

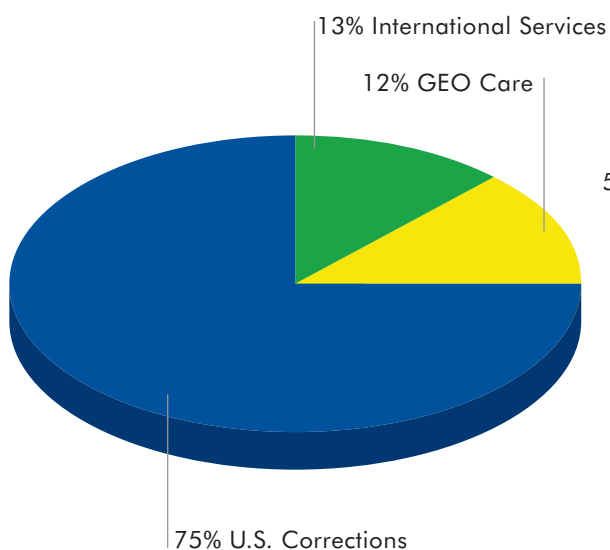


**The GEO Group, Inc.**

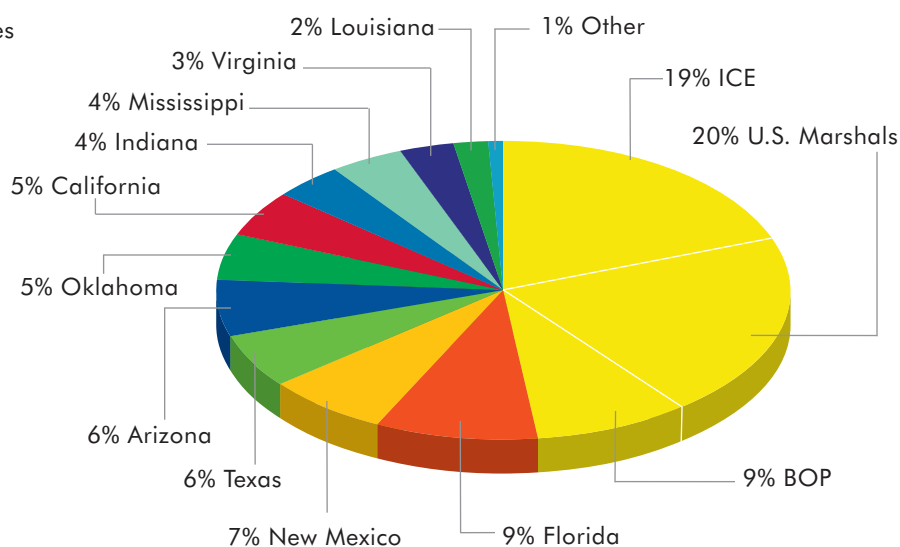
2009 ANNUAL REPORT

# 2009 Revenue Distribution

A. Business Unit\*



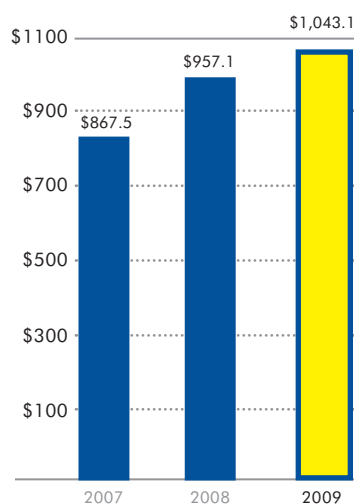
B. U.S. Corrections by Customer



\*Revenue breakdown excludes construction revenues.

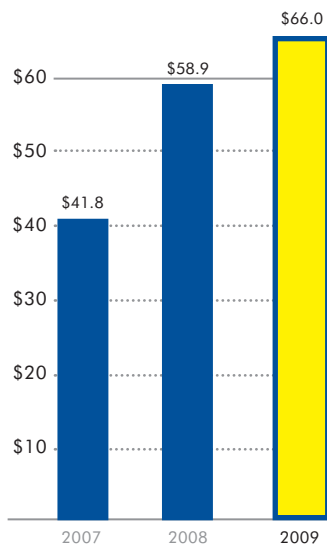
# 2009 Financial Highlights

REVENUES (EXCLUDING CONSTRUCTION)  
\$ In Millions



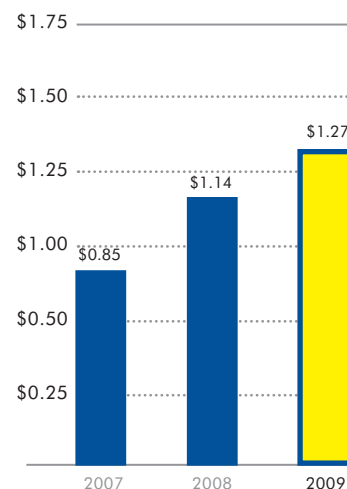
3-year CAGR → +10%

GAAP NET INCOME  
\$ In Millions



3-year CAGR → +26%

GAAP EARNINGS PER SHARE



3-year CAGR → +22%

CAGR = compound annual growth rate

# Letter to the Shareholders

In 2009, our company took important strategic steps that have positioned us to pursue future growth opportunities and have strengthened our balance sheet. We experienced a number of milestones during the year, and our financial performance reached new highs driven by strong operational results from our three business units of U.S. Corrections, International Services, and GEO Care. Our diversified growth platform led to the opening of more than 2,600 new or expanded correctional, detention and residential treatment beds in 2009 along with the development of approximately 5,000 new beds slated for completion in 2010.



**George C. Zoley**

*Chairman of the Board,  
Chief Executive Officer  
and Founder*

Our core correctional market segments in the United States at the federal and state levels continue to be driven by strong fundamentals and an increased demand for correctional and detention beds. At the state level, our company has worked with our ten state clients to address their ongoing needs as capacity constraints and growing inmate populations coupled with limited state resources have given rise to the need for cost-efficient correctional and detention solutions and have increased interest in privatization projects. At the federal level, our company has continued to partner with U.S. Immigration and Customs Enforcement, the U.S. Marshals Service, the Federal Bureau of Prisons, and the Office

of the Federal Detention Trustee as these agencies carry out initiatives focused on border enforcement and illegal immigration detention with an emphasis on criminal alien populations.

Our U.S. Corrections business unit built on its public-private partnerships with our state and federal clients with the activation of several important projects including the 192-bed expansion of the 576-bed Robert A. Deyton Detention Facility, which houses detainees for the United States Marshals Service; the 384-bed expansion of the 1,500-bed Graceville, Fla. Correctional Facility; along with the 100-bed expansion of the 600-bed Broward Transition Center and the 545-bed expansion of the 1,030-bed Northwest Detention Center, both of which house detainees for U.S. Immigration and Customs Enforcement. In addition to these important expansions, our U.S. Corrections business unit discontinued three underperforming managed-only, county-owned facilities in Texas, thus refocusing its operations and business development efforts on our core correctional market segments at the state and federal levels.

Our international operations and our mental health facilities also experienced important milestones and continued to generate significant contributions to our companywide earnings. Internationally, our GEO U.K. subsidiary assumed management of the 260-bed Harmondsworth Immigration Removal Centre, which is scheduled to be expanded by another 360 beds in mid 2010. In Australia, our GEO Australia subsidiary assumed management of the 823-bed Parklea Correctional Centre in New South Wales. These two important contract activations marked our continued international expansion, and we are positioned to capitalize on additional business development opportunities in our

overseas markets in Australia, South Africa, and the United Kingdom given our longstanding and successful public-private partnerships in each of these key markets.

Our mental health business unit, GEO Care, expanded its client base and service offerings with the strategic acquisition of Just Care for approximately \$38.0 million in the fourth quarter of 2009. With this important transaction, GEO Care added the 354-bed Columbia Regional Care Center to its operations. Located in Columbia, South Carolina, this regional center serves offenders for the states of South Carolina and Georgia as well as detainees for the U.S. Marshals Service and U.S. Immigration and Customs Enforcement. The acquisition of Just Care is expected to add \$30.0 million in annual revenues and be immediately accretive to GEO Care's operations. This important transaction will also enhance our company's ability to market our mental health management services for civil and forensic psychiatric populations throughout the country.

The milestones achieved by our three business units in 2009 resulted in strong companywide financial performance. Our total revenues, including construction activity, increased nine percent to \$1.14 billion. Our adjusted EBITDA increased 12 percent to \$183.1 million, and our pro forma net earnings grew 14 percent to \$73.5 million. Our improved financial results continue to validate our company's diversified growth and investment strategy. Between 2008 and early 2010, we have invested approximately \$300.0 million in long-term capital projects which have increased the book value of our long-term facility assets to approximately \$1.0 billion.

As we prepare to pursue additional growth opportunities, we have taken steps to strengthen an already strong balance sheet. In the fourth quarter of 2009, we issued \$250.0 million in new eight-year senior unsecured notes bearing interest at 7.75%, and we used the net proceeds from this offering to redeem \$150.0 million of our existing 8.25% senior unsecured notes as well as to pay down senior debt borrowings. Simultaneously, we also extended our senior revolving credit facility expanding its capacity from \$240.0 million to \$330.0 million, now bearing interest at LIBOR plus 3.25 percent. These important recapitalization transactions along with our projected annual free cash flow generation in excess of \$115.0 million will give our company ample capital availability of more than \$450.0 million over the next two years.

The operational and strategic milestones we achieved in 2009 have furthered our efforts to grow our company through a diversified business platform. With a strengthened balance sheet and increased capital availability, our company is well positioned to capture new projects as we pursue organic growth opportunities in each of our core markets which continue to experience growing demand for correctional, detention, and residential treatment beds.



**Wayne H. Calabrese**  
*Vice Chairman of the Board,  
President and Chief  
Operating Officer*



## Board of Directors



**Richard H. Glanton**

Chief Executive Officer  
Philadelphia Television Network

**John M. Palms, Ph.D.**

President Emeritus  
University of South Carolina

**Anne N. Foreman**

Former Under Secretary  
United States Air Force

**Wayne H. Calabrese**

Vice Chairman of the Board,  
President and Chief Operating  
Officer, The GEO Group, Inc.

**George C. Zoley**

Chairman of the Board, Chief  
Executive Officer and Founder  
The GEO Group, Inc.

**Norman A. Carlson**

Former Director  
Federal Bureau of Prisons

## Senior Officers



**George C. Zoley**

Chairman of the Board,  
Chief Executive Officer  
and Founder



**Wayne H. Calabrese**

Vice Chairman of the Board,  
President and Chief  
Operating Officer



**Brian R. Evans**

Senior Vice President and  
Chief Financial Officer



**John J. Bulfin**

Senior Vice President,  
General Counsel and Secretary



**John M. Hurley**

Senior Vice President  
and President, U.S.  
Corrections



**Jorge A. Dominicus**

Senior Vice President  
and President, GEO Care, Inc.



**Tom M. Wierdsma**

Senior Vice President,  
Project Development

# US Corrections

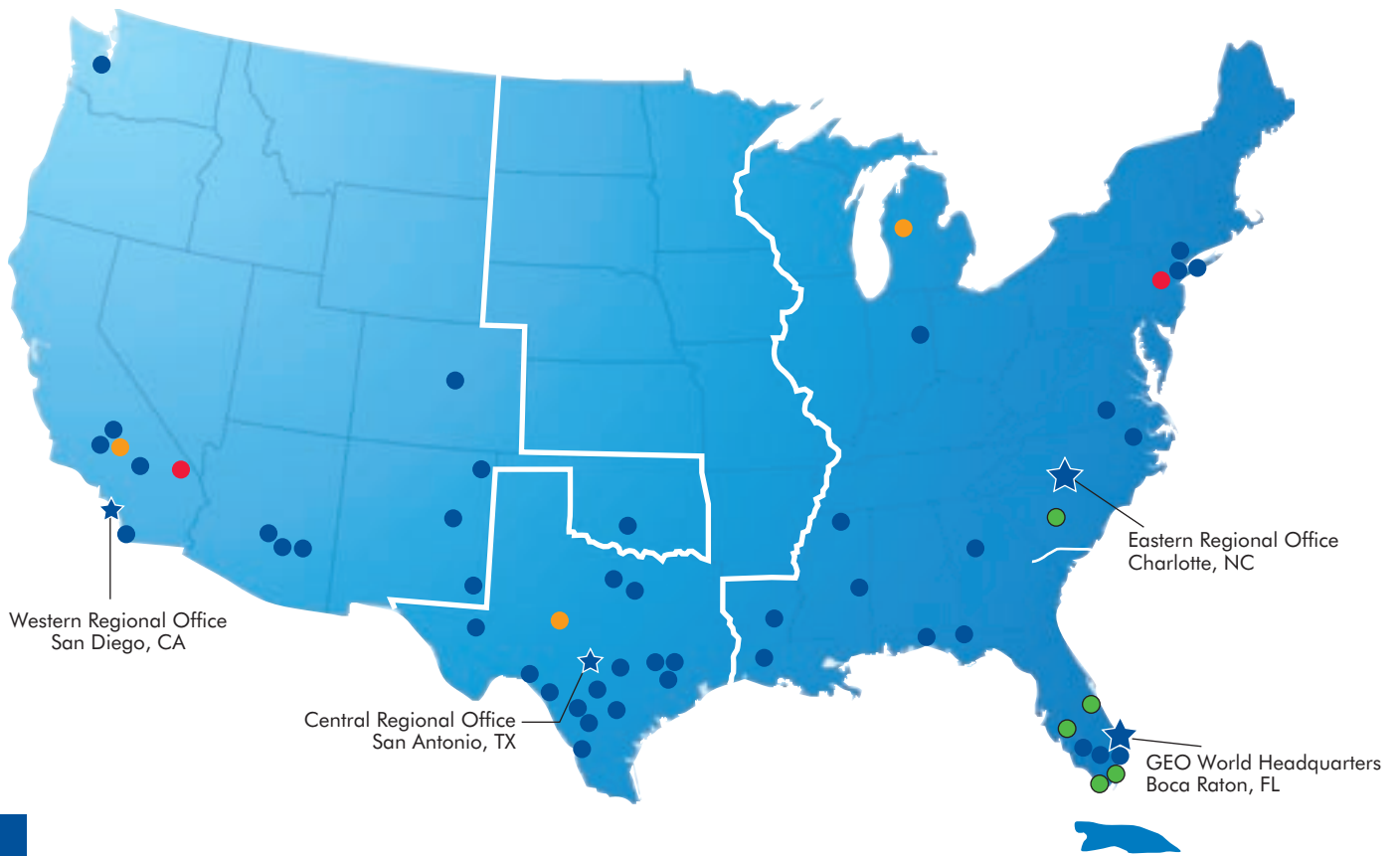
- U.S. Corrections Facilities
- GEO Care Facilities
- Idle Facilities
- Non-Managed Facilities

Facility Name	Facility Type	Security Level	Capacity
<b>FEDERAL</b>			
Aurora ICE Processing Center (CO)	Federal Detention Facility	Minimum/Medium	1,532
Bronx Community Re-Entry Center (NY)	Federal Re-entry Center	Minimum	110
Brooklyn Community Correctional Center (NY)	Federal Re-entry Center	Minimum	177
Broward Transition Center (FL)	Federal Detention Facility	Minimum	700
Central Texas Detention Facility (TX)	Local & Federal Detention Facility	Minimum/Medium	688
Frio County Detention Center (TX)	Local & Federal Detention Facility	All Levels	391
Guantanamo Bay Migrant Operations Center (Cuba)	Federal Migrant Center	Minimum	130
Joe Corley Detention Facility (TX)	Local & Federal Detention Facility	Medium	1,287
Karnes Correctional Center (TX)	Local & Federal Detention Facility	All Levels	679
LaSalle Detention Facility (LA)	Federal Detention Facility	Minimum/Medium	1,160
Maverick County Detention Center (TX)	Local & Federal Detention Facility	Medium	688
Northwest Detention Center (WA)	Federal Detention Facility	All Levels	1,575
Queens Detention Facility (NY)	Federal Detention Facility	Minimum/Medium	222
Reeves County Detention Complex (TX)	Federal Correctional Facility	Low	3,076
Rio Grande Detention Center (TX)	Federal Detention Facility	Medium	1,380
Rivers Correctional Institution (NC)	Federal Correctional Facility	Low	1,500
Robert A. Deyton Detention Facility (GA)	Federal Detention Facility	Medium	768
South Texas Detention Complex (TX)	Federal Detention Facility	All	1,904
Val Verde County Correctional Facility & Jail (TX)	Local & Federal Detention Facility	All Levels	1,344
Western Region Detention Facility San Diego (CA)	Federal Detention Facility	Maximum	770
<b>STATE</b>			
<b>ARIZONA</b>			
Arizona State Prison - Florence West	State Correctional Facility	Minimum	750
Arizona State Prison - Phoenix West	State Correctional Facility	Minimum	450
Central Arizona Correctional Facility	State Sex Offender Correctional Facility	Minimum/Medium	1,280
<b>CALIFORNIA</b>			
Central Valley Modified Community Correctional Facility	State Correctional Facility	Medium	625
Desert View Modified Community Correctional Facility	State Correctional Facility	Medium	643
Golden State Modified Community Correctional Facility	State Correctional Facility	Medium	625
<b>FLORIDA</b>			
Graceville Correctional Facility	State Correctional Facility	Medium/Close	1,884
Moore Haven Correctional Facility	State Correctional Facility	Medium	985
South Bay Correctional Facility	State Correctional Facility	Medium/Close	1,862
Blackwater River Correctional Facility	State Correctional Facility	Medium/Close	2,000
<b>INDIANA</b>			
New Castle Correctional Facility	State Correctional Facility	All	2,524
<b>LOUISIANA</b>			
Allen Correctional Center	State Correctional Facility	Medium/Maximum	1,538
<b>MISSISSIPPI</b>			
East Mississippi Correctional Facility	State Mental Health Correctional Facility	All Levels	1,500
Marshall County Correctional Facility	State Correctional Facility	Medium	1,000
<b>NEW MEXICO</b>			
Northeast New Mexico Detention Facility	State Correctional Facility	Medium	625
Guadalupe County Correctional Facility	State Correctional Facility	Medium	600
Lea County Correctional Facility	State Correctional Facility	All Levels	1,200
<b>OKLAHOMA</b>			
Lawton Correctional Facility	State Correctional Facility	Medium	2,526
<b>TEXAS</b>			
Bridgeport Correctional Center	State Correctional Facility	Minimum	520
Cleveland Correctional Center	State Correctional Facility	Minimum	520
Lockhart Secure Work Program	State Correctional Facility	Minimum/Medium	1,000
North Texas Intermediate Sanction Facility	State Intermediate Sanction Facility	Minimum	424
South Texas Intermediate Sanction Facility	State Intermediate Sanction Facility	Medium	450
<b>VIRGINIA</b>			
Lawrenceville Correctional Center	State Correctional Facility	Medium	1,536
<b>IDLE FACILITIES</b>			
North Lake Correctional Facility (MI)	Idle Facility	Idle Facility	1,755
McFarland Community Correctional Facility (CA)	Idle Facility	Idle Facility	224
Oak Creek Confinement Center (TX)	Idle Facility	Idle Facility	200
<b>NON-MANAGED CORRECTIONAL FACILITIES</b>			
Mesa Verde Correctional Facility (CA)	Correctional Facility	Minimum	360
Delaney Hall (NJ)	Residential Re-entry Center	Minimum	1,200

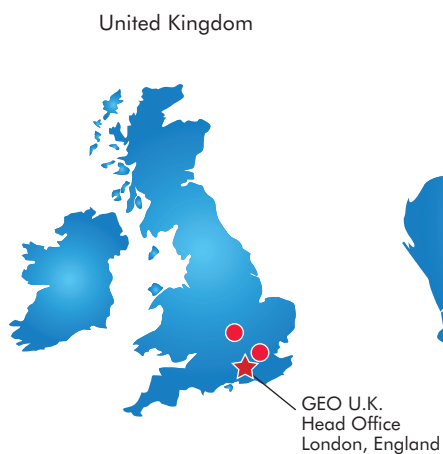
## GEO Care

South Florida State Hospital (FL)	State Psychiatric Hospital	Mental Health	335
South Florida Evaluation & Treatment Center (FL)	State Forensic Hospital	Mental Health	238
Florida Civil Commitment Center (FL)	State Civil Commitment Center	All Levels	720
Treasure Coast Forensic Treatment Center (FL)	State Forensic Hospital	Mental Health	223
Columbia Regional Care Center (SC)	Correctional Health Care Hospital	Medical and Mental Health	354
Palm Beach County Jail-Mental Health Unit (FL)	Mental Health Services to County Jail	All Levels	N/A





Map



## International Services

Facility Name	Facility Type	Security Level	Capacity
<b>AUSTRALIA</b>			
Arthur Gorrie Correctional Centre	State Remand Centre	High/Maximum	890
Parklea Correctional Centre	State Remand Centre	All Levels	823
Fulham Correctional Centre	State Correctional Centre	Minimum/Medium	785
Junee Correctional Centre	State Correctional Centre	Minimum/Medium	790
Melbourne Custody Centre	State Jail	All Levels	67
Pacific Shores Healthcare	Health Care Services	N/A	N/A
<b>REPUBLIC OF SOUTH AFRICA</b>			
Kutama-Sinthumule Correctional Centre	Correctional Centre	Maximum	3,024
<b>UNITED KINGDOM</b>			
Campsfield House Immigration Removal Centre	Detention Centre	Minimum	215
Harmondsworth Immigration Removal Centre	Detention Centre	Minimum	260
	Expansion	Expansion	360

International Maps

## Delivering Cost-Efficient Correctional and Detention Services through Public-Private Partnerships

At year end 2008, the total incarcerated population in the United States reached 2.42 million, and the prison population under state and federal correctional authorities grew to 1.61 million individuals according to the U.S. Department of Justice. Since 2000, state and federal inmate populations have grown by more than 219,000 offenders, or 16 percent, and nationwide spending on corrections has increased two-fold to approximately \$70.0 billion since the mid-1990s.

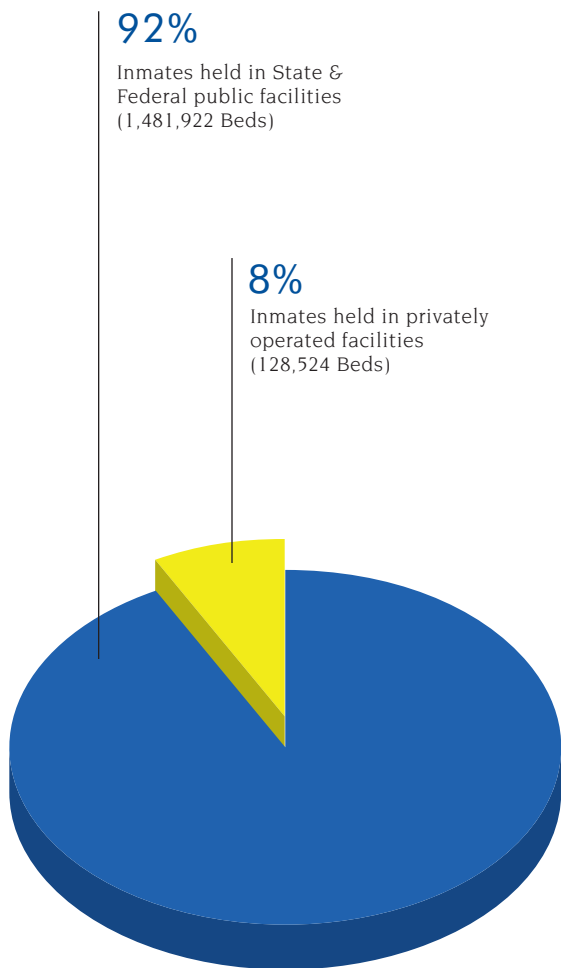
In addition to growing inmate populations and increasing costs, state and federal correctional agencies continue to face capacity constraints. According to the U.S. Department of Justice, 18 states and the federal prison system operated above their highest rated capacity in 2008. In addition, another 17 states operated between 90 and 99 percent of their highest rated capacity during that same year.

At the federal level, the three correctional and detention agencies (the Federal Bureau of Prisons, the U.S. Marshals Service, and U.S. Immigration and Customs Enforcement) along with the Office of the Federal Detention Trustee continue to carry out functions related to border enforcement and illegal immigration detention initiatives with an emphasis on criminal alien populations.

The demand for bed space nationwide along with budgetary and funding constraints have increased the need for cost-efficient solutions in the provision of correctional and detention services. The private correctional industry in the United States has grown by more than 47 percent since 2000 and at year-end 2008 managed more than 128,500 state and federal correctional beds according to the U.S. Department of Justice.

The GEO Group has been partnering with U.S. correctional and detention agencies since the mid-1980s. The GEO Group's U.S. Corrections business unit provides correctional and detention management services for ten state clients and the three federal correctional and detention agencies in the United States: the Federal Bureau of Prisons, the U.S. Marshals Service, and U.S. Immigration and Customs Enforcement, as well as the Office of the Federal Detention Trustee.

During 2009, The GEO Group activated four expansion projects in the United States through its U.S. Corrections business unit. These projects totaled more than 1,200 correctional and detention beds and included a 192-bed expansion of the 576-bed Robert A. Deyton Detention Facility, which houses detainees for the U.S. Marshals Service; a 384-bed expansion of the 1,500-bed Graceville, Fla. Correctional Facility; along with a 100-bed expansion of the 600-bed Broward Transition Center and a 545-bed expansion of the 1,030-bed Northwest Detention Center, both housing detainees for U.S. Immigration and Customs Enforcement.



Source: Bureau of Justice Statistics





**Graceville** Correctional Facility





## Northwest Detention Center

GEO's U.S. Corrections business unit is undertaking three additional expansion projects that are slated for completion in 2010. These projects total more than 4,800 beds and include a 1,225-bed expansion of the company-owned 530-bed Northlake Correctional Facility located in Baldwin, Michigan; a 1,100-bed expansion of the company-owned 432-bed Aurora Processing Center located in Aurora, Colorado; and the new 2,000-bed Blackwater River Correctional Facility located in Milton, Florida.

With its long-standing and successful public-private partnerships and more than 20 years of experience in the delivery of cost-efficient services, The GEO Group is well positioned to continue to work with government agencies around the country in meeting the growing need for correctional and detention beds.



## **Broward** Transition Center



## **Aurora** Processing Center



## **North Lake** Correctional Facility





## GEO Expands its International Operations

In 2009, The GEO Group's wholly-owned subsidiary, GEO U.K., took important steps to expand its footprint in the United Kingdom with the activation of the 260-bed Harmondsworth Immigration Removal Centre. This immigration facility is scheduled to be expanded by 360 beds by mid-2010, which will further increase GEO U.K.'s presence in this key marketplace.

Removal Centre and the 215-bed Campsfield House Immigration Removal Centre, GEO U.K. has established an important operational presence in the U.K. private correctional market and is poised to continue to pursue growth opportunities in the United Kingdom as well as in other markets throughout continental Europe.

In late 2009, GEO Australia assumed management of the 823-bed Parklea Correctional Centre located in New South Wales. This new contract activation added to GEO's already leading presence in the Australian private correctional market, which includes the provision of management services at three other correctional centers: the 790-bed Juncie Correctional Centre under contract with the New South Wales Commission of Corrective Services; the 785-bed Fulham Correctional Centre under contract with the State of Victoria Ministry of Corrections; and the 890-bed Arthur Gorrie Correctional Centre under contract with the State of Queensland Department of Corrections.

GEO Australia continues to deliver high quality management services through its public-private partnerships with correctional agencies throughout the continent of Australia and is well positioned to capitalize on future business development opportunities in this important market.

The GEO Group's subsidiary, South African Custodial Management, has provided high quality and cost-efficient services for the government of the Republic of South Africa since the early 2000s. In collaboration with its South African partners, GEO manages the largest private maximum security correctional center in the world: the 3,024-bed Kutama-Sinthumule Correctional Centre, located in Louis-Trichardt. This facility has through the years achieved the highest standards of correctional management and has received several governmental and business quality awards.

Due to its successful decade-long public-private partnership with the South African Department of Correctional Services, The GEO Group is well situated to take advantage of the growing demand for correctional beds in the Republic of South Africa.



**Kutama-Sinthumule**  
Correctional Centre



# **Parklea**

## Correctional Centre



# **Harmondsworth**

## Immigration Removal Centre







**Columbia Regional** Care Center



## Strategic Acquisition Expands GEO Care's Client Base and Service Offerings

In late 2009, The GEO Group's wholly-owned mental health subsidiary, GEO Care, completed the acquisition of Just Care, Inc. for approximately \$38.0 million. Through this strategic transaction, GEO Care acquired the rights to manage the 354-bed Columbia Regional Care Center located in Columbia, South Carolina, under a long-term lease with the State of South Carolina. This regional center provides mental health, medical, and skilled nursing services for offenders from the states of South Carolina and Georgia as well as for detainees in custody of the U.S. Marshals Services and U.S. Immigration and Customs Enforcement.

This important acquisition has expanded GEO Care's operations and client base and is expected to contribute \$30.0 million in annual operating revenues and be accretive to GEO Care's financial performance. Prior to the acquisition of Just Care, GEO Care had established a preeminent partnership with the Florida Department of Children and Families through the management of four state psychiatric facilities serving civil and forensic mentally ill populations. These facilities include the 335-bed South Florida State Hospital located in Pembroke Pines; the 238-bed South Florida Evaluation and Treatment Center, a state forensic mental health hospital located in Miami; the 223-bed Treasure Coast Forensic Treatment Center in Indiantown; and the 720-bed Florida Civil Commitment Center, a secure civil commitment facility located in Arcadia that provides rehabilitative treatment for sexually violent predators.

