds from the Term Loan B and the Revolver primarily to repay existing borrowings and accrued interest under its prior credit facility of approximately \$267.7 million and also used approximately \$6.7 million for financing fees related to the Credit Agreement. The Company received, as cash, the remaining proceeds of \$3.2 million. On August 12, 2010, the Company borrowed \$290.0 million under its Credit Agreement and used the aggregate cash proceeds primarily for \$84.9 million in cash consideration payments to Cornell's stockholders in connection with the Merger, transaction costs of approximately \$14.0 million, the repayment of \$181.9 million for Cornell's 10.75% Senior Notes due July 2012 plus accrued interest and Cornell's Revolving Line of Credit due December 2011 plus accrued interest. As of October 3, 2010, the Company had \$150.0 million outstanding under the Term Loan A, \$200.0 million outstanding under the Term Loan B, and its \$400.0 million Revolver had \$210.0 million outstanding in loans, \$56.4 million outstanding in letters of credit and \$133.6 million available for borrowings. The Company intends to use future borrowings for the purposes permitted under the Credit Agreement, including for general corporate purposes.

The Company has accounted for the termination of the Third Amended and Restated Credit Agreement as an extinguishment of debt. In connection with repayment of all outstanding borrowings and termination of the Third Amended and Restated Credit Agreement, the Company wrote-off \$7.9 million of associated deferred financing fees in the thirteen weeks ended October 3, 2010.

7³/₄% Senior Notes

In October 2009, the Company completed a private offering of \$250.0 million in aggregate principal amount of its 7³/₄% 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 8¹/₄% Senior Notes due 2013 and pay down part of the Revolver.

The 7³/₄% Senior Notes are guaranteed by certain subsidiaries and are unsecured, senior obligations of GEO and these obligations 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 Credit Agreement, 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. On or after October 15, 2013, the Company may, at its option, redeem all or a part of the 7³/₄% 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 7³/₄% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

Table of Contents

| 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 7³/₄% 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 the aggregate 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 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 7³/₄% Senior Notes as of October 3, 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 the construction of the complex, 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 to 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 the payment of 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 October 3, 2010 and January 3, 2010 was \$26.7 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 October 3, 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 October 3, 2010, included in current restricted cash and non-current restricted cash is \$6.2 million and \$8.2 million, respectively, of funds held in trust with respect to the STLDC for debt service and other reserves.

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 also non-recourse to the Company. These bonds mature in February 2014 and have fixed coupon rates between 3.80% and 4.10%.

Table of Contents

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. On October 1, 2010, CSC of Tacoma LLC made a payment from its restricted cash account of \$5.9 million for the current portion of its periodic debt service requirement in relation to the WEDFA bond indenture. As of October 3, 2010, the remaining balance of the debt service requirement is \$25.7 million, of which \$6.1 million is classified as current in the accompanying balance sheet.

As of October 3, 2010, included in current restricted cash and non-current restricted cash is \$7.1 million and \$0.9 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

MCF

MCF, the Company's consolidated variable interest entity, is obligated for the outstanding balance of the 8.47% Revenue Bonds. The bonds bear interest at a rate of 8.47% per annum and are payable in semi-annual installments of interest and annual installments of principal. All unpaid principal and accrued interest on the bonds is due on the earlier of August 1, 2016 (maturity) or as noted under the bond documents. The bonds are limited, nonrecourse obligations of MCF and are collateralized by the property and equipment, bond reserves, assignment of subleases and substantially all assets related to the facilities owned by MCF. The bonds are not guaranteed by the Company or its subsidiaries.

The scheduled maturities of MCF's non-recourse debt are as follows:

| Fiscal Year | MCF |
|--------------------|-------------------|
| 2011 | \$ 14,600 |
| 2012 | 15,800 |
| 2013 | 17,200 |
| 2014 | 18,600 |
| 2015 | 20,200 |
| Thereafter | 21,900 |
| Total | \$ 108,300 |

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 at October 3, 2010 and January 3, 2010. 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 October 3, 2010, was \$4.9 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 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 \$8.7 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 to the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included as part of the value of 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 \$2.9 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 \$1.8 million and \$1.5 million related to this exposure as October 3, 2010 and January 3, 2010, respectively. To secure this guarantee, the Company 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

Table of Contents

current fair market value of those securities on its consolidated balance sheet. The Company does not currently operate or manage this facility.

At October 3, 2010, the Company also had nine letters of guarantee outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$9.6 million.

12. 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 formerly operated by its Australian subsidiary. The claim 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, a lawsuit (Commonwealth of Australia v. Australasian Connectional Services PTY, Limited No. SC 656) was filed against the Company in the Supreme Court of the Australian Capital Territory seeking damages of up to approximately AUD 18 million or \$17.5 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. Due to the Company's receipt of the proposed IRS audit adjustment for the disallowed deduction, the Company reassessed the probability of potential settlement outcomes with respect to the proposed adjustment, which is now under review by the IRS's appeals division. Based on this reassessment, the Company has provided an additional accrual of \$4.9 million during the fourth quarter of 2009. 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 in full on appeal, it could result in a potential tax exposure to the Company of \$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. Refer to Note 16.

The Company's South Africa joint venture had been 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. During 2009, SARS notified the Company that it proposed to disallow these deductions. The Company appealed these proposed disallowed deductions with SARS and in October 2010, received a notice of favorable ruling relative to these proceedings. If SARS should appeal, the Company believes it has defenses in these matters and intends to defend its rights vigorously. If resolved unfavorably, the Company's maximum exposure would be \$2.6 million. Refer to Subsequent Events Note 16.

On April 27, 2010, a putative stockholder class action was filed in the District Court for Harris County, Texas by Todd Shelby against Cornell, members of the Cornell board of directors, individually, and GEO. The plaintiff filed an amended complaint on May 28, 2010. The amended complaint alleges, among other things, that the Cornell directors, aided and abetted by Cornell and GEO, breached their fiduciary duties in connection with the Merger. Among other

things, the amended complaint seeks to enjoin Cornell, its directors and GEO from completing the Merger and seeks a constructive trust over any benefits improperly received by the defendants as a result of their alleged wrongful conduct. The parties have reached a settlement in principle, which has been preliminarily approved by the court and remains subject to confirmatory final court approval of the settlement and dismissal of the action with prejudice. The settlement of this matter will not have a material adverse impact on the Company's financial condition, results of operations or cash flows.

Table of Contents

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.

Income Taxes

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. Due to the Company's receipt of the proposed IRS audit adjustment for the disallowed deduction, the Company reassessed the probability of potential settlement outcomes with respect to the proposed adjustment, which is now under review by the IRS's appeals division. Based on this reassessment, the Company has provided an additional accrual of \$4.9 million during the fourth quarter of 2009. 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 in full on appeal, it could result in a potential tax exposure to the Company of \$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.

As of October 3, 2010, the Company was under examination by the Internal Revenue Service for its U.S. income tax returns for fiscal years 2006 through 2008. 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. Refer to Note 16.

The Company's South Africa joint venture had been 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. During 2009, SARS notified the Company that it proposed to disallow these deductions. The Company appealed these proposed disallowed deductions with SARS and in October 2010, received a favorable court ruling relative to these deductions. If SARS should appeal, the Company believes it has defenses in these matters and intends to defend its rights vigorously. If resolved unfavorably, the Company's maximum exposure would be \$2.6 million. Refer to Subsequent Events - Note 16.

During the thirteen and thirty-nine weeks ended October 3, 2010, the Company experienced significantly higher effective income tax rates due to non-deductible expenses incurred in connection with the Merger. The Company's effective income tax rate for thirteen-weeks ended October 3, 2010 was 66.2% including the impact of these expenses and would have been 42% excluding the impact of the non-deductible expenses. The Company's effective income tax rate for the thirty-nine weeks ended October 3, 2010 was 43.6% including the impact of these expenses and would have been 39.4% excluding the impact of the non-deductible expenses. The Company expects that the effective income tax rate for the fiscal year ended January 2, 2011 will be approximately 42.6% including the impact of these expenses and 39.5% excluding the impact of these non deductible expenses. Furthermore, the Company expects that its effective income tax rate will increase slightly in the near future due to higher effective income tax rates on Cornell income which is currently subject to higher state taxes.

Construction Commitments

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 \$228.7 million, of which \$95.5 million was spent

through the third quarter of 2010. The Company estimates the remaining capital requirements related to these capital projects to be approximately \$133.2 million, which will be spent through fiscal years 2010 and 2011. 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.

Table of Contents**Contract Terminations**

The Company does not expect the following contract terminations to have a material adverse impact, individually or in the aggregate, on its financial condition, results of operations or cash flows.

Effective September 1, 2010, the Company's management contract for the operation of the 450-bed South Texas Intermediate Sanction Facility terminated. This facility is not owned by GEO.

On June 22, 2010, the Company announced the discontinuation of its managed-only contract for the 520-bed Bridgeport Correctional Center in Bridgeport, Texas following a competitive rebid process conducted by the State of Texas. The contract terminated effective August 31, 2010.

On April 14, 2010, the State of Florida 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 terminated effective September 26, 2010 and August 1, 2010, respectively.

13. 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., represents services provided to adult offenders and juveniles for mental health, residential and non-residential treatment, educational and community based programs and pre-release and halfway house programs, 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. As a result of the acquisition of Cornell, management's review of certain segment financial data was revised with regards to the Bronx Community Re-entry Center and Brooklyn Community Re-entry Center. These facilities now report within the GEO Care segment and are no longer included with U.S. corrections. Disclosures for business segments are as follows (in thousands):

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|-------------------------------------|-----------------------------|-------------------------------|--------------------------------|-------------------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Revenues: | | | | |
| U.S. corrections | \$ 217,808 | \$ 189,692 | \$ 599,598 | \$ 568,202 |
| International services | 47,553 | 36,668 | 138,142 | 92,217 |
| GEO Care | 60,934 | 30,636 | 135,409 | 92,623 |
| Facility construction and design | 1,638 | 37,869 | 22,421 | 77,263 |
| Total revenues | \$ 327,933 | \$ 294,865 | \$ 895,570 | \$ 830,305 |
| Depreciation and amortization: | | | | |
| U.S. corrections | \$ 11,048 | \$ 8,881 | \$ 27,131 | \$ 26,891 |
| International services | 431 | 376 | 1,286 | 1,039 |
| GEO Care | 1,905 | 359 | 3,679 | 1,132 |
| Facility construction and design | | | | |
| Total depreciation and amortization | \$ 13,384 | \$ 9,616 | \$ 32,096 | \$ 29,062 |

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | | |
|-------------------------------------|-----------|-----------|------------|------------|
| Operating income: | | | | |
| U.S. corrections | \$ 52,074 | \$ 45,111 | \$ 142,545 | \$ 127,530 |
| International services | 2,599 | 1,876 | 7,848 | 5,818 |
| GEO Care | 8,272 | 3,945 | 17,085 | 12,307 |
| Facility construction and design | 504 | (30) | 1,648 | 175 |
| Operating income from segments | 63,449 | 50,902 | 169,126 | 145,830 |
| General and administrative expenses | (33,925) | (15,685) | (72,028) | (49,936) |
| Total operating income | \$ 29,524 | \$ 35,217 | \$ 97,098 | \$ 95,894 |

| | October 3, 2010 | January 3, 2010 |
|----------------------------------|----------------------------|----------------------------|
| Segment assets: | | |
| U.S. corrections | \$ 1,757,226 | \$ 1,145,571 |
| International services | 104,170 | 95,659 |
| GEO Care | 363,431 | 107,908 |
| Facility construction and design | 226 | 13,736 |
| Total segment assets | \$ 2,225,053 | \$ 1,362,874 |

Table of Contents**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 and discontinued operations, in each case, during the thirteen and thirty-nine weeks ended October 3, 2010 and September 27, 2009, respectively.

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|--|-----------------------------|-------------------------------|--------------------------------|-------------------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Total operating income from segments | \$ 63,449 | \$ 50,902 | \$ 169,126 | \$ 145,830 |
| Unallocated amounts: | | | | |
| General and Administrative Expenses | (33,925) | (15,685) | (72,028) | (49,936) |
| Net interest expense | (10,183) | (5,309) | (23,730) | (16,978) |
| Loss on extinguishment of debt | (7,933) | | (7,933) | |
| Income before income taxes, equity in earnings of affiliates and discontinued operations | \$ 11,408 | \$ 29,908 | \$ 65,435 | \$ 78,916 |

Asset Reconciliation of Segments

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

| | October 3, 2010 | January 3, 2010 |
|---------------------------|----------------------------|----------------------------|
| Reportable segment assets | \$ 2,225,053 | \$ 1,362,874 |
| Cash | 53,766 | 33,856 |
| Deferred income tax | 31,195 | 17,020 |
| Restricted cash | 79,946 | 34,068 |
| Total assets | \$ 2,389,960 | \$ 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 | | Thirty-nine Weeks Ended | |
|----------------------------------|-----------------------------|-------------------------------|--------------------------------|-------------------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Revenues: | | | | |
| Correctional and detention | \$ 265,361 | \$ 226,360 | \$ 737,740 | \$ 660,419 |
| GEO Care | 60,934 | 30,636 | 135,409 | 92,623 |
| Facility construction and design | 1,638 | 37,869 | 22,421 | 77,263 |
| Total revenues | \$ 327,933 | \$ 294,865 | \$ 895,570 | \$ 830,305 |

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 | | Thirty-nine Weeks Ended | |
|-------------------------------------|-----------------------------|-------------------------------|--------------------------------|-------------------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Statement of Operations Data | | | | |
| Revenues | \$11,692 | \$ 10,195 | \$33,447 | \$ 26,836 |
| Operating income | 4,571 | 3,935 | 13,171 | 10,466 |
| Net income | 2,298 | 1,809 | 5,735 | 4,815 |
| | | | October 3, 2010 | January 3, 2010 |
| Balance Sheet Data | | | | |
| Current assets | | | \$ 32,764 | \$ 33,808 |
| Non-current assets | | | 48,913 | 47,453 |
| Current liabilities | | | 3,589 | 2,888 |
| Non-current liabilities | | | 54,483 | 53,877 |
| Shareholders' equity | | | 23,605 | 24,496 |

Table of Contents

During the thirty-nine weeks ended October 3, 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 October 3, 2010 and January 3, 2010, the Company's investment in SACS was \$11.8 million and \$12.2 million, respectively. The investment is included in other non-current assets in the accompanying consolidated balance sheets.