Through its public-private partnerships, GEO Care has developed an innovative model for the delivery of residential treatment and mental health management services in safe and secure facilities. GEO Care's proven model has led to higher quality of resident care, efficient and accountable treatment programs, and meaningful cost-savings for the taxpayers.

According to the U.S. Center for Mental Health Services, more than twenty-five percent of psychiatric treatment beds in the United States are provided by federal, state, and local mental health hospitals, which are funded by taxpayers. GEO Care has established itself as a leading provider of mental health treatment and management services for civil, forensic, and special-needs institutions nationwide.

GEO Care's unique expertise in the delivery of mental health and residential treatment services in safe and secure facilities gives the company a competitive advantage in pursuing new business opportunities with federal, state and local government agencies across the country. With the strategic acquisition of Just Care, GEO Care's already leading competitive position has been enhanced, and The GEO Group is poised to grow its mental health business base in the United States.



**South Florida**  
Evaluation & Treatment Center



**Florida Civil**  
Commitment Center

# 2009 Financial Highlights

(In thousands, except per share data)

	2009	2008	2007
Total Revenues	\$1,141,090	\$1,043,006	\$976,299
Income before taxes, equity in earnings of affiliates, discontinued operations and minority interest	\$104,774	\$90,633	\$57,987
Net Income	\$65,954	\$58,902	\$41,845
Diluted Earnings per Share	\$1.27	\$1.14	\$0.85
Total Assets	\$1,447,818	\$1,288,621	\$1,192,634
Shareholders' Equity	\$665,098	\$597,597	\$529,347
Diluted Weighted Average Common Shares Outstanding	51,922	51,830	49,192



## COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

Comparison of Five-Year Cumulative Total Return  
The GEO Group, Inc., Wilshire 5000 Equity\*,  
and S&P 500 Commercial Services and Supplies  
Indexes\*.

(Performance through December 31, 2009)

\*Total return assumes reinvestment of dividends.

Date	The GEO Group, Inc.	Wilshire 5000 Equity	S&P 500 Commercial Services & Supplies
Dec-04	\$100.00	\$100.00	\$100.00
Dec-05	\$86.27	\$106.38	\$103.49
Dec-06	\$211.74	\$123.16	\$117.83
Dec-07	\$316.03	\$130.07	\$117.71
Dec-08	\$203.50	\$81.64	\$90.28
Dec-09	\$246.95	\$104.74	\$100.08

Assumes \$100 invested on December 31, 2004, in The GEO Group, Inc. common stock and the Index companies.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock trades on the New York Stock Exchange under the symbol "GEO." The following table shows the high and low prices for our common stock, as reported by the New York Stock Exchange, for each of the four quarters of fiscal years 2009 and 2008. The prices shown have been rounded to the nearest \$1/100. The approximate number of shareholders of record as of February 16, 2010 is 113, which includes shares held in street name.

Quarter	2009		2008	
	High	Low	High	Low
First.....	19.25	11.18	28.71	22.01
Second.....	18.56	13.06	29.48	22.10
Third.....	20.56	17.22	26.96	18.00
Fourth.....	22.41	19.75	21.62	12.65

We did not buy back any of our common stock during 2009 or 2008. We did not pay any cash dividends on our common stock for fiscal years 2009 and 2008. Future dividends, if any, will depend, on our future earnings, our capital requirements, our financial condition and on such other factors as our Board of Directors may take into consideration. On February 22, 2010, we announced that our Board of Directors approved a stock repurchase program for up to \$80.0 million of GEO common stock effective through March 31, 2011. See the Liquidity and Capital Resources section in "Item 7 of Management's Discussion and Analysis" for further description of our stock repurchase program. In addition to these factors, the indenture governing our \$250.0 million 7¾% Senior Notes, and our Senior Credit Facility also place material restrictions on our ability to pay dividends. See the Liquidity and Capital Resources section in "Item 7 of Management's Discussion and Analysis" and Note 13-Debt in "Item 8—Financial Statements and Supplementary Data", for further description of these restrictions.

### Equity Compensation Plan Information

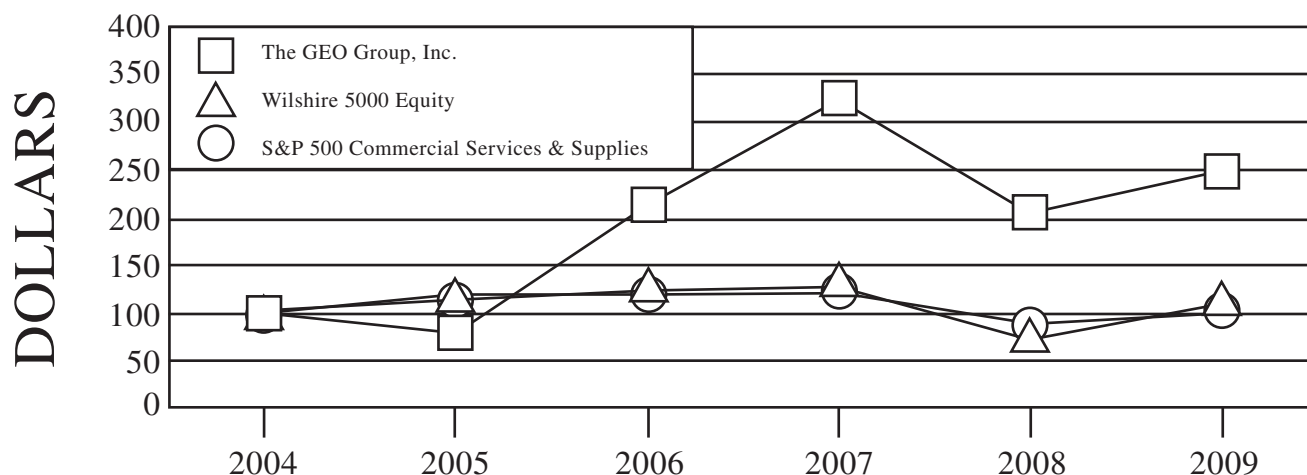
The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of January 3, 2010, including our 1994 Second Stock Option Plan, our 1999 Stock Option Plan, our 2006 Stock Incentive Plan and our 1995 Non-Employee Director Stock Option Plan. Our shareholders have approved all of these plans.

Plan Category	(a)	(b)	(c)
	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders.....	2,806,957	\$ 10.26	553,044
Equity compensation plans not approved by security holders.....	—	—	—
Total .....	<u>2,806,957</u>	<u>\$ 10.26</u>	<u>553,044</u>

## Performance Graph

The following performance graph compares the performance of our common stock to the New York Stock Exchange Composite Index and to an index of peer companies we selected, and is provided in accordance with Item 201(e) of Regulation S-K.

**Comparison of Five-Year Cumulative Total Return\***  
**The GEO Group, Inc., Wilshire 500 Equity, and**  
**S&P 500 Commercial Services and Supplies Indexes**  
**(Performance through January 3, 2010)**



<u>Date</u>	<u>The GEO Group, Inc.</u>	<u>Wilshire 5000 Equity</u>	<u>S&amp;P 500 Commercial Services and Supplies</u>
December 31, 2004	\$ 100.00	\$ 100.00	\$ 100.00
December 31, 2005	\$ 86.27	\$ 106.38	\$ 103.49
December 31, 2006	\$ 211.74	\$ 123.16	\$ 117.83
December 31, 2007	\$ 316.03	\$ 130.07	\$ 117.71
December 31, 2008	\$ 203.50	\$ 81.64	\$ 90.28
December 31, 2009	\$ 246.95	\$ 104.74	\$ 100.08

Assumes \$100 invested on December 31, 2004 in our common stock and the Index companies.

\* Total return assumes reinvestment of dividends.

## Item 6. Selected Financial Data

The selected consolidated financial data should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements (in thousands, except per share data).

Fiscal Year Ended:(1)	2009			2008			2007			2006			2005		
Results of Continuing Operations:															
Revenues .....	\$	1,141,090	100.0%	\$	1,043,006	100.0%	\$	976,299	100.0%	\$	818,439	100.0%	\$	580,440	100.0%
Operating income from continuing operations.....		135,188	11.8%		113,790	10.9%		90,086	9.2%		60,401	7.4%		5,742	1.2%
Income from continuing operations ....	\$	<u>66,300</u>	<u>5.8%</u>	\$	<u>61,453</u>	<u>5.9%</u>	\$	<u>38,089</u>	<u>3.9%</u>	\$	<u>28,000</u>	<u>3.4%</u>	\$	<u>5,183</u>	<u>0.9%</u>
Income from continuing operations per common share:															
Basic: .....	\$	<u>1.30</u>		\$	<u>1.22</u>		\$	<u>0.80</u>		\$	<u>0.81</u>		\$	<u>0.18</u>	
Diluted: .....	\$	<u>1.28</u>		\$	<u>1.19</u>		\$	<u>0.77</u>		\$	<u>0.78</u>		\$	<u>0.17</u>	
Weighted Average Shares Outstanding:															
Basic.....		50,879			50,539			47,727			34,442			28,740	
Diluted.....		51,922			51,830			49,192			35,744			30,030	
Financial Condition:															
Current assets .....	\$	279,634		\$	281,920		\$	264,518		\$	322,754		\$	229,292	
Current liabilities .....		177,448			185,926			186,432			173,703			136,519	
Total assets .....		1,447,818			1,288,621			1,192,634			743,453			639,511	
Long-term debt, including current portion (excluding non-recourse debt and capital leases).....		457,538			382,126			309,273			154,259			220,004	
Total Shareholders' equity .....	\$	665,098		\$	579,597		\$	529,347		\$	249,907		\$	110,434	
Operational Data:															
Contracts/awards.....		72			76			73			69			56	
Facilities in operation.....		57			59			57			56			54	
Capacity of contracts.....		52,772			53,364			47,913			46,460			46,177	
Compensated mandays(2).....		17,332,696			15,946,932			15,026,626			13,778,031			10,911,886	

- (1) Our fiscal year ends on the Sunday closest to the calendar year end. The fiscal year ended January 3, 2010 contained 53 weeks.
- (2) Compensated resident days are calculated as follows: (a) for per diem rate facilities — the number of beds occupied by residents on a daily basis during the fiscal year; and (b) for fixed rate facilities — the capacity of the facility multiplied by the number of days the facility was in operation during the fiscal year.



## **Item 7 . Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **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 "Item 1A. Risk Factors," and "Forward-Looking Statements — Safe Harbor" below. The discussion should be read in conjunction with the consolidated financial statements and notes thereto.

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. We operate a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers 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 mental health and residential treatment services involve the delivery of quality care, innovative programming and active patient treatment, primarily at privatized state mental health facilities. We also develop new facilities based on contract awards, using our project development expertise and experience to design facilities, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency.

As of the fiscal year ended January 3, 2010, we managed 57 facilities totaling approximately 52,800 beds worldwide and had an additional 4,325 beds under development at three facilities, including an expansion and renovation of one vacant facility which we own, the expansion of one facility we currently own and operate and a new 2,000-bed facility which we will manage upon completion. For the fiscal year ended January 3, 2010, we had consolidated revenues of \$1.1 billion and we maintained an average companywide facility occupancy rate of 94.6%.

### **Contract Awards and Facility Activations**

On March 29, 2009, we completed the intake of 192 detainees in the expansion of the 576-bed Robert A. Deyton Detention Facility in Lovejoy, Georgia. We manage this facility under a 20-year contract, inclusive of three five-year option periods, with the Office of the Federal Detention Trustee. We lease this facility from Clayton County under a 20-year agreement, with two five-year renewal options and house detainees under custody of the United States Marshals Service.

In April 2009, GEO Australia, our wholly owned subsidiary, was awarded a new contract by the New South Wales, Department of Corrective Services for the continued management and operation of the 790-bed Junee Correctional Centre. GEO Australia has managed this minimum-to-medium security center since its opening in 1993. The new contract has a term of 15 years, inclusive of renewal options.

On April 23, 2009, we announced a contract award by ICE for the continued management of the Broward Transition Center, which we own, located in Deerfield Beach, Florida. The new contract has an initial term of one year, effective April 1, 2009, with four one-year renewal option periods. Under the terms of the new agreement, the contract capacity at this detention center was increased from 600 to 700 beds, and the transportation responsibilities will be expanded.

Also in April 2009, we opened the new \$62.0 million Florida Civil Commitment Center replacement facility in Arcadia, Florida, which we refer to as FCCC. The new facility has a capacity of 720 residents, and it was specifically designed to provide treatment services to sexually violent predators in a highly secure facility. FCCC is operated by GEO Care, our wholly-owned subsidiary, under a management contract with the Florida Department of Children and Families.

On May 4, 2009, we announced that we executed a contract with Bexar County, Texas Commissioners' Court for the continued operation of the 688-bed Central Texas Detention Facility located in San Antonio, Texas. This facility, which is owned by Bexar County, houses detainees predominately for the U.S. Marshals Service. We have managed this facility since 1988. The new contract will have a term of ten years and became effective April 29, 2009.

On June 29, 2009, we announced that our wholly owned U.K. subsidiary, GEO UK, assumed management functions at the 260-bed Harmondsworth Immigration Removal Centre located in London, England. Our subsidiary manages and operates this removal centre under a three-year contract with the United Kingdom Border Agency. Additionally, this removal centre will be expanded by 360 beds bringing its capacity to 620 beds when the expansion is completed in June 2010.

On July 1, 2009, we announced the opening of a 384-bed expansion of the 1,500-bed Graceville Correctional Facility in Graceville, Florida. We operate this correctional facility under a managed-only contract with the State of Florida Department of Management Services and completed intake of inmates during the third quarter of 2009.

On October 1, 2009, our wholly-owned Australian subsidiary announced that it had been selected by Corrective Services New South Wales to operate and manage the 823-bed Parklea Correctional Centre in Australia. The contract has a term of five years with one three-year extension option. We began operating this facility on October 31, 2009.

On October 20, 2009, we announced a contract award by ICE for the continued management of our Northwest Detention Center located in Tacoma, Washington. This detention center houses immigration detainees for ICE. The new contract has an initial term of one year effective October 24, 2009, with four one-year renewal option periods. Under the terms of the new agreement, the contract capacity at this detention center was increased from 1,030 to 1,575 beds, and the transportation responsibilities will be expanded.

## **Critical Accounting Policies**

We believe that the accounting policies described below are critical to understanding our business, results of operations and financial condition because they involve the more significant judgments and estimates used in the preparation of our consolidated financial statements. We have discussed the development, selection and application of our critical accounting policies with the audit committee of our Board of Directors, and our audit committee has reviewed our disclosure relating to our critical accounting policies in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our 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 revenues and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that our management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Other significant accounting policies, primarily those with lower levels of uncertainty than those discussed below, are also critical to understanding our consolidated financial statements. The notes to our consolidated financial statements contain additional information related to our accounting policies and should be read in conjunction with this discussion.

### ***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. Certain of our contracts have provisions upon which a portion of the revenue is based on our performance of certain targets, as defined in the specific contract. In these cases, we recognize revenue when the amounts are fixed and determinable and the time period over which the conditions have been satisfied has lapsed.

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 excess liability policy for all U.S. corrections operations with limits of \$62.0 million per occurrence and in the aggregate. A separate \$35.0 million limit applies to medical professional liability claims arising out of correctional healthcare services. Our wholly owned subsidiary, GEO Care, is 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. 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. We also maintain insurance to cover property and other casualty risks including, workers' compensation, environmental liability and automobile liability.

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.

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.

Of the reserves discussed above, our most significant insurance reserves relate to workers' compensation and general liability claims. These reserves are undiscounted and were \$27.2 million and \$25.5 million as of January 3, 2010 and December 28, 2008, 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. 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. Additionally, judgment must be made as to certain tax positions which may not be fully sustained upon review by tax authorities. 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. To the extent that the provision for income taxes increases/decreases by 1% of income before income taxes, equity in earnings of affiliate and discontinued operations, 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***

As of January 3, 2010, we had \$998.6 million in long-lived property and equipment held for use. 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 40 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 evaluations 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. 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 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.

### **Impact of Future Accounting Pronouncements**

The following accounting standards have implementation dates subsequent to the fiscal year ended January 3, 2010 and as such, have not yet been adopted by us:

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 anticipate that the adoption of this standard will have a material impact on our financial position, results of operations or cash flows.

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 us 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 (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 becomes effective for interim and annual periods beginning after November 15, 2009, companies are required to enhance disclosures about how their involvement with a VIE affects its financial statements and exposure to risks. We do not anticipate that the adoption of this standard will have a material impact on our financial position, results of operations and cash flows.

## Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements accompanying this report. 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 certain factors, including, but not limited to, those described under “Item 1A. Risk Factors” and those included in other portions of this report.

The discussion of our results of operations below excludes the results of our discontinued operations for all periods presented.

For the purposes of the discussion below, “2009” means the 53 weeks fiscal year ended January 3, 2010, “2008” means the 52 week fiscal year ended December 28, 2008, and “2007” means the 52 weeks fiscal year ended December 30, 2007. Our fiscal quarters in the fiscal years discussed below are referred to as “First Quarter,” “Second Quarter,” “Third Quarter” and “Fourth Quarter.”

### 2009 versus 2008

#### Revenues

	<u>2009</u>	<u>% of Revenue</u>	<u>2008</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>U.S. corrections</b> .....	\$ 784,066	68.7%	\$ 711,038	68.2%	\$ 73,028	10.3%
<b>International services</b> .....	137,171	12.0%	128,672	12.3%	8,499	6.6%
<b>GEO Care</b> .....	121,818	10.7%	117,399	11.3%	4,419	3.8%
<b>Facility construction and design</b> .....	98,035	8.6%	85,897	8.2%	12,138	14.1%
<b>Total</b> .....	<u>\$ 1,141,090</u>	<u>100.0%</u>	<u>\$ 1,043,006</u>	<u>100.0%</u>	<u>\$ 98,084</u>	<u>9.4%</u>

#### U.S. corrections

The increase in revenues for U.S. corrections in 2009 compared to 2008 is primarily attributable to project activations, capacity increases and per diem rate increases at existing facilities and new management contracts. The most significant increases to revenue were as follows: (i) revenues increased \$24.1 million in total due to the activation of three new contracts in Third and Fourth Quarter 2008 for the management of Joe Corley Detention Facility in Conroe, Texas, Northeast New Mexico Detention Facility in Clayton, New Mexico and Maverick County Detention Facility in Maverick, Texas; (ii) revenues increased \$24.6 million in 2009 as a result of our opening of our Rio Grande Detention Center in Laredo, Texas in Fourth Quarter 2008; (iii) revenues increased \$6.1 million as a result of the 500-bed expansion of East Mississippi Corrections Facility in Meridian, Mississippi, which was completed in October 2008; (iv) revenues increased \$5.1 million at the Robert A. Deyton Detention Facility in Lovejoy, Georgia as a result of the 192-bed activation in January 2009; (v) revenues increased \$6.1 million at the Broward Transition Center due to an increase in per diem rates and population; (vi) we experienced an increase of revenues of \$9.9 million related to contract modifications and additional services at our South Texas Detention Complex in Pearsall, Texas; (vii) approximately \$8.2 million of the increase is attributable to per diem increases, other contract modifications, award fees and population increases. Overall, we did experience slight increases over the 52-week period ended December 28, 2008 related to the additional week in the 53-week period ended January 3, 2010. These increases were offset by a decrease in revenues of \$20.6 million due to the termination of our management contract at the Sanders Estes Unit in Venus, Texas, Newton County Correctional Center in Newton, Texas, Jefferson County Downtown Jail in Beaumont, Texas, Fort Worth Community Corrections Facility in Fort Worth, Texas, and the Tri-County Justice & Detention Center in Ullin, Illinois.

The number of compensated mandays in U.S. corrections facilities increased by 1.2 million to 14.5 million mandays in 2009 from 13.3 million mandays in 2008 due to the addition of new facilities and capacity increases. 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 94.6% of capacity in 2009, excluding the terminated contract for Tri-County Justice & Detention Center which was terminated effective August 2008. The average occupancy in our U.S. correction and detention facilities was 96.4% in 2008 not taking into account the 1,221 beds activated in 2009 at four facilities in our U.S. Corrections segment.

## International services

Revenues for our international services segment during 2009 increased over the prior year due to several reasons including: (i) new contracts in Australia and in the United Kingdom for the management of the Parklea Correctional Centre in Sydney, Australia and the Harmondsworth Immigration Removal Centre in London, England which contributed an incremental \$4.1 million and \$8.1 million of revenues, respectively, (ii) our contract in South Africa for the management of Kutama-Sinthumule Correccional Centre contributed an increase in revenues over the prior year of \$1.2 million mainly due to contractual increases linked to the South African inflationary index, and (iii) we also experienced an increase in revenues of \$4.8 million, in aggregate, at certain facilities managed by our Australian subsidiary due to contractual increases linked to the inflationary index. These increases were offset by unfavorable fluctuations in foreign exchange currency rates for the Australian Dollar, South African Rand and British Pound. These unfavorable fluctuations in foreign exchange rates resulted in a decrease of revenues over 2008 of \$9.9 million.

## GEO Care

The increase in revenues for GEO Care in 2009 compared to 2008 is primarily attributable to the revenues from our newly acquired contract for the management of Columbia Regional Care Center in Columbia, South Carolina which generated \$7.5 million of revenues. We also experienced combined increases of \$3.1 million at South Florida Evaluation and Treatment in Miami, Florida and Treasure Coast Forensic Treatment Center in Stuart, Florida as a result of increases in population. These increases were offset by the loss of revenues from the termination of our management contract with the South Florida Evaluation and Treatment Center — Annex in July 2008. This contract generated \$7.5 million of revenues in 2008.

## Facility construction and design

The increase in revenues from the Facility construction and design segment in 2009 compared to 2008 is mainly due to an increase of \$91.3 million related to the construction of Blackwater River Correctional Facility, in Milton, Florida which commenced in First Quarter 2009. This increase over the same period in the prior year was offset by decreases in construction activities at four facilities: (i) the completion of construction for the South Florida Evaluation and Treatment Center in Miami, Florida in Third Quarter 2008 decreased revenues by \$6.8 million; (ii) the completion of construction of our Northeast New Mexico Detention Facility in Clayton, New Mexico in Third Quarter 2008 decreased revenues by \$15.4 million, (iii) the completion of Florida Civil Commitment Center in Second Quarter decreased revenues by \$33.9 million and (iv) the completion of Graceville Correctional Facility in Third Quarter 2009 which decreased revenues by \$21.9 million.

## Operating Expenses

	<u>2009</u>	<u>% of Segment Revenues</u>	<u>2008</u>	<u>% of Segment Revenues</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>U.S. corrections</b> .....	\$ 565,291	72.1%	\$ 516,963	72.7%	\$ 48,328	9.3%
<b>International services</b> .....	127,964	93.3%	116,985	90.9%	10,979	9.4%
<b>GEO Care</b> .....	106,447	87.4%	103,140	87.9%	3,307	3.2%
<b>Facility construction and design</b> .....	97,654	99.6%	85,571	99.6%	12,083	14.1%
<b>Total</b> .....	<u>\$ 897,356</u>	<u>78.6%</u>	<u>\$ 822,659</u>	<u>78.9%</u>	<u>\$ 74,697</u>	<u>9.1%</u>

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

Overall, operating expenses remained fairly consistent with fiscal 2008 with slight decreases as a percentage of revenues due to decreases in travel costs of \$3.3 million in fiscal 2009. The most significant increases to operating expense were related to new management contracts, new facility activations and increases in population from expansion beds which were activated during the fiscal year. Such projects include Joe Corley Detention Facility, Northeast New Mexico Detention Facility, Maverick County Detention Facility, Rio Grande Detention Center, East Mississippi Corrections Facility and Robert A. Deyton Detention Facility. These contracts contributed \$40.8 million of the increase to our operating expenses. Certain of our other facilities also experienced increases in expenses

associated with increases in population and contract modifications resulting in additional services. These increases were partially offset by decreases in expenses as a result of facility closures for Jefferson County Downtown Jail, Newton County Correctional Center, Fort Worth Community Corrections Facility, Sanders Estes Unit and Tri County Justice & Detention Center.

### *International services*

Expenses increased at all of our international subsidiaries consistent with the revenue increases. The costs associated with the new contracts in the United Kingdom and Australia accounted for a combined increase of \$15.1 million, including start up costs of \$3.0 million. Start up costs are non-recurring costs for training, additional staffing requirements, overtime and other costs of transitioning a new management contract. The increase in expenses in 2009 was significantly offset by the impact of foreign exchange currency rates. Overall, operating expenses for international services facilities increased slightly as a percentage of segment revenues in 2009 compared to 2008 mainly due to the start up costs in Australia and the United Kingdom.

### *GEO Care*

Operating expenses for residential treatment increased \$3.3 million in 2009 as compared to 2008. The increase in expenses in 2009 was primarily due to our acquisition of Columbia Regional Care Center in Fourth Quarter. We also experienced higher costs at Florida Civil Commitment Center due to start up costs associated with the transfer of patients into the new facility.

### *Facility construction and design*

Generally, the operating expenses from the Facility construction and design segment are offset by a similar amount of revenues. Our overall increase in operating expenses relates to the construction of the Blackwater River Correctional Facility which increased expenses by \$91.3 million. This increase was offset by decreases related to the completion of several facilities and expansions including South Florida Evaluation and Treatment Center, Northeast New Mexico Detention Facility, Florida Civil Commitment Center and Graceville Correctional Facility.

### **Depreciation and amortization**

	<u>2009</u>	<u>% of Segment Revenue</u>	<u>2008</u>	<u>% of Segment Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	<b>(Dollars in thousands)</b>					
<b>U.S. corrections .....</b>	<b>\$ 35,955</b>	<b>4.6%</b>	<b>\$ 34,010</b>	<b>4.8%</b>	<b>\$ 1,945</b>	<b>5.7%</b>
<b>International services.....</b>	<b>1,448</b>	<b>1.1%</b>	<b>1,556</b>	<b>1.2%</b>	<b>(108)</b>	<b>(6.9)%</b>
<b>GEO Care .....</b>	<b>1,903</b>	<b>1.6%</b>	<b>1,840</b>	<b>1.6%</b>	<b>63</b>	<b>3.4%</b>
<b>Facility construction and design .....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total.....</b>	<b><u>\$ 39,306</u></b>	<b>3.4%</b>	<b><u>\$ 37,406</u></b>	<b>3.6%</b>	<b><u>\$ 1,900</u></b>	<b>5.1%</b>

#### *US Corrections*

The increase in depreciation and amortization for U.S. corrections in 2009 compared to 2008 is primarily attributable to the opening of our Rio Grande Detention Center in Fourth Quarter 2008 which increased depreciation expense by \$1.9 million.

#### *International Services*

Depreciation and amortization as a percentage of segment revenue in 2009 was consistent with 2008.

#### *GEO Care*

The increase in depreciation and amortization for GEO Care in 2009 compared to 2008 is primarily due to our acquisition of Just Care.

## Other Unallocated Operating Expenses

	<u>2009</u>	<u>% of Revenue</u>	<u>2008</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>General and Administrative Expenses</b> .....	\$ 69,240	6.1%	\$ 69,151	6.6%	\$ 89	0.1%

General and administrative expenses comprise substantially all of our other unallocated expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses remained consistent in the fiscal year ended January 3, 2010 as compared to the fiscal year ended December 28, 2008 but decreased as a percentage of revenues. The decrease as a percentage of revenues is primarily due to corporate cost savings initiatives including those to reduce travel costs which were \$2.3 million less in 2009 and also by the increase in revenues which increased at a higher rate than general and administrative expenses. These savings were partially offset by increases in employee benefits and labor costs.

## Non Operating Income and Expense

### Interest Income and Interest Expense

	<u>2009</u>	<u>% of Revenue</u>	<u>2008</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>Interest Income</b> .....	\$ 4,943	0.4%	\$ 7,045	0.7%	\$ (2,102)	(29.8)%
<b>Interest Expense</b> .....	\$ 28,518	2.5%	\$ 30,202	2.9%	\$ (1,684)	(5.6)%

The majority of our interest income generated in 2009 and 2008 is from the cash balances at our Australian subsidiary. The decrease in the current period over the same period last year is mainly attributable to currency exchange rates and, to a lesser extent, lower interest rates.

The decrease in interest expense of \$1.7 million is primarily attributable to a decrease in LIBOR rates which reduced the interest expense on our Term Loan B by \$4.0 million. This decrease was offset by increased expense related to the amortization of deferred financing fees associated with the amendments to our Senior Credit Facility. This increase resulted in incremental amortization of \$1.6 million. In addition, we also had more indebtedness outstanding in 2009 related to our 7¾% Senior Notes which resulted in an increase to interest expense of \$1.9 million. Capitalized interest in 2009 and 2008 was \$4.9 million and \$4.3 million, respectively. Total borrowings at January 3, 2010 and December 28, 2008, excluding non-recourse debt and capital lease liabilities, were \$457.5 million and \$382.1 million, respectively.

In November 2009, we entered into interest rate swap agreements with respect to a notional amount of \$75.0 million of the 7¾% Senior Notes which resulted in a savings in interest expense of approximately \$0.5 million for the fiscal quarter ended January 3, 2010.