14. 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 October 3, 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 October 3, 2010, both executives had reached age 55 and are eligible to receive the payments upon retirement. On August 26, 2010, the Company announced that one of these key executives, Wayne H. Calabrese, Vice Chairman, President and Chief Operating Officer, will retire effective December 31, 2010. As a result of his retirement, the Company will pay \$4.5 million in discounted retirement benefits under his non-qualified deferred compensation agreement, including a gross up of \$1.7 million for certain taxes as specified in the deferred compensation agreement. As of October 3, 2010, approximately \$4.4 million of this had been accrued and is reflected in accrued expenses in the accompanying balance sheet. During the thirteen weeks ended October 3, 2010, the Company repurchased 381,460 shares from Mr. Calabrese for \$8.6 million.

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 \$17.0 million and \$16.2 million as of October 3, 2010 and January 3, 2010, respectively. The long-term portion of the pension liability as of October 3, 2010 and January 3, 2010 was \$12.4 million and \$16.0 million, 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.

| | October 3, 2010 | January 3, 2010 |
|---|----------------------------|----------------------------|
| | (in thousands) | |
| Change in Projected Benefit Obligation | | |
| Projected benefit obligation, beginning of period | \$ 16,206 | \$ 19,320 |
| Service cost | 393 | 563 |
| Interest cost | 560 | 717 |
| Actuarial gain | | (1,047) |
| Benefits paid | (153) | (3,347) |
| Projected benefit obligation, end of period | \$ 17,006 | \$ 16,206 |
| Change in Plan Assets | | |
| Plan assets at fair value, beginning of period | \$ | \$ |
| Company contributions | 153 | 3,347 |
| Benefits paid | (153) | (3,347) |
| Plan assets at fair value, end of period | \$ | \$ |

| | | |
|---|-------------|-------------|
| Unfunded Status of the Plan | \$ (17,006) | \$ (16,206) |
| Amounts Recognized in Accumulated Other Comprehensive Income | | |
| Prior service cost | 31 | 41 |
| Net loss | 969 | 1,014 |
| Accrued pension cost | \$ 1,000 | \$ 1,055 |

| | Thirteen Weeks Ended | | Thirty-nine Weeks Ended | |
|--|-----------------------------|---------------------------|--------------------------------|---------------------------|
| | October 3, 2010 | September 27, 2009 | October 3, 2010 | September 27, 2009 |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | \$ 131 | \$ 141 | \$ 393 | \$ 422 |
| Interest cost | 187 | 179 | 560 | 538 |
| Amortization of: | | | | |
| Prior service cost | 10 | 10 | 31 | 31 |
| Net loss | 8 | 62 | 25 | 187 |
| Net periodic pension cost | \$ 336 | \$ 392 | \$ 1,009 | \$ 1,178 |

Weighted Average Assumptions for Expense

| | | | | |
|--------------------------------|-------|-------|-------|-------|
| Discount rate | 5.75% | 5.75% | 5.75% | 5.75% |
| Expected return on plan assets | N/A | N/A | N/A | N/A |
| Rate of compensation increase | 4.50% | 5.00% | 4.50% | 5.00% |

The Company expects to pay benefits of \$4.6 million in its fiscal year ending January 2, 2011.

Table of Contents**15. RECENT ACCOUNTING STANDARDS**

The Company implemented the following accounting standards in the thirty-nine weeks ended October 3, 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 thirty-nine weeks ended October 3, 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's interim and annual reporting periods beginning 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's interim and annual 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, relative to Levels 1 and 2 of the fair value hierarchy, did not have a material impact on the Company's financial position, results of operations and cash flows. The Company does not expect the adoption of the standard relative to Level 3 investments to have a material impact on the Company's financial position, results of operations and cash flows.

The following accounting standards will be adopted in future periods:

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. 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. The Company does not believe that the implementation of this standard will have a material adverse impact on its financial position, results of operation and cash flows.

In July 2010, the FASB issued ASU No. 2010-20 which affects all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The objective of the amendments in this update is for an entity to provide disclosures that facilitate financial statement users

evaluation of the following: (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, (iii) the changes and reasons for those changes in the allowance for credit losses. These disclosures will be effective for the Company for interim and annual reporting periods ending on or after December 15, 2010. The Company does not believe that the implementation of this standard will have a material adverse impact on its financial position, results of operation and cash flows.

16. SUBSEQUENT EVENTS

On October 4, 2010, the Company announced the beginning of the intake of inmates from the Federal Bureau of Prisons (BOP) at the D. Ray James Correctional Facility in Georgia. The inmate intake process began on October 4, 2010 and is expected to be completed in the Spring of 2011. Under the Company's new ten-year contract with the BOP, this facility will house up to 2,507 low security inmates.

Also, on October 4, 2010, the Company announced the opening of the 2,000-bed Blackwater River Correctional Facility located in Milton, Florida. The Company began the intake of medium and close-custody security inmates on October 5, 2010 and to complete the intake and ramp-up process in the first quarter of 2011.

Table of Contents

In October 2010, the Company's South Africa joint venture, SACS, received a Court ruling in its favor relative to the deductibility of certain expenses for tax periods 2002 through 2004. The South African Revenue Service has until December 2, 2010 to appeal this ruling. Should SARS appeal the case and if it is resolved unfavorably, the Company's maximum exposure will be \$2.6 million.

In October 2010, the IRS audit for the Company's tax returns for its fiscal years 2006 through 2008 was concluded and resulted in no changes to the Company's income tax positions.

On October 25, 2010, the Company signed a contract for the sale of land acquired in connection the acquisition of CSC in November 2005. The carrying value of the land is included in Assets Held for Sale and was \$1.3 million as of October 3, 2010. The sales price, including sales costs, is \$2.2 million and as such, the Company expects to recognize a gain on the sale in the fourth fiscal quarter of 2010.

On November 4, 2010, we announced our signing of a contract with the State of California, Department of Corrections and Rehabilitation for the out-of-state housing of up to 2,580 California inmates at our North Lake Correctional Facility (the Facility) located in Baldwin, Michigan. GEO will undertake a \$60.0 million renovation and expansion project to convert the Facility's existing dormitory housing units to cells and to increase the capacity of the 1,748-bed Facility to 2,580 beds.

On November 5, 2010, the Company announced it was selected by the California Department of Corrections and Rehabilitation (CDCR) for contract awards for the housing of 650 female inmates at its company-owned 250-bed McFarland Community Correctional Facility and 400-bed Mesa Verde Community Correctional Facility located in California. The contract, which is subject to final review and approval by the California Department of General Services, will have a term of five years with one additional five-year renewal option period. The Company expects to begin the intake of female inmates at these two facilities in the first quarter of 2011.

17. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

On October 20, 2009, the Company completed an offering of \$250.0 million aggregate principal amount of its 7³/₄% 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 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 7³/₄% Senior Notes). The 7³/₄% 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 Company's newly acquired Cornell subsidiary has been classified in the Condensed Consolidating Financial Information as a guarantor with the exception of MCF, which is a non-guarantor to the Company's 7³/₄% Senior Notes.

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 7³/₄% Senior Notes;
- (ii) The Subsidiary Guarantors, on a combined basis, which are 100% owned by The GEO Group, Inc., and which are guarantors of the 7³/₄% Senior Notes;
- (iii) The Company's other subsidiaries, on a combined basis, which are not guarantors of the 7³/₄% 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.

Table of Contents

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

As of October 3, 2010

| | The GEO Group Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------|--------------------------------------|---|----------------------|---------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ 21,493 | \$ 710 | \$ 31,563 | | \$ 53,766 |
| Restricted cash and investments | | | 40,180 | | 40,180 |
| Accounts receivable, net | 110,844 | 123,712 | 27,127 | | 261,683 |
| Deferred income tax asset, net | 12,197 | 15,529 | 3,469 | | 31,195 |
| Other current assets, net | 6,785 | 4,344 | 10,314 | | 21,443 |
| Total current assets | 151,319 | 144,295 | 112,653 | | 408,267 |
| Restricted Cash and Investments | 4,261 | | 35,505 | | 39,766 |
| Property and Equipment, Net | 411,949 | 872,091 | 214,846 | | 1,498,886 |
| Assets Held for Sale | 3,083 | 1,265 | | | 4,348 |
| Direct Finance Lease Receivable | | | 36,835 | | 36,835 |
| Intercompany Receivable | 18,274 | 14,212 | 1,769 | (34,255) | |
| Goodwill | 34 | 243,810 | 724 | | 244,568 |
| Intangible Assets, Net | | 89,984 | 2,358 | | 92,342 |
| Investment in Subsidiaries | 1,365,865 | | | (1,365,865) | |
| Other Non-Current Assets | 26,084 | 62,818 | 24,320 | (48,274) | 64,948 |
| | \$ 1,980,869 | \$ 1,428,475 | \$ 429,010 | \$(1,448,394) | \$ 2,389,960 |
| Current Liabilities | | | | | |
| Accounts payable | \$ 31,223 | \$ 32,223 | \$ 3,353 | | \$ 66,799 |
| Accrued payroll and related taxes | 22,804 | 6,917 | 13,969 | | 43,690 |
| Accrued expenses | 69,108 | 28,138 | 22,077 | | 119,323 |
| Current portion of debt | 9,500 | 775 | 30,898 | | 41,173 |
| Total current liabilities | 132,635 | 68,053 | 70,297 | | 270,985 |
| Deferred Income Tax Liability | 6,652 | 44,009 | 408 | | 51,069 |
| Intercompany Payable | 1,769 | 14,500 | 17,986 | (34,255) | |
| Other Non-Current Liabilities | 28,394 | 24,337 | 46,539 | (48,274) | 50,996 |

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | | | |
|--|-------------|-------------|-----------|---------------|-------------|
| Capital Lease Obligations | | 13,888 | | | 13,888 |
| Long-Term Debt | 802,506 | | | | 802,506 |
| Non-Recourse Debt | | | 191,603 | | 191,603 |
| Commitments & Contingencies (Note 12) | | | | | |
| Total Shareholders' Equity | 1,008,913 | 1,263,688 | 102,177 | (1,365,865) | 1,008,913 |
| | \$1,980,869 | \$1,428,475 | \$429,010 | \$(1,448,394) | \$2,389,960 |

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**
(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 liabilities | 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 |
| Commitments & Contingencies (Note 14) | | | | | |

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | | | | |
|--------------------|--------|--------------|------------|------------|--------------|--------------|
| 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 |

Table of Contents

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

For the Thirteen Weeks Ended October 3, 2010

| | The GEO Group Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------|--------------------------------------|---|--------------|--------------|
| Revenues | \$ 151,656 | \$ 142,293 | \$ 53,209 | \$(19,225) | \$ 327,933 |
| Operating expenses | 137,612 | 92,057 | 40,656 | (19,225) | 251,100 |
| Depreciation and amortization | 4,503 | 7,370 | 1,511 | | 13,384 |
| General and administrative expenses | 14,820 | 13,905 | 5,200 | | 33,925 |
| Operating income | (5,279) | 28,961 | 5,842 | | 29,524 |
| Interest income | 302 | 343 | 1,608 | (519) | 1,734 |
| Interest expense | (8,793) | (512) | (3,131) | 519 | (11,917) |
| Loss on extinguishment of debt | (7,933) | | | | (7,933) |
| Income (loss) before income taxes, equity in earnings of affiliates, and discontinued operations | (21,703) | 28,792 | 4,319 | | 11,408 |
| Provision for income taxes | (4,663) | 10,486 | 1,724 | | 7,547 |
| Equity in earnings of affiliates, net of income tax | | | 1,149 | | 1,149 |
| Income from continuing operations before equity in income of consolidated subsidiaries | (17,040) | 18,306 | 3,744 | | 5,010 |
| Equity in income of consolidated subsidiaries | 22,050 | | | (22,050) | |
| Income from continuing operations | 5,010 | 18,306 | 3,744 | (22,050) | 5,010 |
| Net loss attributable to noncontrolling interest | | | | 271 | 271 |
| Net income attributable to The GEO Group, Inc. | \$ 5,010 | \$ 18,306 | \$ 3,744 | \$(21,779) | \$ 5,281 |

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

For the Thirteen Weeks Ended September 27, 2009

| | The GEO Group Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------|--------------------------------------|---|--------------|--------------|
|--|-----------------------|--------------------------------------|---|--------------|--------------|

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | | | |
|---|-----------|-----------|----------|------------|-----------|
| Revenues | \$153,287 | \$79,534 | \$74,682 | \$(12,638) | \$294,865 |
| Operating expenses | 127,790 | 52,316 | 66,761 | (12,638) | 234,229 |
| Depreciation and amortization | 4,596 | 4,009 | 1,011 | | 9,616 |
| General and administrative expenses | 7,740 | 3,989 | 3,956 | | 15,685 |
| Operating income | 13,161 | 19,220 | 2,954 | | 35,335 |
| Interest income | 114 | 319 | 1,191 | (400) | 1,224 |
| Interest expense | (4,363) | (323) | (2,247) | 400 | (6,533) |
| Income before income taxes, equity in earnings of affiliates, and discontinued operations | 8,912 | 19,216 | 1,898 | | 30,026 |
| Provision for income taxes | 3,377 | 7,059 | 1,107 | | 11,543 |
| Equity in earnings of affiliates, net of income tax | | | 904 | | 904 |
| Income from continuing operations before equity in income of consolidated subsidiaries | 5,535 | 12,157 | 1,695 | | 19,387 |
| Equity in income of consolidated subsidiaries | 13,852 | | | (13,852) | |
| Income from continuing operations | 19,387 | 12,157 | 1,695 | (13,852) | 19,387 |
| Loss from discontinued operations, net of income tax | | | | | |
| Net income | 19,387 | 12,157 | 1,695 | (13,852) | 19,387 |
| Net income attributable to noncontrolling interest | | | | (129) | (129) |
| Net income attributable to The GEO Group, Inc. | \$ 19,387 | \$ 12,157 | \$ 1,695 | \$(13,981) | \$ 19,258 |

Table of Contents

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

For the Thirty-nine Weeks Ended October 3, 2010

| | The GEO Group Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------|--------------------------------------|---|--------------|--------------|
| Revenues | \$459,271 | \$316,251 | \$168,186 | \$(48,138) | \$895,570 |
| Operating expenses | 402,167 | 202,799 | 137,520 | (48,138) | 694,348 |
| Depreciation and amortization | 12,953 | 15,698 | 3,445 | | 32,096 |
| General and administrative expenses | 35,053 | 24,138 | 12,837 | | 72,028 |
| Operating income | 9,098 | 73,616 | 14,384 | | 97,098 |
| Interest income | 912 | 1,008 | 4,226 | (1,698) | 4,448 |
| Interest expense | (20,728) | (1,536) | (7,612) | 1,698 | (28,178) |
| Loss on extinguishment of debt | (7,933) | | | | (7,933) |
| Income before income taxes, equity in earnings of affiliates, and discontinued operations | (18,651) | 73,088 | 10,998 | | 65,435 |
| Provision for income taxes | (3,445) | 27,864 | 4,141 | | 28,560 |
| Equity in earnings of affiliates, net of income tax | | | 2,868 | | 2,868 |
| Income from continuing operations before equity in income of consolidated subsidiaries | (15,206) | 45,224 | 9,725 | | 39,743 |
| Equity in income of consolidated subsidiaries | 54,949 | | | (54,949) | |
| Income from continuing operations | 39,743 | 45,224 | 9,725 | (54,949) | 39,743 |
| Net loss attributable to noncontrolling interest | | | | 227 | 227 |
| Net income attributable to The GEO Group, Inc. | \$ 39,743 | \$ 45,224 | \$ 9,725 | \$(54,722) | \$ 39,970 |

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

For the Thirty-nine Weeks Ended September 27, 2009
Combined Combined

Edgar Filing: GEO GROUP INC - Form 10-Q

| | The GEO Group Inc. | Subsidiary Guarantors | Non-Guarantor Subsidiaries | Elimination | Consolidated |
|--|-----------------------|--------------------------|-------------------------------|-------------|--------------|
| Revenues | \$454,684 | \$243,642 | \$169,856 | \$(37,877) | \$830,305 |
| Operating expenses | 387,486 | 158,180 | 147,624 | (37,877) | 655,413 |
| Depreciation and amortization | 13,343 | 12,474 | 3,245 | | 29,062 |
| General and administrative expenses | 26,152 | 14,014 | 9,770 | | 49,936 |
| Operating income | 27,703 | 58,974 | 9,217 | | 95,894 |
| Interest income | 163 | 3 | 3,354 | | 3,520 |
| Interest expense | (13,976) | (5) | (6,517) | | (20,498) |
| Income before income taxes, equity in earnings of affiliates, and discontinued operations | 13,890 | 58,972 | 6,054 | | 78,916 |
| Provision for income taxes | 5,298 | 22,494 | 2,582 | | 30,374 |
| Equity in earnings of affiliates, net of income tax | | | 2,407 | | 2,407 |
| Income from continuing operations before equity in income of consolidated subsidiaries | 8,592 | 36,478 | 5,879 | | 50,949 |
| Income in consolidated subsidiaries, net of income tax | 42,357 | | | (42,357) | |
| Income from continuing operations | 50,949 | 36,478 | 5,879 | (42,357) | 50,949 |
| Loss from discontinued operations, net of income tax | (346) | (193) | | 193 | (346) |
| Net income | 50,603 | 36,285 | 5,879 | (42,164) | 50,603 |
| Net income attributable to noncontrolling interests | | | | (129) | (129) |
| Net income attributable to The GEO Group, Inc. | \$ 50,603 | \$ 36,285 | \$ 5,879 | \$(42,293) | \$ 50,474 |

Table of Contents

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

For the Thirty-nine Weeks Ended October 3, 2010

| | The GEO Group Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Consolidated |
|--|-----------------------|--------------------------------------|---|--------------|
| Operating activities: | | | | |
| Net cash provided by operating activities | \$ 71,482 | \$ 2,980 | \$ 29,142 | \$ 103,604 |
| Cash Flow from Investing Activities: | | | | |
| Acquisition, net of cash acquired | (260,239) | | | (260,239) |
| Just Care purchase price adjustment | | (41) | | (41) |
| Proceeds from sale of assets | | 334 | | 334 |
| Change in restricted cash | | | (2,070) | (2,070) |
| Capital expenditures | (57,340) | (7,366) | (3,578) | (68,284) |
| Net cash used in investing activities | (317,579) | (7,073) | (5,648) | (330,300) |
| Cash Flow from Financing Activities: | | | | |
| Payments on long-term debt | (331,490) | (530) | (10,440) | (342,460) |
| Proceeds from long-term debt | 673,000 | | | 673,000 |
| Payments for purchase of treasury shares | (80,000) | | | (80,000) |
| Payments on retirement of common stock | (7,079) | | | (7,078) |
| Proceeds from the exercise of stock options | 5,747 | | | 5,747 |
| Income tax benefit of equity compensation | 786 | | | 786 |
| Debt issuance costs | (5,750) | | | (5,750) |
| Net cash provided by (used in) financing activities | 255,214 | (530) | (10,440) | 244,245 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | | | 2,362 | 2,361 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 9,117 | (4,623) | 15,416 | 19,910 |
| Cash and Cash Equivalents, beginning of period | 12,376 | 5,333 | 16,147 | 33,856 |
| Cash and Cash Equivalents, end of period | \$ 21,493 | \$ 710 | \$ 31,563 | \$ 53,766 |

Table of Contents

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

For the Thirty-nine Weeks Ended September 27, 2009

| | The GEO Group Inc. | Combined Subsidiary Guarantors | Combined Non-Guarantor Subsidiaries | Consolidated |
|--|-----------------------|--------------------------------------|---|--------------|
| Operating activities: | | | | |
| Net cash provided by operating activities | \$ 541 | \$ 36,599 | \$ 42,161 | \$ 79,301 |
| Cash Flow from Investing Activities: | | | | |
| Dividend from subsidiary | 6,277 | | (6,277) | |
| Change in restricted cash | | | (1,426) | (1,426) |
| Capital expenditures | (50,451) | (36,093) | (27,170) | (113,714) |
| Net cash used in investing activities | (44,174) | (36,093) | (34,873) | (115,140) |
| Cash Flow from Financing Activities: | | | | |
| Proceeds from long-term debt | 41,000 | | | 41,000 |
| Income tax benefit of equity compensation | (19) | | | (19) |
| Debt issuance costs | (358) | | | (358) |
| Termination of interest rate swap agreement | 1,719 | | | 1,719 |
| Payments on long-term debt | (10,765) | (509) | (7,212) | (18,486) |
| Proceeds from the exercise of stock options | 383 | | | 383 |
| Net cash provided by (used in) financing activities | 31,960 | (509) | (7,212) | 24,239 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | | | 4,244 | 4,244 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (11,673) | (3) | 4,320 | (7,356) |
| Cash and Cash Equivalents, beginning of period | 15,807 | 130 | 15,718 | 31,655 |
| Cash and Cash Equivalents, end of period | \$ 4,134 | \$ 127 | \$ 20,038 | \$ 24,299 |

Table of Contents

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;

the instability of foreign exchange rates, exposing us to currency risks in Australia, the United Kingdom, and South Africa, or other countries in which we may choose to conduct our business;

our ability to activate the Great Plains Correctional Facility in Hinton, Oklahoma, which we acquired from Cornell Companies, which we refer to as Cornell ;

an increase in unreimbursed labor rates;

our ability to expand, diversify and grow our correctional, mental health and residential treatment services business;

our ability to win management contracts for which we have submitted proposals and to retain existing management contracts;

our ability to raise new project development capital given the often short-term nature of the customers commitment to use newly developed facilities;

our ability to estimate the government's level of dependency on privatized correctional services;

our ability to accurately project the size and growth of the U.S. and international privatized corrections industry;

our ability to develop long-term earnings visibility;

our ability to successfully integrate Cornell into our business within our expected time-frame and estimates regarding integration costs;

our ability to accurately estimate the growth to our aggregate annual revenues and the amount of annual synergies we can achieve as a result of consummation of the merger with Cornell;

our ability to successfully address any difficulties encountered in maintaining relationships with customers, employees or suppliers as a result of the merger with Cornell;

our ability to obtain future financing on satisfactory terms or at all, including our ability to finance the \$133.2 million in funding we need to complete ongoing capital projects;

our exposure to rising general insurance costs;

our exposure to state and federal income tax law changes internationally and domestically and our exposure as a result of federal and international examinations of our tax returns or tax positions;

our exposure to claims for which we are uninsured;

our exposure to rising employee and inmate medical costs;

Table of Contents

our ability to maintain occupancy rates at our facilities;

our ability to manage costs and expenses relating to ongoing litigation arising from our operations;

our ability to accurately estimate on an annual basis, loss reserves related to general liability, workers compensation and automobile liability claims;

our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisitions on satisfactory terms;

the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us; and

other factors contained in our filings with the Securities and Exchange Commission, or the SEC, including, but not limited to, those detailed in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K and our Current Reports on Form 8-K filed with the SEC.

We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report on Form 10-Q.

Introduction

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of numerous factors including, but not limited to, those described above under *Forward Looking Information* and under *Part I Item 1A. Risk Factors* in our Annual Report on Form 10-K for the fiscal year ended January 3, 2010 and *Part II Item 1A. Risk Factors* in our Quarterly Reports on Form 10-Q for the quarterly periods ended April 4, 2010, July 4, 2010 and October 3, 2010. The discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q. For the purposes of this discussion and analysis, we refer to the thirteen weeks ended October 3, 2010 as *Third Quarter 2010*, and we refer to the thirteen weeks ended September 27, 2009 as *Third Quarter 2009*.

We are a leading provider of government-outsourced services specializing in the management of correctional, detention and mental health and residential treatment facilities in the United States, Australia, South Africa, the United Kingdom and Canada. On August 12, 2010, we acquired Cornell Companies Inc., and as of October 3, 2010, our worldwide operations include the management and/ or ownership of approximately 79,000 beds at 116 correctional, detention and residential treatment facilities including projects under development. We operate a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers, community based services, youth services and mental health and residential treatment facilities. Our correctional and detention management services involve the provision of security, administrative, rehabilitation, education, health and food services, primarily at adult male correctional and detention facilities. Our Residential Treatment Services are operated through our wholly-owned subsidiary GEO Care Inc. and involve partnering with governments to deliver quality care, innovative programming and active patient treatment primarily in privately operated state mental health care facilities. Our newly acquired Community Based Services, also operated through GEO Care, involve supervision of adult parolees and probationers and provide temporary housing, programming, employment assistance and other services with the intention of the successful reintegration of residents into society. Youth Services, also newly acquired and operating under GEO Care, include residential, detention and shelter care and community based services along with rehabilitative, educational and treatment programs. We also develop new facilities based on contract awards, using our project development expertise

and experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency.

We maintained an average company-wide facility occupancy rate of 94.9% for the thirty-nine weeks ended October 3, 2010. As a result of the merger with Cornell, we will benefit from the combined Company's increased scale and the diversification of service offerings.

Reference is made to Part II, Item 7 of our Annual Report on Form 10-K filed with the SEC on February 22, 2010, for further discussion and analysis of information pertaining to our financial condition and results of operations for the fiscal year ended January 3, 2010.

Table of Contents**Fiscal 2010 Developments****Acquisition of Cornell**

On August 12, 2010, we completed the acquisition of Cornell, a Houston-based provider of correctional, detention, educational, rehabilitation and treatment services outsourced by federal, state, county and local government agencies for adults and juveniles. The strategic benefits of the Merger include the combined Company's increased scale and the diversification of service offerings. The acquisition was completed pursuant to a definitive merger agreement entered into on April 18, 2010, and amended on July 22, 2010, between us, GEO Acquisition III, Inc., and Cornell. Under the terms of the merger agreement, we acquired 100% of the outstanding common stock of Cornell for aggregate consideration of \$618.3 million, excluding cash acquired of \$12.9 million and including: (i) cash payments for Cornell's outstanding common stock of \$84.9 million, (ii) payments made on behalf of Cornell related to Cornell's transaction costs accrued prior to the Merger of \$6.4 million, (iii) cash payments for the settlement of certain of Cornell's debt plus accrued interest of \$181.9 million using proceeds from the Company's Credit Agreement, (iv) common stock consideration of \$357.8 million, and (v) the fair value of stock option replacement awards of \$0.2 million. The value of the equity consideration was based on the closing price of our stock on August 12, 2010 of \$22.70.