## Provision for Income Taxes

	<u>2009</u>	<u>Effective Rate</u>	<u>2008</u>	<u>Effective Rate</u>
	(Dollars in thousands)			
<b>Income Tax Provision</b> .....	\$ 41,991	40.1%	\$ 33,803	37.3%

The effective tax rate during 2009 was 40.1%, compared to 37.3% in 2008, due to an increase in the reserve for uncertain tax positions. The effective tax rate in 2008 included one-time state tax benefits.

## Equity in Earnings of Affiliate

	<u>2009</u>	<u>% of Revenue</u>	<u>2008</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>Equity in Earnings of Affiliate</b> .....	\$ 3,517	0.3%	\$ 4,623	0.4%	\$ (1,106)	(23.9)%

Equity in earnings of affiliates represent the earnings of SACS in 2009 and 2008 and reflects an overall decrease in earnings related to unfavorable foreign currency exchange rates partially offset by additional revenues due to contractual increases.



## 2008 versus 2007

### Revenues

	<u>2008</u>	<u>% of Revenue</u>	<u>2007</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>U.S. corrections</b> .....	\$ 711,038	68.2%	\$ 629,339	64.5%	\$ 81,699	13.0%
<b>International services</b> .....	128,672	12.3%	127,991	13.1%	681	0.5%
<b>GEO Care</b> .....	117,399	11.3%	110,165	11.3%	7,234	6.6%
<b>Facility construction and design</b> .....	85,897	8.2%	108,804	11.1%	(22,907)	(21.1)%
<b>Total</b> .....	<u>\$ 1,043,006</u>	<u>100.0%</u>	<u>\$ 976,299</u>	<u>100.0%</u>	<u>\$ 66,707</u>	<u>6.8%</u>

#### *U.S. corrections*

The increase in revenues for U.S. corrections in 2008 compared to 2007 is primarily attributable to new facility openings, capacity increases at existing facilities and full year operations relative to recent openings and expansions from 2007. The most significant increases to revenue were as follows: (i) revenues increased \$56.2 million in total due to the opening or expansion of seven facilities in 2008 which include activations at the Robert A. Deyton Detention Facility, Rio Grande Detention Center, Joe Corley Detention Facility and the Northeast New Mexico Detention Facility and expansions of the LaSalle Detention Facility, Central Arizona Correctional Facility and at the East Mississippi Correctional Facility; (ii) revenues increased \$28.8 million in 2008 due to increases at our California facilities, South Texas Detention Complex, New Castle Correctional Facility and at the Northwest Detention Center related to contract modifications and enhanced services; (iii) revenues increased by \$21.6 million due to the full year operation of 2007 activations and expansions that occurred at the Graceville Correctional Facility, Val Verde Correctional Facility and the Moore Haven Correctional Facility. These and other increases were offset by decreases in revenues of \$34.8 million due to the termination of our management contracts at Taft Correctional Institution, Coke County Juvenile Justice Center and Dickens County Correctional Center.

The number of compensated mandays in U.S. corrections facilities increased by 805,200 to 13.3 million mandays in 2008 from 12.5 million mandays in 2007 due to the addition of new facilities and capacity increases. 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 95.7% of capacity in 2008, excluding the terminated contracts for the Coke County Juvenile Justice Center, the Dickens County Correctional Center, and the Taft Correctional Institution. The average occupancy in our U.S. correction and detention facilities was 96.1% in 2007, excluding our new contracts at the Joe Corley Detention Facility, Rio Grande Detention Center, Robert A. Deyton Detention Facility and the Maverick County Detention Facility.

#### *International services*

Revenues for our International services segment during fiscal year 2008 increased by \$4.8 million over fiscal year 2007 due to increases in contractual rates at some of our facilities in Australia and also in South Africa. We also experienced a favorable increase in revenues of \$1.9 million over the prior year due to the overall strengthening of the Australian dollar during fiscal year 2008. This favorable variance was offset during fiscal year 2008 by a decrease in revenues of \$2.9 million related to the expansion in 2007 of the Campsfield House Immigration Removal Centre which was completed in September 2008. We also experienced a decrease in revenues in fiscal year 2008 compared to fiscal year 2007 due to unfavorable foreign exchange currency fluctuations in the South African Rand and the British Pound which resulted in a combined decrease of \$3.2 million.

#### *GEO Care*

The increase in revenues for GEO Care in 2008 compared to 2007 is primarily attributable to two items: (i) the Treasure Coast Forensic Center in Stuart, Florida which commenced operation in March 2007, increased revenues by \$7.5 million; and (ii) the Florida Civil Commitment Center in Arcadia, Florida contributed an increase of \$2.6 million, both due to increases in population. This favorable increase was partially offset by \$2.4 million due to the loss of the contract with the SFETC Annex.

## Facility construction and design

The decrease in revenues from construction activities is primarily attributable to the completion of construction at two facilities: (i) the South Florida Evaluation and Treatment Center in Miami, Florida, which was completed in Second Quarter 2008, decreased revenues by \$19.3 million; and (ii) the Northeast New Mexico Detention Facility in Clayton, New Mexico which was completed in Third Quarter 2008 and decreased revenues by \$25.6 million. These decreases over the same period in the prior year were offset by increases in construction revenue for the expansion of the Graceville Correctional Facility in Graceville, Florida which commenced in First Quarter 2008 and increased revenues by \$4.0 million and the construction of the Florida Civil Commitment Center in Arcadia, Florida which increased revenues by \$22.1 million.

## Operating Expenses

	2008	% of Segment Revenues	2007	% of Segment Revenues	\$ Change	% Change
(Dollars in thousands)						
<b>U.S. corrections</b> .....	\$ 516,963	72.7%	\$ 464,617	73.8%	\$ 52,346	11.3%
<b>International services</b> .....	116,985	90.9%	116,259	90.8%	726	0.6%
<b>GEO Care</b> .....	103,140	87.9%	98,557	89.5%	4,583	4.7%
<b>Facility construction and design</b> .....	85,571	99.6%	109,070	100.2%	(23,499)	(21.5)%
<b>Total</b> .....	<u>\$ 822,659</u>	78.9%	<u>\$ 788,503</u>	80.8%	<u>\$ 34,156</u>	4.3%

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 U.S. corrections operating expenses in 2008 compared to 2007 is primarily attributable to new facility openings, capacity increases at existing facilities and the normalization of openings and expansions from 2007. The most significant increases to operating expenses were as follows: (i) operating expenses increased \$43.3 million in total due to the opening or expansion of seven facilities in 2008 which include activations at the Robert A. Deyton Detention Facility, Rio Grande Detention Facility, Joe Corley Detention Facility and the Northeast New Mexico Detention Facility and expansions of the LaSalle Detention Center, Central Arizona Correctional Facility and at the East Mississippi Correctional Facility; (ii) operating expenses increased \$19.2 million in 2008 due to increases at our California facilities, South Texas Detention Center, New Castle Correctional Facility and at the Northwest Detention Center related to contract modifications and enhanced services; (iii) operating expenses increased by \$17.9 million due to the normalization of 2007 activations and expansions that occurred at the Graceville Correctional Facility, Val Verde Correctional Facility and the Moore Haven Correctional Facility; (iv) operating expenses increased by \$3.6 million for the year ended December 28, 2008 due to changes in general liability and workers compensation reserves. The remaining increase in operating expenses is the result of increases in wages and employee benefits as well as general increases in operating costs. These increases were partially offset by decreases of \$31.0 million related to the termination of our management contracts at Coke County Juvenile Justice Center, Taft Correctional Institution and Dickens County Correctional Center which were terminated prior to fiscal 2008. Beginning 2008, we changed our vacation policy for certain employees allowing these employees to use their vacation regardless of their service period but within the fiscal year. The 2008 change in our vacation policy resulted in a \$3.7 million decrease in vacation expense in the fiscal year ended 2008 compared to the fiscal year ended 2007.

### International services

Operating expenses for international services facilities remained consistent as a percentage of segment revenues in 2008 compared to 2007. On December 22, 2008, we announced the closure of our U.K.-based transportation division, Recruitment Solutions International which we refer to as RSI. We purchased RSI, which provided transportation services to The Home Office Nationality and Immigration Directorate, for \$2.3 million, including transaction costs, in 2006. The operating loss of this business are reported as discontinued operations and is not presented in the segment information above.

## ***GEO Care***

Operating expenses for residential treatment increased \$4.6 million in 2008 as compared to 2007 primarily attributable to increased population at the Treasure Coast Forensic Center and Florida Civil Commitment Center as mentioned above. This positive variance was offset by a decrease due to the closure of our 100-bed South Florida Evaluation and Treatment Center Annex which was effective July 31, 2008. Overall, expenses as a percentage of revenue partly decreased as a result of a decrease in startup costs which were \$0.6 million in 2008 compared to \$1.9 million in 2007.

## ***Facility construction and design***

Operating expenses for facility construction and design decreased \$23.5 million during fiscal year 2008 compared to fiscal year 2007 primarily due to a decrease in costs associated with our facilities under construction as a result of reduced activity as discussed above.

## **Depreciation and amortization**

	<u>2008</u>	<u>% of Segment Revenue</u>	<u>2007</u>	<u>% of Segment Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>U.S. corrections</b> .....	\$ 34,010	4.8%	\$ 30,401	4.8%	\$ 3,609	11.9%
<b>International services</b> .....	1,556	1.2%	1,351	1.1%	205	15.2%
<b>GEO Care</b> .....	1,840	1.6%	1,466	1.3%	374	25.5%
<b>Facility construction and design</b> .....	—	—	—	—	—	—
<b>Total</b> .....	<u>\$ 37,406</u>	<u>3.6%</u>	<u>\$ 33,218</u>	<u>3.4%</u>	<u>\$ 4,188</u>	<u>12.6%</u>

## ***US Corrections***

The increase in depreciation and amortization for U.S. corrections in 2008 compared to 2007 is primarily attributable to the following items: (i) depreciation increased \$0.9 million due to the reactivation and expansion of the LaSalle Detention Facility discussed above, (ii) depreciation increased \$0.7 million related to the opening of the Rio Grande Detention Center discussed above and, (iii) depreciation increased \$0.8 million due to the expansion of the Val Verde Correctional Facility discussed above.

## ***International Services***

Depreciation and amortization as a percentage of segment revenue in 2008 was consistent with 2007.

## ***GEO Care***

The increase in depreciation and amortization for GEO Care in 2008 compared to 2007 is primarily due to the Treasure Coast Forensic Treatment Center expansion in September 2007.

## **Other Unallocated Operating Expenses**

### ***General and Administrative Expenses***

	<u>2008</u>	<u>% of Revenue</u>	<u>2007</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
	(Dollars in thousands)					
<b>General and Administrative Expenses</b> .....	\$ 69,151	6.6%	\$ 64,492	6.6%	\$ 4,659	7.2%

General and administrative expenses comprise substantially all of our other unallocated expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses increased by \$4.7 million in the fiscal year ended December 28, 2008 as compared to the fiscal year ended December 30, 2007, and remained consistent as a percentage of revenues. The increase in general and administrative costs is mainly due to increases in corporate travel and increases in direct labor costs as a result of increased wages and related increases in employee benefits.

## Non Operating Income and Expense

### Interest Income and Interest Expense

	<u>2008</u>	<u>% of Revenue</u>	<u>2007</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
(Dollars in thousands)						
<b>Interest Income</b> .....	\$ 7,045	0.7%	\$ 8,746	0.9%	\$ (1,701)	(19.4)%
<b>Interest Expense</b> .....	\$ 30,202	2.9%	\$ 36,051	3.7%	\$ (5,849)	(16.2)%

The decrease in interest income in 2008 compared to 2007 is primarily attributable to the decrease in interest rates for the period as well as the decrease in cash in 2008 as compared to 2007. In First Quarter 2009, one of the lenders elected to prepay its interest rate swap obligation to us at the call option price which approximated the fair value of the interest rate swap on the call dates.

The decrease in interest expense is primarily attributable to a significant decrease in LIBOR rates. We also experienced an increase in the amount of interest capitalized in connection with the construction of our 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. During fiscal years ended 2008 and 2007, we capitalized \$4.3 million and \$2.9 million of interest expense, respectively. This was partially offset by an increase in debt in 2008 as compared to 2007.

### Provision for Income Taxes

	<u>2008</u>	<u>Effective Rate</u>	<u>2007</u>	<u>Effective Rate</u>
(Dollars in thousands)				
<b>Income Tax Provision</b> .....	\$ 33,803	37.3%	\$ 22,049	38.0%

The effective tax rate during 2008 was 37.3% as a result of one-time state tax benefits of \$1.6 million. We expect our tax rate in the future to increase to 38.7% as these benefits are non-recurring in nature.

### Equity in Earnings of Affiliate

	<u>2008</u>	<u>% of Revenue</u>	<u>2007</u>	<u>% of Revenue</u>	<u>\$ Change</u>	<u>% Change</u>
(Dollars in thousands)						
<b>Equity in Earnings of Affiliate</b> .....	\$ 4,623	0.4%	\$ 2,151	0.2%	\$ 2,472	114.9%

Equity in earnings of affiliates represent the earnings of SACS in 2008 and 2007 and reflect contractual increases partially offset by unfavorable foreign currency translation. These results also include the impact of a one-time tax benefit of \$1.9 million.

## Financial Condition

### *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 the development of new correctional, detention and/or mental health 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 the remaining capital expenditures related to these existing capital projects will be \$37.7 million to be spent in 2010. Capital expenditures related to facility maintenance costs are expected to range between \$10.0 million and \$15.0 million. In addition to these current estimated capital requirements for 2010, 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*

We plan to fund all of our capital needs, including our capital expenditures, from cash on hand, cash from operations, borrowings under our Senior Credit Facility and any other financings which our management and Board of Directors, in their discretion, may consummate. Our primary source of liquidity to meet these requirements is cash flow from operations and borrowings from the \$330.0 million Revolver under our Senior Credit Facility (see discussion below).

As of January 3, 2010, we had a total of \$457.5 million of consolidated debt outstanding, excluding \$112.0 million of non-recourse debt and capital lease liability balances of \$15.1 million. As of January 3, 2010, we also had outstanding eight letters of guarantee totaling \$8.9 million under separate international credit facilities. Based on our debt covenants and the amount of indebtedness we have outstanding, as of February 16, 2010, we had the ability to borrow an additional approximately \$217 million under our Revolver after considering debt covenants. We also have the ability to borrow \$200.0 million under the accordion feature of our Senior Credit Facility subject to lender demand and market conditions. Our significant debt service obligations could have material consequences. See “Risk Factors — Risks Related to Our High Level of Indebtedness.”

Our management believes that cash on hand, cash flows from operations and borrowings under our Senior Credit Facility will be adequate to support our capital requirements for 2010 and 2011 disclosed above. However, 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. In that event, our cash on hand, cash flows from operations and borrowings under the Senior Credit Facility may not provide sufficient liquidity to meet our capital 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 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 7¾% Senior Notes and in our Senior Credit Facility. 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 the company expects to be in compliance with its debt covenants, if these constraints were to intensify, our liquidity could be materially adversely impacted as could our compliance with these debt covenants.

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. Both of the executives reached the eligible retirement age of 55 in 2005. However, under the retirement agreements, retirement may be taken at any time at the individual executive’s discretion. In the event that both executives were to retire in the same year, we believe we will have funds available to pay the retirement obligations from various sources, including cash on hand, operating cash flows or borrowings under our Revolver. Based on our current capitalization, we do not believe that making these payments in any one period, whether in separate installments or in the aggregate, would materially adversely impact our liquidity.

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 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 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 the our discretion. As of February 16, 2010, GEO had 51.6 million shares outstanding.

We are also exposed to various commitments and contingencies which may have a material adverse effect on our liquidity. See Item 3. Legal Proceedings.

### ***The Senior Credit Facility***

On October 5, 2009, on October 15, 2009, and again on December 4, 2009, we completed certain amendments to our Senior Credit Facility. These amendments, among other things, modified the aggregate size of the Revolver from \$240.0 million to \$330.0 million, extended the maturity of the Revolver to 2012, modified the permitted maximum total leverage and maximum senior secured leverage financial ratios, eliminated the annual capital expenditures limitation and made several technical revisions to certain definitions therein. Our Senior Credit Facility is now comprised of a \$155.0 million Term Loan B bearing interest at LIBOR plus 2.00% and maturing in January 2014 and the \$330.0 million Revolver which currently bears interest at LIBOR plus 3.25% and matures in September 2012. Also, upon the execution these amendments we have the ability to increase our borrowing capacity under the Senior Credit facility by another \$200.0 million subject to lender demand, market conditions and existing borrowings.

As of January 3, 2010, we had \$155.0 million outstanding under the Term Loan B, and our \$330.0 million Revolver had \$58.0 million outstanding in loans, \$47.5 million outstanding in letters of credit and approximately \$217 million available for borrowings, which we refer to as our Unused Revolver, after considering our debt covenants. We intend to use future borrowings from the Revolver for the purposes permitted under the Senior Credit Facility, including for general corporate purposes.

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

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

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

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

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

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

The foregoing covenants replace the corresponding covenants previously included in the credit agreement governing our Senior Credit Facility (referred to as the “Credit Agreement”).



All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of our existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of our present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, as specified in the Credit Agreement. In addition, the Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict our ability to be party to certain transactions, as further specified in the Credit Agreement. Events of default under the Senior Credit Facility include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental state of claims which are asserted against it, and (viii) a change of control. Our failure to comply with any of the covenants under its Senior Credit Facility could cause an event of default under such documents and result in an acceleration of all of outstanding senior secured indebtedness. We believe we were in compliance with all of the covenants of the Senior Credit Facility as of January 3, 2010.

#### ***8¼% Senior Notes***

On October 5, 2009, we announced the commencement of a cash tender offer for our \$150.0 million aggregate principal amount of 8¼% Senior Notes. Holders who validly tendered their Notes before the early tender date, which expired at 5:00 p.m. Eastern Standard time on October 19, 2009, received a 103% cash payment for their note which included an early tender premium of 3%. Holders who tendered their notes after the early tender date, but before the expiration date of 11:59 p.m., Eastern Standard time on November 2, 2009 which we refer to as the Early Expiration Date, received 100% cash payment for their note. Holders of the 8¼% Senior Notes accepted for purchase received accrued and unpaid interest up to, but not including, the applicable payment date. Valid early tenders received by us represented \$130.2 million aggregate principal amount of the 8¼% Senior Notes which was 86.8% of the outstanding principal balance. We settled these notes on October 20, 2009 by paying \$136.9 million to the trustee. Also on October 20, 2009, we announced the call for redemption for all notes not tendered by the Expiration Date. We financed the tender offer and redemption with a portion of the net cash proceeds from our offering of \$250.0 million aggregate principal 7¾% Senior Notes, which closed on October 20, 2009. As of November 19, 2009, all of the 8¼% Senior Notes had been redeemed.

#### ***7¾% Senior Notes***

On October 20, 2009, we completed a private offering of \$250.0 million in aggregate principal amount of our 7¾% 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 its 8¼% Senior Notes due 2013 and pay down part the Revolver.

The 7¾% Senior Notes and the guarantees will be unsecured, unsubordinated obligations of GEO and the guarantors and will rank as follows: pari passu with any unsecured, unsubordinated 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 our Senior Credit Facility, 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. After October 15, 2013, we may, at our option, redeem all or a part of the 7¾% 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 7¾% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2013.....	103.875%
2014.....	101.938%
2015 and thereafter .....	100.000%

Before October 15, 2013, we may redeem some or all of the 7¾% Senior Notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make-whole premium described under "Description of Notes — Optional Redemption" together with accrued and unpaid interest. In addition, at any time prior to October 15, 2012, we 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 principal amount of each note to be redeemed, plus accrued and unpaid interest, 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 CSC of Tacoma, LLC, GEO International Holdings, Inc., certain dormant domestic subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries. In addition, there is a cross-default provision which becomes enforceable upon failure of payment of indebtedness at final maturity. 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 7¾% Senior Notes as of January 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 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 its construction, South Texas Local Development Corporation, which we refer to as STLDC, was created and issued \$49.5 million in taxable revenue bonds. Additionally, we have outstanding \$5.0 million of subordinated notes which represents the principal amount of financing provided to STLDC by CSC for initial development. These bonds mature in February 2016 and have fixed coupon rates between 4.11% and 5.07%.

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 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 all operating expenses and are required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten year term and are non-recourse to us. 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 2, 2009, we made a payment of \$4.4 million for the current portion of our periodic debt service requirement in relation to STLDC operating agreement and bond indenture. As of January 3, 2010, the remaining balance of the debt service requirement is \$36.7 million, of which \$4.6 million is due within the next twelve months. Also as of January 3, 2010, included in current restricted cash and non-current restricted cash is \$6.2 million and \$8.2 million, respectively, as 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, which we refer 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 non-recourse to us. These bonds mature in February 2014 and have fixed coupon rates between 3.20% 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, 2009, CSC of Tacoma LLC made a payment from its restricted cash account of \$5.7 million for the current portion of its periodic debt service requirement in relation to the WEDFA bid indenture. As of January 3, 2010, the remaining balance of the debt service requirement is \$31.6 million, of which \$5.9 million is classified as current in the accompanying balance sheet.

As of January 3, 2010, included in current restricted cash and non-current restricted cash is \$7.1 million and \$2.2 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.



## *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, which are non-recourse to us and total \$45.4 million and \$38.1 million at January 3, 2010 and December 28, 2008, respectively. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at January 3, 2010, was \$4.5 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 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 \$8.2 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 \$1.1 million, as security for our guarantee. Our obligations under this guarantee are indexed to the CPI and expire upon the release from SACS of its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in our outstanding letters of credit under the Revolver.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or \$2.7 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 \$2.4 million commencing in 2017. We have a liability of \$1.5 million and \$1.3 million related to this exposure as of January 3, 2010 and December 28, 2008, respectively. 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 balance sheet. We do not currently operate or manage this facility.

At January 3, 2010, we also had outstanding eight letters of guarantee totaling \$8.9 million under separate international facilities. We do not have any off balance sheet arrangements.

## *Derivatives*

In November 2009, we executed three interest rate swap agreements in the aggregate notional amount of \$75.0 million. We have designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7¾% Senior Notes due 2017 ("7¾% 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 7¾% Senior Notes, effectively convert \$75.0 million of the 7¾% Senior Notes into variable rate obligations. Each of the swaps has a termination clause that gives the lender the right to terminate the interest rate swaps at fair market value if they are no longer a lender under the Credit Agreement. In addition to the termination clause, 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 rates swaps, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 7¾% per year calculated on the notional \$75.0 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 4.24% and 4.29%, also calculated on the notional \$75.0 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. Effective January 6, 2010, we executed a fourth swap agreement relative to a notional amount of \$25.0 million of the 7¾% Senior Notes. (See Note 20). There was no material ineffectiveness of our interest rate swaps for the fiscal years presented.

Our Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. We have determined the swap to be an effective cash flow hedge. Accordingly, we record the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. There was no ineffectiveness of this interest rate swap for the fiscal years 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 loss.

### ***Contractual Obligations and Off Balance Sheet Arrangements***

The following is a table of certain of our contractual obligations, as of January 3, 2010, which requires us to make payments over the periods presented.

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years (In thousands)</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
Long-term debt obligations.....	\$ 250,028	\$ 28	\$ —	\$ —	\$ 250,000
Term Loan B .....	154,963	3,650	7,300	144,013	—
Revolver.....	58,000	—	58,000	—	—
Capital lease obligations (includes imputed interest) .....	24,437	1,930	3,866	3,868	14,773
Operating lease obligations.....	134,460	18,041	31,982	18,501	65,936
Non-recourse debt.....	113,724	15,241	32,697	36,130	29,656
Estimated interest payments on debt(a) .....	188,242	30,144	56,087	43,287	58,724
Estimated funding of pension and other post retirement benefits.....	16,206	10,223	406	543	5,034
Estimated construction commitments .....	37,700	37,700	—	—	—
Estimated tax payments for uncertain tax positions(b).....	5,116	—	5,116	—	—
<b>Total .....</b>	<b>\$ 982,876</b>	<b>\$ 116,957</b>	<b>\$ 195,454</b>	<b>\$ 246,342</b>	<b>\$ 424,123</b>

- (a) Due to the uncertainties of future LIBOR rates, the variable interest payments on our credit facility and swap agreements were calculated using a LIBOR rate of .30% based on our estimated interest rates for fiscal 2010.
- (b) State income tax payments are reflected net of the federal income tax benefit.

We do not have any additional off balance sheet arrangements which would subject us to additional liabilities.

### ***Cash Flow***

Cash and cash equivalents as of January 3, 2010 was \$33.9 million, compared to \$31.7 million as of December 28, 2008. During Fiscal 2009 we used cash flows from operations to fund all of our operating expenses and used cash on hand, net cash proceeds from the issuance of our 7¼% Senior Notes and cash flow from operations to fund \$149.8 million in capital expenditures

Cash provided by operating activities of continuing operations in 2009, 2008 and 2007 was \$125.1 million, \$74.4 million, and \$75.0 million, respectively. Cash provided by operating activities of continuing operations in 2009 was positively impacted by an increase in net income of \$7.1 million in addition to \$39.3 million of depreciation and amortization expense. These increases reflect the opening of new facilities as previously discussed and improved financial performance at existing facilities. Cash provided by operating activities of continuing operations in 2008 was positively impacted by an increase in net income of \$17.1 million in addition to \$37.4 million of depreciation and amortization expense. Cash provided by operating activities of continuing operations in 2007 was positively impacted by an increase in net income of \$11.8 million in addition to \$33.2 million of depreciation and amortization expense.

Cash provided by operating activities of continuing operations was positively impacted in 2009 by a decrease in accounts receivable of \$6.9 million, an increase in our deferred income tax benefits of \$10.0 million, and non-cash expense of \$6.8 million related to the write-off of deferred financing fees and the expenses associated with the tender offer for our 8¼% Senior Notes. Cash provided by operating activities of continuing operations was negatively impacted in 2008 by an increase in accounts receivable of \$29.6 million and more non-cash earnings in the prior year attributable to our investment in our South Africa joint venture, SACS. Cash provided by operating activities of continuing operations was negatively impacted in 2007 by an increase in accounts receivable of \$10.6 million and increases in our deferred income tax provision of \$5.1 million.

Cash used in investing activities of continuing operations in 2009 of \$185.3 million consists of our investment in Just Care Inc, of \$38.4 million as well as capital expenditures of \$149.8 million. Of the aggregate \$149.8 million in capital expenditures, \$138.3 million related to development capital expenditures and approximately \$11.5 million related to maintenance capital expenditures. We are currently developing a number of projects using company financing. We estimate our remaining capital requirements for these projects to be \$37.7 million, which will be spent through 2010.

Cash used in investing activities of continuing operations in 2008 of \$131.6 million includes capital expenditures of \$131.0 million, of which \$119.3 million related to development capital expenditures and approximately \$11.7 million related maintenance capital expenditures. Cash used in investing activities of continuing operations in 2007 was \$518.9 million due to our cash investment in CPT of \$410.5 million and capital expenditures of \$115.2 million.

Cash provided by financing activities in 2009 was \$52.0 million and reflects cash proceeds from the issuance of our 7¾% Senior Notes of \$250.0 million and Revolver borrowings of \$83.0 million. These proceeds were offset by payments of \$150.0 million for repayment of our 8¾% Senior Notes, payments of \$99.0 million on our Revolver and payments on non-recourse debt and Term Loan B of \$17.8 million. Cash proceeds from our 7¾% Senior Notes were primarily used to pay down our 8¾% Senior Notes and our Revolver and to pay down our Revolver. We intend to use cash flows from operations and future borrowings under our Revolver to fund the project discussed above and other projects we may announce during fiscal 2010. We believe the institutions and banks included in our lender group will be able to fund their commitment to our Revolver. However, we can provide no assurance regarding their solvency or ability to honor their commitments. Failure to honor a commitment could materially impact our ability to meet our future capital needs and complete the projects discussed above.

Cash provided by financing activities in 2008 was \$53.7 million and reflects proceeds received from net borrowings of \$74.0 million under our Revolver. Borrowings under our \$240.0 million Revolver were primarily used to fund \$119.3 million of development capital expenditures in fiscal 2008. Cash provided by financing activities in 2007 was \$372.3 million and reflects proceeds received from the equity offering of \$227.5 million as well as cash proceeds of \$387.0 million from our Term Loan B and the Revolver. These cash flows from financing activities are offset by payments on the Term Loan B of \$202.7 million, payments on the Revolver of \$22.0 million and payments on other long term debt of \$12.6 million.

### ***Inflation***

We believe that inflation, in general, did not have a material effect on our results of operations during 2009, 2008 and 2007. While some of our contracts include provisions for inflationary indexing, inflation could have a substantial adverse effect on our results of operations in the future to the extent that wages and salaries, which represent our largest expense, increase at a faster rate than the per diem or fixed rates received by us for our management services.

### **Outlook**

The following discussion of our future performance 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 “Item 1A. Risk Factors” in this Annual Report on Form 10-K, the “Forward-Looking Statements — Safe Harbor,” as well as the other disclosures contained in this 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.