New Credit Agreement

On August 4, 2010, we entered into a Credit Agreement between us, as Borrower, certain of our subsidiaries, as Guarantors, and BNP Paribas, as Lender and as Administrative Agent (together with the Term Loan A, Term Loan B and the Revolving Credit Facility (which we refer to as the Revolver), we refer to this as the Credit Agreement). The Credit Agreement is comprised of (i) a \$150.0 million Term Loan A, initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015, (ii) a \$200.0 million Term Loan B initially bearing interest at LIBOR plus 3.25% with a LIBOR floor of 1.50% and maturing August 4, 2016 and (iii) a Revolving Credit Facility of \$400.0 million initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015.

Executive retirement

On August 26, 2010, we announced the retirement of Wayne H. Calabrese, our Vice Chairman, President and Chief Operating Officer. He will retire effective December 31, 2010. Mr. Calabrese's business development and oversight responsibilities will be reassigned throughout GEO's senior management team and existing corporate structure, and Mr. Calabrese will continue to provide assistance to GEO pursuant to the terms of a consulting agreement beginning January 3, 2011.

Stock Repurchase Program

On February 22, 2010, we announced that our Board of Directors approved a stock repurchase program for up to \$80.0 million of our common stock effective through March 31, 2011. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission 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 thirty-nine weeks ended October 3, 2010, the Company purchased 4.0 million shares of its common stock at a cost of \$80.0 million using cash on hand and cash flow from operating activities. As a result, we have completed repurchases of shares of our common stock under the share repurchase program approved in February 2010.

Contract Terminations

We do not expect the following contract terminations to have a material adverse impact, individually or in the aggregate on our financial condition, results of operations or cash flows.

Effective September 1, 2010, our management contract for the operation of the 450-bed South Texas Intermediate Sanction Facility terminated. This facility was not owned by us.

On June 22, 2010, we announced the termination of our managed-only contract for the 520-bed Bridgeport Correctional Center in Bridgeport, Texas following a competitive rebid process conducted by the State of Texas. The contract terminated effective August 31, 2010.

On April 14, 2010, the State of Florida issued a Notice of Intent to Award contracts for the 1,884-bed Graceville Correctional Facility (Graceville) located in Graceville, Florida and the 985-bed Moore Haven Correctional Facility

(Moore Haven) located in Moore Haven, Florida to another operator. Our management of Graceville terminated effective September 26, 2010 and our contract with Moore Haven terminated effective August 1, 2010.

Table of Contents

On April 4, 2010, our 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.

Facility Construction

The following table sets forth current expansion and development projects at October 3, 2010:

| Facilities Under Construction | Additional Beds | Capacity Following Expansion/ Construction | Estimated Completion Date | Customer | Financing |
|--|------------------------|---|----------------------------------|---|------------------|
| Adelanto Facility, California | n/a | 650 | Q1 2011 | (1) | GEO |
| North Lake Correctional Facility, Michigan | 1,225 | 1,748 | Q2 2011 | (2) Federal | GEO |
| Broward Transition Center, Florida | n/a | n/a | Q4 2010 | (3) Georgia Department of Corrections | GEO |
| Riverbend Correctional Facility | 1,500 | 1,500 | Q1 2012 | | GEO |
| Total | 2,725 | | | | |

- (1) We currently do not have a customer for this facility but are marketing these beds to various local, state and federal agencies.
- (2) On November 4, 2010 we announced our signing of a contract with the State of California, Department of Corrections and Rehabilitation. Under the terms of the contract, we will undertake a renovation and expansion to increase the existing 1,748-bed facility by 832 beds.
- (3) We are currently operating this facility and have a management contract with the Federal Government for 700 beds. The ongoing construction at this facility is for a new administration building and other renovations to the existing structure.

Asset Acquisition and Contract Awards

On July 21, 2010, we announced the execution of a new contract with the State of Georgia, Department of Corrections for the development and operation of a new 1,500-bed correctional facility to be located in Milledgeville, Georgia. Under the terms of the contract, we will finance, develop, and operate the new \$80.0 million, 1,500-bed Facility on state-owned land pursuant to a 40-year ground lease. This facility is expected to open in the first quarter of 2012. On July 26, 2010, we announced our signing of a contract amendment with the East Mississippi Correctional Facility Authority (the Authority) for the continued management of the 1,500-bed East Mississippi Correctional Facility located in Meridian, Mississippi. The amendment extends our management contract with the Authority through March 15, 2015. The Authority in turn has a concurrent contract with the Mississippi Department of Corrections for the housing of Mississippi inmates at this facility.

Table of Contents

On November 4, 2010, we announced our signing of a contract with the State of California, Department of Corrections and Rehabilitation for the out-of-state housing of up to 2,580 California inmates at our North Lake Correctional Facility (the Facility) located in Baldwin, Michigan. GEO will undertake a \$60.0 million renovation and expansion project to convert the Facility's existing dormitory housing units to cells and to increase the capacity of the 1,748-bed Facility to 2,580 beds.

On November 5, 2010, we announced we were selected by the California Department of Corrections and Rehabilitation (CDCR) for contract awards for the housing of 650 female inmates at our owned 250-bed McFarland Community Correctional Facility and our 400-bed Mesa Verde Community Correctional Facility located in California. The contract, which is subject to final review and approval by the California Department of General Services, will have a term of five years with one additional five-year renewal option period. We expect to begin the intake of female inmates at these two facilities in the first quarter of 2011.

New Facility Activations

On October 4, 2010, we announced the beginning of the intake of inmates from the Federal Bureau of Prisons (BOP) at the D. Ray James Correctional Facility in Georgia. The inmate intake process began on October 4, 2010 and is expected to be completed in the Spring of 2011. Under our new ten-year contract with the BOP, this facility will house up to 2,507 low security inmates.

Also, on October 4, 2010, we announced the opening of the 2,000-bed Blackwater River Correctional Facility located in Milton, Florida. We began the intake of medium and close-custody security inmates on October 5, 2010 and expect to complete the intake and ramp-up process in the first quarter of 2011.

On July 23, 2010, we announced that our wholly-owned subsidiary in the United Kingdom activated the 360-bed expansion of the Harmondsworth Immigration Removal Centre in London, England increasing the total capacity of this facility from 260 beds to 620 beds. We began the intake of the additional detainees on July 18, 2010.

Future Adoption of Accounting Standards

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. This guidance will become effective for us prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. We do not believe that the implementation of this standard will have a material impact on our financial position, results of operation and cash flows.

In July 2010, the FASB issued ASU No. 2010-20 which affects all entities with financing receivables, excluding short-term trade accounts receivable or receivables measured at fair value or lower of cost or fair value. The objective of the amendments in this update is for an entity to provide disclosures that facilitate financial statement users evaluation of the following: (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses, (iii) the changes and reasons for those changes in the allowance for credit losses. These disclosures will be effective for us for interim and annual reporting periods ending on or after December 15, 2010. We do not believe that the implementation of this standard will have a material adverse impact on our financial position, results of operation and cash flows.

Critical Accounting Policies

The accompanying unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is contained in Note 1 to our financial statements included in our Annual Report on Form 10-K for the fiscal

year ended January 3, 2010.

Revenue Recognition

Facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. A limited number of our contracts have provisions upon which a small portion of the revenue for the contract is based on the performance of certain targets. Revenue based on the performance of certain targets is less than 2% of our consolidated annual revenues. These performance targets are based on specific criteria to be met over specific periods of time. Such criteria includes our ability to achieve certain contractual benchmarks relative to the quality of service we provide, non-occurrence of certain disruptive events, effectiveness of our quality control programs and our responsiveness to customer requirements and concerns. For the limited number of contracts where revenue is based on the performance of certain targets, revenue is either (i) recorded pro rata when revenue is fixed and determinable or (ii) recorded when the specified time period lapses. In many instances, we are a party to more than one contract with a single entity. In these instances, each contract is accounted for separately. We have not recorded any revenue that is at risk due to future performance contingencies.

Table of Contents

Construction revenues are recognized from our contracts with certain customers to perform construction and design services (project development services) for various facilities. In these instances, we act as the primary developer and subcontract with bonded National and/or Regional Design Build Contractors. These construction revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to the estimated total cost for each contract. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which we determine that such losses and changes are probable. Typically, we enter into fixed price contracts and do not perform additional work unless approved change orders are in place. Costs attributable to unapproved change orders are expensed in the period in which the costs are incurred if we believe that it is not probable that the costs will be recovered through a change in the contract price. If we believe that it is probable that the costs will be recovered through a change in the contract price, costs related to unapproved change orders are expensed in the period in which they are incurred, and contract revenue is recognized to the extent of the costs incurred. Revenue in excess of the costs attributable to unapproved change orders is not recognized until the change order is approved. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. As the primary contractor, we are exposed to the various risks associated with construction, including the risk of cost overruns. Accordingly, we record our construction revenue on a gross basis and include the related cost of construction activities in Operating Expenses. In instances where we provide project development services and subsequent management services, we evaluate these arrangements to determine if there are multiple elements that require separate accounting treatment and could result in a deferral of revenues. Generally, our arrangements result in no delivered elements at the onset of the agreement but rather these elements are delivered over the contract period as the project development and management services are performed. Project development services are not provided separately to a customer without a management contract and therefore, the value of the project development deliverable, is determined using the residual method.

Reserves for Insurance Losses

The nature of our business exposes us to various types of third-party legal claims, 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, contractual claims and claims for personal injury or other damages resulting from contact with our facilities, programs, personnel or prisoners, including damages arising from a prisoner's escape or from a disturbance or riot at a facility. In addition, our management contracts generally require us to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. We maintain a broad program of insurance coverage for these general types of claims, except for claims relating to employment matters, for which we carry no insurance. There can be no assurance that our insurance coverage will be adequate to cover all claims to which we may be exposed.

We currently maintain a general liability policy and various excess liability policies for all U.S. Corrections operations with limits of \$62.0 million per occurrence and in the aggregate. The Community Based Services Division and the Youth Services Division of GEO Care, Inc. are also covered under these policies. A separate \$35.0 million limit applies to medical professional liability claims arising out of correctional healthcare services. Residential Treatment Service Facilities operated by GEO Care, Inc. are insured under their own program for general liability and medical professional liability with a specific loss limit of \$35.0 million per occurrence and in the aggregate. We are uninsured for any claims in excess of these limits. We also maintain insurance to cover property and other casualty risks including, workers' compensation, environmental liability and automobile liability.

For most casualty insurance policies, we carry substantial deductibles or self-insured retentions \$3.0 million per occurrence for general liability and hospital professional liability, \$2.0 million per occurrence for workers' compensation and \$1.0 million per occurrence for automobile liability.

In addition, certain of our facilities located in Florida and determined by insurers to be in high-risk hurricane areas carry substantial windstorm deductibles. Since hurricanes are considered unpredictable future events, no reserves have been established to pre-fund for potential windstorm damage. Limited commercial availability of certain types of

insurance relating to windstorm exposure in coastal areas and earthquake exposure mainly in California may prevent us from insuring some of our facilities to full replacement value.

With respect to our operations in South Africa, the United Kingdom and Australia, we utilize a combination of locally-procured insurance and global policies to meet contractual insurance requirements and protect the Company. Our Australian subsidiary is required to carry tail insurance on a general liability policy providing an extended reporting period through 2011 related to a discontinued contract.

Table of Contents

Of the reserves discussed above, our most significant insurance reserves relate to workers' compensation and general liability claims. These reserves are undiscounted and were \$39.7 million and \$27.2 million as of October 3, 2010 and January 3, 2010, respectively. We use statistical and actuarial methods to estimate amounts for claims that have been reported but not paid and claims incurred but not reported. In applying these methods and assessing their results, we consider such factors as historical frequency and severity of claims at each of our facilities, claim development, payment patterns and changes in the nature of our business, among other factors. Such factors are analyzed for each of our business segments. Our estimates may be impacted by such factors as increases in the market price for medical services and unpredictability of the size of jury awards. We also may experience variability between our estimates and the actual settlement due to limitations inherent in the estimation process, including our ability to estimate costs of processing and settling claims in a timely manner as well as our ability to accurately estimate our exposure at the onset of a claim. Because we have high deductible insurance policies, the amount of our insurance expense is dependent on our ability to control our claims experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition, results of operations and cash flows could be materially impacted.

Income Taxes

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Significant judgments are required to determine the consolidated provision for income taxes. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Realization of our deferred tax assets is dependent upon many factors such as tax regulations applicable to the jurisdictions in which we operate, estimates of future taxable income and the character of such taxable income. Additionally, we must use significant judgment in addressing uncertainties in the application of complex tax laws and regulations. If actual circumstances differ from our assumptions, adjustments to the carrying value of deferred tax assets or liabilities may be required, which may result in an adverse impact on the results of our operations and our effective tax rate. Valuation allowances are recorded related to deferred tax assets based on the more likely than not criteria. Management has not made any significant changes to the way we account for our deferred tax assets and liabilities in any year presented in the consolidated financial statements. Based on our estimate of future earnings and our favorable earnings history, management currently expects full realization of the deferred tax assets net of any recorded valuation allowances. Furthermore, in determining the adequacy of our provision (benefit) for income taxes, potential settlement outcomes resulting from income tax examinations are regularly assessed. As such, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. To the extent that the provision for income taxes increases/decreases by 1% of income before income taxes, equity in earnings of affiliate, discontinued operations, and consolidated income from continuing operations would have decreased/increased by \$1.0 million, \$0.9 million and \$0.6 million, respectively, for the years ended January 3, 2010, December 28, 2008 and December 30, 2007.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 2 to 50 years. Equipment and furniture and fixtures are depreciated over 3 to 10 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing assessments of the estimated useful lives of the property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. If the assessment indicates that assets will continue to 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. In its first fiscal quarter 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 of its buildings from its historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. Refer to Results of Operations and to Item 1. Notes to Consolidated Financial Statements - Note 1 Summary of Significant Accounting Policies for a discussion of the impact of this change in estimate relative to depreciation and amortization for the thirty-nine weeks

ended October 3, 2010.