With state and federal prison populations growing by approximately 16% since 2000, the private corrections industry has played an increasingly important role in addressing U.S. detention and correctional needs. The number of State and Federal prisoners housed in private facilities has increased by 47% since the year 2000 with the Federal government and states such as Arizona, Texas and Florida accounting for a significant portion of the increase. At year-end 2008, 8.0% of the estimated 1.6 million State and Federal prisoners incarcerated in the United States were held in private facilities, up from 6.3% in 2000. In addition to our strong positions in Texas and Florida and in the U.S. market in general, we believe we are the only publicly traded U.S. correctional company with international operations. With the existing operations in South Africa, Australia, and the United Kingdom beginning, we believe that our international presence positions us to capitalize on growth opportunities within the private corrections and detention industry in new and established international markets.

We intend to pursue a diversified growth strategy by winning new customers and contracts, expanding our government services portfolio and pursuing selective acquisition opportunities. We achieve organic growth through competitive bidding that begins with

the issuance by a government agency of a request for proposal, or RFP. We primarily rely on the RFP process for organic growth in our U.S. and international corrections operations as well as in our mental health and residential treatment services. We believe that our long operating history and reputation have earned us credibility with both existing and prospective clients when bidding on new facility management contracts or when renewing existing contracts. Our success in the RFP process has resulted in a pipeline of new projects with significant revenue potential. In 2009, we activated eight new or expansion projects representing 2,698 additional beds. This compares to the eight new or expansion projects activated in 2008 representing 6,120 new beds. As of January 3, 2010, we have three facilities under various stages of development or pending commencement of operations which represent 4,325 beds. In addition to pursuing organic growth through the RFP process, we will from time to time selectively consider the financing and construction of new facilities or expansions to existing facilities on a speculative basis without having a signed contract with a known customer. We also plan to leverage our experience to expand the range of government-outsourced services that we provide. We will continue to pursue selected acquisition opportunities in our core services and other government services areas that meet our criteria for growth and profitability.

### ***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, most recently California and Arizona and increased demand for bed space at federal prisons and detention facilities are two of the factors that have contributed to the greater number of opportunities for privatization. However, these positive trends may in the future be impacted by government budgetary constraints. According to the National Conference on State Legislatures, as of November 30, 2009, thirty-nine states were projecting that general fund revenues in fiscal year 2010 will be lower than in fiscal year 2009 and 35 states projected budget gaps in fiscal year 2011 with the sum of those budget imbalances totaling \$55.5 billion. 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 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. Additionally, several of our management contracts are up for renewal and/or re-bid in 2010. Although we have historically had a relative high contract renewal rate, there can be no assurance that we will be able to renew our management contracts scheduled to expire in 2010 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, in the United Kingdom and in Australia, we recently began the operation and management under two new contracts with an aggregate of 1,083 beds. These projects commenced operations the second half of fiscal year 2009. 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. We expect preferred bidders to be announced in the first half of 2010 and anticipate final close to occur within six months thereafter. No more than two prison projects can be awarded to any one bidder. We believe that additional opportunities will become available in international markets and 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 September 2009, we acquired Just Care, and began management of the 354-bed Columbia Care Regional Center in the fourth fiscal quarter. In addition, we continue to expend resources on informing state and local governments about the benefits of privatization and we 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.

### ***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 52.4% of our operating expenses in the fiscal year 2009. Additional significant operating expenses include food, utilities and inmate medical costs. In 2009, operating expenses totaled 78.6% 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 also expect our results in 2010 to reflect increases to interest expense due to higher rates related to incremental borrowings on our Senior Credit Facility, more average indebtedness and less capitalized interest due to a decrease in construction activity. We also expect increases to depreciation expense due to the carrying costs we will incur for two newly constructed and expanded facilities for which we have



no corresponding management contract for the expansion beds. We expect that a portion of these increases may be offset by a savings to depreciation expense. We are currently reviewing the useful lives for our owned facilities and expect that some of the lives of these assets may increase as a result. Overall, excluding any start-up expenses, depreciation expense and interest expense, we anticipate that operating expenses as a percentage of our revenue will remain relatively flat, consistent with our fiscal year ended January 3, 2010.

### ***General and Administrative Expenses***

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. In 2009, general and administrative expenses totaled 6.1% of our consolidated revenues. 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. 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. We also plan to continue expending resources from time to time on the evaluation of potential acquisition targets.

### **Forward-Looking Statements — Safe Harbor**

This report 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 reactivate the North Lake Correctional Facility;
- an increase in unreimbursed labor rates;
- our ability to expand, diversify and grow our correctional and mental health and residential treatment services;
- 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 obtain future financing at competitive rates;
- our exposure to rising general insurance costs;
- our exposure to state and federal income tax law changes internationally and domestically;

- our exposure to claims for which we are uninsured;
- our exposure to rising employee and inmate medical costs;
- 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 annual report on Form 10-K, our Form 10-Qs and our Form 8-Ks 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 report.

## **Item 7A. *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 Senior Credit Facility. Payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Senior Credit Facility portion of \$213.0 million as of January 3, 2010 for every one percent increase in the interest rate applicable to the Senior Credit Facility, our total annual interest expense would increase by \$2.1 million.

In November 2009, we executed three interest rate swap agreements in the aggregate notional amount of \$75.0 million. These interest rate swaps, which have payment, expiration dates and call provisions that mirror the terms of the Notes, effectively convert \$75.0 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 7¾% per year calculated on the notional \$75.0 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 4.235% and 4.29%, also calculated on the notional \$75.0 million amount. Effective January 6, 2010, we executed a fourth swap agreement relative to a notional amount of \$25.0 million of our 7¾% Senior Notes (See Note 20). For every one percent increase in the interest rate applicable to our aggregate notional \$100 million of swap agreements relative to the 7¾% 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 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 as of January 3, 2010 with respect to our international operations, every 10 percent change in historical currency rates would have a \$5.0 million effect on our financial position and a \$0.8 million impact on our results of operations over the next fiscal year.

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

To the Shareholders of  
The GEO Group, Inc.:

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. They include amounts based on judgments and estimates.

Representation in the consolidated financial statements and the fairness and integrity of such statements are the responsibility of management. In order to meet management's responsibility, the Company maintains a system of internal controls and procedures and a program of internal audits designed to provide reasonable assurance that our assets are controlled and safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon in the preparation of financial statements.

The consolidated financial statements have been audited by Grant Thornton LLP, independent registered public accountants, whose appointment by our Audit Committee was ratified by our shareholders. Their report expresses a professional opinion as to whether management's consolidated financial statements considered in their entirety present fairly, in conformity with accounting principles generally accepted in the United States, the Company's financial position and results of operations. Their audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States). The effectiveness of our internal control over financial reporting as of January 3, 2010 has been audited by Grant Thornton LLP, independent registered public accountants, as stated in their report which is included in this Form 10-K.

The Audit Committee of the Board of Directors meets periodically with representatives of management, the independent registered public accountants and our internal auditors to review matters relating to financial reporting, internal accounting controls and auditing. Both the internal auditors and the independent registered certified public accountants have unrestricted access to the Audit Committee to discuss the results of their reviews.

George C. Zoley  
*Chairman and Chief Executive Officer*

Wayne H. Calabrese  
*Vice Chairman, President and Chief Operating Officer*

Brian R. Evans  
*Senior Vice President and Chief Financial Officer*

## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer that: (i) pertains to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provides reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements for external reporting in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorization of the Company's management and directors; and (iii) provides reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management has assessed the effectiveness of the Company's internal control over financial reporting as of January 3, 2010. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in *Internal Control — Integrated Framework*.

The Company evaluated, with the participation of its Chief Executive Officer and Chief Financial Officer, its internal control over financial reporting as of January 3, 2010, based on the *COSO Internal Control — Integrated Framework*. Based on this evaluation, the Company's management concluded that as of January 3, 2010, its internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Grant Thornton LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of  
The GEO Group, Inc.

We have audited The GEO Group, Inc. and subsidiaries' (the "Company") internal control over financial reporting as of January 3, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, The GEO Group, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of January 3, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The GEO Group, Inc. and subsidiaries as of January 3, 2010 and December 28, 2008, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended January 3, 2010, and our report dated February 22, 2010 expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Miami, Florida  
February 22, 2010

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and  
Shareholders of The GEO Group, Inc.

We have audited the accompanying consolidated balance sheets of The GEO Group, Inc. and subsidiaries (the “Company”) as of January 3, 2010 and December 28, 2008, and the related consolidated statements of income, shareholders’ equity and comprehensive income and cash flows for each of the three years in the period ended January 3, 2010. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The GEO Group, Inc. and subsidiaries as of January 3, 2010 and December 28, 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 3, 2010 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 18, the Company adopted new accounting guidance on January 1, 2007 related to the accounting for uncertainty in income tax reporting.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), The GEO Group, Inc. and subsidiaries’ internal control over financial reporting as of January 3, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 22, 2010 expressed an unqualified opinion thereon.

/s/ Grant Thornton LLP

Miami, Florida  
February 22, 2010

**THE GEO GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
Fiscal Years Ended January 3, 2010, December 28, 2008, and December 30, 2007

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In thousands, except per share data)		
<b>Revenues</b> .....	\$ 1,141,090	\$ 1,043,006	\$ 976,299
<b>Operating Expenses</b> .....	897,356	822,659	788,503
<b>Depreciation and Amortization</b> .....	39,306	37,406	33,218
<b>General and Administrative Expenses</b> .....	69,240	69,151	64,492
<b>Operating Income</b> .....	135,188	113,790	90,086
<b>Interest Income</b> .....	4,943	7,045	8,746
<b>Interest Expense</b> .....	(28,518)	(30,202)	(36,051)
<b>Loss on Extinguishment of Debt</b> .....	(6,839)	—	(4,794)
<b>Income Before Income Taxes, Equity in Earnings of Affiliates, and Discontinued Operations</b> .....	104,774	90,633	57,987
<b>Provision for Income Taxes</b> .....	41,991	33,803	22,049
<b>Equity in Earnings of Affiliates, net of income tax provision (benefit) of \$1,368, (\$805), and \$1,030</b> .....	3,517	4,623	2,151
<b>Income from Continuing Operations</b> .....	66,300	61,453	38,089
<b>Income (loss) from Discontinued Operations, net of tax provision (benefit) of (\$216), \$236, and \$2,310</b> .....	(346)	(2,551)	3,756
<b>Net Income</b> .....	<u>\$ 65,954</u>	<u>\$ 58,902</u>	<u>\$ 41,845</u>
<b>Weighted Average Common Shares Outstanding:</b>			
Basic .....	<u>50,879</u>	<u>50,539</u>	<u>47,727</u>
Diluted .....	<u>51,922</u>	<u>51,830</u>	<u>49,192</u>
<b>Earnings (loss) per Common Share:</b>			
<b>Basic:</b>			
Income from continuing operations .....	\$ 1.30	\$ 1.22	\$ 0.80
Income (loss) from discontinued operations .....	—	(0.05)	0.08
Net income per share — basic .....	<u>\$ 1.30</u>	<u>\$ 1.17</u>	<u>\$ 0.88</u>
<b>Diluted:</b>			
Income from continuing operations .....	\$ 1.28	\$ 1.19	\$ 0.77
Income (loss) from discontinued operations .....	(0.01)	(0.05)	0.08
Net income per share — diluted .....	<u>\$ 1.27</u>	<u>\$ 1.14</u>	<u>\$ 0.85</u>

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

**THE GEO GROUP, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
January 3, 2010 and December 28, 2008

	2009	2008
	(In thousands, except share data)	
ASSETS		
Current Assets		
Cash and cash equivalents.....	\$ 33,856	\$ 31,655
Restricted cash .....	13,313	13,318
Accounts receivable, less allowance for doubtful accounts of \$429 and \$625.....	200,756	199,665
Deferred income tax asset, net .....	17,020	17,340
Other current assets .....	14,689	12,911
Current assets of discontinued operations.....	—	7,031
Total current assets .....	279,634	281,920
Restricted Cash .....	20,755	19,379
Property and Equipment, Net .....	998,560	878,616
Assets Held for Sale .....	4,348	4,348
Direct Finance Lease Receivable .....	37,162	31,195
Deferred Income Tax Assets, Net.....	—	4,417
Goodwill.....	40,090	22,202
Intangible Assets, Net.....	17,579	12,393
Other Non-Current Assets .....	49,690	33,942
Non-Current Assets of Discontinued Operations .....	—	209
	\$ 1,447,818	\$ 1,288,621
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable .....	\$ 51,856	\$ 56,143
Accrued payroll and related taxes .....	25,209	27,957
Accrued expenses.....	80,759	82,442
Current portion of capital lease obligations, long-term debt and non-recourse debt .....	19,624	17,925
Current liabilities of discontinued operations .....	—	1,459
Total current liabilities .....	177,448	185,926
Deferred Income Tax Liability .....	7,060	14
Other Non-Current Liabilities .....	33,142	28,876
Capital Lease Obligations .....	14,419	15,126
Long-Term Debt .....	453,860	378,448
Non-Recourse Debt .....	96,791	100,634
Commitments and Contingencies (Note 14)		
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, 67,704,008 and 67,197,775 issued and 51,629,005 and 51,122,775 outstanding, respectively.....	516	511
Additional paid-in capital.....	351,550	344,175
Retained earnings.....	365,927	299,973
Accumulated other comprehensive income (loss) .....	5,496	(7,275)
Treasury stock 16,075,000 shares, at cost, at January 3, 2010 and December 28, 2008 .....	(58,888)	(58,888)
Total shareholders' equity attributable to The GEO Group, Inc. ....	664,601	578,496
Noncontrolling interest .....	497	1,101
Total shareholders' equity .....	665,098	579,597
	\$ 1,447,818	\$ 1,288,621

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



**THE GEO GROUP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Fiscal Years Ended January 3, 2010, December 28, 2008, and December 30, 2007**

	2009	2008 (In thousands)	2007
<b>Cash Flow from Operating Activities:</b>			
Net income .....	\$ 65,954	\$ 58,902	\$ 41,845
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Amortization of restricted stock-based compensation .....	3,509	3,015	2,474
Stock-based compensation expense .....	1,813	1,530	935
Depreciation and amortization expenses .....	39,306	37,406	33,218
Amortization of debt issuance costs and discount .....	3,412	3,042	2,524
Deferred tax provision (benefit) .....	10,010	2,656	(5,077)
Provision (Recovery) for doubtful accounts .....	139	602	(176)
Equity in earnings of affiliates, net of tax .....	(3,517)	(4,623)	(2,151)
Dividend to minority interest .....	(176)	(125)	(389)
Income tax benefit of equity compensation .....	(601)	(786)	(3,061)
Loss on sale of fixed assets .....	119	157	—
Loss on extinguishment of debt .....	6,839	—	4,794
Changes in assets and liabilities, net of acquisition			
Accounts receivable .....	6,852	(29,599)	(10,604)
Other current assets .....	(2,678)	2,120	(57)
Other assets .....	(1,117)	(2,418)	3,211
Accounts payable and accrued expenses .....	(4,089)	7,775	(2,457)
Accrued payroll and related taxes .....	(5,509)	(4,483)	1,517
Deferred revenue .....	—	—	(152)
Other liabilities .....	4,845	(814)	8,583
Net cash provided by operating activities of continuing operations .....	125,111	74,357	74,977
Net cash (used in) provided by operating activities of discontinued operations .....	5,818	(3,013)	3,951
Net cash provided by operating activities .....	130,929	71,344	78,928
<b>Cash Flow from Investing Activities:</b>			
Acquisitions, net of cash acquired .....	(38,386)	—	(410,473)
CSC purchase price adjustment .....	—	—	2,291
Proceeds from sale of assets .....	179	1,136	4,476
Purchase of shares in consolidated affiliate .....	—	(2,189)	—
Change in restricted cash .....	2,713	452	(20)
Capital expenditures .....	(149,779)	(130,990)	(115,204)
Net cash used in investing activities .....	(185,273)	(131,591)	(518,930)
<b>Cash Flow from Financing Activities:</b>			
Proceeds from equity offering, net .....	—	—	227,485
Proceeds from long-term debt .....	333,000	156,000	387,000
Income tax benefit of equity compensation .....	601	786	3,061
Debt issuance costs .....	(17,253)	(3,685)	(9,210)
Payments on long-term debt .....	(267,474)	(100,156)	(237,299)
Termination of interest rate swap agreements .....	1,719	—	—
Proceeds from the exercise of stock options .....	1,457	753	1,239
Net cash provided by financing activities .....	52,050	53,698	372,276
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b> .....	4,495	(6,199)	609
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b> .....	2,201	(12,748)	(67,117)
<b>Cash and Cash Equivalents, beginning of period</b> .....	31,655	44,403	111,520
<b>Cash and Cash Equivalents, end of period</b> .....	\$ 33,856	\$ 31,655	\$ 44,403
<b>Supplemental Disclosures:</b>			
<b>Cash paid during the year for:</b>			
Income taxes .....	\$ 34,185	\$ 29,895	\$ 26,413
Interest .....	\$ 32,075	\$ 34,486	\$ 28,470
<b>Non-cash operating activities:</b>			
Proceeds receivable from insurance claim .....	\$ —	\$ —	\$ 2,118
<b>Non-cash investing and financing activities:</b>			
Fair value of assets acquired, net of cash acquired .....	\$ 44,239	\$ —	\$ 406,368
Extinguishment of pre-acquisition liabilities, net .....	\$ —	\$ —	\$ 6,663
Total liabilities assumed .....	\$ 5,853	\$ —	\$ 2,558
Short term borrowings for deposit on asset .....	\$ 38,386	\$ —	\$ 410,473
	\$ —	\$ —	\$ 5,000

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

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME  
Fiscal Years Ended January 3, 2010, December 28, 2008, and December 30, 2007

	GEO Group Inc. Shareholders									
	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Noncontrolling Interest	Total Shareholders' Equity	
	Number of Shares	Amount				Number of Shares	Amount			
(In thousands)										
Balance, December 31, 2006.....	39,497	\$ 395	\$ 143,035	\$ 201,697	\$ 2,393	(27,000)	\$ (98,910)	\$ 1,297	\$ 249,907	
Adoption of FIN 48 January 1, 2007 (Note 18).....		—	—	(2,471)	—		—	—	(2,471)	
Proceeds from stock options exercised.....	267	3	1,236	—	—		—	—	1,239	
Tax benefit related to equity compensation.....		—	3,061	—	—		—	—	3,061	
Stock based compensation expense.....		—	935	—	—		—	—	935	
Restricted stock granted.....	300	3	(3)	—	—		—	—	—	
Restricted stock cancelled.....	(13)	—	—	—	—		—	—	—	
Amortization of restricted stock.....		—	2,474	—	—		—	—	2,474	
Issuance of treasury stock in conjunction with offering.....	10,925	109	187,354	—	—	10,925	40,022	—	227,485	
Dividends paid to noncontrolling interest on subsidiary common stock.....		—	—	—	—		—	(389)	(389)	
Comprehensive income:										
Net income.....		—	—	41,845	—		—	397		
Change in foreign currency translation, net of income tax expense of \$180.....		—	—	—	2,898		—	337		
Pension liability adjustment, net of income tax benefit of \$203.....		—	—	—	312		—	—		
Unrealized gain on derivative instruments, net of income tax expense of \$807.....		—	—	—	1,317		—	—		
Total comprehensive income.....									47,106	
Balance, December 30, 2007.....	50,976	510	338,092	241,071	6,920	(16,075)	(58,888)	1,642	529,347	
Proceeds from stock options exercised.....	171	1	752	—	—		—	—	753	
Tax benefit related to equity compensation.....		—	786	—	—		—	—	786	
Stock based compensation expense.....		—	1,530	—	—		—	—	1,530	
Restricted stock granted.....	24	—	—	—	—		—	—	—	
Restricted stock cancelled.....	(48)	—	—	—	—		—	—	—	
Amortization of restricted stock.....		—	3,015	—	—		—	—	3,015	
Purchase of subsidiary shares from noncontrolling interest.....		—	—	—	—		—	(626)	(626)	
Dividends paid to noncontrolling interest on subsidiary common stock.....		—	—	—	—		—	(125)	(125)	
Comprehensive income:										
Net income.....		—	—	58,902	—		—	376		
Change in foreign currency translation, net of income tax benefit of \$413.....		—	—	—	(10,742)		—	(166)		
Pension liability adjustment, net of income tax benefit of \$17.....		—	—	—	27		—	—		
Unrealized loss on derivative instruments, net of income tax benefit of \$2,113.....		—	—	—	(3,480)		—	—		
Total comprehensive income.....									44,917	
Balance, December 28, 2008.....	51,123	511	344,175	299,973	(7,275)	(16,075)	(58,888)	1,101	579,597	

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
AND COMPREHENSIVE INCOME**  
**Fiscal Years Ended January 3, 2010, December 28, 2008, and December 30, 2007**  
**Continued**

Proceeds from stock options exercised .....	372	3	1,454	—	—	—	—	1,457	
Tax benefit related to equity compensation .....		—	601	—	—	—	—	601	
Stock based compensation expense.....		—	1,813	—	—	—	—	1,813	
Restricted stock granted.....	168	2	(2)	—	—	—	—	—	
Restricted stock cancelled.....	(34)	—	—	—	—	—	—	—	
Amortization of restricted stock .....		—	3,509	—	—	—	—	3,509	
Dividends paid to noncontrolling interest on subsidiary common stock.....		—	—	—	—	—	(176)	(176)	
Comprehensive income:									
Net income.....		—	—	65,954	—	—	169		
Change in foreign currency translation, net of income tax benefit of \$1,129 .....		—	—	—	10,658	—	(597)		
Pension liability adjustment, net of income tax benefit of \$636.....		—	—	—	942	—	—		
Unrealized gain on derivative instruments, net of income tax benefit of \$645 .....		—	—	—	1,171	—	—		
Total comprehensive income		—	—	—	—	—	—	78,297	
Balance, January 3, 2010	51,629	\$ 516	\$ 351,550	\$ 365,927	\$ 5,496	(16,075)	\$ (58,888)	\$ 497	\$ 665,098

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

## THE GEO GROUP, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fiscal Years Ended January 3, 2010, December 28, 2008, and December 30, 2007

#### 1. Summary of Business Operations and Significant Accounting Policies

The GEO Group, Inc., a Florida corporation, and subsidiaries (the “Company”, or “GEO”) is a leading developer and manager of privatized correctional, detention and mental health residential treatment services facilities located in the United States, Australia, South Africa, the United Kingdom and Canada. The Company operates a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers and mental health and residential treatment facilities. We also provide secure transportation services for offender and detainee populations as contracted. As of the fiscal year ended January 3, 2010, GEO managed 57 facilities totaling approximately 52,800 beds worldwide and had an additional 4,325 beds under development at three facilities, including an expansion and renovation of one vacant facility which we own, the expansion of one facility we currently own and operate and a new 2,000-bed facility which we will manage upon completion.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. The significant accounting policies of the Company are described below.

##### *Fiscal Year*

The Company’s fiscal year ends on the Sunday closest to the calendar year end. Fiscal year 2009 included 53 weeks. Fiscal years 2008 and 2007 each included 52 weeks. The Company reports the results of its South African equity affiliate, South African Custodial Services Pty. Limited, (“SACS”), and its consolidated South African entity, South African Custodial Management Pty. Limited (“SACM”) on a calendar year end, due to the availability of information.

##### *Basis of Presentation*

The consolidated financial statements include the accounts of the Company and all controlled subsidiaries. Investments in 50% owned affiliates, which the Company does not control, are accounted for under the equity method of accounting. Intercompany transactions and balances have been eliminated in consolidation.

##### *Reclassifications*

Certain prior year amounts related to the Company’s noncontrolling interest in consolidated subsidiary have been reclassified to reflect the implementation of recent accounting rules related to the accounting for such interests in consolidated financial statements, which the Company adopted on December 29, 2008. All prior year amounts have been conformed to the current year presentation.

##### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company’s significant estimates include reserves for self-insured retention related to general liability insurance, workers’ compensation insurance, auto liability insurance, medical malpractice insurance, employer group health insurance, percentage of completion and estimated cost to complete for construction projects, stock based compensation, and allowance for doubtful accounts. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While the Company believes that such estimates are reasonable when considered in conjunction with the consolidated financial statements taken as a whole, the actual amounts of such estimates, when known, will vary from these estimates. If actual results significantly differ from the Company’s estimates, the Company’s financial condition and results of operations could be materially impacted.

##### *Cash and Cash Equivalents*

Cash and cash equivalents include all interest-bearing deposits or investments with original maturities of three months or less. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout the United States, Australia, South Africa, Canada and the United Kingdom. A significant portion of the Company’s unrestricted cash held at the Company and its subsidiaries is maintained with a small number of banks and, accordingly, the Company is subject to credit risk.



### ***Accounts Receivable***

The Company extends credit to the governmental agencies it contracts with and other parties in the normal course of business as a result of billing and receiving payment for services thirty to sixty days in arrears. Further, the Company regularly reviews outstanding receivables, and provides estimated losses through an allowance for doubtful accounts. In evaluating the level of established loss reserves, the Company makes judgments regarding its customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required. The Company also performs ongoing credit evaluations of customers' financial condition and generally does not require collateral. The Company maintains reserves for potential credit losses, and such losses traditionally have been within its expectations.

### ***Notes Receivable***

The Company has notes receivable from its former joint venture partner in the United Kingdom related to a subordinated loan extended to the joint venture partner while an active member of the partnership. The balance outstanding as of January 3, 2010 and December 28, 2008 was \$3.5 million and \$3.4 million, respectively. The notes bear interest at a rate of 13%, have semi-annual payments due June 15 and December 15 through June 2018.

### ***Restricted Cash***

The Company's restricted cash balances are attributable to: (i) amounts held in escrow or in trust in connection with the 1,904-bed South Texas Detention Complex in Frio County, Texas and the 1,545-bed Northwest Detention Center in Tacoma, Washington, (ii) certain cash restriction requirements at the Company's wholly owned Australian subsidiary related to the non recourse debt and other guarantees, and (iii) amounts restricted in December 2009 to fund the GEO Group Deferred Compensation Plan. See Notes 13 and 16.

### ***Property and Equipment***

Property and equipment is 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 40 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. The Company performs ongoing evaluations 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. 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.

The Company reviews 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, the Company groups its 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, the Company makes assumptions based on historical experience with its 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 the Company. 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.

### ***Assets Held Under Capital Leases***

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is recognized using the straight-line method over the shorter of the estimated useful life of the asset or the term of the related lease and is included in depreciation expense.

### ***Goodwill and Other Intangible Assets***

Acquired intangible assets are recognized separately if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the Company's intent to do so. The Company has intangible assets as a result of business combinations in 2009 and in prior fiscal years and also in connection with the

purchase of additional shares in the Company's consolidated joint venture. The Company's finite-lived intangible assets are primarily related to acquired facility management contracts and are amortized on a straight-line basis over the expected life of each contractual relationship. These intangible assets are amortized using a straight-line method. The Company reviews finite-lived intangible assets for impairment whenever an event occurs or circumstances change which indicate that the carrying amount of such assets may not be fully recoverable.

The Company's goodwill is subject to an annual impairment test. For the purposes of impairment testing, the Company determines the recoverability of goodwill by comparing its carrying value to the fair value of the reporting unit, which is the same as the operating segment. The Company performed its annual impairment test, on the measurement date, for the fiscal year ended January 3, 2010 and did not identify any impairment in the carrying value of its goodwill. In the fiscal year ended December 28, 2008, the Company wrote off goodwill of \$2.3 million associated with the termination of its transportation services business in the United Kingdom. There were no impairment charges recorded in the fiscal year ended December 30, 2007. See Notes 4 and 9.

### ***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 is the primary beneficiary of the entity by considering qualitative and quantitative factors. Qualitative factors include evaluating distribution terms, proportional voting rights, decision making ability, and the capital structure. Quantitatively, the Company evaluates financial forecasts under various scenarios to determine which variable interest holders would absorb over 50% of the expected losses of the entity.

The Company does not consolidate its 50% owned South African joint venture in SACS, a VIE. The Company has determined it is not the primary beneficiary of SACS since it does not absorb a majority of the entity's estimated losses nor does it receive a majority of the entity's expected returns. Additionally, the Company does not have the ability to exercise significant influence over SACS. As such, this entity is accounted for as an equity affiliate. SACS was established in 2001, to design, finance and build the Kutama Sinthumule Correctional Centre and was subsequently, awarded a 25 year contract to design, construct, manage and finance a facility in Louis Trichardt, South Africa. To fund the construction of the prison, SACS obtained long-term financing from the government which is fully guaranteed, except in the event of default, for which the government provides an 80% guarantee. The Company's maximum exposure for loss under this contract is limited to its investment in joint venture of \$12.2 million at January 3, 2010 and its guarantees related to SACS discussed in Note 13.

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 issued \$49.5 million in taxable revenue bonds and 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 be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. The bonds have a ten-year term and are non-recourse to the Company. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. See Note 13.

### ***Noncontrolling interest in Subsidiary***

On December 29, 2009, the Company adopted new accounting standards related to the reporting of noncontrolling interests. These standards clarify the classification of noncontrolling interests in the consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and the holders of noncontrolling interests. The Company has applied these standards retrospectively in the presentation of its consolidated balance sheets for all periods presented by reflecting its noncontrolling interest, discussed further below, as a separate component of equity. The income attributable to the noncontrolling interest is not material to the Company's results of operations and is not presented separately.