Maintenance and repairs are expensed as incurred. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life.

We review long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. If a long-lived asset is part of a group that includes other assets, the unit of accounting for the long-lived asset is its group. Generally, we group our assets by facility for the purposes of considering whether any impairment exists. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset or asset group and its eventual disposition. When considering the future cash flows of a facility, we make assumptions based

Table of Contents

on historical experience with our customers, terminal growth rates and weighted average cost of capital. While these estimates do not generally have a material impact on the impairment charges associated with managed-only facilities, the sensitivity increases significantly when considering the impairment on facilities that are either owned or leased by us. Events that would trigger an impairment assessment include deterioration of profits for a business segment that has long-lived assets, or when other changes occur that might impair recovery of long-lived assets such as the termination of a management contract. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the notes to our unaudited consolidated financial statements included in Part I, Item 1, of this Quarterly Report on Form 10-Q.

Comparison of Thirteen Weeks Ended October 3, 2010 and Thirteen Weeks Ended September 27, 2009

For the purposes of the discussion below, Third Quarter 2010 refers to the thirteen week period ended October 3, 2010 and Third Quarter 2009 refers to the thirteen week period ended September 27, 2009.

Revenues

| | 2010 | % of Revenue | 2009 (Dollars in thousands) | % of Revenue | \$ Change | % Change |
|---|------------|-----------------|--------------------------------|-----------------|--------------|-------------|
| U.S. corrections | \$ 217,808 | 66.4% | \$ 189,692 | 64.3% | \$ 28,116 | 14.8% |
| International services | 47,553 | 14.5% | 36,668 | 12.4% | 10,885 | 29.7% |
| GEO Care | 60,934 | 18.6% | 30,636 | 10.4% | 30,298 | 98.9% |
| Facility construction and design | 1,638 | 0.5% | 37,869 | 12.9% | (36,231) | (95.7)% |
| Total | \$ 327,933 | 100.0% | \$ 294,865 | 100.0% | \$ 33,068 | 11.2% |

U.S. corrections

Revenues increased in Third Quarter 2010 compared to Third Quarter 2009 primarily due to the acquisition of Cornell which contributed additional revenues of \$29.8 million. Increases at other facilities for Third Quarter included (i) an increase of \$3.1 million due to an increase in population at the Northwest Detention Center located in Tacoma, Washington; (ii) an increase of \$1.4 million at LaSalle Detention Facility located in Jena, Louisiana due to an increase in the population. We experienced decreases of \$1.2 million related to a decrease in per diem rates effective March 1, 2010 at Lawton Correctional Facility (Lawton) located in Lawton, Oklahoma. We also experienced decreases of \$5.5 million due to the termination of our contracts at the McFarland Community Correctional Facility (McFarland) located in McFarland, California, Moore Haven Correctional Facility (Moore Haven) located in Moore Haven, Florida, the Jefferson County Downtown Jail (Jefferson County) in Beaumont, Texas and the Newton County Correctional Center (Newton County) in Newton, Texas.

The number of compensated mandays in U.S. corrections facilities was 4.0 million in Third Quarter 2010 which is higher than Third Quarter 2009 due to the 0.5 million additional mandays from Cornell. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. correction and detention facilities was 93.9% of capacity in Third Quarter 2010, excluding the terminated contracts for McFarland, Jefferson County and Newton County. The average occupancy in our U.S. correction and detention facilities was 93.6% in Third Quarter 2009.

International services

Revenues for our International services segment during Third Quarter 2010 increased significantly due to several factors. Our new management contract for the operation of the Parklea Correctional Centre in Sydney, Australia

(Parklea) which started in the fourth fiscal quarter of 2009 contributed an increase in revenues for the thirteen-weeks ended October 3, 2010 of \$6.8 million. Our contract for the management of the Harmondsworth Immigration Removal Centre in London, England (Harmondsworth) experienced an increase in revenues of \$1.5 million due to the activation of the 360-bed expansion in July 2010. In addition, we experienced increases at other international facilities due to contractual increases linked to the inflationary index. In aggregate, these increases contributed revenues of \$1.0 million in Third Quarter 2010. We also experienced an increase in revenues of \$3.0 million over Third Quarter 2009 due to the strengthening of foreign currencies in Third Quarter 2010. These increases were partially offset by a decrease in revenues of \$1.3 million related to our terminated contract for the operation of the Melbourne Custody Centre in Melbourne, Australia.

Table of Contents*GEO Care*

The increase in revenues for GEO Care in Third Quarter 2010 compared to Third Quarter 2009 is primarily attributable to the acquisition of Cornell which contributed \$23.8 million in additional revenues and also to our operation of the Columbia Regional Care Center in Columbia, South Carolina as a result of our acquisition of Just Care. This 354-bed facility, which we began managing in Fourth Quarter 2009, generated \$6.2 million in revenues in Third Quarter 2010.

Facility construction and design

Revenues from the Facility construction and design segment decreased significantly in Third Quarter 2010 compared to Third Quarter 2009 due to a decrease in construction activities at Blackwater River Correctional Facility in Milton, Florida. The Blackwater River Correctional Facility construction was completed in October 2010 and we began intake of inmates on October 5, 2010.

Operating Expenses

| | 2010 | % of Segment Revenue | 2009 (Dollars in thousands) | % of Segment Revenue | \$ Change | % Change |
|---|------------|----------------------------|--------------------------------|----------------------------|--------------|-------------|
| U.S. corrections | \$ 154,686 | 71.0% | \$ 135,700 | 71.5% | \$ 18,986 | 14.0% |
| International services | 44,523 | 93.6% | 34,416 | 93.9% | 10,107 | 29.4% |
| GEO Care | 50,757 | 83.3% | 26,332 | 86.0% | 24,425 | 92.8% |
| Facility construction and design | 1,134 | 69.2% | 37,899 | 100.1% | (36,765) | (97.0)% |
| Total | \$ 251,100 | 76.6% | \$ 234,347 | 79.5% | \$ 16,753 | 7.1% |

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health and GEO Care facilities and expenses incurred in our Facility construction and design segment.

U.S. corrections

The increase in operating expenses for U.S. corrections reflects the impact of our acquisition of Cornell which resulted in an increase in operating expenses of \$23.7 million. This significant increase was partially offset by our terminated contracts at McFarland, Jefferson County and Newton County. We also experienced an increase in start up expenses in Third Quarter 2010 of \$3.8 million, including \$1.2 million related to the 2,870-bed D. Ray James Prison in Folkston, Georgia (D. Ray James) which was activated on October 4, 2010. Start up expenses include costs such as training costs, miscellaneous supplies and labor.

International services

Operating expenses for our International services segment during Third Quarter 2010 increased significantly over the prior year primarily due to our new management contracts for the operation of Parklea and the Harmondsworth expansion which accounted for an aggregate increase in operating expense of \$6.1 million. We also experienced overall increases in operating expenses of \$2.6 million in Third Quarter 2010 compared to Third Quarter 2009 due to the strengthening of foreign currencies.

GEO Care

Operating expenses for residential treatment increased \$19.0 million during Third Quarter 2010 from Third Quarter 2009 primarily due to the operation of the Cornell facilities as a result of our acquisition of Cornell. The remaining increase was primarily attributable to the operation of the Columbia Regional Care Center in Columbia, South Carolina as a result of our acquisition of Just Care, as discussed above. Operating expenses decreased as a percentage of revenue primarily due to the acquisition of Cornell contracts.

Facility construction and design

Operating expenses for facility construction and design decreased by \$36.8 million during Third Quarter 2010 compared to Third Quarter 2009 primarily due to the decrease in construction activities at Blackwater River Correctional Facility.

Depreciation and amortization

| | 2010 | % of Segment Revenue | 2009 (Dollars in thousands) | % of Segment Revenue | \$ Change | % Change |
|---|-----------|----------------------------|--------------------------------|----------------------------|--------------|-------------|
| U.S. corrections | \$ 11,048 | 5.1% | \$ 8,881 | 4.7% | \$ 2,167 | 24.4% |
| International services | 431 | 0.9% | 376 | 1.0% | 55 | 14.6% |
| GEO Care | 1,905 | 3.1% | 359 | 1.2% | 1,546 | 430.6% |
| Facility construction and design | | | | | | |
| Total | \$ 13,384 | 4.1% | \$ 9,616 | 3.3% | \$ 3,768 | 39.2% |

Table of Contents*U.S. corrections*

U.S. corrections depreciation increased by \$2.2 million as a result of the depreciation for the period from August 12, 2010 to October 3, 2010 for the acquired Cornell facilities. These increases were partially offset by lower depreciation on existing facilities related to the depreciation study on our owned correctional facilities conducted in the first fiscal quarter of 2010. Based on the results of the depreciation study, we revised the estimated useful lives of certain of our buildings from our historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. For Third Quarter 2010, the change resulted in a reduction in depreciation and amortization expense of approximately \$0.9 million. Other increases in expense relate to the completion of construction projects during Third Quarter 2010.

International Services

Depreciation and amortization increased slightly in Third Quarter 2010 over Third Quarter 2009 primarily due to our new management contracts for the operation of Parklea and the Harmondsworth expansion, as discussed above, and also from changes in the foreign exchange rates.

GEO Care

The increase in depreciation and amortization for GEO Care in Third Quarter 2010 compared to Third Quarter 2009 is due to our acquisition of Just Care and of Cornell. The Cornell owned facilities contributed additional depreciation of \$1.0 million of the increase.

Other Unallocated Operating Expenses

| | 2010 | % of Revenue | 2009 | % of Revenue | \$ Change | % Change |
|--|------------------------|-----------------|----------|-----------------|-----------|-------------|
| | (Dollars in thousands) | | | | | |
| General and Administrative Expenses | \$33,925 | 10.3% | \$15,685 | 5.3% | \$18,240 | 116.3% |

General and administrative expenses comprise substantially all of our other unallocated operating expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. During Third Quarter 2010, general and administrative expenses increased \$13.5 million as a result of our acquisition of Cornell. These transaction related expenses consist primarily of professional fees, travel costs and other direct administrative costs related to the merger with Cornell. Excluding the impact of transaction costs, general and administrative expenses increased slightly as a percentage of revenues in Third Quarter 2010 compared to Third Quarter 2009.

Non Operating Expenses***Interest Income and Interest Expense***

| | 2010 | % of Revenue | 2009 | % of Revenue | \$ Change | % Change |
|-------------------------|------------------------|-----------------|---------|-----------------|-----------|-------------|
| | (Dollars in thousands) | | | | | |
| Interest Income | \$ 1,734 | 0.5% | \$1,224 | 0.4% | \$ 510 | 41.7% |
| Interest Expense | \$11,917 | 3.6% | \$6,533 | 2.2% | \$5,384 | 82.4% |

The majority of our interest income generated in Third Quarter 2010 and Third Quarter 2009 is from the cash balances at our Australian subsidiary. The increase in the current period over the same period last year is mainly attributable to the favorable impact of the foreign currency effects of a strengthening Australian Dollar.

The increase in interest expense of \$5.4 million is primarily attributable to more indebtedness outstanding in Third Quarter 2010. We experienced an increase in interest expense related to our 7³/₄% Senior Notes of \$1.7 million and also an increase of \$2.7 million related to additional borrowings under our Credit Agreement. We also had \$1.0 million less in capitalized interest in Third Quarter 2010 due to a decrease in construction expenditures. Total borrowings at October 3, 2010 and September 27, 2009, excluding non-recourse debt and capital lease liabilities, were \$812.0 million and \$412.3 million, respectively.

Table of Contents**Provision for Income Taxes**

| | 2010 | Effective Rate | 2009 (Dollars in thousands) | Effective Rate | \$ Change | % Change |
|---------------------|---------|-------------------|--------------------------------|-------------------|-----------|----------|
| Income Taxes | \$7,547 | 66.2% | \$11,510 | 38.5% | \$(3,963) | (34.4)% |

The effective tax rate for Third Quarter 2010 was negatively impacted by a significant portion of transaction expenses that may not be deductible for federal income tax purposes. If the non-deductible items were excluded from taxable income, the Company's tax rate would have been approximately 42% which is higher than Third Quarter 2009 due to Cornell income which is subject to a higher effective income tax rate. We estimate our annual effective tax rate for fiscal year 2010 to be approximately 39.5%, excluding the impact of partially non-deductible transaction costs associated with the merger with Cornell.

Comparison of Thirty-nine Weeks Ended October 3, 2010 and Thirty-nine Weeks Ended September 27, 2009

For the purposes of the discussion below, Nine Months 2010 refers to the thirty-nine week period ended October 3, 2010 and Nine Months 2009 refers to the thirty-nine week period ended September 27, 2009.

Revenues

| | 2010 | % of Revenue | 2009 (Dollars in thousands) | % of Revenue | \$ Change | % Change |
|---|------------|-----------------|--------------------------------|-----------------|--------------|-------------|
| U.S. corrections | \$ 599,598 | 67.0% | \$ 568,202 | 68.4% | \$ 31,396 | 5.5% |
| International services | 138,142 | 15.4% | 92,217 | 11.1% | 45,925 | 49.8% |
| GEO Care | 135,409 | 15.1% | 92,623 | 11.2% | 42,786 | 46.2% |
| Facility construction and design | 22,421 | 2.5% | 77,263 | 9.3% | (54,842) | (71.0)% |
| Total | \$ 895,570 | 100.0% | \$ 830,305 | 100.0% | \$ 65,265 | 7.9% |

U.S. corrections

Revenues increased in Nine Months 2010 compared to Nine Months 2009. The primary reason for the increase is due to the acquisition of Cornell which contributed additional revenues of \$29.8 million. Additionally, we experienced net increases in revenue due to: (i) an aggregate increase of \$12.8 million from the activations of bed expansions and higher per diem rates at the Broward Transition Center located in Deerfield Beach, Florida and at the Northwest Detention Center; (ii) an increase of \$2.7 million at the South Bay Correctional Facility, located in South Bay, Florida due to per diem rate increases; (iii) an increase of \$1.3 million due to higher per diem rates at Rivers Correctional Institution in Winton, North Carolina and (iv) increased revenues of \$2.5 million due to higher populations at the Maverick County Detention Facility in Maverick, Texas. We also experienced decreases in revenues of (i) \$3.1 million at Lawton Correctional Facility in Lawton, Oklahoma related to lower per diem rates effective in the first fiscal quarter of 2010 and (ii) decreases of \$14.1 million due to terminated contracts at Moore Haven, Fort Worth, Jefferson and Newton.

The number of compensated mandays in U.S. corrections facilities increased by approximately 300,000 to 11.0 million mandays in Nine Months 2010 from 10.7 million mandays in Nine Months 2009. The net increase in mandays was due to the Cornell acquisition and the related 0.5 million additional mandays which was more than offset by a decrease in mandays due to terminated contracts and lower population at certain of the GEO facilities. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. correction and detention facilities was 94.3% of capacity in Nine Months 2010, excluding the terminated contracts for McFarland, Jefferson County, Newton County and Fort Worth. The average occupancy in our U.S. correction and detention facilities was 94.0% in Nine Months 2009.

International services

Revenues for our international services segment during Nine Months 2010 increased significantly over the prior year primarily due to our new management contracts for the operations of Parklea and the Harmondsworth expansion which contributed an aggregate of \$27.2 million in the Nine Months 2010. We opened Harmondsworth in Second Quarter 2009 and Parklea in Fourth Quarter 2009. We also experienced fluctuations in foreign exchange currency rates for the Australian Dollar, South African Rand and the British Pound which had the effect of increasing revenues over Nine Months 2009 by \$18.6 million.

GEO Care

The increase in revenues for GEO Care in Nine Months 2010 compared to Nine Months 2009 is primarily attributable to the acquisition of Cornell which contributed \$23.8 million to revenue. In addition, the operation of the Columbia Regional Care Center in Columbia, South Carolina generated \$19.2 million in revenues in Nine Months 2010.

Table of Contents*Facility construction and design*

The decrease in revenues from the facility construction and design segment in Nine Months 2010 compared to Nine Months 2009 is mainly due to a decrease in revenues of \$48.5 million related to a decrease in construction activities at Blackwater River Correctional Facility. This facility began the intake of inmates in October 2010. There were also several other projects completed in 2009 which resulted in higher revenues in the prior fiscal year including: (i) a decrease of \$4.8 million related to the completion of the Florida Civil Commitment Center in Second Quarter 2009; (ii) aggregate decreases in construction revenue of \$1.3 million were related to the completion of the expansion of the Graceville Correctional Facility and completion of other construction projects at the Northeast New Mexico Detention Facility.

Operating Expenses

| | | % of Segment | | % of Segment | \$ | % |
|---|-------------|-------------------------|-------------------------------|-------------------------|---------------|---------------|
| | 2010 | Revenue | 2009 | Revenue | Change | Change |
| | | | (Dollars in thousands) | | | |
| U.S. corrections | \$ 429,922 | 71.7% | \$ 413,781 | 72.8% | \$ 16,141 | 3.9% |
| International services | 129,008 | 93.4% | 85,360 | 92.6% | 43,648 | 51.1% |
| GEO Care | 114,645 | 84.7% | 79,184 | 85.5% | 35,461 | 44.8% |
| Facility construction and design | 20,773 | 92.6% | 77,088 | 99.8% | (56,315) | (73.1)% |
| Total | \$ 694,348 | 77.5% | \$ 655,413 | 78.9% | \$ 38,935 | 5.9% |

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health and GEO Care facilities and expenses incurred in our Facility construction and design segment.

U.S. corrections

As a result of our acquisition of Cornell in August 2010, we experienced increases in operating expenses in Third Quarter 2010 over the same period in 2009 of \$23.7 million. We also experienced an increase in Third Quarter 2010 due to start up costs of \$3.8 million including \$1.2 million for D. Ray James and \$2.6 million for Blackwater River. These increases were partially offset by decreases in operating expenses for U.S. corrections due to our terminated contracts at McFarland, Jefferson County, Newton County and Fort Worth.

International services

Operating expenses for international services facilities increased in Nine Months 2010 compared to Nine Months 2009 primarily due to our new contracts in Australia and in the United Kingdom which contributed additional operating expenses of \$24.6 million. We also experienced overall increases in operating expenses associated with the weakening of the US dollar compared to the foreign currencies in Australia, South Africa and the United Kingdom which had an impact of \$17.2 million.

GEO Care

Operating expenses for GEO Care increased by \$19.0 million due to the operation of the Cornell facilities as a result of the acquisition of Cornell. The remaining increase is primarily related to our operation of the Columbia Regional Care Center in Columbia, South Carolina as a result of our acquisition of Just Care.

Facility construction and design

Operating expenses for facility construction and design decreased \$56.3 million during Nine Months 2010 compared to Nine Months 2009 primarily due to a decrease in construction activities at Blackwater River Correctional Facility. In addition, several other projects were completed in 2009 including Florida Civil Commitment Center, Graceville Correctional Facility, and Northeast New Mexico Detention Facility.

Table of Contents**Depreciation and amortization**

| | 2010 | % of Segment Revenue | 2009 (Dollars in thousands) | % of Segment Revenue | \$ Change | % Change |
|---|-----------|----------------------------|--------------------------------|----------------------------|--------------|-------------|
| U.S. corrections | \$ 27,131 | 4.5% | \$ 26,891 | 4.7% | \$ 240 | 0.9% |
| International services | 1,286 | 0.9% | 1,039 | 1.1% | 247 | 23.8% |
| GEO Care | 3,679 | 2.7% | 1,132 | 1.2% | 2,547 | 225.0% |
| Facility construction and design | | | | | | |
| Total | \$ 32,096 | 3.6% | \$ 29,062 | 3.5% | \$ 3,034 | 10.4% |

U.S. corrections

U.S. corrections depreciation increased by \$2.2 million as a result of the depreciation for the period from August 12, 2010 to October 3, 2010 for the acquired Cornell facilities. This increase was almost completely offset by a reduction in depreciation for U.S. corrections of \$2.7 million due to a change in economic useful lives of certain of our owned correctional facilities. During our first fiscal quarter of 2010, we completed a depreciation study on our owned correctional facilities. Based on the results of the depreciation study, we revised the estimated useful lives of certain of our buildings from our historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010.

International Services

Depreciation and amortization increased slightly in Nine Months 2010 over Nine Months 2009 primarily due to our new management contracts for the operation of Parklea and the Harmondsworth expansion, as discussed above, and also from the impact of changes in the foreign exchange rates.

GEO Care

The increase in depreciation and amortization for GEO Care in Nine Months 2010 compared to Nine Months 2009 is primarily due to our acquisition of Cornell which contributed \$1.0 million of additional depreciation and our acquisition of Just Care in September 2010.

Other Unallocated Operating Expenses

| | 2010 | % of Revenue | 2009 (Dollars in thousands) | % of Revenue | \$ Change | % Change |
|--|----------|-----------------|--------------------------------|-----------------|-----------|-------------|
| General and Administrative Expenses | \$72,028 | 8.0% | \$49,936 | 6.0% | \$22,092 | 44.2% |

General and administrative expenses comprise substantially all of our other unallocated operating expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. These expenses increased significantly in the Nine Months 2010 compared to the Nine Months 2009. The primary reason for the increase relates to transaction costs of \$15.7 million and the general and administrative costs for Cornell of \$1.4 million. We also experienced increases in travel, normal compensation adjustments and professional fees. Excluding the impact of the transaction costs, these costs were consistent as a percentage of revenues.

*Non Operating Expenses**Interest Income and Interest Expense*

| | 2010 | % of Revenue | 2009 (Dollars in thousands) | % of Revenue | \$ Change | % Change |
|--|------|-----------------|--------------------------------|-----------------|-----------|-------------|
|--|------|-----------------|--------------------------------|-----------------|-----------|-------------|

Edgar Filing: GEO GROUP INC - Form 10-Q

| | | | | | | |
|-------------------------|----------|------|----------|------|---------|-------|
| Interest Income | \$ 4,448 | 0.5% | \$ 3,520 | 0.4% | \$ 928 | 26.4% |
| Interest Expense | \$28,178 | 3.1% | \$20,498 | 2.5% | \$7,680 | 37.5% |

The majority of our interest income generated in Nine Months 2010 and Nine Months 2009 is from the cash balances at our Australian subsidiary. The increase in the current period over the same period last year is attributable to currency exchange rates.

The increase in interest expense of \$7.7 million is primarily attributable to more indebtedness outstanding in Nine Months 2010. We experienced an increase in interest expense related to our 7³/₄% Senior Notes of \$5.2 million and also an increase of \$3.2 million related to additional borrowings under our Credit Agreement. These increases were offset by decreases resulting from less interest capitalized in Nine Months 2010 compared to Nine Months 2009 due to more construction expenditures during the Nine Months 2009.

Provision for Income Taxes

| | 2010 | Effective Rate | 2009 (Dollars in thousands) | Effective Rate | \$ Change | % Change |
|---------------------|----------|-------------------|--------------------------------|-------------------|-----------|-------------|
| Income Taxes | \$28,560 | 43.6% | \$30,374 | 38.5% | \$(1,814) | (6.0)% |

The effective tax rate for Nine Months 2010 was negatively impacted by a significant portion of transaction expenses that may not be deductible for federal income tax purposes. If the non-deductible items were excluded from taxable income, the Company's tax rate

Table of Contents

would have been approximately 39.4% which is higher than Nine Months 2009 due to Cornell income which is subject to a higher effective income tax rate. We estimate our annual effective tax rate for fiscal year 2010 to be approximately 39.5%, excluding the impact of partially non-deductible transaction costs associated with the merger with Cornell.

Financial Condition*Business Combination*

On August 12, 2010, we completed the acquisition of Cornell aggregate consideration in cash and stock of \$618.3 million, net of cash and equivalents acquired of \$12.9 million. The fair value of the GEO common stock consideration, excluding the replacement awards of \$0.2 million, was \$357.8 million, based on the closing price of the Company's stock on August 12, 2010 of \$22.70.

Capital Requirements

Our current cash requirements consist of amounts needed for working capital, debt service, supply purchases, investments in joint ventures, and capital expenditures related to either the development of new correctional, detention and/or mental health facilities, or the maintenance of existing facilities. In addition, some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. Generally, these initial expenditures are subsequently fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. Additional capital needs may also arise in the future with respect to possible acquisitions, other corporate transactions or other corporate purposes.

We are currently developing a number of projects using company financing. We estimate that these existing capital projects will cost approximately \$228.7 million, of which \$95.5 million was spent through Nine Months 2010. We have future committed capital projects for which we estimate our remaining capital requirements to be approximately \$133.2 million, which will be spent through our fiscal years 2010 and 2011. 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, we are 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 we win bids for these projects and decide to self-finance their construction, our capital requirements in 2010 and/or 2011 could materially increase.

Liquidity and Capital Resources

On August 4, 2010, we entered into a new Credit Agreement comprised of (i) a \$150.0 million Term Loan A, initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015, (ii) a \$200.0 million Term Loan B initially bearing interest at LIBOR plus 3.25% with a LIBOR floor of 1.50% and maturing August 4, 2016 and (iii) a Revolving Credit Facility of \$400.0 million initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015. Also, on August 4, 2010, we used proceeds from borrowings under the Credit Agreement primarily to repay existing borrowings and accrued interest under the Third Amended and Restated Credit Agreement of \$267.7 million and to pay \$6.7 million for financing fees related to the newly executed Credit Agreement. The Third Amended and Restated Credit Agreement was terminated on August 4, 2010. In connection with the merger with Cornell, we used aggregate proceeds of \$290.0 million from the Term Loan A and the Revolver primarily to repay Cornell's obligations plus accrued interest under its Revolving Line of Credit due December 2011 of \$67.5 million, to repay its obligations plus accrued interest under the existing 10.75% Senior Notes due July 2012 of \$114.4 million, to pay \$14.0 million in transaction costs and to pay the cash component of the merger consideration of \$84.9 million.

We plan to fund all of our capital needs, including our capital expenditures, from cash on hand, cash from operations, borrowings under our Credit Agreement and any other financings which our management and Board of Directors, in their discretion, may consummate. Currently, our primary source of liquidity to meet these requirements is cash flow from operations and borrowings from the \$400.0 million Revolver. As of November 5, 2010, we had \$148.1 million outstanding under the Term Loan A, \$199.5 million outstanding under the Term Loan B, and our \$400.0 million Revolving Credit Facility had \$219.0 million outstanding in loans, \$56.2 million outstanding in letters of credit and \$124.8 million available for borrowings.

Our management believes that cash on hand, cash flows from operations and availability under our Credit Agreement will be adequate to support our capital requirements for the remainder of 2010 and 2011 disclosed above. We are also 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 we win bids for some or all of these projects and decide to self-finance their construction, our capital requirements in 2010 and/or 2011 could materially increase. In that event, our cash on hand, cash flows from operations and borrowings under the existing Credit Agreement may not provide sufficient liquidity to meet our capital

Table of Contents

needs through 2010 and 2011 and we could be forced to seek additional financing or refinance our existing indebtedness. There can be no assurance that any such financing or refinancing would be available to us on terms equal to or more favorable than our current financing terms, or at all.