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. On October 29, 2008, the Company, along with one other joint venture partner, executed a Sale of Shares Agreement for the purchase of a portion of the remaining noncontrolling shares of SACM which changed the Company's share in the profits of the joint venture from 76.25% to 88.75%. All of the noncontrolling shares of the third joint venture partner were allocated between the Company and the second joint venture partner on a pro rata basis based on their respective ownership percentages. There were no changes in the Company's ownership percentage of the consolidated subsidiary during the fiscal year ended January 3, 2010.

## ***Fair Value Measurements***

The Company carries certain of its assets and liabilities at fair value, measured on a recurring basis, in the accompanying consolidated balance sheets. The Company also has certain assets and liabilities which are not carried at fair value in its accompanying balance sheets and discloses the fair value measurements for those assets and liabilities in Note 11. In fiscal 2009, the Company adopted accounting standards which establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels which distinguish between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The level in the fair value hierarchy within which the respective fair value measurement falls is determined based on the lowest level input that is significant to the measurement in its entirety. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities, Level 2 inputs are other than quotable market prices included in Level 1 that are observable for the asset or liability either directly or indirectly through corroboration with observable market data. Level 3 inputs are unobservable inputs for the assets or liabilities that reflect management's own assumptions about the assumptions market participants would use in pricing the asset or liability.

## ***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. Certain of the Company's contracts have provisions upon which a portion of the revenue is based on the performance of certain targets, as defined in the specific contract. In these cases, the Company recognizes revenue when the amounts are fixed and determinable and the time period over which the conditions have been satisfied has lapsed. In many instances, the Company is a party to more than one contract with a single entity. In these instances, each contract is accounted for separately.

The Company earns construction revenue from its contracts with certain customers to perform construction and design services ("project development services") for various facilities. In these instances, the Company acts as the primary developer and sub contracts 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. This method is used because the Company considers costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which the Company determines that such losses and changes are probable. Typically, the Company enters into fixed price contracts and does not perform additional work unless approved change orders are in place. Costs attributable to unapproved change orders are expensed in the period in which the costs are incurred if the Company believes that it is not probable that the costs will be recovered through a change in the contract price. If the Company believes that it is probable that the costs will be recovered through a change in the contract price, costs related to unapproved change orders are expensed in the period in which they are incurred, and contract revenue is recognized to the extent of the costs incurred. Revenue in excess of the costs attributable to unapproved change orders is not recognized until the change order is approved. Construction costs include all direct material and labor costs and those indirect costs related to contract performance. 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, the Company is exposed to the various risks associated with construction, including the risk of cost overruns. Accordingly, the Company records its construction revenue on a gross basis. The related cost of construction activities is included in Operating Expenses.

When evaluating multiple element arrangements for certain contracts where the Company provides project development services to its clients in addition to standard management services, the Company follows provisions established by FASB ASC. This revenue recognition guidance related to multiple deliverables in an arrangement provides guidance on determining if separate contracts should be evaluated as a single arrangement and if an arrangement involves a single unit of accounting or separate units of accounting and if the arrangement is determined to have separate units, how to allocate amounts received in the arrangement for revenue recognition purposes. In instances where the Company provides these project development services and subsequent management services, generally, the arrangement results in no delivered elements at the onset of the agreement. The 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.

## ***Lease Revenue***

The Company owns two facilities that are leased to unrelated third parties. The first lease has an initial term which expires in July 2013 with an option to terminate in July 2010. The second lease has a term of ten years and expires in January 2018. Both of these leases

have options to extend for up to three additional five-year terms. The carrying value of these assets included in property and equipment at January 3, 2010 and December 28, 2008 was \$51.8 million and \$53.0 million, respectively, net of accumulated depreciation of \$3.4 million and \$2.2 million, respectively. The Company also receives a small amount of rental income related to the sublease of an office space for which both the sublease and the Company's obligation under the original lease expire November 2010. Rental income received on these leases for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007 was \$5.9 million, \$5.7 million and \$4.0 million, respectively.

<u>Fiscal Year</u>	<u>Annual Rental</u> <u>(In thousands)</u>
2010.....	\$ 6,151
2011.....	6,321
2012.....	6,452
2013.....	6,586
2014.....	6,725
Thereafter .....	<u>16,740</u>
	<u>\$ 48,975</u>

### ***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 the Company's deferred tax assets is dependent upon many factors such as tax regulations applicable to the jurisdictions in which it operates, estimates of future taxable income and the character of such taxable income. Based on the Company's estimate of future earnings and its favorable earnings history, management currently expects full realization of the deferred tax assets net of any recorded valuation allowances. Additionally, judgment must be made as to certain tax positions which may not be fully sustained upon review by tax authorities. If actual circumstances differ from the Company's 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 operations and the Company's effective tax rate. Valuation allowances are recorded related to deferred tax assets based on "more likely than not" criteria. Management has not made any significant changes to the way the Company accounts for its deferred tax assets and liabilities in any year presented in the consolidated financial statements.

### ***Earnings Per Share***

Basic earnings per share is computed by dividing income from continuing operations by the weighted-average number of common shares outstanding. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator includes dilutive common share equivalents such as share options and restricted shares.

### ***Direct Finance Leases***

The Company accounts for the portion of its contracts with certain governmental agencies that represent capitalized lease payments on buildings and equipment as investments in direct finance leases. Accordingly, the minimum lease payments to be received over the term of the leases less unearned income are capitalized as the Company's investments in the leases. Unearned income is recognized as income over the term of the leases using the effective interest method.

### ***Reserves for Insurance Losses***

The nature of the Company's business exposes it 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 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. In addition, the Company's management contracts generally require it to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. The Company maintains a broad program of insurance coverage for these general types of claims, except for claims relating to employment matters, for which the Company carries no insurance. There can be no assurance that the Company's insurance coverage will be adequate to cover all claims to which it may be exposed. The Company currently maintains a general liability policy and excess liability policy for all U.S. corrections operations with limits of \$62.0 million per



occurrence and in the aggregate. A separate \$35.0 million limit applies to medical professional liability claims arising out of correctional healthcare services. The Company's wholly owned subsidiary, GEO Care, Inc., is 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. The Company is uninsured for any claims in excess of these limits. For most casualty insurance policies, the Company carries 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. The Company also maintains insurance to cover property and other casualty risks including workers' compensation, environmental liability and automobile liability.

With respect to its operations in South Africa, United Kingdom and Australia, the Company utilizes a combination of locally-procured insurance and global policies to meet contractual insurance requirements and protect the Company. The Company's 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.

In addition, certain of the Company's 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 the Company from insuring some of its facilities to full replacement value.

Of the reserves discussed above, the Company's most significant insurance reserves relate to workers' compensation and general liability claims. These reserves are undiscounted and were \$27.2 million and \$25.5 million as of January 3, 2010 and December 28, 2008, respectively. The Company uses 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, the Company considers such factors as historical frequency and severity of claims at each of its facilities, claim development, payment patterns and changes in the nature of its business, among other factors. Such factors are analyzed for each of the Company's business segments. The Company's estimates may be impacted by such factors as increases in the market price for medical services and unpredictability of the size of jury awards. The Company also may experience variability between its estimates and the actual settlement due to limitations inherent in the estimation process, including the Company's ability to estimate costs of processing and settling claims in a timely manner as well as its ability to accurately estimate its exposure at the onset of a claim. Because the Company has high deductible insurance policies, the amount of its insurance expense is dependent on its ability to control claims experience. If actual losses related to insurance claims significantly differ from estimates, the Company's financial condition, results of operations and cash flows could be materially impacted.

### ***Debt Issuance Costs***

Debt issuance costs totaling \$17.9 million and \$9.6 million at January 3, 2010, and December 28, 2008, respectively, are included in other non-current assets in the consolidated balance sheets and are amortized to interest expense using the effective interest method, over the term of the related debt.

### ***Comprehensive Income***

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments, net unrealized loss on derivative instruments, and pension liability adjustments in the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

### ***Concentration of Credit Risk***

At times the Company may have significant amounts of cash and cash equivalents at financial institutions that are in excess of federally insured limits. Other than cash, financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable, a direct finance lease receivable, long-term debt and financial instruments used in hedging activities. The Company's cash management and investment policies restrict investments to low-risk, highly liquid securities, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals.

### ***Foreign Currency Translation***

The Company's foreign operations use their local currencies as their functional currencies. Assets and liabilities of the operations are translated at the exchange rates in effect on the balance sheet date and shareholders' equity is translated at historical rates. Income statement items are translated at the average exchange rates for the year. The positive (negative) impact of foreign currency fluctuation is included in shareholders' equity as a component of accumulated other comprehensive income, net of income tax, and totaled \$10.7 million,

\$(10.7) million and \$2.9 million for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively. The cumulative income (loss) on foreign currency translation recorded as a component of shareholders' equity as of January 3, 2010 and December 28, 2008 was \$4.8 million and (\$5.8) million, respectively.

### ***Derivatives***

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 and records derivatives as either assets or liabilities on the balance sheet. For derivatives that are designed as and qualify as effective cash flow hedges, the portion of gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. For derivative instruments that are designated as and qualify as effective fair value hedges, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk is recognized in current earnings as interest income (expense) during the period of the change in fair values.

The Company formally documents all relationships between hedging instruments and hedge items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes attributing all derivatives that are designated as cash flow hedges to floating rate liabilities and attributing all derivatives that are designated as fair value hedges to fixed rate liabilities. The Company also assesses whether each derivative is highly effective in offsetting changes in the cash flows of the hedged item. Fluctuations in the value of the derivative instruments are generally offset by changes in the hedged item; however, if it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, the Company will discontinue hedge accounting prospectively for the affected derivative.

### ***Stock-Based Compensation Expense***

The Company recognizes the cost of stock based compensation awards based upon the grant date fair value of those awards. The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized.

The fair value of stock-based awards was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for fiscal years ending 2009, 2008 and 2007, respectively:

	2009	2008	2007
Risk free interest rates.....	2.00%	2.87%	4.80%
Expected term .....	4-5years	4-5years	4-5years
Expected volatility .....	41%	41%	40%
Expected dividend.....	—	—	—

Expected volatilities are based on the historical and implied volatility of the Company's common stock. The Company uses historical data to estimate award exercises and employee terminations within the valuation model. The expected term of the awards represents the period of time that awards granted are expected to be outstanding and is based on historical data and expected holding periods. The risk-free rate is based on the rate for five year U.S. Treasury Bonds, which is consistent with the expected term of the awards. See Note 3.

### ***Recent Accounting Pronouncements***

Effective in July 2009, any changes to the source of authoritative U.S. GAAP promulgated by the Financial Accounting Standards Board ("FASB") are communicated through Accounting Standards Updates ("ASU"). ASU's are published for all authoritative U.S. GAAP promulgated by the FASB, regardless of the form in which such guidance may have been issued prior to release of the FASB ASC (e.g., FASB Statements, EITF Abstracts, FASB Staff Positions, etc.). FASB ASU's are also issued for amendments to the SEC content in the FASB ASC as well as for editorial changes.

The Company implemented the following accounting standards in the fiscal year ended January 3, 2010:

In December 2007, the FASB issued new guidance for the accounting of business combinations. This updated guidance clarifies the initial and subsequent recognition, subsequent accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. This guidance requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value at the acquisition date if it can be determined during the measurement period. If the acquisition-

date fair value of an asset or liability cannot be determined during the measurement period, the asset or liability will only be recognized at the acquisition date if it is both probable that an asset existed or liability has been incurred at the acquisition date, and if the amount of the asset or liability can be reasonably estimated. This requirement became effective for the Company as of December 29, 2008, the first day of its fiscal year. Additionally, this guidance, applies the concept of fair value and “more likely than not” criteria to accounting for contingent consideration, and pre-acquisition contingencies. The impact from the adoption of this change did not have a material effect on the Company’s financial condition, results of operations or cash flows.

In April 2008, the FASB issued guidance relative to goodwill and other intangible assets which amends the factors that must be considered when developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset. This amendment requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset. This statement is effective for financial statements in fiscal years beginning after December 15, 2008 and as such, became effective for the Company on December 29, 2008. The impact from the adoption of this change did not have a material effect on the Company’s financial condition, results of operations or cash flows.

In March 2008, the FASB issued guidance to companies relative to disclosures about its derivative and hedging activities which requires entities to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments are accounted for, and (iii) how derivative instruments and related hedged items affect an entity’s financial position, results of operations and cash flows. This guidance was effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 and as such, became effective for the Company on December 29, 2008. The impact from the adoption of this change did not have a material effect on the Company’s financial condition, results of operations or cash flows.

In August 2009, the FASB issued ASU No. 2009-5, which amends guidance relative to fair value measurements and disclosures to provide clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, an entity is required to measure fair value utilizing one or more of the following techniques: (1) a valuation technique that uses the quoted market price of an identical liability or similar liabilities when traded as assets; or (2) another valuation technique that is consistent with the principles set forth in this topic, such as a present value technique. This revised guidance was effective for the Company’s first reporting period after August 2009, which for the Company was September 28, 2009. The adoption of ASU No. 2009-5 did not have a material impact on the Company’s financial position, results of operations or cash flows.

In addition to these standards, the Company also adopted standards as discussed in Note 1 and Note 20.

The following accounting standards have implementation dates subsequent to the fiscal year ended January 3, 2010 and as such, have not yet been adopted by the Company:

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 anticipate that the adoption of this standard will have a material impact on its financial position, results of operations or cash flows.

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 (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 becomes effective for interim and annual periods beginning after November 15, 2009, companies are required to enhance disclosures about how their involvement with a VIE affects its financial statements and exposure to risks. The Company does not anticipate that the adoption of this standard will have a material impact on its financial position, results of operations and cash flows.

## **2. Business Acquisition**

On September 30, 2009, the Company’s wholly-owned mental health subsidiary, GEO Care, Inc. (“GEO Care”), acquired Just Care, Inc. (“Just Care”), a provider of detention healthcare focusing on the delivery of medical and mental health services. Just Care manages



the 354-bed Columbia Regional Care Center located in Columbia, South Carolina. This facility houses medical and mental health residents for the State of South Carolina and the State of Georgia as well as special needs detainees under custody of the U.S. Marshals Service and U.S. Immigration and Customs Enforcement. This facility is operated by Just Care under a long-term lease with the State of South Carolina. The Company paid \$38.4 million, net cash acquired, which was funded by available borrowings from the revolving loan portion (the “Revolver”) of the Company’s Third Amended and restated Credit Agreement (the “Senior Credit Facility”). The purchase price was allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values, with the excess purchase price recorded as goodwill, none of which is deductible for Federal Income Tax purposes. The allocation of the purchase price is summarized below:

Current assets, net of cash acquired.....	\$ 3,774
Property and equipment.....	15,781
Facility management contracts .....	6,600
Goodwill .....	17,729
Deferred tax asset.....	286
Other non-current assets .....	69
Total assets acquired.....	<u>\$ 44,239</u>
Current liabilities .....	\$ (4,699)
Deferred tax liability.....	(731)
Non current liabilities .....	<u>(423)</u>
Total liabilities assumed.....	<u>\$ (5,853)</u>
Net assets acquired.....	<u>\$ 38,386</u>

In connection with its purchase of Just Care, the Company recorded certain assets and liabilities based on information available up through February 22, 2010, the date these financial statements were issued. The Company expects that additional information about facts and circumstances surrounding the fair value of certain of these assets and liabilities will be finalized during 2010. As a result, the provisional amounts recorded may be adjusted retrospectively to reflect the new information about facts and circumstances existing at the acquisition date that would have affected amounts recognized in goodwill. The Company does not expect these adjustments, if required, will have a material impact on its results of operations or financial position.

### 3. Equity Incentive Plans

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

On April 29, 2009, the Company’s Board of Directors adopted and its shareholders approved several amendments to the 2006 Plan, including an amendment providing for the issuance of an additional 1,000,000 shares of the Company’s common stock which increased the total amount of shares of common stock issuable pursuant to awards granted under the plan to 2,400,000 and specifying that up to 1,083,000 of such total shares pursuant to awards granted under the plan may constitute awards other than stock options and stock appreciation rights, including shares of restricted stock. See “Restricted Stock” below for further discussion. On June 26, 2009, the Company’s Compensation Committee of the Board of Directors approved a grant of 163,000 restricted stock awards to certain employees. Additionally, on October 28, 2009, the Company’s Compensation Committee of the Board of Directors approved a grant of 439,500 stock option awards. As of January 3, 2010, the Company had 553,044 shares of common stock available for issuance pursuant to future awards that may be granted under the plan of which up to 236,344 were available for the issuance of awards other than stock options.

Except for 846,656 shares of restricted stock issued under the 2006 Plan as of January 3, 2010, all of the awards previously issued under the Company Plans consisted of stock options. Although awards are currently outstanding under all of the Company Plans, the Company may only grant new awards under the 2006 Plan.

Under the terms of the Company Plans, the vesting period and, in the case of stock options, the exercise price per share, are determined by the terms of each plan. All stock options that have been granted under the Company Plans are exercisable at the fair market value of the common stock at the date of the grant. Generally, the stock options vest and become exercisable ratably over a four-year period,

beginning immediately on the date of the grant. However, the Board of Directors has exercised its discretion to grant stock options that vest 100% immediately for the Chief Executive Officer. In addition, stock options granted to non-employee directors under the 1995 Plan became exercisable immediately. All stock options awarded under the Company Plans expire no later than ten years after the date of the grant.

### Stock Options

A summary of the activity of the Company's stock options plans is presented below:

	<u>Shares</u>	<u>Wtd. Avg. Exercise Price</u>	<u>Wtd. Avg. Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
	(In thousands)			(In thousands)
Options outstanding at December 28, 2008.....	2,808	\$ 8.03	4.60	\$ 29,751
Granted.....	448	21.00		
Exercised.....	(372)	3.92		
Forfeited/Canceled.....	(77)	21.86		
Options outstanding at January 3, 2010.....	<u>2,807</u>	\$ 10.26	4.80	\$ 32,592
Options exercisable at January 3, 2010.....	<u>2,211</u>	\$ 7.62	3.67	\$ 31,538

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of fiscal year 2009 and the exercise price, times the number of shares that are "in the money") that would have been received by the option holders had all option holders exercised their options on January 3, 2010. This amount changes based on the fair value of the company's stock. The total intrinsic value of options exercised during the fiscal years ended January 3, 2010, December 28, 2008, and December 30, 2007 was \$6.2 million, \$2.9 million, and \$6.2 million respectively.

The following table summarizes information about the exercise prices and related information of stock options outstanding under the Company Plans at January 3, 2010:

<u>Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding</u>	<u>Wtd. Avg. Remaining Contractual Life</u>	<u>Wtd. Avg. Exercise Price</u>	<u>Number Exercisable</u>	<u>Wtd. Avg. Exercise Price</u>
2.63 — 2.81.....	6,000	0.3	\$ 2.63	6,000	\$ 2.63
3.10 — 3.10.....	367,500	1.1	3.10	367,500	3.10
3.17 — 3.98.....	149,892	3.0	3.20	149,892	3.20
4.67 — 4.90.....	415,638	3.3	4.67	415,638	4.67
5.13 — 5.13.....	567,000	2.1	5.13	567,000	5.13
5.30 — 7.70.....	233,627	4.6	6.94	230,669	6.93
7.83 — 20.63.....	335,800	6.9	15.32	188,200	14.03
21.07 — 21.56.....	728,500	8.1	21.27	284,900	21.37
21.64 — 28.24.....	<u>3,000</u>	7.5	21.66	<u>1,400</u>	21.65
Total .....	<u>2,806,957</u>	4.8	\$ 10.26	<u>2,211,199</u>	\$ 7.62

For the years ended January 3, 2010 and December 28, 2008 and December 30, 2007, the amount of stock-based compensation expense related to stock options was \$1.8 million, \$1.5 million and \$0.9 million, respectively. The weighted average grant date fair value of options granted during the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007 was \$7.41, \$6.58 and \$8.73 per share, respectively.

The following table summarizes the status of the Company's non-vested shares as of January 3, 2010 and changes during the fiscal year ending January 3, 2010:

	<u>Number of Shares</u>	<u>Wtd. Avg. Grant Date Fair Value</u>
Options non-vested at December 28, 2008.....	426,716	\$ 7.58
Granted.....	447,500	7.41
Vested.....	(234,058)	7.54
Forfeited.....	<u>(44,400)</u>	8.61
Options non-vested at January 3, 2010.....	<u>595,758</u>	\$ 7.39

As of January 3, 2010, the Company had \$3.8 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 3.1 years. The total fair value of shares vested during the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007, was \$1.8 million, \$1.2 million, and \$1.2 million respectively. Proceeds received from stock options exercises for 2009, 2008 and 2007 was \$1.5 million, \$0.8 million and \$1.2 million, respectively. Tax benefits realized from tax deductions associated with option exercises and restricted stock activity for 2009, 2008 and 2007 totaled \$0.6 million, \$0.8 million and \$3.1 million, respectively.

#### ***Restricted Stock***

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

	<u>Shares</u>	<u>Wtd. Avg. Grant date Fair value</u>
Restricted stock outstanding at December 28, 2008.....	425,684	\$ 19.54
Granted.....	168,000	18.66
Vested.....	(176,597)	18.27
Forfeited/Canceled.....	<u>(33,987)</u>	20.45
Restricted stock outstanding at January 3, 2010.....	<u>383,100</u>	\$ 19.66

During the fiscal year ended January 3, 2010, December 28, 2008 and December 30, 2007, the Company recognized \$3.5 million, \$3.0 million and \$2.5 million, respectively, of compensation expense related to its outstanding shares of restricted stock. As of January 3, 2010, the Company had \$5.2 million of unrecognized compensation expense that is expected to be recognized over a weighted average period of 2.4 years.

#### **4. Discontinued Operations**

The termination of any of the Company's management contracts by expiration or otherwise, may result in the classification of the operating results of such management contract, net of taxes, as a discontinued operation. The Company presents 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. Historically, the Company has classified operations as discontinued in the period they are announced as normally all continuing cash flows cease within three to six months of that date. During the fiscal year 2008, the Company discontinued operations at certain of its domestic and international subsidiaries. The results of operations, net of taxes, and the assets and liabilities of these operations, each as further described below, have been reflected in the accompanying consolidated financial statements as discontinued operations for all periods presented. Assets, primarily consisting of accounts receivable, and liabilities have been presented separately in the accompanying consolidated balance sheets for all periods presented.

*U.S. corrections.* On November 7, 2008, the Company announced its receipt of notice for the discontinuation of its contract with the State of Idaho, Department of Correction ("Idaho DOC") for the housing of approximately 305 out-of-state inmates at the managed-only Bill Clayton Detention Center (the "Detention Center") effective January 5, 2009. On August 29, 2008, the Company announced its discontinuation of its contract with Delaware County, Pennsylvania for the management of the county-owned 1,883-bed George W. Hill Correctional Facility effective December 31, 2008.

*International services.* On December 22, 2008, the Company announced the closure of its U.K.-based transportation division, Recruitment Solutions International (“RSI”). As a result of the termination of its transportation business in the United Kingdom, the Company wrote off assets of \$2.6 million including goodwill of \$2.3 million.

*GEO Care.* On June 16, 2008, the Company announced the discontinuation by mutual agreement of its contract with the State of New Mexico Department of Health for the management of the Fort Bayard Medical Center effective June 30, 2008.

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(In thousands)		
Revenues — International services.....	\$ —	\$ 1,806	\$ 2,326
Revenues — U.S. corrections .....	210	43,784	42,617
Revenues — GEO Care .....	—	1,806	4,546

## 5. Property and Equipment

Property and equipment consist of the following at fiscal year end:

	<u>Useful Life</u>	<u>2009</u>	<u>2008</u>
	(Years)	(In thousands)	
Land .....	—	\$ 60,331	\$ 49,686
Buildings and improvements .....	2 to 40	797,185	765,103
Leasehold improvements .....	1 to 29	95,696	68,845
Equipment .....	3 to 10	63,382	55,007
Furniture and fixtures .....	3 to 7	11,731	9,033
Facility construction in progress .....		129,956	56,574
		\$ 1,158,281	\$ 1,004,248
Less accumulated depreciation and amortization .....		(159,721)	(125,632)
		<u>\$ 998,560</u>	<u>\$ 878,616</u>

The Company’s construction in progress primarily consists of development costs associated with the Facility construction and design segment for contracts with various federal, state and local agencies for which we have management contracts. Interest capitalized in property and equipment was \$4.9 million and \$4.3 million for the fiscal years ended January 3, 2010 and December 28, 2008, respectively.

Depreciation expense was \$36.3 million, \$31.9 million and \$29.8 million for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively.

At both January 3, 2010 and December 28, 2008, the Company had \$18.2 million of assets recorded under capital leases including \$17.5 million related to buildings and improvements, \$0.6 million related to equipment and \$0.1 million related to leasehold improvements. Capital leases are recorded net of accumulated amortization of \$3.9 million and \$3.1 million, at January 3, 2010 and December 28, 2008, respectively. Depreciation expense related to capital leases for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007 was \$0.8 million, \$0.9 million and \$1.0 million, respectively and is included in Depreciation and Amortization in the accompanying statements of income.



## 6. Assets Held for Sale

The Company records its assets held for sale at the lower of cost or estimated fair value. The Company estimates fair value by using third party appraisers or other valuation techniques. As of January 3, 2010 and December 28, 2008, the Company's assets held for sale consisted of the following:

<u>Fiscal Year</u>	<u>Carrying Value</u> <u>(In thousands)</u>
Buildings and improvements .....	\$ 3,083
Land .....	1,265
Assets held for sale .....	<u>\$ 4,348</u>

The Company's assets held for sale consist of two assets. On March 17, 2008, the Company purchased its former Coke County Juvenile Justice Center (the "Center") at a cost of \$3.1 million. In October 2008, the Company established a formal plan to sell the asset and began active discussions with certain parties interested in purchasing the Center. The Company has identified a buyer and expects to sell the facility in 2010 however, this sale is subject to the buyer obtaining financing. If the buyer is unable to obtain financing, the Company will need to locate another buyer for the Center. There can be no assurance that the prospective buyer can obtain the financing, no assurance that the Company will be able to locate another buyer in the event that this buyer is not able to obtain the financing and no assurance that the Center will be sold for its carrying value of \$3.1 million. Secondly, in conjunction with the acquisition of CSC, the Company acquired land associated with a program that had been discontinued by CSC in October 2003. The carrying value of the land is \$1.3 million. These assets are included within the segment assets of U.S. Corrections and are recorded at their net realizable value of \$4.3 million at January 3, 2010. Since these assets are held for sale, no depreciation has been recorded during the fiscal year ended January 3, 2010.

## 7. Investment in Direct Finance Leases

The Company's investment in direct finance leases relates to the financing and management of one Australian facility. The Company's wholly-owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company.

The future minimum rentals to be received are as follows:

<u>Fiscal Year</u>	<u>Annual Repayment</u> <u>(In thousands)</u>
2010.....	\$ 7,475
2011.....	7,503
2012.....	7,538
2013.....	7,726
2014.....	7,882
Thereafter .....	<u>19,436</u>
Total minimum obligation.....	\$ 57,560
Less unearned interest income .....	(16,641)
Less current portion of direct finance lease .....	<u>(3,757)</u>
Investment in direct finance lease .....	<u>\$ 37,162</u>

## 8. 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. The Company has designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7¾% Senior Notes due 2017 ("7¾% 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 \$75.0 million of the Notes into

variable rate obligations. Each of the swaps has a termination clause that gives the lender the right to terminate the interest rate swaps at fair market value if they are no longer a lender under the Credit Agreement. In addition to the termination clause, the Agreements also have call provisions which specify that the lender can elect to settle the swap for the call option price. Under the Agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 7¾% per year calculated on the notional \$75.0 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 4.24% and 4.29%, also calculated on the notional \$75.0 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. Effective January 6, 2010, the Company executed a fourth swap agreement in the notional amount of \$25.0 million (See Note 20). There was no material ineffectiveness of these interest rate swaps for the fiscal year ended January 3, 2010.

The Company's Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the 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 \$1.2 million, (\$3.5) million and \$1.3 million for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively. The total value of the swap asset as of January 3, 2010 and December 28, 2008 was \$2.0 million and \$0.2 million, respectively, and is recorded as a component of other assets in 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 fiscal year ended January 3, 2010, the Company received proceeds of \$1.7 million for the settlement of an aggregate notional amount of \$50.0 million of interest rate swaps related to its 8¼% Senior Notes due 2013 ("8¼% Senior Notes"). The lenders to these swap agreements elected to prepay their obligations at the call option price which equaled the fair value at the respective call dates.

## 9. Goodwill and Other Intangible Assets, Net

Changes in the Company's goodwill balances for 2009 were as follows (in thousands):

	Balance as of December 28, 2008	Goodwill Resulting from Business Combination	Foreign Currency Translation	Balance as of January 3, 2010
U.S. corrections.....	\$ 21,692	\$ —	\$ —	\$ 21,692
International services .....	510	—	159	669
GEO Care.....	—	17,729	—	17,729
Total Segments.....	\$ 22,202	\$ 17,729	\$ 159	\$ 40,090

Intangible assets consisted of the following (in thousands):

	Useful Life in Years	U.S. Corrections	International Services	GEO Care	Total
Facility management contracts.....	7-17	\$ 14,450	\$ 1,875	\$ —	\$ 16,325
Covenants not to compete .....	4	1,470	—	—	1,470
Gross carrying value of December 28, 2008 .....		\$ 15,920	\$ 1,875	\$ —	\$ 17,795
Facility management contracts acquired.....	1-13	—	—	6,600	6,600
Foreign currency translation .....		—	593	—	593
Gross carrying value as of January 3, 2010 .....		15,920	2,468	6,600	24,988
Accumulated amortization expense .....		(7,026)	(157)	(226)	(7,409)
Net carrying value at January 3, 2010 .....		8,894	2,311	6,374	17,579

Amortization expense was \$2.0 million, \$1.8 million and \$2.2 million for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007, respectively and primarily related to the U.S. corrections amortization of intangible assets for acquired management contracts. The Company's weighted average useful life related to the acquired facility management contracts is 12.46 years.