In February 2010, our Board of Directors approved a stock repurchase program for up to \$80.0 million of our common stock effective through March 31, 2011. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission 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. The stock repurchase program does not obligate us to purchase any specific amount of our common stock and may be suspended or extended at any time at our discretion. During the thirty-nine weeks ended October 3, 2010, we purchased approximately 4.0 million shares of our common stock at a cost of \$80.0 million using cash on hand and cash flow from operating activities. As a result, we have completed repurchases of shares of our common stock under the share repurchase program approved in February 2010.

In the future, our access to capital and ability to compete for future capital-intensive projects will also be dependent upon, among other things, our ability to meet certain financial covenants in the indenture governing the 7³/₄ % Senior Notes and in our Credit Agreement. A substantial decline in our financial performance could limit our access to capital pursuant to these covenants and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations. In addition to these foregoing potential constraints on our capital, a number of state government agencies have been suffering from budget deficits and liquidity issues. While we expect to be in compliance with our debt covenants, if these constraints were to intensify, our liquidity could be materially adversely impacted as could our compliance with these debt covenants.

Executive Retirement Agreements

We have entered into individual executive retirement agreements with our two top executives. These agreements provide each executive with a lump sum payment upon retirement. Under the agreements, the executives may retire at any time after reaching the age of 55 at the executive's discretion. Both of the executives reached the eligible retirement age of 55 in 2005. Based on our current capitalization, we do not believe that making these payments, whether in separate installments or in the aggregate, would materially adversely impact our liquidity. On August 26, 2010, we announced that one of these key executives, Wayne H. Calabrese, Vice Chairman, President and Chief Operating Officer, will retire effective December 31, 2010. As a result of his retirement, we will pay \$4.5 million in discounted retirement benefits under his non-qualified deferred compensation agreement, including a gross up of \$1.7 million for certain taxes as specified in the deferred compensation agreement. We plan to use cash on hand to make this payment.

7³/₄% Senior Notes

On October 20, 2009, we completed a private offering of \$250.0 million in aggregate principal amount of our 7³/₄% 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. We realized net proceeds of \$246.4 million at the close of the transaction, net of the discount on the notes of \$3.6 million. We used the net proceeds of the offering to fund the repurchase of all of our 8¹/₄% Senior Notes due 2013 and pay down part of the Revolver under the Third Amended and Restated Credit Agreement.

The 7³/₄% Senior Notes are guaranteed by certain subsidiaries and are unsecured, senior obligations of GEO and these obligations 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 our Credit Agreement, to the extent of the value of the assets securing such indebtedness; and effectively junior to all obligations of our subsidiaries that are not guarantors. On or after October 15, 2013, we may, at our option, redeem all or a part of the 7³/₄% 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 7³/₄% 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, we may redeem some or all of the 7³/₄% 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

Table of Contents

any. In addition, at any time on or prior to October 15, 2012, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 107.750% of the principal amount of each note 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 us and our 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 our subsidiaries, other than 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. Our unrestricted subsidiaries will not be subject to any of the restrictive covenants in the indenture. We believe we were in compliance with all of the covenants of the Indenture governing the 7³/₄% Senior Notes as of October 3, 2010.

Non-Recourse Debt***South Texas Detention Complex***

We have 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, which we refer to as CSC. CSC was awarded the contract in February 2004 by the Department of Homeland Security, ICE, for development and operation of the detention center. In order to finance the construction of the complex, South Texas Local Development Corporation, which we refer to as 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.

We have an operating agreement with STLDC, the owner of the complex, which provides us with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from our contract with ICE to 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 us to cover operating expenses and management fees. We are responsible for the entire operations of the facility including the payment of 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 us 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 us. We have determined that we are the primary beneficiary of STLDC and consolidate the entity as a result.

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 October 3, 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 October 3, 2010, included in current restricted cash and non-current restricted cash is \$6.2 million and \$8.2 million, respectively, of funds held in trust with respect to the STLDC for debt service and other reserves.

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 and acquired by us 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 us and the loan from WEDFA to CSC is also non-recourse to us. These bonds mature in February 2014 and have fixed coupon rates between 3.80% 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. On October 1, 2010, CSC of Tacoma LLC made a payment from its restricted cash account of \$5.9 million for the current portion of its periodic debt service requirement in relation to the WEDFA bond indenture. As of October 3, 2010, the remaining balance of the debt service requirement is \$25.7 million, of which \$6.1 million is due within the next 12 months.

Table of Contents

As of October 3, 2010, included in current restricted cash and non-current restricted cash is \$7.1 million and \$0.9 million, respectively, as funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

MCF

MCF, our consolidated variable interest entity, is obligated for the outstanding balance of the 8.47% Revenue Bonds. The bonds bear interest at a rate of 8.47% per annum and are payable in semi-annual installments of interest and annual installments of principal. All unpaid principal and accrued interest on the bonds is due on the earlier of August 1, 2016 (maturity) or as noted under the bond documents. The bonds are limited, nonrecourse obligations of MCF and are collateralized by the property and equipment, bond reserves, assignment of subleases and substantially all assets related to the facilities owned by MCF. The bonds are not guaranteed by us or our subsidiaries.

Australia

In connection with the financing and management of one Australian facility, our wholly owned Australian subsidiary financed the facility's development and subsequent expansion in 2003 with long-term debt obligations. These obligations are non-recourse to us and total \$45.4 million at October 3, 2010. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at October 3, 2010, was \$4.9 million. 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.

Guarantees

In connection with the creation of South African Custodial Services Ltd., referred to as SACS, we entered into certain guarantees related to the financing, construction and operation of the prison. We guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or \$8.7 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. We have 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 our guarantee. Our obligations under this guarantee expire upon the release from SACS of its obligations in respect to the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included as part of the value of outstanding letters of credit under our Revolving Credit Commitment.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or \$2.9 million, referred to as the Standby Facility, to SACS for the purpose of financing the obligations under the contract between SACS and the South African government. No amounts have been funded under the Standby Facility, and we do not currently anticipate that such funding will be required by SACS in the future. Our obligations under the Standby Facility expire upon the earlier of full funding or release from SACS of 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.

We have also guaranteed certain obligations of SACS to the security trustee for SACS' lenders. We have secured our guarantee to the security trustee by ceding our rights to claims against SACS in respect of any loans or other finance agreements, and by pledging our shares in SACS. Our 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, we guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is CAD 2.5 million, or \$2.5 million commencing in 2017. We have a liability of \$1.8 million related to this exposure as of October 3, 2010. To secure this guarantee, we purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. We have recorded an asset and a liability equal to the current fair market value of those securities on our consolidated balance sheet. We do not currently operate or manage this facility.

At October 3, 2010, we also have outstanding nine letters of guarantee related to our Australian subsidiary totaling \$9.6 million under separate international facilities.

We are also exposed to various commitments and contingencies which may have a material adverse effect on our liquidity. See Part II Item 1. Legal Proceedings.

Table of Contents***Derivatives***

In November 2009, we executed three interest rate swap agreements in the aggregate notional amount of \$75.0 million. In January 2010, we executed a fourth interest rate swap agreement in the notional amount of \$25.0 million. We have designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7³/₄% Senior Notes due 2017 (7³/₄% Senior Notes) due to changes in underlying interest rates. These interest rate swaps, which have payment, expiration dates and call provisions that mirror the terms of the 7³/₄% Senior Notes, effectively convert \$100.0 million of the 7³/₄% Senior Notes into variable rate obligations. Each of the swaps has a termination clause that gives the counterparty the right to terminate the interest rate swaps at fair market value, under certain circumstances. In addition to the termination clause, these interest rate swaps also have call provisions which specify that the lender can elect to settle the swap for the call option price. Under these interest rate swaps, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 7³/₄% per year calculated on the notional \$100.0 million amount, while we make 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 \$3.3 million and \$9.2 million in the thirteen and thirty-nine weeks ended October 3, 2010, respectively. As of October 3, 2010 and January 3, 2010, the fair value of the swap assets (liabilities) was \$7.3 million and \$(1.9) million, respectively. There was no material ineffectiveness of these interest rate swaps during the fiscal periods ended October 3, 2010.

Our 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%. We have 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, we record the change in the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. Total unrealized gains recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was \$(0.2) million and \$0.3 million for the thirteen and thirty-nine weeks ended October 3, 2010, respectively. Total net gains recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was \$0.1 million and \$1.0 million for the thirteen and thirty-nine weeks ended September 27, 2009 respectively. The total value of the swap asset as of October 3, 2010 and January 3, 2010 was \$1.5 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. We do 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).

Cash Flow

Cash and cash equivalents as of October 3, 2010 was \$53.8 million, an increase of \$19.9 million from January 3, 2010.

Cash provided by operating activities of continuing operations amounted to \$103.6 million in Nine Months 2010 versus cash provided by operating activities of continuing operations of \$79.3 million in Nine Months 2009. Cash provided by operating activities of continuing operations in Nine Months 2010 was positively impacted by the \$7.9 million loss on extinguishment of debt associated with the termination of our Third Amended and Restated Credit Agreement, a decrease of \$6.6 million in accounts receivable and other assets and an increase in accounts payable, accrued expenses and other liabilities of \$13.9 million. Cash provided by operating activities of continuing operations in Nine Months 2009 was positively impacted by an increase in accounts payable, accrued expenses and accrued payroll of \$11.1 million and negatively impacted by an increase in accounts receivable and other assets of \$21.6 million.

Cash used in investing activities amounted to \$330.3 million in Nine Months 2010 compared to cash used in investing activities of \$115.1 million in Nine Months 2009. Cash used in investing activities in Nine Months 2010 primarily reflects our cash consideration for the purchase of Cornell for \$260.2 million which includes \$273.1 million for cash paid to acquire shares and cash paid to settle certain of Cornell's debt, net of cash acquired of \$12.9 million. In

addition, we used \$68.3 million for capital expenditures. Cash used in investing activities in the Nine Months 2009 primarily reflects capital expenditures of \$113.7 million.

Cash provided by financing activities in Nine Months 2010 amounted to \$244.2 million compared to cash provided by financing activities of \$24.2 million in Nine Months 2009. Cash provided by financing activities in the Nine Months 2010 reflects proceeds from our Credit Agreement of \$673.0 million offset by payments on our Credit Agreement of \$342.5 million. Cash provided by financing activities in the Nine Months 2009 of \$24.2 million reflects proceeds received from borrowings on our Revolver of \$41.0 million offset by payments on long-term debt and non-recourse debt of \$18.5 million.

Table of Contents**Outlook**

The following discussion contains statements that are not historical statements and, therefore, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied in the forward-looking statement. Please refer to Part I Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended January 3, 2010 and Part II Item 1A. Risk Factors in our Quarterly Reports on Form 10-Q for the quarters ended April 4, 2010, July 4, 2010 and October 3, 2010, the

Forward-Looking Statements Safe Harbor section in our Annual Report on Form 10-K, as well as the other disclosures contained in our Annual Report on Form 10-K, for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements.

Revenue

Domestically, we continue to be encouraged by the number of opportunities that have recently developed in the privatized corrections and detention industry. Overcrowding at corrections facilities in various states and increased demand for bed space at federal prisons and detention facilities are two of the factors that have contributed to the opportunities for privatization. However, these positive trends may in the future be impacted by government budgetary constraints. Recently, we have experienced a delay in cash receipts from California and other states may follow suit. During this fiscal year to date, we have not received any payment deferrals or IOU s from California and expect to fully collect our outstanding receivables. While state budgetary pressures are expected to persist in fiscal years 2011 and 2012, we are encouraged by recent signs that the rate of decline in state revenue collections is slowing. While forty-one states reported project budget gaps during the enactment of their fiscal year 2011 budgets, these budgets gaps have by and large been closed with only a few exceptions according to a July 2010 report issued by the National Conference on State Legislatures. As a result of budgetary pressures, state correctional agencies may pursue a number of cost savings initiatives which may include the early release of inmates, changes to parole laws and sentencing guidelines, and reductions in per diem rates and/or the scope of services provided by private operators. These potential cost savings initiatives could have a material adverse impact on our current operations and/or our ability to pursue new business opportunities. Additionally, if state budgetary constraints, as discussed above, persist or intensify, our state customers ability to pay us may be impaired and/or we may be forced to renegotiate our management contracts on less favorable terms and our financial condition results of operations or cash flows could be materially adversely impacted. We plan to actively bid on any new projects that fit our target profile for profitability and operational risk. Although we are pleased with the overall industry outlook, positive trends in the industry may be offset by several factors, including budgetary constraints, unanticipated contract terminations, contract non-renewals, and/or contract re-bids. Although we have historically had a relative high contract renewal rate, there can be no assurance that we will be able to renew our expiring management contracts on favorable terms, or at all. Also, while we are pleased with our track record in re-bid situations, we cannot assure that we will prevail in any such future situations.

Internationally, during the second half of fiscal year 2009 our subsidiaries in the United Kingdom and Australia began the operation and management under two new contracts with an aggregate of 1,083 beds. In July 2010, our subsidiary in the United Kingdom (referred to as the UK) began operating the 360-bed expansion at Harmondsworth increasing the capacity of that facility to 620 beds from 260 beds. We believe there are additional opportunities in the UK such as the UK government s solicitation of proposals for the management of five existing managed-only prisons totaling approximately 5,700 beds for which our wholly-owned subsidiary in the UK has been short-listed for participation in these procurements. Additionally, we expect to compete on large-scale transportation contracts in the UK where we have been short-listed to submit proposals as part of a new venture we have formed with a large UK-based fleet services company. Finally, the UK government had announced plans to develop five new 1,500-bed prisons to be financed, built and managed by the private sector. GEO had gone through the prequalification process for this procurement and had been invited to compete on these opportunities. We are currently awaiting a revised timeline from the governmental agency in the UK so we may continue to pursue this project. We are continuing to monitor this

opportunity and, at this time, we believe the government in the UK is reviewing this plan to determine the best way to proceed. In South Africa, we have bid on projects for the design, construction and operation of four 3,000-bed prison projects totaling 12,000 beds. Requests for proposal were issued in December 2008 and we submitted our bids on the projects at the end of May 2009. The South African government has decided to move forward with the bidding process with a revised timeline that would result in a decision in late 2011. Once preferred bidders have been announced, we anticipate the closing to occur within six months thereafter. No more than two prison projects can be awarded to any one bidder. In New Zealand, the government has an active procurement for the management of an existing prison facility. The New Zealand government has also solicited expressions of interest for a new design, build, finance and management contract for a new correctional center for 960 beds. We believe that additional opportunities will become available in international markets and we plan to actively bid on any opportunities that fit our target profile for profitability and operational risk.

With respect to our mental health/residential treatment services business conducted through our wholly-owned subsidiary, GEO Care, we are currently pursuing a number of business development opportunities. In connection with our merger with Cornell in August 2010, through our GEO Care segment, we manage and/or own 43 facilities with a total design capacity of approximately 6,300 beds. In addition, we continue to expend resources on informing state and local governments about the benefits of privatization and we

Table of Contents

anticipate that there will be new opportunities in the future as those efforts begin to yield results. We believe we are well positioned to capitalize on any suitable opportunities that become available in this area.

As a result of the consummation of our merger with Cornell, we expect to increase our aggregate annual revenues by approximately \$400 million to approximately \$1.5 billion. We anticipate this increase in revenues will occur in our U.S. corrections and GEO Care segments.

Operating Expenses

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. Labor and related cost represented 55.5% of our operating expenses in Nine Months 2010. Additional significant operating expenses include food, utilities and inmate medical costs. In 2010, operating expenses totaled 77.5% of our consolidated revenues. Our operating expenses as a percentage of revenue in 2010 will be impacted by the opening of any new facilities. We expect our results in 2010 to reflect increases to interest expense due to higher rates related to incremental borrowings under our Credit Agreement, higher average amounts of indebtedness and less capitalized interest due to a decrease in construction activity. We also expect increases to depreciation expense as a percentage of revenue due to carrying costs we will incur for a newly constructed and expanded facility for which we have no corresponding management contract for the expansion beds and potential carrying costs of certain facilities we acquired from Cornell with no corresponding management contract. A portion of these increases will be offset by a savings to depreciation expense. During our first fiscal quarter ended April 4, 2010, we completed a depreciation study on our owned correctional facilities and, as a result, revised the estimated useful lives of certain of our buildings from our historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. The impact for the year ended January 2, 2011 is expected to be \$2.2 million, net of tax. In addition to the factors discussed relative to our current operations, we expect to experience increases in operating expenses as a result of the merger with Cornell. As of October 3, 2010, our worldwide operations include the management and/ or ownership of approximately 79,000 beds at 116 correctional, detention and residential treatment facilities including projects under development. See discussion below relative to Synergies and Cost Savings.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees, business development costs and other administrative expenses. We expect business development costs to remain consistent as we pursue additional business development opportunities in all of our business lines and build the corporate infrastructure necessary to support our mental health residential treatment services business. In Third Quarter 2010, general and administrative expenses totaled 10.3% of our consolidated revenues. Excluding the impact of the merger with Cornell, we expect general and administrative expenses as a percentage of revenue in 2010 to be generally consistent with our general and administrative expenses for 2009. In connection with our merger with Cornell, we incurred \$23.6 million in transaction costs, including \$7.9 million in debt extinguishment costs, during the thirty-nine weeks ended October 3, 2010 and expect to incur between \$3 million and \$4 million in the fourth fiscal quarter of 2010 for aggregate transaction costs of between \$27 million and \$28 million. Transaction costs, which we believe will be, in part, non-deductible for Federal Income Tax purposes, include legal, financial advisory, due diligence, filing fees and other costs necessary to close the transaction.

Synergies and Cost Savings

Our management anticipates annual synergies of \$12-15 million during the year following the completion of the merger with Cornell, and believes there may be potential to achieve additional synergies thereafter. We believe the Merger should result in a number of important synergies achieved primarily from greater operating efficiencies, capturing inherent economies of scale and leveraging corporate resources. Any synergies achieved will further enhance cash provided by operations and return on invested capital of the combined company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*Interest Rate Risk*

We are exposed to market risks related to changes in interest rates with respect to our Credit Agreement. Payments under the Credit Agreement are indexed to a variable interest rate. Based on borrowings outstanding under the Credit Agreement of \$566.6 million and \$56.2 million in outstanding letters of credit, as of November 5, 2010, for every one percent increase in the interest rate applicable to the Credit Agreement, our total annual interest expense would

increase by \$6.2 million.

Table of Contents

In November 2009, we executed three interest rate swap agreements in the aggregate notional amount of \$75.0 million. Effective January 6, 2010, we executed a fourth swap agreement relative to a notional amount of \$25.0 million of our 7³/₄% Senior Notes. These interest rate swaps, which have payment, expiration dates and call provisions that mirror the terms of the 7³/₄% Senior Notes, effectively convert \$100.0 million of the Notes into variable rate obligations. Under these interest rate swaps, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 7³/₄% per year calculated on the notional \$100.0 million amount, while we make 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. For every one percent increase in the interest rate applicable to our aggregate notional \$100.0 million of swap agreements relative to the 7³/₄% Senior Notes, our annual interest expense would increase by \$1.0 million.

We have entered into certain interest rate swap arrangements for hedging purposes, fixing the interest rate on our Australian non-recourse debt to 9.7%. The difference between the floating rate and the swap rate on these instruments is recognized in interest expense within the respective entity. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point change in the current interest rate would not have a material impact on our financial condition or results of operations.

Additionally, we invest our cash in a variety of short-term financial instruments to provide a return. These instruments generally consist of highly liquid investments with original maturities at the date of purchase of three months or less. While these instruments are subject to interest rate risk, a hypothetical 100 basis point increase or decrease in market interest rates would not have a material impact on our financial condition or results of operations.

Foreign Currency Exchange Rate Risk

We are also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar, the Australian dollar, the Canadian dollar, the South African Rand and the British Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at October 3, 2010, every 10 percent change in historical currency rates would have approximately a \$6.2 million effect on our financial position and approximately a \$0.9 million impact on our results of operations during 2010.

Table of Contents**ITEM 4. CONTROLS AND PROCEDURES.****(a) Evaluation of Disclosure Controls and Procedures.**

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act), as of the end of the period covered by this report. On the basis of this review, our management, including our Chief Executive Officer and our Chief Financial Officer, has concluded that as of the end of the period covered by this report, our disclosure controls and procedures were effective to give reasonable assurance that the information required to be disclosed in our reports filed with the SEC, under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

On August 12, 2010, we acquired Cornell, at which time Cornell became our subsidiary. See Note 2 to the condensed consolidated financial statements contained in this Quarterly Report for further details of the transaction. We are currently in the process of assessing and integrating Cornell's internal controls over financial reporting into our financial reporting systems. Management's assessment of internal control over financial reporting at October 3, 2010, excludes the operations of Cornell as allowed by SEC guidance related to internal controls of recently acquired entities. Management will include the operations of Cornell in its assessment of internal control over financial reporting within one year from the date of acquisition.

It should be noted that the effectiveness of our system of disclosure controls and procedures is subject to certain limitations inherent in any system of disclosure controls and procedures, including the exercise of judgment in designing, implementing and evaluating the controls and procedures, the assumptions used in identifying the likelihood of future events, and the inability to eliminate misconduct completely. Accordingly, there can be no assurance that our disclosure controls and procedures will detect all errors or fraud. As a result, by its nature, our system of disclosure controls and procedures can provide only reasonable assurance regarding management's control objectives.

(b) Changes in Internal Control Over Financial Reporting.

Our management is responsible to report any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management believes that there have not been any changes, other than those related to our assessment and integration of Cornell as discussed above, in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS.**

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities formerly operated by our Australian subsidiary. The claim 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, a lawsuit (Commonwealth of Australia v. Australasian Correctional Services PTY, Limited No. SC 656) was filed against the Company in the Supreme Court of the Australian Capital Territory seeking damages of up to approximately AUD 18 million or \$17.5 million, plus interest. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. We have established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our 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 our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. We are

uninsured for any damages or costs that we 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 our U.S. federal income tax returns for the years 2002 through 2005. Following the examination, the IRS notified us that it proposes to disallow a deduction that we realized during the 2005 tax year. Due to our receipt of the proposed IRS audit adjustment for the disallowed deduction, we have reassessed the probability of potential settlement outcomes with respect to the proposed adjustment, which is now under review by the IRS's appeals division. Based on this reassessment, we have provided an additional accrual of \$4.9 million during the fourth quarter of 2009. We have appealed this proposed disallowed deduction with the IRS's appeals division and believe we have valid defenses to the IRS's position. However, if the disallowed deduction were to be sustained in full on appeal, it could result in a potential tax exposure to

Table of Contents

us of \$15.4 million. We believe in the merits of our position and intend to defend our rights vigorously, including our 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 our financial position, results of operations and cash flows. Up to and through our third fiscal quarter, we were examined by the Internal Revenue Service for fiscal years 2006 through 2008. These audits concluded in October, 2010 with no change to our income tax positions for the years under audit.

Our South Africa joint venture, SACS, had been 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. During 2009, SARS notified us that it proposed to disallow these deductions. We appealed these proposed disallowed deductions with SARS and in October 2010, received a favorable court ruling relative to these deductions. The South African Revenue Service has until December 2, 2010 to appeal this ruling. Should SARS appeal the case and if it is resolved unfavorably, our maximum exposure will be \$2.6 million.

On April 27, 2010, a putative stockholder class action was filed in the District Court for Harris County, Texas by Todd Shelby against Cornell, members of the Cornell board of directors, individually, and GEO. The plaintiff filed an amended complaint on May 28, 2010. The amended complaint alleges, among other things, that the Cornell directors, aided and abetted by Cornell and GEO, breached their fiduciary duties in connection with the Merger. Among other things, the amended complaint seeks to enjoin Cornell, its directors and GEO from completing the Merger and seeks a constructive trust over any benefits improperly received by the defendants as a result of their alleged wrongful conduct. The parties have reached a settlement in principle, which has been preliminarily approved by the court and remains subject to final court approval of the settlement and dismissal of the action with prejudice. The settlement of this matter will not have a material adverse impact on our financial condition, results of operations or cash flows.

The nature of our business exposes us to various types of claims or litigation against us, 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 our customers and other third parties, contractual claims and claims for personal injury or other damages resulting from contact with our 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, we do not expect the outcome of any pending claims or legal proceedings to have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 1A. RISK FACTORS.

Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended January 3, 2010 filed on February 22, 2010 (the 2009 Form 10-K), Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended April 4, 2010 filed on May 14, 2010 (the 1Q 2010 Form 10-Q) and Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended July 4, 2010 filed on August 13, 2010 (the 2Q 2010 Form 10-Q) include a detailed discussion of the risk factors that could materially affect our business, financial condition or future prospects. The information below updates, and should be read in conjunction with, the risk factors in our 2009 Form 10-K, our 1Q 2010 Form 10-Q and our 2Q 2010 Form 10-Q. We encourage you to read these risk factors in their entirety.

GEO may experience difficulties integrating Cornell's business.

Achieving the anticipated benefits of the merger will depend in significant part upon whether GEO integrates Cornell's business in an efficient and effective manner. The integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. GEO may not be able to accomplish the integration process smoothly, successfully or on a timely basis. The necessity of coordinating geographically separated organizations, systems of controls, and facilities and addressing possible differences in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. Prior to the merger, GEO and Cornell operated numerous systems and controls, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance. The integration of Cornell's operations requires the dedication of significant management and external resources,

which may temporarily distract GEO's attention from the day-to-day business and be costly. Employee uncertainty and lack of focus during the integration process may also disrupt the business of the combined company. Any inability of GEO's management to successfully and timely integrate Cornell's operations could have a material adverse effect on the business and results of operations of GEO.

Table of Contents**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.****Issuer Purchase of Equity Securities:**

The following table presents information related to repurchases of our common stock made during the quarter ended October 3, 2010:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)(3) | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs |
|-------------------------------------|---|-------------------------------------|--|---|
| July 5, 2010 - August 4, 2010 | | | | \$ 2,721,756 |
| August 5, 2010 - September 4, 2010 | 433,818 | \$ 22.58 | 120,485 | |
| September 5, 2010 - October 3, 2010 | | | | |

- (1) Included in the total number of shares purchased are 313,333 shares purchased from executive officers at an aggregate cost of \$7.1 million. These shares were purchased outside of the stock repurchase program.
- (2) On February 22, 2010, the Company announced that its Board of Directors approved a stock repurchase program of up to \$80.0 million of its common stock effective through March 31, 2011. The stock repurchase program was implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable rules and requirements of the Securities and Exchange Commission. The program included repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The Company completed repurchases of shares of its common stock under the repurchase program in its third fiscal quarter of 2010.
- (3) All shares purchased to date pursuant to the Company's share repurchase program have been deposited, into treasury and retained for future uses.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

ITEM 4. REMOVED AND RESERVED.**ITEM 5. OTHER INFORMATION.**

Not applicable.

ITEM 6. EXHIBITS.

(A) Exhibits

- 31.1 SECTION 302 CEO Certification.
- 31.2 SECTION 302 CFO Certification.
- 32.1 SECTION 906 CEO Certification.
- 32.2 SECTION 906 CFO Certification.

| | |
|---------|---|
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase |

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GEO GROUP, INC.

Date: November 10, 2010

/s/ Brian R. Evans
Brian R. Evans
Senior Vice President & Chief Financial Officer
(duly authorized officer and principal financial officer)