Estimated amortization expense for fiscal year 2010 through fiscal year 2014 and thereafter are as follows (in thousands):

<u>Fiscal Year</u>	<u>U.S. Corrections - Expense Amortization</u>	<u>International Services - Expense Amortization</u>	<u>GEO Care - Expense Amortization</u>	<u>Total Expense Amortization</u>
2010.....	\$ 1,335	\$ 135	\$ 901	\$ 2,371
2011.....	1,335	135	847	2,317
2012.....	1,217	135	799	2,151
2013.....	606	135	566	1,307
2014.....	606	135	427	1,168
Thereafter.....	<u>3,795</u>	<u>1,636</u>	<u>2,834</u>	<u>8,265</u>
	<u>\$ 8,894</u>	<u>\$ 2,311</u>	<u>\$ 6,374</u>	<u>\$ 17,579</u>

## 10. 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 does not have any financial assets and liabilities which it carries and measures at fair value using Level 1 techniques, as defined above. The investments included in the Company's Level 2 fair value measurements consist of an interest rate swap held by our Australian subsidiary and also an investment in Canadian dollar denominated fixed income securities. The Company does not have any Level 3 financial assets or liabilities upon which the value is based on unobservable inputs reflecting the Company's assumptions.

The following table provides a summary of the Company's significant financial assets (there are no such liabilities for any period presented) carried at fair value and measured on a recurring basis as of January 3, 2010 (in thousands):

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

## 11. Financial Instruments

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

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

The fair values of the Company's Cash and cash equivalents and Restricted cash approximate the carrying values of these assets at January 3, 2010. The fair values of publicly traded debt and other non-recourse debt are based on market prices, where available. The fair value of the non-recourse debt related to the Company's Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of the borrowings under the Senior Credit Facility is based on an estimate of trading value considering the company's borrowing rate, the undrawn spread and similar trades.

## 12. Accrued Expenses

Accrued expenses consisted of the following (dollars in thousands):

	2009	2008
Accrued interest .....	\$ 5,913	\$ 8,539
Accrued bonus .....	8,567	7,838
Accrued insurance .....	30,661	30,261
Accrued taxes .....	5,219	8,783
Construction retainage .....	8,250	7,866
Other .....	22,149	19,155
Total .....	<u>\$ 80,759</u>	<u>\$ 82,442</u>

## 13. Debt

Debt consisted of the following (dollars in thousands):

	2009	2008
Capital Lease Obligations .....	\$ 15,124	\$ 15,800
<b>Senior Credit Facility:</b>		
Term loan B.....	154,963	158,613
Revolver.....	58,000	74,000
Total Senior Credit Facility .....	\$ 212,963	\$ 232,613
<b>8¼% Senior Notes:</b>		
Notes Due in 2013 .....	—	150,000
Discount on Notes.....	—	(2,553)
Swap on Notes .....	—	2,010
Total 8¼% Senior Notes .....	\$ —	\$ 149,457
<b>7¾% Senior Notes</b>		
Notes Due in 2017 .....	250,000	—
Discount on Notes.....	(3,566)	—
Swap on Notes .....	(1,887)	—
Total 7¾% Senior Notes .....	\$ 244,547	\$ —
<b>Non Recourse Debt :</b>		
Non recourse debt .....	\$ 113,724	\$ 116,505
Discount on non recourse debt.....	(1,692)	(2,298)
Total non recourse debt.....	112,032	114,207
Other debt.....	28	56
Total debt.....	<u>\$ 584,694</u>	<u>\$ 512,133</u>
Current portion of capital lease obligations, long-term debt and non-recourse debt.....	(19,624)	(17,925)
Capital lease obligations, long term portion .....	(14,419)	(15,126)
Non recourse debt .....	(96,791)	(100,634)
Long term debt.....	<u>\$ 453,860</u>	<u>\$ 378,448</u>

### *The Senior Credit Facility*

On October 5, 2009, on October 15, 2009, and again on December 4, 2009, the Company completed amendments to the Senior Credit Facility through the execution of Amendment Nos. 5, 6, and 7, respectively, to the Amended and Restated Credit Agreement (“Amendment No. 5”, “Amendment No. 6”, and/or “Amendment No. 7”) between the Company, as Borrower, certain of its subsidiaries,



as Grantors, and BNP Paribas, as Lender and as Administrative Agent. Amendment No. 5 to the Credit Agreement, among other things, effectively permitted the Company to issue up to \$300.0 million of unsecured debt without having to repay outstanding borrowings on our Senior Credit Facility. Amendment No. 6 to the Credit Agreement, among other things, modified the aggregate size of the Revolver from \$240.0 million to \$330.0 million, extended the maturity of the Revolver to 2012, modified the permitted maximum total leverage and maximum senior secured leverage financial ratios and eliminated the annual capital expenditures limitation. With the execution of Amendment No. 6, the Senior Credit Facility is now comprised of a \$155.0 million Term Loan B bearing interest at LIBOR plus 2.00% and maturing in January 2014 and the \$330.0 million Revolver which currently bears interest at LIBOR plus 3.25% and matures in September 2012. Also, upon the execution of Amendment No. 6, we have the ability to increase our borrowing capacity under the Senior Credit Facility by another \$200.0 million subject to lender demand, market conditions and existing borrowings. Amendment No. 7 to the Credit Agreement made several technical revisions to certain definitions therein.

As of January 3, 2010, the Company had \$155.0 million outstanding under the Term Loan B, and the Company's \$330.0 million Revolver had \$58.0 million outstanding in loans, \$47.5 million outstanding in letters of credit, and as of November 30, 2009, we had the ability to borrow approximately \$217 million from the excess capacity on the Revolver after considering our debt covenants. The Company intends to use future borrowings from the Revolver for the purposes permitted under the Senior Credit Facility, including for general corporate purposes. The weighted average interest rates on outstanding borrowings under the Senior Credit Facility as of January 3, 2010 and December 28, 2008 were 2.62% and 3.24%, respectively.

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

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

In the fiscal year ended January 3, 2010, the Company capitalized \$5.5 million of debt issuance costs related to the amendments discussed above which will be amortized over the remaining term of the Revolver.

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

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

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

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

The foregoing covenants replace the corresponding covenants previously included in the Credit Agreement.

All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of the Company's existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of the Company's present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, as specified in the Credit Agreement. In addition, the Senior Credit Facility contains certain customary representations and warranties, and certain

customary covenants that restrict the Company's ability to be party to certain transactions, as further specified in the Credit Agreement. Events of default under the Senior Credit Facility include, but are not limited to, (i) the Company's failure to pay principal or interest when due, (ii) the Company's material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental state of claims which are asserted against it, and (viii) a change of control. The Company's failure to comply with any of the covenants under its Senior Credit Facility could cause an event of default under such documents and result in an acceleration of all of outstanding senior secured indebtedness. The Company believes it was in compliance with all of the covenants of the Senior Credit Facility as of January 3, 2010.

#### **8¼% Senior Notes**

On October 5, 2009, the Company announced the commencement of a cash tender offer for its \$150.0 million aggregate principal amount of 8¼% Senior Notes. Holders who validly tendered their 8¼% Senior Notes before the early tender date, which expired at 5:00 p.m. Eastern Standard time on October 19, 2009, received a 103% cash payment for their note which included an early tender premium of 3%. Holders who tendered their notes after the early tender date, but before the expiration date of 11:59 p.m., Eastern Standard time on November 2, 2009 ("Early Expiration Date"), received 100% cash payment for their note. Holders of the 8¼% Senior Notes accepted for purchase received accrued and unpaid interest up to, but not including, the applicable payment date. Valid early tenders received by the Company represented \$130.2 million aggregate principal amount of the 8¼% Senior Notes which was 86.8% of the outstanding principal balance. The Company settled these notes on October 20, 2009 by paying \$136.9 million to the trustee. Also on October 20, 2009, GEO announced the call for redemption for all notes not tendered by the Expiration Date. The Company financed the tender offer and redemption with a portion of the net cash proceeds from its offering of \$250.0 million aggregate principal 7¾% Senior Notes, which closed on October 20, 2009. As of November 19, 2009, all of the 8¼% Senior Notes had been redeemed. As a result of the tender offer and redemption, the Company incurred a loss of \$6.8 million related to the tender premium and deferred costs associated with the 8¼% Senior Notes.

#### **7¾% Senior Notes**

On October 20, 2009, the Company completed a private offering of \$250.0 million in aggregate principal amount of its 7¾% 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 8¼% Senior Notes due 2013 and pay down part of the Revolver.

The 7¾% Senior Notes and the guarantees will be unsecured, unsubordinated obligations of The GEO Group Inc., and the guarantors and will rank as follows: *pari passu* with any unsecured, unsubordinated indebtedness of GEO and the guarantors; senior to any future indebtedness of GEO and the guarantors that is expressly subordinated to the notes and the guarantees; effectively junior to any secured indebtedness of GEO and the guarantors, including indebtedness under the Company's Senior Credit Facility, to the extent of the value of the assets securing such indebtedness; and effectively junior to all obligations of the Company's subsidiaries that are not guarantors. After October 15, 2013, the Company may, at its option, redeem all or a part of the 7¾% 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 7¾% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

<u>Year</u>	<u>Percentage</u>
2013.....	103.875%
2014.....	101.938%
2015 and thereafter .....	100.000%

Before October 15, 2013, the Company may redeem some or all of the 7¾% Senior Notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make-whole premium described under "Description of Notes — Optional Redemption" together with accrued and unpaid interest. In addition, at any time 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 principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.

The indenture governing the notes contains certain covenants, including limitations and restrictions on the Company's 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 the Company's assets. As of the date of the indenture, all of the Company's subsidiaries, other than CSC of Tacoma, LLC, GEO International Holdings, Inc., certain dormant domestic subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries. In addition, there is a cross-default provision which becomes enforceable upon failure of payment of indebtedness at final maturity. The Company's unrestricted subsidiaries will not be subject to any of the restrictive covenants in the indenture. The Company believes it was in compliance with all of the covenants of the Indenture governing the 7¾% Senior Notes as of January 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 its construction, South Texas Local Development Corporation was created and issued \$49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 4.11% and 5.07%. Additionally, the Company is owed \$5.0 million of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

The Company has an operating agreement with STLDC, the owner of the complex, which provides it with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract with ICE be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operation of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten-year term and are non-recourse to the Company. 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 January 3, 2010 and December 28, 2008 was \$27.2 million and \$27.9 million, respectively and is included in property and equipment in the accompanying balance sheets.

On February 2, 2009, STLDC made a payment from its restricted cash account of \$4.4 million for the current portion of its periodic debt service requirement in relation to the STLDC bond indenture. As of January 3, 2010, the remaining balance of the debt service requirement under the STLDC financing agreement is \$36.7 million, of which \$4.6 million is due within the next twelve months. Also, as of January 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 of Tacoma LLC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to the Company and the loan from WEDFA to CSC is non-recourse to the Company. These bonds mature in February 2014 and have fixed coupon rates between 3.20% 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, 2009, CSC of Tacoma LLC made a payment from its restricted cash account of \$5.7 million for the current portion of its periodic debt service requirement in relation to the WEDFA bond indenture. As of January 3, 2010, the remaining balance of the debt service requirement is \$31.6 million, of which \$5.9 million is classified as current in the accompanying balance sheet.

As of January 3, 2010, included in current restricted cash and non-current restricted cash is \$7.1 million and \$2.2 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

## Australia

The Company's wholly-owned Australian subsidiary financed the development of a facility and subsequent expansion in 2003 with long-term debt obligations. These obligations are non-recourse to the Company and total \$45.4 million and \$38.1 million at January 3, 2010 and December 28, 2008, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million, which, at January 3, 2010, was \$4.5 million. This amount is included in restricted cash and the annual maturities of the future debt obligation is included in non-recourse debt. Debt repayment schedules under capital lease obligations, long-term debt and non-recourse debt are as follows:

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>Long -Term Debt</u>	<u>Non- Recourse</u>	<u>Revolver</u>	<u>Term Loan</u>	<u>Total Annual Repayment</u>
	(In thousands)					
2010.....	\$ 1,930	\$ 28	\$ 15,241	\$ —	\$ 3,650	\$ 20,849
2011.....	1,933	—	15,975	—	3,650	21,558
2012.....	1,933	—	16,722	58,000	3,650	80,305
2013.....	1,933	—	17,600	—	144,013	163,546
2014.....	1,935	—	18,530	—	—	20,465
Thereafter.....	14,773	250,000	29,656	—	—	294,429
	<u>\$ 24,437</u>	<u>\$ 250,028</u>	<u>\$ 113,724</u>	<u>\$ 58,000</u>	<u>\$ 154,963</u>	<u>\$ 601,152</u>
Original issuer's discount.....	—	(3,566)	(1,692)	—	—	(5,258)
Current portion.....	(705)	(28)	(15,241)	—	(3,650)	(19,624)
Interest imputed on Capital Leases.....	(9,313)	—	—	—	—	(9,313)
Interest rate swap.....	—	(1,887)	—	—	—	(1,887)
Non-current portion.....	<u>\$ 14,419</u>	<u>\$ 244,547</u>	<u>\$ 96,791</u>	<u>\$ 58,000</u>	<u>\$ 151,313</u>	<u>\$ 565,070</u>

## Guarantees

In connection with the creation 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 \$8.2 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 \$1.1 million, as security for its guarantee. The Company's obligations under this guarantee expire upon SACS' release from its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in the Company's outstanding letters of credit under its Revolver.

The Company has agreed to provide a loan, of up to 20.0 million South African Rand, or \$2.7 million, to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under this guarantee, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company's obligations relative to this guarantee expire upon SACS' fulfillment of its contractual obligations.

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 \$2.4 million, commencing in 2017. The Company has a liability of \$1.5 million and \$1.3 million related to this exposure as of January 3, 2010 and December 28, 2008, respectively. To secure this guarantee, the Company has purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its consolidated balance sheet. The Company does not currently operate or manage this facility.



At January 3, 2010, the Company also had eight letters of guarantee outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$8.9 million. The Company does not have any off balance sheet arrangements other than those previously disclosed.

#### 14. Commitments and Contingencies

##### *Operating Leases*

The Company leases correctional facilities, office space, computers and transportation equipment under non-cancelable operating leases expiring between 2010 and 2028. The future minimum commitments under these leases are as follows:

<u>Fiscal Year</u>	<u>Annual Rental</u> (In thousands)
2010.....	\$ 18,041
2011.....	17,618
2012.....	14,364
2013.....	10,916
2014.....	7,585
Thereafter.....	65,936
	<u>\$ 134,460</u>

The Company's corporate offices are located in Boca Raton, Florida, under a 10½ -year lease which was renewed in October 2007. The current lease has two 5-year renewal options and expires in March 2018. In addition, The Company leases office space for its regional offices in Charlotte, North Carolina; New Braunfels, Texas; and Carlsbad, California. The Company also leases office space in Sydney, Australia, Sandton, South Africa, and Berkshire, England through its overseas affiliates to support its Australian, South African, and UK operations, respectively. These rental commitments are included in the table above. Certain of these leases contain escalation clauses and as such, the Company has recognized the rental expense on a straight-line basis related to those leases. Minimum rent expense associated with the Company's leases having initial or remaining non-cancelable lease terms in excess of one year was \$18.7 million, \$18.5 million and \$15.2 million for fiscal years 2009, 2008 and 2007, respectively.

##### *Litigation, Claims and Assessments*

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a \$47.5 million verdict against the Company. In October 2006, the verdict was entered as a judgment against the Company in the amount of \$51.7 million. The lawsuit, captioned Gregorio de la Rosa, Sr., et al., v. Wackenhut Corrections Corporation, (cause no. 02-110) in the District Court, 404th Judicial District, Willacy County, Texas, is being administered under the insurance program established by The Wackenhut Corporation, the Company's former parent company, in which the Company participated until October 2002. Policies secured by the Company under that program provide \$55.0 million in aggregate annual coverage. In October 2009, this case was settled in an amount within the insurance coverage limits and the insurer will pay the full settlement amount.

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that its Australian subsidiary formerly operated. The claim (No. SC 656 of 2006 to be heard by the Supreme Court of the Australian Capital Territory) relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUD 18 million or \$16.2 million, plus interest. The Company believes that it has several defenses to the allegations underlying the litigation and the amounts sought and intends to vigorously defend its rights with respect to this matter. The Company has established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of legal counsel in connection with this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and the Company's preliminary review of the claim and related reserve for loss, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on its financial condition, results of operations or cash flows. The Company is uninsured for any damages or costs that it may incur as a result of this claim, including the expenses of defending the claim.

During the fourth fiscal quarter of 2009, the Internal Revenue Service (IRS) completed its examination of the Company's U.S. federal income tax returns for the years 2002 through 2005. Following the examination, the IRS notified the Company that it proposes to disallow a deduction that the Company realized during the 2005 tax year. The Company has appealed this proposed disallowed deduction with the

IRS's appeals division and believes it has valid defenses to the IRS's position. However, if the disallowed deduction were to be sustained on appeal, it could result in a potential tax exposure to the Company of up to \$15.4 million. The Company believes in the merits of its position and intends to defend its rights vigorously, including its rights to litigate the matter if it cannot be resolved favorably at the IRS's appeals level. If this matter is resolved unfavorably, it may have a material adverse effect on the Company's financial position, results of operations and cash flows.

The 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.

### ***Collective Bargaining Agreements***

The Company had approximately 19% of its workforce covered by collective bargaining agreements at January 3, 2010. Collective bargaining agreements with four percent of employees are set to expire in less than one year.

### ***Contract Terminations***

Effective June 15, 2009, the Company's management contract with Fort Worth Community Corrections Facility located in Fort Worth, Texas was assigned to another party. Prior to this termination, the Company leased this facility (lease was due to expire August 2009) and the customer was the Texas Department of Criminal Justice ("TDCJ").

On September 8, 2009, the Company exercised its contractual right to terminate its contracts for the operation and management of the Newton County Correctional Center ("Newton County") located in Newton, Texas and the Jefferson County Downtown Jail ("Jefferson County") located in Beaumont, Texas. The Company managed Newton County and Jefferson County until the contracts terminated effective on November 2, 2009 and November 9, 2009, respectively.

In October 2009, the Company received a 60-day notice from the California Department of Corrections and Rehabilitation ("CDCR") of its intent to terminate the management contract between the Company and the CDCR for the management of its company-owned McFarland Community Correctional Facility.

The Company does not expect that the termination of these contracts will have a material adverse impact, individually or in aggregate, on its financial condition, results of operations or cash flows.

### ***Commitments***

As of January 3, 2010, the Company was in the process of constructing or expanding three facilities representing 4,325 total beds. The Company is providing the financing for two of the three facilities, representing 2,325 beds. Remaining capital expenditures related to these and other projects are expected to be \$37.7 million through 2010. The financing for the 2,000-bed facility is being provided for by a third party for state ownership. GEO is managing the construction of this project with total construction costs of \$113.8 million, of which \$90.2 million has been completed through 2009, and \$23.6 million of which remains to be completed through the first quarter of 2011.

## 15. Shareholders' Equity

### *Earnings Per Share*

Basic and diluted earnings per share ("EPS") were calculated for the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007 as follows (in thousands, except per share data):

<u>Fiscal Year</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(In thousands, except per share data)</u>		
Income from continuing operations .....	\$ 66,300	\$ 61,453	\$ 38,089
Basic earnings per share:			
Weighted average shares outstanding .....	<u>50,879</u>	<u>50,539</u>	<u>47,727</u>
Per share amount .....	<u>\$ 1.30</u>	<u>\$ 1.22</u>	<u>\$ 0.80</u>
Diluted earnings per share:			
Weighted average shares outstanding .....	50,879	50,539	47,727
Effect of dilutive securities:			
Employee and director stock options and restricted stock .....	<u>\$ 1,043</u>	<u>\$ 1,291</u>	<u>\$ 1,465</u>
Weighted average shares assuming dilution .....	<u>51,922</u>	<u>51,830</u>	<u>49,192</u>
Per share amount .....	<u>\$ 1.28</u>	<u>\$ 1.19</u>	<u>\$ 0.77</u>

For the fiscal year ended January 3, 2010, 69,492 weighted average shares of stock underlying options and 107 weighted average shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the fiscal year December 28, 2008, 372,725 weighted average shares of stock underlying options and 8,986 weighted average shares of restricted stock were excluded from the computation of diluted EPS because the effect would be anti-dilutive.

For the fiscal year December 30, 2007, no shares of stock underlying options or shares of restricted stock were excluded from the computation of diluted EPS because their effect would have been anti-dilutive.

### *Preferred Stock*

In April 1994, the Company's Board of Directors authorized 30 million shares of "blank check" preferred stock. The Board of Directors is authorized to determine the rights and privileges of any future issuance of preferred stock such as voting and dividend rights, liquidation privileges, redemption rights and conversion privileges.

### *Rights Agreement*

On October 9, 2003, the Company entered into a rights agreement with EquiServe Trust Company, N.A., as rights agent. Under the terms of the rights agreement, each share of the Company's common stock carries with it one preferred share purchase right. If the rights become exercisable pursuant to the rights agreement, each right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock at a fixed price, subject to adjustment. Until a right is exercised, the holder of the right has no right to vote or receive dividends or any other rights as a shareholder as a result of holding the right. The rights trade automatically with shares of our common stock, and may only be exercised in connection with certain attempts to acquire the Company. The rights are designed to protect the interests of the Company and its shareholders against coercive acquisition tactics and encourage potential acquirers to negotiate with our Board of Directors before attempting an acquisition. The rights may, but are not intended to, deter acquisition proposals that may be in the interests of the Company's shareholders.

## 16. Retirement and Deferred Compensation Plans

The Company has two noncontributory 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 periods presented.

The Company's former Chief Financial Officer, John G. O'Rourke retired in August 2009. As a result of his retirement, the Company paid \$3.2 million, representing 100% of the discounted value of the benefit as of his retirement date and including a gross up of \$1.2 million for certain taxes as specified in the agreement. Including the benefits paid to Mr. O'Rourke in August 2009, the Company paid a total of \$3.3 million in the fiscal year ended January 3, 2010 related to its defined benefit pension plans.

As of January 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 January 3, 2010, both executives had reached age 55 and are eligible to receive the payments upon retirement.

The following table summarizes key information related to the Company's pension plans and retirement agreements. The table illustrates the reconciliation of the beginning and ending balances of the benefit obligation showing the effects during the periods presented attributable to each of the following: service cost, interest cost, plan amendments, termination benefits, actuarial gains and losses. The Company's liability relative to its pension plans and retirement agreements was \$16.2 million and \$19.3 million as of January 3, 2010 and December 28, 2008 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.

	<u>2009</u>	<u>2008</u>
<b>Change in Projected Benefit Obligation</b>		
Projected Benefit Obligation, Beginning of Year.....	\$ 19,320	\$ 17,938
Service Cost .....	563	530
Interest Cost .....	717	654
Plan Amendments .....	—	—
Actuarial (Gain) Loss.....	(1,047)	246
Benefits Paid .....	(3,347)	(48)
Projected Benefit Obligation, End of Year.....	<u>\$ 16,206</u>	<u>\$ 19,320</u>
<b>Change in Plan Assets</b>		
Plan Assets at Fair Value, Beginning of Year.....	\$ —	\$ —
Company Contributions .....	3,347	48
Benefits Paid .....	(3,347)	(48)
Plan Assets at Fair Value, End of Year.....	<u>\$ —</u>	<u>\$ —</u>
<b>Unfunded Status of the Plan</b> .....	<u><u>\$ (16,206)</u></u>	<u><u>\$ (19,320)</u></u>
<b>Amounts Recognized in Accumulated Other Comprehensive Income</b>		
Prior Service Cost .....	41	82
Net Loss .....	<u>1,014</u>	<u>2,551</u>
Total Pension Cost .....	<u><u>\$ 1,055</u></u>	<u><u>\$ 2,633</u></u>
	<u>Fiscal 2009</u>	<u>Fiscal 2008</u>
<b>Components of Net Periodic Benefit Cost</b>		
Service Cost .....	\$ 563	\$ 530
Interest Cost .....	717	654
Amortization of:		
Prior Service Cost .....	41	41
Net Loss .....	249	249
Settlements.....	<u>241</u>	<u>—</u>
Net Periodic Pension Cost .....	<u><u>\$ 1,811</u></u>	<u><u>\$ 1,474</u></u>
<b>Weighted Average Assumptions for Expense</b>		
Discount Rate.....	5.75%	5.75%
Expected Return on Plan Assets .....	N/A	N/A
Rate of Compensation Increase .....	4.50%	5.50%



The amount included in other accumulated comprehensive income as of January 3, 2010 that is expected to be recognized as a component of net periodic benefit cost in fiscal year 2010 is \$0.1 million.

The benefit payments reflected in the table below represent the Company's obligations to employees that are eligible for retirement or have already retired and are receiving deferred compensation benefits:

<u>Fiscal Year</u>	<u>Pension Benefits</u> (In thousands)
2010.....	\$ 10,223
2011.....	166
2012.....	240
2013.....	237
2014.....	306
Thereafter.....	5,034
	<u>\$ 16,206</u>

The Company also maintains the GEO Group Inc., Deferred Compensation Plan ("Deferred Compensation Plan"), a non-qualified deferred compensation plan for employees who are ineligible to participate in its qualified 401(k) plan. Eligible employees may defer a fixed percentage of their salary and the Company matches employee contributions up to a certain amount based on the employee's years of service. Payments will be made at retirement age of 65, at termination of employment or earlier depending on the employees' elections. Effective December 18, 2009, the Company established a rabbi trust; the purpose of which is to segregate the assets of the Deferred Compensation Plan from the Company's cash balances. The funds in the rabbi trust will not be available to the Company for any purpose other than to fund the Deferred Compensation Plan; however, these funds may be available to the Company's creditors in the event the Company becomes insolvent. On December 28, 2009, the Company transferred \$2.9 million in cash to the trust which is reflected as restricted cash in the accompanying balance sheet as of January 3, 2010. All future employee and employer contributions relative to the Deferred Compensation Plan will be made directly to the rabbi trust. The Company recognized expense related to its contributions of \$0.1 million, \$0.1 million and \$0.3 million in fiscal years 2009, 2008 and 2007, respectively. The liability for this plan at January 3, 2010 and December 28, 2008 was \$4.7 million and \$4.0 million, respectively.

## 17. Business Segment and Geographic Information

### *Operating and Reporting Segments*

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

The segment information presented in the prior periods has been reclassified to conform to the current presentation:

<u>Fiscal Year</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<b>(In thousands)</b>		
<b>Revenues:</b>			
U.S. corrections.....	\$ 784,066	\$ 711,038	\$ 629,339
International services .....	137,171	128,672	127,991
GEO Care.....	121,818	117,399	110,165
Facility construction and design .....	<u>98,035</u>	<u>85,897</u>	<u>108,804</u>
Total revenues .....	<u>\$ 1,141,090</u>	<u>\$ 1,043,006</u>	<u>\$ 976,299</u>
<b>Depreciation and amortization:</b>			
U.S. corrections.....	\$ 35,955	\$ 34,010	\$ 30,401
International services .....	1,448	1,556	1,351
GEO Care.....	1,903	1,840	1,466
Facility construction and design .....	<u>—</u>	<u>—</u>	<u>—</u>
Total depreciation and amortization.....	<u>\$ 39,306</u>	<u>\$ 37,406</u>	<u>\$ 33,218</u>
<b>Operating Income (loss):</b>			
U.S. corrections.....	\$ 182,820	\$ 160,065	\$ 134,321
International services .....	7,759	10,131	10,381
GEO Care.....	13,468	12,419	10,142
Facility construction and design .....	<u>381</u>	<u>326</u>	<u>(266)</u>
Operating income from segments .....	204,428	182,941	154,578
General and Administrative Expenses .....	<u>(69,240)</u>	<u>(69,151)</u>	<u>(64,492)</u>
Total operating income .....	<u>\$ 135,188</u>	<u>\$ 113,790</u>	<u>\$ 90,086</u>
<b>Segment assets:</b>	<u>2009</u>	<u>2008</u>	
U.S. corrections.....	\$ 1,145,571	\$ 1,093,880	
International services .....	95,659	69,937	
GEO Care.....	107,908	21,169	
Facility construction and design .....	<u>13,736</u>	<u>10,286</u>	
Total segment assets.....	<u>\$ 1,362,874</u>	<u>\$ 1,195,272</u>	

Fiscal year 2009 U.S. corrections segment operating income includes the \$1.7 million increase in the Company's insurance reserve compared to \$2.7 million increase in fiscal year 2008 and a \$0.9 million reduction in 2007.

The increase in operating income in the U.S. corrections segment over each of the fiscal years ended 2009, 2008 and 2007 is attributable to new facilities and expansions of existing facilities. The decrease in operating revenues over those same periods in the International services segment was due to overall unfavorable foreign exchange currency fluctuations as well as significant start up costs incurred to transition new management contracts. The increase in the operating revenues in the GEO Care segment was related to the 2009 acquisition of Just Care, Inc., in 2009 and increases in population and capacity at other facilities during 2008 and 2009.

Assets in the Company's Facility construction and design segment are primarily made up of accounts receivable, which includes trade receivables and construction retainage receivable. Accounts receivable balances were \$13.7 million and \$10.3 million as of January 3, 2010 and December 28, 2008, respectively.

### 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 fiscal years ended January 3, 2010, December 28, 2008, and December 30, 2007, respectively.

<u>Fiscal Year Ended</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>		
Operating income from segments .....	\$ 204,428	\$ 182,941	\$ 154,578
Unallocated amounts:			
General and administrative expense .....	(69,240)	(69,151)	(64,492)
Net interest expense .....	(23,575)	(23,157)	(27,305)
Costs related to early extinguishment of debt .....	(6,839)	—	(4,794)
Income before income taxes, equity in earnings of affiliates and discontinued operations .....	<u>\$ 104,774</u>	<u>\$ 90,633</u>	<u>\$ 57,987</u>

### Asset Reconciliation

The following is a reconciliation of the Company's reportable segment assets to the Company's total assets as of January 3, 2010 and December 28, 2008, respectively.

	<u>2009</u>	<u>2008</u>
Reportable segment assets .....	\$ 1,362,874	\$ 1,195,272
Cash .....	33,856	31,655
Deferred income tax .....	17,020	21,757
Restricted cash .....	34,068	32,697
Assets of discontinued operations .....	—	7,240
Total assets .....	<u>\$ 1,447,818</u>	<u>\$ 1,288,621</u>

### Geographic Information

The Company's international operations are conducted through (i) the Company's wholly owned Australian subsidiary, The GEO Group Australia Pty. Ltd., through which the Company has management contracts for four correctional facilities, two police custody centers and also provides comprehensive healthcare services to eight government-operated prisons; (ii) the Company's consolidated joint venture in South Africa, SACM, through which the Company manages one correctional facility; and (iii) the Company's wholly-owned subsidiary in the United Kingdom, The GEO Group UK Ltd., through which the Company manages two facilities including the Campfield House Immigration Removal Centre and the Harmondsworth Immigration Removal Centre.

<u>Fiscal Year</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>		
Revenues:			
U.S. operations .....	\$ 1,003,919	\$ 914,334	\$ 848,308
Australia operations .....	103,197	101,995	97,116
South African operations .....	16,843	15,316	15,915
United Kingdom .....	17,131	11,361	14,960
Total revenues .....	<u>\$ 1,141,090</u>	<u>\$ 1,043,006</u>	<u>\$ 976,299</u>
Long-lived assets:			
U.S. operations .....	\$ 994,328	\$ 875,703	\$ 779,905
Australia operations .....	2,887	2,000	2,187
South African operations .....	447	492	590
United Kingdom .....	899	421	681
Total long-lived assets .....	<u>\$ 998,560</u>	<u>\$ 878,616</u>	<u>\$ 783,363</u>

## Sources of Revenue

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

<u>Fiscal Year</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>		
Revenues:			
Correction and detention.....	\$ 921,237	\$ 839,710	\$ 757,330
GEO Care.....	121,818	117,399	110,165
Facility construction and design .....	98,035	85,897	108,804
Total revenues .....	<u>\$ 1,141,090</u>	<u>\$ 1,043,006</u>	<u>\$ 976,299</u>

## Equity in Earnings of Affiliates

Equity in earnings of affiliates for 2009, 2008 and 2007 include one of the joint ventures in South Africa, SACS. This entity is accounted for under the equity method 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:

<u>Fiscal Year</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>		
Statement of Operations Data			
Revenues .....	\$ 37,736	\$ 35,558	\$ 36,720
Operating income.....	14,958	13,688	14,976
Net income .....	7,034	9,247	4,240
Balance Sheet Data			
Current assets .....	33,808	18,421	21,608
Noncurrent assets .....	47,453	37,722	53,816
Current liabilities.....	2,888	2,245	6,120
Non-current liabilities .....	53,877	41,321	62,401
Shareholders' equity.....	24,496	12,577	6,903

As of January 3, 2010 and December 28, 2008, the Company's investment in SACS was \$12.2 million and \$6.2 million, respectively. The investment is included in other non-current assets in the accompanying consolidated balance sheets.

## Business Concentration

Except for the major customers noted in the following table, no other single customer made up greater than 10% of the Company's consolidated revenues for the following fiscal years.

<u>Customer</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Various agencies of the U.S. Federal Government .....	31%	28%	27%
Various agencies of the State of Florida .....	16%	17%	16%

Credit risk related to accounts receivable is reflective of the related revenues.



## 18. Income Taxes

The United States and foreign components of income (loss) before income taxes and equity income from affiliates are as follows:

	2009	2008	2007
	(In thousands)		
Income (loss) before income taxes, equity earnings in affiliates, and discontinued operations			
United States .....	\$ 96,651	\$ 78,542	\$ 45,875
Foreign .....	8,123	12,091	12,112
	<u>104,774</u>	<u>90,633</u>	<u>57,987</u>
Discontinued operations:			
Income (loss) from operation of discontinued business .....	(562)	(2,316)	6,066
Total .....	<u>\$ 104,212</u>	<u>\$ 88,317</u>	<u>\$ 64,053</u>

Taxes on income (loss) consist of the following components:

	2009	2008	2007
	(In thousands)		
Federal income taxes:			
Current .....	\$ 24,443	\$ 24,164	\$ 19,211
Deferred .....	10,734	2,621	(4,546)
	<u>35,177</u>	<u>26,785</u>	<u>14,665</u>
State income taxes:			
Current .....	2,889	2,626	3,579
Deferred .....	310	(558)	(399)
	<u>3,199</u>	<u>2,068</u>	<u>3,180</u>
Foreign:			
Current .....	4,649	4,357	4,336
Deferred .....	(1,034)	593	(132)
	<u>3,615</u>	<u>4,950</u>	<u>4,204</u>
Total U.S. and foreign .....	<u>41,991</u>	<u>33,803</u>	<u>22,049</u>
Discontinued operations:			
Taxes (benefit) from operations of discontinued business .....	(216)	236	2,310
Total .....	<u>\$ 41,775</u>	<u>\$ 34,039</u>	<u>\$ 24,359</u>

A reconciliation of the statutory U.S. federal tax rate (35.0%) and the effective income tax rate is as follows:

	2009	2008	2007
	(In thousands)		
Continuing operations:			
Provisions using statutory federal income tax rate .....	\$ 36,671	\$ 31,722	\$ 20,295
State income taxes, net of federal tax benefit .....	2,949	2,635	1,965
Other, net .....	2,371	(554)	(211)
Total continuing operations .....	<u>41,991</u>	<u>33,803</u>	<u>22,049</u>
Discontinued operations:			
Taxes (benefit) from operations of discontinued business .....	(216)	236	2,310
Provision (benefit) for income taxes .....	<u>\$ 41,775</u>	<u>\$ 34,039</u>	<u>\$ 24,359</u>

The components of the net current deferred income tax asset as of January 3, 2010 are as follows:

	<u>2009</u>	<u>2008</u>
	(In thousands)	
Accrued liabilities .....	\$ 11,938	\$ 11,847
Accrued compensation.....	4,438	4,658
Other, net.....	644	835
Total asset.....	<u>\$ 17,020</u>	<u>\$ 17,340</u>

The components of the net non-current deferred income tax asset as of January 3, 2010 are as follows:

	<u>2009</u>	<u>2008</u>
	(In thousands)	
Deferred compensation .....	—	\$ 7,923
Other, net.....	—	3,787
Net operating losses .....	—	3,484
Tax credits .....	—	2,961
Deferred loan costs .....	—	2,360
Bond discount .....	—	(1,094)
Residual U.S. tax liability on un-repatriated foreign earnings.....	—	(1,915)
Intangible assets.....	—	(3,740)
Valuation allowance .....	—	(4,577)
Depreciation.....	—	(4,772)
Total asset.....	<u>—</u>	<u>\$ 4,417</u>

The components of the net non-current deferred income tax liability as of January 3, 2010 are as follows:

	<u>2009</u>	<u>2008</u>
	(In thousands)	
Deferred compensation .....	\$ 7,955	—
Net operating losses .....	6,150	—
Tax credits .....	4,203	—
Other, net.....	2,654	—
Deferred loan costs .....	2,211	—
Bond discount .....	(916)	—
Residual U.S. tax liability on unrepatriated foreign earnings.....	(1,775)	—
Valuation allowance .....	(5,587)	—
Intangible assets.....	(5,521)	—
Depreciation.....	(16,434)	(14)
Total liability.....	<u>\$ (7,060)</u>	<u>\$ (14)</u>

Deferred income taxes should be reduced by a valuation allowance if it is not more likely than not that some portion or all of the deferred tax assets will be realized. On a periodic basis, management evaluates and determines the amount of the valuation allowance required and adjusts such valuation allowance accordingly. At fiscal year end 2009 and 2008, the Company has a valuation allowance of \$6.0 million and \$4.8 million, respectively related to deferred tax assets for foreign net operating losses and state tax credits. The valuation allowance increased by \$1.2 million during the fiscal year ended January 3, 2010 primarily due to additional net operating losses at an international subsidiary that will likely not be realized. In the fiscal year ended January 3, 2010, the Company implemented new guidance relative to the accounting for business combinations and as such, for years beginning after December 15, 2008, the Company records the reduction of a valuation allowance related to business acquisitions as a reduction of income tax expense.

The Company provides income taxes on the undistributed earnings of non-U.S. subsidiaries except to the extent that such earnings are indefinitely invested outside the United States. At January 3, 2010, \$8.4 million of accumulated undistributed earnings of non-U.S. subsidiaries were indefinitely invested. At the existing U.S. federal income tax rate, additional taxes (net of foreign tax credits) of \$3.0 million would have to be provided if such earnings were remitted currently.

At fiscal year end 2009, the Company had \$4.9 million of Federal net operating loss carryforwards which begin to expire in 2020 and \$4.8 million of combined net operating loss carryforwards in various states which begin to expire in 2015.

Also at fiscal year end 2009 the Company had \$14.0 million of foreign operating losses which carry forward indefinitely and \$6.3 million of state tax credits which begin to expire in 2010. The Company has recorded a full and partial valuation allowance against the deferred tax assets related to the foreign operating losses and state tax credits, respectively.

In fiscal 2008, the Company's equity affiliate SACS recognized a one time tax benefit of \$1.9 million related to a change in the tax treatment applicable to the affiliate with retroactive effect. Under the tax treatment, expenses which were previously disallowed are now deductible for South African tax purposes. The one time tax benefit relates to an increase in the deferred tax assets of the affiliate as a result of the change in tax treatment.

The Company recognizes the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. The exercise of non-qualified stock options which have been granted under the Company's stock option plans give rise to compensation income which is includable in the taxable income of the applicable employees and deducted by the Company for federal and state income tax purposes. Such compensation income results from increases in the fair market value of the Company's common stock subsequent to the date of grant. At fiscal year end 2009 the deferred tax asset net of a valuation allowance related to unexercised stock options and restricted stock grants was \$2.2 million.

The Company implemented guidance relative to accounting for uncertainties in income taxes, effective at the beginning of the Company's fiscal year ended December 30, 2007. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows in (dollars in thousands):

	<u>2009</u>	<u>2008</u>
	(In thousands)	
Balance at Beginning of Period .....	\$ 5,889	\$ 5,417
Additions based on tax positions related to the current year .....	479	1,877
Additions for tax positions of prior years .....	4,854	659
Reductions for tax positions of prior years .....	(1,877)	(1,809)
Reductions as result of a lapse of applicable statutes of limitations .....	—	(169)
Settlements .....	(3,398)	(86)
Balance at End of Period .....	<u>\$ 5,947</u>	<u>\$ 5,889</u>

All amounts in the reconciliation are reported on a gross basis and do not reflect a federal tax benefit on state income taxes. Inclusive of the federal tax benefit on state income taxes the ending balance as of January 3, 2010 is \$5.6 million. Included in the balance at January 3, 2010 is \$0.5 million related to tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. Under deferred tax accounting, the timing of a deduction does not affect the annual effective tax rate but does affect the timing of tax payments. Absent a decrease in the unrecognized tax benefits related to the reversal of these timing related tax positions, the Company does not anticipate any significant increase or decrease in the unrecognized tax benefits within 12 months of the reporting date. Additions for tax positions of prior years reported in the reconciliation for 2009 include amounts related to proposed federal audit adjustments for the years 2002 through 2005, which the Company has appealed. The balance at January 3, 2010 includes \$5.1 million of unrecognized tax benefits which, if ultimately recognized, will reduce the Company's annual effective tax rate.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2002. The Internal Revenue Service (IRS) commenced an examination of the Company's U.S. income tax returns for 2006 through 2008 in the fourth quarter of 2009 that is anticipated to be completed by the end of 2011.

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

During the fiscal years ended January 3, 2010, December 28, 2008 and December 30, 2007, the Company recognized \$0.1 million, \$0.4 million and \$0.6 million in interest and penalties. The Company had accrued \$2.0 million and \$1.9 million for the payment of interest and penalties at January 3, 2010, and December 28, 2008, respectively. The Company classifies interest and penalties as interest expense and other expense, respectively.

## 19. Selected Quarterly Financial Data (Unaudited)

The Company's selected quarterly financial data is as follows (in thousands, except per share data):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2009</b>				
Revenues .....	\$ 259,061	\$ 276,379	\$ 294,865	\$ 310,785
Operating income(1),(4) .....	29,682	30,877	35,156	39,473
Income from continuing operations(2) .....	15,071	16,491	19,258	15,480
Income (loss) from discontinued operations, net of tax.....	(366)	20	—	—
Basic earnings per share:				
Income from continuing operations .....	\$ 0.30	\$ 0.32	\$ 0.38	\$ 0.30
Income (loss) from discontinued operations.....	(0.01)	0.01	0.00	0.00
Net income per share .....	\$ 0.29	\$ 0.33	\$ 0.38	\$ 0.30
Diluted earnings per share:				
Income from continuing operations .....	\$ 0.29	\$ 0.32	\$ 0.37	\$ 0.30
Income (loss) from discontinued operations.....	(0.01)	0.00	0.00	0.00
Net income per share .....	\$ 0.28	\$ 0.32	\$ 0.37	\$ 0.30



	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2008</b>				
Revenues .....	\$ 262,454	\$ 269,994	\$ 254,105	\$ 256,453
Operating income(1),(3) .....	23,523	26,828	28,580	34,859
Income from continuing operations .....	11,888	13,852	15,497	20,216
Income (loss) from discontinued operations, net of tax.....	519	347	362	(3,779)
Basic earnings per share:				
Income from continuing operations .....	\$ 0.24	\$ 0.27	\$ 0.31	\$ 0.40
Income (loss) from discontinued operations.....	0.01	0.01	0.00	(0.08)
Net income per share .....	\$ 0.25	\$ 0.28	\$ 0.31	\$ 0.32
Diluted earnings per share:				
Income from continuing operations .....	\$ 0.23	\$ 0.27	\$ 0.30	\$ 0.39
Income (loss) from discontinued operations.....	0.01	—	0.01	(0.07)
Net income per share .....	\$ 0.24	\$ 0.27	\$ 0.31	\$ 0.32

- (1) Operating income for First, Second, Third and Fourth Quarters 2009 includes start up costs of \$1.2 million, \$0.6 million, \$1.0 million and \$2.1 million, respectively for new facility management contracts. Start up costs in fiscal 2008 were \$1.7 million, \$2.3 million, \$2.8 million and \$1.4 million in First, Second, Third and Fourth Quarters, respectively.
- (2) Income from continuing operations for 2009 includes a loss of \$6.8 million on extinguishment of debt related to the tender premium and write off of deferred financing costs associated with the tender call of the company's 8¼% Senior Notes.
- (3) Operating income for Third and Fourth Quarters 2008 includes the effects of a change in our vacation policy for certain employees which conformed to a fiscal year-end based policy. The new policy allows employees to use vacation regardless of service period but within the fiscal year. Our results for fiscal Fourth Quarter ended December 28, 2008 include a one-time tax benefit related to our equity affiliate of \$1.9 million.
- (4) Third Quarter results reflect increases to insurance reserves of \$1.7 million, and \$2.7 million 2009 and 2008 respectively.

## 20. Subsequent event

### *Evaluation of subsequent events*

In May 2009, the FASB issued guidance which introduces the concept of financial statements being *available to be issued* and requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date as either the date the financial statements were issued or were available to be issued. This standard became effective for the Company in the fiscal year ended January 3, 2010. The Company evaluated all events and transactions that occurred after January 3, 2010 up through February 22, 2010, the date the Company issued these financial statements. During this period, the Company did not have any material recognizable subsequent events; however, the Company did have unrecognizable subsequent events as discussed further below. The implementation of this standard did not have a significant impact on the Company's financial condition, results of operations or cash flows.

### *Interest rate swap*

Effective January 6, 2010, the Company executed an interest rate swap agreement (the "Agreement") in the notional amount of \$25.0 million. The Company has designated this interest rate swap as a hedge against changes in the fair value of a designated portion of the 7¾% Senior Notes due to changes in underlying interest rates. The Agreement, which has payments, expiration dates and call provisions that mirror the terms of the 7¾% Senior Notes, effectively converts \$25.0 million of the principal into variable rate obligations. The Swap has a termination clause that gives the lender the right to terminate the interest rate swap at fair market value if the lender is no longer a party to the Credit Agreement. In addition to the termination clause, the Agreement also has call provisions which specify that the lender can elect to settle the swap for the call option price. Under the Agreement, the Company receives a fixed interest rate payment from the financial counterparty to the agreement equal to 7¾% per year calculated on the notional \$25.0 million amount, while it makes a variable interest rate payment to the same counterparty equal to the three-month LIBOR plus a fixed margin of 4.16%, also calculated on the notional \$25.0 million amount. Changes in the fair value of the interest rate swap are recorded in earnings along with related designated changes in the value of the 7¾% Senior Notes.

### ***Stock repurchase program***

On February 22, 2010, the Company announced that its Board of Directors approved a stock repurchase program for up to \$80.0 million of the Company's common stock effective through March 31, 2011. The stock repurchase 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 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 GEO to purchase any specific amount of its common stock and may be suspended or extended at any time at the company's discretion.

### ***Contract award***

In Georgia, the Department of Corrections issued an RFP for 1,000 in-state beds. On February 22, 2010, the Company announced that the State of Georgia issued a notice of intent to award a contract to the Company for the development and operation of a new 1,000-bed facility, which is expandable to 2,500 beds. Under the terms of the intended award, the Company would finance, build, and operate the new \$60 million dollar facility under a long-term ground lease. The award is subject to obtaining approval of the proposed ground lease from the General Assembly. The Company expects this new 1,000-bed facility to generate approximately \$19 million dollars in annualized operating revenues once completed.

## **21. Condensed Consolidating Financial Information**

On October 20, 2009, the Company completed an offering of \$250.0 million aggregate principal amount of its 7¾% 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 "7¾% Senior Notes"). The 7¾% Senior Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly-owned domestic subsidiaries (the "Subsidiary Guarantors").

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

- (i) The GEO Group, Inc., as the issuer of the 7¾% Senior Notes;
- (ii) The Subsidiary Guarantors, on a combined basis, which are guarantors of the 7¾% Senior Notes;
- (iii) The Company's other subsidiaries, on a combined basis, which are not guarantors of the 7¾% 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.

# CONDENSED CONSOLIDATING BALANCE SHEET

As of January 3, 2010				
<u>The GEO Group Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
(Dollars in thousands)				

## 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
	<u>\$ 1,261,525</u>	<u>\$ 620,961</u>	<u>\$ 233,973</u>	<u>\$ (668,641)</u>	<u>\$ 1,447,818</u>

## 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 12)	665,098	589,896	60,709	(650,605)	665,098
Total Shareholders' Equity.....	<u>\$ 1,261,525</u>	<u>\$ 620,961</u>	<u>\$ 233,973</u>	<u>\$ (668,641)</u>	<u>\$ 1,447,818</u>

# CONDENSED CONSOLIDATING BALANCE SHEET - (Continued)

	As of December 28, 2008				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in thousands)				
ASSETS					
Cash and cash equivalents.....	\$ 15,807	\$ 130	\$ 15,718	\$ —	\$ 31,655
Restricted cash .....	—	—	13,318	—	13,318
Accounts receivable, net .....	135,441	39,683	24,541	—	199,665
Deferred income tax asset, net .....	13,332	1,286	2,722	—	17,340
Other current assets.....	6,256	1,985	4,670	—	12,911
Current assets of discontinued operations.....	6,213	788	30	—	7,031
Total current assets .....	177,049	43,872	60,999	—	281,920
Restricted Cash .....	—	—	19,379	—	19,379
Property and Equipment, Net.....	393,931	408,124	76,561	—	878,616
Assets Held for Sale.....	3,083	1,265	—	—	4,348
Direct Finance Lease Receivable .....	—	—	31,195	—	31,195
Intercompany Receivable.....	2,755	—	1,474	(4,229)	—
Deferred Income Tax Assets, Net.....	2,083	2,298	36	—	4,417
Goodwill .....	34	21,658	510	—	22,202
Intangible Assets, net .....	—	10,535	1,858	—	12,393
Investment in Subsidiaries .....	521,960	—	—	(521,960)	—
Other Non-Current Assets .....	16,719	13,009	4,214	—	33,942
Non-Current Assets of Discontinued Operations.....	133	14	62	—	209
	\$ 1,117,747	\$ 500,775	\$ 196,288	\$ (526,189)	\$ 1,288,621
Current Liabilities					
Accounts payable .....	\$ 45,099	\$ 3,163	\$ 7,881	\$ —	\$ 56,143
Accrued payroll and related taxes .....	17,400	2,446	8,111	—	27,957
Accrued expenses.....	62,500	2,012	17,930	—	82,442
Current portion of debt.....	3,678	674	13,573	—	17,925
Intercompany payable .....	1,474	—	2,455	(3,929)	—
Current liabilities of discontinued operations .....	1,141	102	216	—	1,459
Total current liabilities .....	131,292	8,397	50,166	(3,929)	185,926
Deferred Income Tax Liability.....	—	—	14	—	14
Other Non-Current Liabilities.....	28,410	466	—	—	28,876
Capital Lease Obligations .....	—	15,126	—	—	15,126
Long-Term Debt.....	378,448	—	300	(300)	378,448
Non-Recourse Debt.....	—	—	100,634	—	100,634
Commitments & Contingencies (Note 12).....					
Total Shareholders' Equity .....	579,597	476,786	45,174	(521,960)	579,597
	\$ 1,117,747	\$ 500,775	\$ 196,288	\$ (526,189)	\$ 1,288,621



# CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

	For the Fiscal Year Ended January 3, 2010				
	<u>The GEO Group Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Revenues .....	\$ 620,271	\$ 335,588	\$ 235,747	\$ (50,516)	\$ 1,141,090
Operating Expenses .....	523,820	218,679	205,373	(50,516)	897,356
Depreciation and Amortization .....	17,877	17,128	4,301	—	39,306
General and Administrative Expenses .....	<u>36,042</u>	<u>19,500</u>	<u>13,698</u>	<u>—</u>	<u>69,240</u>
Operating Income .....	42,532	80,281	12,375	—	135,188
Interest Income .....	202	12	4,729	—	4,943
Interest Expense .....	(19,709)	—	(8,809)	—	(28,518)
Loss on Extinguishment of Debt .....	<u>(6,839)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,839)</u>
Income Before Income Taxes, Equity in Earnings of Affiliates, and Discontinued Operations .....	16,186	80,293	8,295	—	104,774
Provision for Income Taxes .....	6,439	31,937	3,615	—	41,991
Equity in Earnings of Affiliates, net of income tax .....	<u>—</u>	<u>—</u>	<u>3,517</u>	<u>—</u>	<u>3,517</u>
Income from Continuing Operations Before Equity Income of Consolidated Subsidiaries .....	9,747	48,356	8,197	—	66,300
Income in Consolidated Subsidiaries, net of income tax .....	<u>56,553</u>	<u>—</u>	<u>—</u>	<u>(56,553)</u>	<u>—</u>
Income from Continuing Operations .....	66,300	48,356	8,197	(56,553)	66,300
Loss from Discontinued Operations, net of income tax .....	<u>(346)</u>	<u>(193)</u>	<u>—</u>	<u>193</u>	<u>(346)</u>
Net Income .....	\$ 65,954	\$ 48,163	\$ 8,197	\$ (56,360)	\$ 65,954

	For the Fiscal Year Ended December 28, 2008				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(Dollars in thousands)				
Revenues.....	\$ 545,590	\$ 327,079	\$ 215,157	\$ (44,820)	\$ 1,043,006
Operating Expenses .....	469,903	216,380	181,196	(44,820)	822,659
Depreciation and Amortization.....	16,284	16,120	5,002	—	37,406
General and Administrative Expenses .....	<u>34,682</u>	<u>20,792</u>	<u>13,677</u>	<u>—</u>	<u>69,151</u>
Operating Income.....	24,721	73,787	15,282	—	113,790
Interest Income.....	323	84	6,638	—	7,045
Interest Expense .....	<u>(20,505)</u>	<u>—</u>	<u>(9,697)</u>	<u>—</u>	<u>(30,202)</u>
Income Before Income Taxes, Equity in Earnings of Affiliates, and Discontinued Operations .....	4,539	73,871	12,223	—	90,633
Provision for Income Taxes .....	1,670	27,183	4,950	—	33,803
Equity in Earnings of Affiliates, net of income tax.....	<u>—</u>	<u>—</u>	<u>4,623</u>	<u>—</u>	<u>4,623</u>
Income from Continuing Operations Before Equity Income of Consolidated Subsidiaries.....	2,869	46,688	11,896	—	61,453
Equity in Income of Consolidated Subsidiaries.....	<u>58,584</u>	<u>—</u>	<u>—</u>	<u>(58,584)</u>	<u>—</u>
Income from Continuing Operations .....	61,453	46,688	11,896	(58,584)	61,453
Loss from Discontinued Operations, net of income tax ...	<u>(2,551)</u>	<u>(628)</u>	<u>(2,929)</u>	<u>3,557</u>	<u>(2,551)</u>
Net Income.....	\$ 58,902	\$ 46,060	\$ 8,967	\$ (55,027)	\$ 58,902

# CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS - (Continued)

For the Fiscal Year Ended December 30, 2007					
	<u>The GEO Group Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(Dollars in thousands)				
Revenues .....	\$ 472,517	\$ 299,420	\$ 237,257	\$ (32,895)	\$ 976,299
Operating Expenses .....	414,108	204,608	202,682	(32,895)	788,503
Depreciation and Amortization .....	13,281	15,140	4,797	—	33,218
General and Administrative Expenses .....	30,196	19,134	15,162	—	64,492
Operating Income.....	14,932	60,538	14,616	—	90,086
Interest Income.....	1,540	222	6,984	—	8,746
Interest Expense.....	(26,402)	—	(9,649)	—	(36,051)
Loss on Extinguishment of Debt.....	(4,794)	—	—	—	(4,794)
Income Before Income Taxes, Equity in Earnings of Affiliates, and Discontinued Operations .....	(14,724)	60,760	11,951	—	57,987
Provision for Income Taxes .....	(5,629)	23,230	4,448	—	22,049
Equity in Earnings of Affiliates, net of income tax.....	—	—	2,151	—	2,151
Income (loss) from Continuing Operations Before Equity Income of Consolidated Subsidiaries.....	(9,095)	37,530	9,654	—	38,089
Equity in Income of Consolidated Subsidiaries.....	47,184	—	—	(47,184)	—
Income from Continuing Operations .....	38,089	37,530	9,654	(47,184)	38,089
Loss from Discontinued Operations, net of income tax .....	3,756	1,864	24	(1,888)	3,756
Net Income.....	\$ 41,845	\$ 39,394	\$ 9,678	\$ (49,072)	\$ 41,845

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Fiscal Year Ended January 3, 2010				
<u>The GEO Group Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>	
(Dollars in thousands)				
<b>Operating Activities:</b>				
Net cash provided by operating activities .....	\$ (5,448)	\$ 119,792	\$ 16,585	\$ 130,929
<b>Cash Flow from Investing Activities:</b>				
Acquisitions, net of cash acquired .....	—	(38,386)	—	(38,386)
Proceeds from sale of assets.....	150	29	—	179
Dividend from subsidiary.....	7,400	—	(7,400)	—
Change in restricted cash .....	—	—	2,713	2,713
Capital expenditures.....	(72,379)	(75,556)	(1,844)	(149,779)
Net cash used in investing activities .....	(64,829)	(113,913)	(6,531)	(185,273)
<b>Cash Flow from Financing Activities:</b>				
Proceeds from long-term debt.....	333,000	—	—	333,000
Income tax benefit of equity compensation .....	601	—	—	601
Debt issuance costs .....	(17,253)	—	—	(17,253)
Termination of interest rate swap agreements.....	1,719	—	—	1,719
Payments on long-term debt .....	(252,678)	(676)	(14,120)	(267,474)
Proceeds from the exercise of stock options .....	1,457	—	—	1,457
Net cash provided by (used in) financing activities .....	66,846	(676)	(14,120)	52,050
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	—	—	4,495	4,495
Net Increase (Decrease) in Cash and Cash Equivalents .....	(3,431)	5,203	429	2,201
Cash and Cash Equivalents, beginning of period .....	15,807	130	15,718	31,655
Cash and Cash Equivalents, end of period.....	\$ 12,376	\$ 5,333	\$ 16,147	\$ 33,856

# CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS - (Continued)

	For the Fiscal Year Ended December 28, 2008			
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Consolidated
	(Dollars in thousands)			
Operating Activities:				
Net cash provided by operating activities .....	\$ 42,322	\$ 3,374	\$ 25,648	\$ 71,344
Cash Flow from Investing Activities:				
Proceeds from sale of assets.....	—	1,029	107	1,136
Purchase of shares in consolidated affiliate .....	—	—	(2,189)	(2,189)
Dividend from subsidiary.....	2,676	—	(2,676)	—
Change in restricted cash .....	—	29	423	452
Capital expenditures.....	(123,401)	(3,615)	(3,974)	(130,990)
Net cash used in investing activities .....	(120,725)	(2,557)	(8,309)	(131,591)
Cash Flow from Financing Activities:				
Proceeds from long-term debt.....	156,000	—	—	156,000
Income tax benefit of equity compensation .....	786	—	—	786
Debt issuance costs .....	(3,685)	—	—	(3,685)
Payments on long-term debt .....	(85,678)	(822)	(13,656)	(100,156)
Proceeds from the exercise of stock options.....	753	—	—	753
Net cash provided by (used in) financing activities .....	68,176	(822)	(13,656)	53,698
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	—	—	(6,199)	(6,199)
Net Decrease in Cash and Cash Equivalents .....	(10,227)	(5)	(2,516)	(12,748)
Cash and Cash Equivalents, beginning of period .....	26,034	135	18,234	44,403
Cash and Cash Equivalents, end of period.....	\$ 15,807	\$ 130	\$ 15,718	\$ 31,655



# CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS - (Continued)

	For the Fiscal Year Ended December 30, 2007			
	<u>The GEO Group Inc.</u>	<u>Combined Subsidiary Guarantors</u>	<u>Combined Non-Guarantor Subsidiaries</u>	<u>Consolidated</u>
	(Dollars in thousands)			
Operating Activities:				
Net cash provided by operating activities .....	\$ 44,764	\$ 14,127	\$ 20,037	\$ 78,928
Cash Flow from Investing Activities:				
Acquisitions, net of cash acquired .....	(410,473)	—	—	(410,473)
CSC purchase price adjustment .....	—	2,291	—	2,291
Proceeds from sale of assets.....	1,174	3,185	117	4,476
Dividend from subsidiary.....	12,418	—	(12,418)	—
Change in restricted cash .....	—	(1)	(19)	(20)
Capital expenditures.....	(94,107)	(19,079)	(2,018)	(115,204)
Net cash used in investing activities .....	(490,988)	(13,604)	(14,338)	(518,930)
Cash Flow from Financing Activities:				
Proceeds from equity offering, net.....	227,485	—	—	227,485
Proceeds from long-term debt.....	387,000	—	—	387,000
Income tax benefit of equity compensation .....	3,061	—	—	3,061
Debt issuance costs .....	(9,210)	—	—	(9,210)
Payments on long-term debt .....	(224,765)	(784)	(11,750)	(237,299)
Proceeds from the exercise of stock options .....	1,239	—	—	1,239
Net cash provided by (used in) financing activities .....	384,810	(784)	(11,750)	372,276
Effect of Exchange Rate Changes on Cash and Cash Equivalents.....	—	—	609	609
Net Decrease in Cash and Cash Equivalents .....	(61,414)	(261)	(5,442)	(67,117)
Cash and Cash Equivalents, beginning of period .....	87,448	396	23,676	111,520
Cash and Cash Equivalents, end of period.....	\$ 26,034	\$ 135	\$ 18,234	\$ 44,403

## ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

## ***Controls and Procedures***

### **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 Securities and Exchange Commission, or 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.

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.

### **Internal Control Over Financial Reporting**

#### ***(a) Management's Annual Report on Internal Control Over Financial Reporting***

See "Item 8. — Financial Statements and Supplemental Data — Management's Report on Internal Control over Financial Reporting" for management's report on the effectiveness of our internal control over financial reporting as of January 3, 2010.

#### ***(b) Attestation Report of the Registered Public Accounting Firm***

See "Item 8. — Financial Statements and Supplemental Data — Report of Independent Registered Certified Public Accountants" for the report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting as of January 3, 2010.

#### ***(c) Changes in Internal Control over Financial Reporting***

Our management is responsible for reporting any changes in our internal control over financial reporting (as such terms 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 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.

### **Item 9B. Other Information**

None.

## PART III

### Items 10, 11, 12, 13 and 14

The information required by Items 10, 11, 12 (except for the information required by Item 201(d) of Regulation S-K which is included in Part II, Item 5 of this report), 13 and 14 of Form 10-K will be contained in, and is incorporated by reference from, the proxy statement for our 2010 annual meeting of shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.

## PART IV

### Item 15. Exhibits, and Financial Statement Schedules

#### (a)(1) Financial Statements.

The consolidated financial statements of GEO are filed under Item 8 of Part II of this report.

#### (2) Financial Statement Schedules.

Schedule II — Valuation and Qualifying Accounts — Page 130

All other schedules specified in the accounting regulations of the Securities and Exchange Commission have been omitted because they are either inapplicable or not required.

#### (3) Exhibits Required by Item 601 of Regulation S-K. The following exhibits are filed as part of this Annual Report:

<u>Exhibit Number</u>	<u>Description</u>
2.1	— Agreement and Plan of Merger, dated as of September 19, 2006, among the Company, GEO Acquisition II, Inc. and CentraCore Properties Trust (incorporated herein by reference to Exhibit 2.1 of the Company's report on Form 8-K, filed on September 21, 2006)
2.2	— Agreement and Plan of Merger, dated as of August 28, 2009 by and among Just Care, Inc., GEO Care, Inc. and GEO Care Acquisition, Inc. (incorporated by reference to Exhibit 2.1 of the Company's report on Form 8-K, filed on September 3, 2009)
3.1	— Amended and Restated Articles of Incorporation of the Company, dated May 16, 1994 (incorporated herein by reference to Exhibit 3.1 to the Company's registration statement on Form S-1, filed on May 24, 1994)
3.2	— Articles of Amendment to the Amended and Restated Articles of Incorporation, dated October 30, 2003 (incorporated herein by reference to Exhibit 3.2 to the Company's report on Form 10-K, filed on February 15, 2008)
3.3	— Articles of Amendment to the Amended and Restated Articles of Incorporation, dated November 25, 2003 (incorporated herein by reference to Exhibit 3.3 to the Company's report on Form 10-K, filed on February 15, 2008)
3.4	— Articles of Amendment to the Amended and Restated Articles of Incorporation, dated September 29, 2006 (incorporated herein by reference to Exhibit 3.4 to the Company's report on Form 10-K, filed on February 15, 2008)
3.5	— Articles of Amendment to the Amended and Restated Articles of Incorporation, dated May 30, 2007 (incorporated herein by reference to Exhibit 3.5 to the Company's report on Form 10-K, filed on February 15, 2008)
3.6	— Amended and Restated Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 to the Company's report on Form 8-K, filed on April 2, 2008)
4.1	— Indenture, dated July 9, 2003, by and between the Company and The Bank of New York, as Trustee, relating to 8¼% Senior Notes Due 2013 (incorporated herein by reference to Exhibit 4.1 to the Company's report on Form 8-K, filed on July 29, 2003)
4.2	— Registration Rights Agreement, dated July 9, 2003, by and among the Company Corporation and BNP Paribas Securities Corp., Lehman Brothers Inc., First Analysis Securities Corporation, SouthTrust Securities, Inc. and Comerica Securities, Inc. (incorporated herein by reference to Exhibit 4.2 to the Company's report on Form 8-K, filed on July 29, 2003)
4.3	— Rights Agreement, dated as of October 9, 2003, between the Company and EquiServe Trust Company, N.A., as the Rights Agent (incorporated herein by reference to Exhibit 4.3 to the Company's report on Form 8-K, filed on July 29, 2003)
4.4	— Indenture dated as of October 20, 2009 among the Company, the Guarantors party thereto and Wells Fargo Bank, National Association, as Trustee, relating to 7¾% Senior Notes Due 2017 (incorporated by reference to Exhibit 4.1 to the Company's report on Form 8-K, filed on October 20, 2009)
10.1	— Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the Company's registration statement on Form S-1, filed on May 24, 1994)†

- 10.2 — 1994 Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the Company's registration statement on Form S-1, filed on May 24, 1994)†
- 10.3 — Form of Indemnification Agreement between the Company and its Officers and Directors (incorporated herein by reference to Exhibit 10.3 to the Company's registration statement on Form S-1, filed on May 24, 1994)†
- 10.4 — Senior Officer Retirement Plan (incorporated herein by reference to Exhibit 10.4 to the Company's registration statement on Form S-1/A, filed on December 22, 1995)†
- 10.5 — Amendment to the Company's Senior Officer Retirement Plan (incorporated herein by reference to Exhibit 10.5 to the Company's report on Form 10-K, filed on March 23, 2005)†
- 10.6 — 1999 Stock Option Plan (incorporated herein by reference to Exhibit 10.12 to the Company's report on Form 10-K, filed on March 30, 2000)†
- 10.7 — Amended and Restated Employment Agreement, dated November 4, 2004, between the Company and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 10-Q, filed on November 4, 2004)†
- 10.8 — Amended and Restated Employment Agreement, dated November 4, 2004, between the Company and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.2 to the Company's report on Form 10-Q, filed on November 5, 2004)†
- 10.9 — Executive Employment Agreement, dated March 7, 2002, between the Company and Brian R. Evans (incorporated herein by reference to Exhibit 10.17 to the Company's report on Form 10-Q, filed on May 15, 2002)†
- 10.10 — Executive Retirement Agreement, dated March 7, 2002, between the Company and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.18 to the Company's report on Form 10-Q, filed on May 15, 2002)†
- 10.11 — Executive Retirement Agreement, dated March 7, 2002, between the Company and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.19 to the Company's report on Form 10-Q, filed on May 15, 2002)†
- 10.12 — Executive Retirement Agreement, dated March 7, 2002, between the Company and Brian R. Evans (incorporated herein by reference to Exhibit 10.20 to the Company's report on Form 10-Q, filed on May 15, 2002)†
- 10.13 — Amended Executive Retirement Agreement, dated January 17, 2003, by and between the Company and George C. Zoley (incorporated herein by reference to Exhibit 10.18 to the Company's report on Form 10-K, filed on March 20, 2003)†
- 10.14 — Amended Executive Retirement Agreement, dated January 17, 2003, by and between the Company and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.19 to the Company's report on Form 10-K, filed on March 20, 2003)†
- 10.15 — Amended Executive Retirement Agreement, dated January 17, 2003, by and between the Company and Brian R. Evans (incorporated herein by reference to Exhibit 10.20 to the Company's report on Form 10-K, filed on March 20, 2003)†
- 10.16 — Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and John J. Bulfin (incorporated herein by reference to Exhibit 10.22 to the Company's report on Form 10-K, filed on March 23, 2005)†
- 10.17 — Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and Jorge A. Dominicus (incorporated herein by reference to Exhibit 10.23 to the Company's report on Form 10-K, filed on March 23, 2005)†
- 10.18 — Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and John M. Hurley (incorporated herein by reference to Exhibit 10.24 to the Company's report on Form 10-K, filed on March 23, 2005)†
- 10.19 — Office Lease, dated September 12, 2002, by and between the Company and Canpro Investments Ltd. (incorporated herein by reference to Exhibit 10.22 to the Company's report on Form 10-K, filed on March 20, 2003)
- 10.20 — The Geo Group, Inc. Senior Management Performance Award Plan (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 10-Q, filed on May 13, 2005)
- 10.21 — The GEO Group, Inc. 2006 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.21 to the Company's report on Form 10-K, filed on February 15, 2008)†
- 10.22 — Amendment to The Geo Group, Inc. 2006 Stock Incentive Plan (incorporated herein by reference to the Company's report on Form 10-Q, filed on August 9, 2007)
- 10.23 — Third Amended and Restated Credit Agreement, dated as of January 24, 2007, by and among The GEO Group, Inc., as Borrower, BNP Paribas, as Administrative Agent, BNP Paribas Securities Corp. as Lead Arranger and Syndication Agent, and the lenders who are, or may from time to time become, a party thereto (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 8-K, filed on January 30, 2007)
- 10.24 — Amendment No. 1 to the Third Amended and Restated Credit Agreement, dated as of January 31, 2007, between The GEO Group, Inc., as Borrower, and BNP Paribas, as Lender and as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 8-K, filed on February 6, 2007)
- 10.25 — Amendment No. 2 to the Third Amended and Restated Credit Agreement, dated as of January 31, 2007, between The GEO Group, Inc., as Borrower, and BNP Paribas, as Lender and as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 8-K, filed on February 20, 2007)
- 10.26 — Amendment No. 3 to the Third Amended and Restated Credit Agreement dated as of May 2, 2007, between The Geo Group, Inc., as Borrower, and BNP Paribas, as Lender and as Administrative Agent (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 8-K, dated May 8, 2007)



- 10.27 — Amendment No. 4 to the Third Amended and Restated Credit Agreement, dated effective as of August 26, 2008, between The GEO Group Inc., as Borrower, certain of GEO's subsidiaries, as Grantors, and BNP Paribas, as Lender and as Administrative Agent (incorporated by reference to Exhibit 10.1 of the Company's report on Form 8-K, filed on September 2, 2008)
- 10.28 — Form of Lender Addendum, dated as of October 29, 2008, by and among The GEO Group, Inc. as Borrower, BNP Paribas as Administrative Agent and the Lender parties thereto (incorporated by reference to Exhibit 10.2 to the Company's report on Form 10-Q, filed November 5, 2008)
- 10.29 — Second Amended and Restated Executive Employment Agreement, effective December 31, 2008, by and between The GEO Group, Inc. and George C. Zoley (incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K January 7, 2009)†
- 10.30 — Second Amended and Restated Executive Employment Agreement, effective December 31, 2008, by and between The GEO Group, Inc. and Wayne H. Calabrese (incorporated by reference to Exhibit 10.2 to the Company's report on Form 8-K January 7, 2009)†
- 10.31 — Amended and Restated Executive Employment Agreement, effective December 31, 2008, by and between The GEO Group, Inc. and Brian R. Evans (incorporated by reference to Exhibit 10.3 to the Company's report on Form 8-K January 7, 2009)†
- 10.32 — Amended and Restated Senior Officer Employment Agreement, effective December 31, 2008, by and between The GEO Group, Inc. and John J. Bulfin (incorporated by reference to Exhibit 10.4 to the Company's report on Form 8-K January 7, 2009)†
- 10.33 — Amended and Restated Senior Officer Employment Agreement, effective December 31, 2008, by and between The GEO Group, Inc. and Jorge A. Dominici (incorporated by reference to Exhibit 10.5 to the Company's report on Form 8-K January 7, 2009)†
- 10.34 — Amended and Restated Senior Officer Employment Agreement, effective December 31, 2008, by and between The GEO Group, Inc. and Thomas M. Wierdsma (incorporated by reference to Exhibit 10.6 to the Company's report on Form 8-K January 7, 2009)†
- 10.35 — Amended and Restated The GEO Group, Inc. Senior Management Performance Award Plan, effective December 31, 2008 (incorporated by reference to Exhibit 10.7 to the Company's report on Form 8-K January 7, 2009)†
- 10.36 — Amended and Restated The GEO Group, Inc. Senior Officer Retirement Plan, effective December 31, 2008 (incorporated by reference to Exhibit 10.8 to the Company's report on Form 8-K January 7, 2009)†
- 10.37 — Amended and Restated The GEO Group, Inc. 2006 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K May 5, 2009)†
- 10.38 — Senior Officer Employment Agreement, dated August 3, 2009, by and between the Company and Brian Evans (incorporated by reference to Exhibit 10.1 to the Company's report on Form 10-Q, filed on August 3, 2009)†
- 10.39 — Registration Rights Agreement dated as of October 20, 2009 by and among the Company, the Guarantors party thereto and Banc of America Securities LLC, on behalf of itself and the other Initial Purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K, filed on October 20, 2009)
- 10.40 — Amendment No. 5 to the Third Amended and Restated Credit Agreement dated as of October 5, 2009 between the Company, as Borrower, and BNP Paribas, as Lender and as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Company's report on Form 8-K, filed on October 20, 2009)
- 10.41 — Amendment No. 6 to the Third Amended and Restated Credit Agreement dated as of October 14, 2009 between the Company, as Borrower, and BNP Paribas, as Lender and as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Company's report on Form 8-K, filed on October 20, 2009)
- 10.42 — Amendment No. 7 to the Third Amended and Restated Credit Agreement dated as of December 4, 2009 between the Company, as Borrower, certain of GEO's subsidiaries, as Grantors, and BNP Paribas, as Lender and as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Company's report on Form 8-K, filed on December 10, 2009)
- 21.1 — Subsidiaries of the Company\*
- 23.1 — Consent of Grant Thornton LLP, independent registered certified public accountants\*
- 31.1 — Rule 13a-14(a) Certification in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 — Rule 13a-14(a) Certification in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 — Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 32.2 — Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*

\* Filed herewith.

† Management contract or compensatory plan, contract or agreement as defined in Item 402 (a)(3) of Regulation S-K.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

\_\_\_\_\_  
/s/ BRIAN R. EVANS

Brian R. Evans  
*Senior Vice President &  
Chief Financial Officer*

Date: February 22, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
_____ /s/ GEORGE C. ZOLEY George C. Zoley	Chairman of the Board & Chief Executive Officer (principal executive officer)	February 22, 2010
_____ /s/ WAYNE H. CALABRESE Wayne H. Calabrese	Vice Chairman of the Board, President & Chief Operating Officer	February 22, 2010
_____ /s/ BRIAN R. EVANS Brian R. Evans	Senior Vice President & Chief Financial Officer (principal financial officer)	February 22, 2010
_____ /s/ RONALD A. BRACK Ronald A. Brack	Vice President, Chief Accounting Officer and Controller (principal accounting officer)	February 22, 2010
_____ /s/ NORMAN A. CARLSON Norman A. Carlson	Director	February 22, 2010
_____ /s/ ANNE N. FOREMAN Anne N. Foreman	Director	February 22, 2010
_____ /s/ JOHN M. PALMS John M. Palms	Director	February 22, 2010
_____ /s/ RICHARD H. GLANTON Richard H. Glanton	Director	February 22, 2010
_____ /s/ CHRISTOPHER C. WHEELER Christopher C. Wheeler	Director	February 22, 2010

THE GEO GROUP, INC.

SCHEDULE II  
VALUATION AND QUALIFYING ACCOUNTS

For the Fiscal Years Ended January 3, 2010, December 28, 2008, and December 30, 2007

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Charged to Cost and Expenses</u>	<u>Charged to Other Accounts</u>	<u>Deductions, Actual Charge-Offs</u>	<u>Balance at End of Period</u>
(In thousands)					
YEAR ENDED JANUARY 3, 2010:					
Allowance for doubtful accounts .....	\$ 625	\$ 485	\$ (346)	\$ (335)	\$ 429
YEAR ENDED DECEMBER 28, 2008:					
Allowance for doubtful accounts .....	\$ 445	\$ 602	\$ (302)	\$ (120)	\$ 625
YEAR ENDED DECEMBER 30, 2007:					
Allowance for doubtful accounts .....	\$ 926	\$ (176)	\$ (130)	\$ (120)	\$ 445
YEAR ENDED JANUARY 3, 2010:					
Asset Replacement Reserve .....	\$ 623	\$ (613)	\$ —	\$ (10)	\$ —
YEAR ENDED DECEMBER 28, 2008:					
Asset Replacement Reserve .....	\$ 885	\$ 54	\$ —	\$ (316)	\$ 623
YEAR ENDED DECEMBER 30, 2007:					
Asset Replacement Reserve .....	\$ 768	\$ 328	\$ —	\$ (211)	\$ 885

**The GEO Group, Inc. Subsidiaries**

GEO International Holdings, Inc.  
 GEO RE Holdings LLC  
 WCC Financial, Inc.  
 WCC Development, Inc.  
 WCC/FL/01, Inc.  
 WCC/FL/02, Inc.  
 GEO Design Services, Inc.  
 GEO Care, Inc.  
 The GEO Group UK Ltd.  
 The GEO Group Ltd.  
 South African Custodial Holdings Pty. Ltd.  
 The GEO Group Australasia Pty, Ltd.  
 GEO Australasia Pty, Ltd.  
 The GEO Group Australia Pty, Ltd.  
 Australasian Correctional Investment Pty, Ltd.  
 Pacific Rim Employment Pty, Ltd.  
 Wackenhut Corrections Corporation N.V.  
 Canadian Correctional Management, Inc.  
 Miramichi Youth Center Management, Inc.  
 Wackenhut Corrections Puerto Rico, Inc.  
 Correctional Services Corporation  
 CPT Limited Partner LLC  
 CPT Operating Partnership LP  
 Correctional Properties Prison Finance LLC  
 Public Properties Development & Leasing LLC  
 GEO Holdings I, Inc.  
 GEO Acquisition II, Inc.  
 GEO Transport, Inc.  
 CSC of Tacoma, LLC  
 CPT Limited Partner, LLC  
 CPT Operating Partnership L.P.  
 Correctional Properties Prison Finance LLC  
 Public Properties Development and Leasing LLC  
 Just Care Inc.,



**Consent of Independent Registered Public Accounting Firm**

We have issued our reports dated February 22, 2010, with respect to the consolidated financial statements, schedule and internal control over financial reporting included in the Annual Report of The GEO Group, Inc. on Form 10-K for the year ended January 3, 2010. We hereby consent to the incorporation by reference of said reports in the Registration Statements of The GEO Group, Inc. on Form S-4 (File No. 333-163912, effective December 22, 2009), Forms S-3 (File No. 333-141244, effective March 13, 2007 and File No. 333-111003, effective December 8, 2003 as amended by File No. 333-111003, effective January 20, 2004 as amended by File No. 333-111003, effective January 26, 2004) and Forms S-8 (File No. 333-142589, effective May 3, 2007, File No. 333-79817, effective June 2, 1999, File No. 333-17265, effective December 4, 1996, File No. 333-09977, effective August 12, 1996 and File No. 333-09981, effective August 12, 1996).

/s/ Grant Thornton, LLP

Miami, Florida  
February 22, 2010

# CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George C. Zoley, certify that:

1. I have reviewed this annual report on Form 10-K of The GEO Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ George C. Zoley

George C. Zoley  
Chief Executive Officer

Date: February 22, 2010

# CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Brian R. Evans, certify that:

1. I have reviewed this annual report on Form 10-K of The GEO Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fiscal fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/ Brian R. Evans

Brian R. Evans  
Chief Financial Officer

Date: February 22, 2010

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS  
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of The GEO Group, Inc. (the “Company”) for the fiscal year ended January 3, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I George C. Zoley, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\_\_\_\_\_/s/ George C. Zoley

George C. Zoley  
*Chief Executive Officer*

Date: February 22, 2010



**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS  
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of The GEO Group, Inc. (the “Company”) for the fiscal year ended January 3, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I Brian R. Evans, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

\_\_\_\_\_/s/ Brian R. Evans

Brian R. Evans  
*Chief Financial Officer*

Date: February 22, 2010



# Shareholder Information

## REGIONAL OFFICES

### Eastern Region, USA

J. David Donahue, Vice President  
13777 Ballantyne Corporate Place  
Ballantyne Two, Suite 200  
Charlotte, NC 28227  
Phone: 704-543-3400 Fax: 704-543-3416

### Central Region, USA

Reed E. Smith, Vice President  
1583 Common Street, Suite 111  
New Braunfels, Texas 78130  
Phone: 830-625-9000 Fax: 830-626-0108

### Western Region, USA

James H. Black, Vice President  
5963 La Place Court, Suite 120  
Carlsbad, California 92008  
Phone: 760-930-9500 Fax: 760-930-9550

## INTERNATIONAL OFFICES

### The GEO Group UK Ltd

Walter MacGowan, Managing Director  
10 Suttons Business Park  
Sutton Park Avenue  
Reading, Berkshire RG6 1AZ  
Tel: +44-118-935-9460 Fax: +44-118-935-9480

### The GEO Group Australia Pty Ltd.

Pieter Bezuidenhout, Managing Director  
Level 18, 44 Market Street  
Sydney, New South Wales 2000, Australia  
Phone: +61-2-9262-6100 Fax: +61-2-9262-6005

### South African Custodial Services

Pieter Jordaan, Acting Managing Director  
Oak Place, Woodmead Office Park  
Western Service Road  
Woodmead, Sandton, South Africa 2191  
Phone: +27-11-802-4440 Fax: +27-11-802-4491

## OTHER OFFICERS

Thomas F. Boyer  
Vice President, Risk Management

Ronald A. Brack  
Vice President, Chief Accounting Officer and Controller

Louis V. Carrillo  
Vice President, Corporate Counsel and Assistant Secretary

Ronald D. Champion  
Vice President, International Services

David C. Cooper  
Vice President, Marketing, GEO Care, Inc.

Mathew J. DenAdel  
Vice President, Pricing

Valerie A. Deveraux  
Vice President, Residential Treatment Facilities  
GEO Care, Inc.

Dale W. Frick  
Vice President, Project Development  
and Client Relations  
GEO Care, Inc.

Stephen V. Fuller  
Vice President, Human Resources

Karen E. Galin  
Vice President, Clinical Programs, GEO Care, Inc.

George P. Gintoli  
Vice President, Secure Treatment Facilities  
GEO Care, Inc.

Craig A. Jenkins  
Vice President, Finance, GEO Care, Inc.

Geralyn S. Johnson  
Vice President, Correctional Health Services  
GEO Care, Inc.

Charles F. Lister  
Vice President, Security Operations  
GEO Care, Inc.

Ron G. Maddux  
Vice President, Project Development

Marcel Maier  
Vice President, Tax

Shayn P. March  
Vice President, Finance and Treasurer

Amber D. Martin  
Vice President, Contracts

Philip D. Mosciski  
Vice President, GEO Design Services

Cassandra F. Newkirk  
Vice President, Correctional Mental Health Services  
GEO Care, Inc.

Alfred P. Ramon III  
Vice President and Chief Information Officer

Jeffrey A. Rone  
Vice President, Security Operations, GEO Care, Inc.

Cloid L. Shuler  
Vice President, Business Development

Ed C. Spooner  
Vice President, Design Services

Ernest A. Stepp  
Vice President, Security

Ed A. Stubbs  
Vice President, Transportation

Gary W. Templeton  
Vice President, Programs

Joseph K. Woodring  
Vice President, Office of Professional Responsibility

Rick A. Zahner  
Vice President, Construction Services

## CORPORATE AND SHAREHOLDER INFORMATION

Corporate and shareholder information, as well as a copy of the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission, may be obtained free of charge by contacting Pablo E. Paez, Director, Corporate Relations at The GEO Group, Inc., One Park Place, 621 N.W. 53rd Street, Suite 700, Boca Raton, Florida 33487 or by visiting the Company's website at [www.geogroup.com](http://www.geogroup.com).

### Annual Report Copy

Pablo E. Paez  
Director, Corporate Relations

### Annual Report Design

Kalia D. Mancell  
Manager, Publications and Graphics

### Auditors

Grant Thornton, LLP  
2700 South Commerce Parkway, Suite 300  
Weston, FL 33331

### Corporate Counsel

Akerman, Senterfitt & Eidson, P.A.  
One Southeast Third Avenue, 28th Floor  
Miami, FL 33131

### Transfer Agent and Registrar

BNY Mellon Shareowner Services  
Newport Office Center VII, 480 Washington Boulevard  
Jersey City, New Jersey 07310  
866-210-7619 [www.melloninvestor.com/isd](http://www.melloninvestor.com/isd)

### Notice of Annual Meeting

The Annual Shareholder Meeting for The GEO Group, Inc. will be held at the Boca Raton Resort & Club, 501 E. Camino Real, Boca Raton, Florida 33432 at 9:00 a.m. on May 5, 2010.

## Officer Certification

The certifications of The GEO Group, Inc.'s Chief Executive Officer and Chief Financial Officer, required under section 302 of the Sarbanes-Oxley Act of 2002, have been filed as exhibits to The GEO Group, Inc.'s Annual Report on Form 10-K. In 2009, The GEO Group, Inc.'s Chief Executive Officer submitted the annual certification to the New York Stock Exchange regarding The GEO Group, Inc.'s compliance with the New York Stock Exchange corporate governance listing standards.

## Forward-Looking Statements — Safe Harbor

This report 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 reactivate the North Lake Correctional Facility; an increase in unreimbursed labor rates; our ability to expand, diversify and grow our correctional and mental health and residential treatment services; 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 obtain future financing at competitive rates; our exposure to rising general insurance costs; our exposure to state and federal income tax law changes internationally and domestically; our exposure to claims for which we are uninsured; our exposure to rising employee and inmate medical costs; 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 our annual report on Form 10-K, our Form 10-Qs and our Form 8-Ks 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 report.



**The GEO Group, Inc.**

**WORLD HEADQUARTERS**

**One Park Place . 621 N.W. 53rd Street . Suite 700**

**Boca Raton . Florida 33487 USA**

**561.893.0101 866.301.4436**

**[www.geogroup.com](http://www.geogroup.com)**