GEO GROUP INC
Form 10-Q
November 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 2, 2011

OR

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

For the transition period from to

Commission file number 1-14260

The GEO Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Florida	**65-0043078**
(State or Other Jurisdiction of	**(IRS Employer**
Incorporation or Organization)	**Identification No.)**
One Park Place, 621 NW 53rd Street, Suite 700,	
Boca Raton, Florida	**33487**
(Address of Principal Executive Offices)	**(Zip Code)**

(561) 893-0101

(Registrant s Telephone Number, Including Area Code)

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

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

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

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

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

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

As of November 4, 2011, the registrant had 62,612,179 shares of common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE THIRTEEN AND THIRTY-NINE WEEKS ENDED

OCTOBER 2, 2011 AND OCTOBER 3, 2010

(In thousands, except per share data)

(UNAUDITED)

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Revenues	$ 406,847	$ 327,933	$ 1,206,430	$ 895,570
Operating expenses	307,721	251,100	915,651	694,348
Depreciation and amortization	21,974	13,384	61,832	32,096
General and administrative expenses	25,922	33,925	86,420	72,028
Operating income	51,230	29,524	142,527	97,098
Interest income	1,767	1,734	4,965	4,448
Interest expense	(19,327)	(11,917)	(55,700)	(28,178)
Loss on extinguishment of debt		(7,933)		(7,933)
Income before income taxes and equity in earnings of affiliates	33,670	11,408	91,792	65,435
Provision for income taxes	12,649	7,547	35,308	28,560
Equity in earnings of affiliates, net of income tax provision of $118, $449, $1,705 and $1,672	272	1,149	2,352	2,868
Net income	21,293	5,010	58,836	39,743
Net loss attributable to noncontrolling interests	225	271	1,050	227
Net income attributable to The GEO Group, Inc.	$ 21,518	$ 5,281	$ 59,886	$ 39,970
Weighted-average common shares outstanding:				
Basic	63,340	57,799	64,028	52,428
Diluted	63,555	58,198	64,388	53,044
Income per Common Share Attributable to The GEO Group, Inc. Basic	$ 0.34	$ 0.09	$ 0.94	$ 0.76
Income per Common Share Attributable to The GEO Group, Inc. Diluted	$ 0.34	$ 0.09	$ 0.93	$ 0.75
Comprehensive income:				
Net income	$ 21,293	$ 5,010	$ 58,836	$ 39,743
Total other comprehensive income (loss), net of tax	(7,521)	5,208	(6,719)	2,308

Total comprehensive income	13,772	10,218	52,117	42,051
Comprehensive loss attributable to noncontrolling interests	325	214	1,160	185
Comprehensive income attributable to The GEO Group, Inc.	$ 14,097	$ 10,432	$ 53,277	$ 42,236

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

THE GEO GROUP, INC.

CONSOLIDATED BALANCE SHEETS

OCTOBER 2, 2011 AND JANUARY 2, 2011

(In thousands, except share data)

	October 2, 2011 (Unaudited)	January 2, 2011
ASSETS		
Current Assets		
Cash and cash equivalents	$ 43,956	$ 39,664
Restricted cash and investments (including VIEs[1] of $34,048 and $34,049, respectively)	41,033	41,150
Accounts receivable, less allowance for doubtful accounts of $2,410 and $1,308	274,294	275,778
Deferred income tax assets, net	44,972	29,115
Prepaid expenses and other current assets	21,611	36,377
Total current assets	425,866	422,084
Restricted Cash and Investments (including VIEs of $30,078 and $33,266, respectively)	53,274	49,492
Property and Equipment, Net (including VIEs of $163,801 and $167,209, respectively)	1,673,851	1,511,292
Assets Held for Sale	3,998	9,970
Direct Finance Lease Receivable	31,673	37,544
Deferred Income Tax Assets, Net	936	936
Goodwill	512,669	236,594
Intangible Assets, Net	205,131	87,813
Other Non-Current Assets	83,192	56,648
Total Assets	$ 2,990,590	$ 2,412,373
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 72,216	$ 73,880
Accrued payroll and related taxes	47,772	33,361
Accrued expenses	129,534	118,472
Current portion of capital lease obligations, long-term debt and non-recourse debt (including VIEs of $20,770 and $19,365, respectively)	51,204	41,574
Total current liabilities	300,726	267,287
Deferred Income Tax Liabilities	99,142	55,318
Other Non-Current Liabilities	59,322	46,862
Capital Lease Obligations	13,363	13,686
Long-Term Debt	1,310,771	798,336
Non-Recourse Debt (including VIEs of $109,001 and $132,078, respectively)	162,033	191,394
Commitments and Contingencies (Note 12)		
Shareholders Equity		
Preferred stock, $0.01 par value, 30,000,000 shares authorized, none issued or outstanding		
Common stock, $0.01 par value, 90,000,000 shares authorized, 85,180,188 and 84,506,772 issued and 62,612,179 and 64,432,459 outstanding, respectively	852	845
Additional paid-in capital	726,107	718,489
Retained earnings	488,431	428,545
Accumulated other comprehensive income	3,462	10,071

Treasury stock 22,568,009 and 20,074,313 shares, at cost, at October 2, 2011 and January 2, 2011, respectively	(189,036)	(139,049)
Total shareholders equity attributable to The GEO Group, Inc.	1,029,816	1,018,901
Noncontrolling interests	15,417	20,589
Total shareholders equity	1,045,233	1,039,490
Total Liabilities and Shareholders Equity	$ 2,990,590	$ 2,412,373

[1] Variable interest entities or VIEs

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

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THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THIRTY-NINE WEEKS ENDED

OCTOBER 2, 2011 AND OCTOBER 3, 2010

(In thousands)

(UNAUDITED)

	Thirty-nine Weeks Ended	
	October 2, 2011	**October 3, 2010**
Cash Flow from Operating Activities:		
Net Income	$ 58,836	$ 39,743
Net loss attributable to noncontrolling interests	1,050	227
Net income attributable to The GEO Group, Inc.	59,886	39,970
Adjustments to reconcile net income attributable to The GEO Group, Inc. to net cash provided by operating activities:		
Depreciation and amortization expense	61,832	32,096
Amortization of debt issuance costs, discount and/or premium	1,148	3,022
Restricted stock expense	2,642	2,529
Stock option plan expense	2,201	1,004
Provision for doubtful accounts	1,235	140
Equity in earnings of affiliates, net of tax	(2,352)	(2,868)
Income tax benefit of equity compensation	(536)	(786)
Loss on extinguishment of debt		7,933
Loss on sale of property and equipment	205	
Dividends received from unconsolidated joint venture	5,402	3,909
Changes in assets and liabilities, net of acquisition:		
Changes in accounts receivable, prepaid expenses and other assets	28,836	2,711
Changes in accounts payable, accrued expenses and other liabilities	3,625	13,944
Net cash provided by operating activities	164,124	103,604
Cash Flow from Investing Activities:		
Cornell Acquisition, cash consideration		(260,239)
BI acquisition, cash consideration, net of cash acquired	(409,607)	
Just Care purchase price adjustment		(41)
Proceeds from sale of property and equipment	795	334
Proceeds from sale of assets held for sale	7,121	
Change in restricted cash	(4,126)	(2,070)
Capital expenditures	(177,656)	(68,284)
Net cash used in investing activities	(583,473)	(330,300)
Cash Flow from Financing Activities:		
Payments on long-term debt	(127,544)	(342,460)
Proceeds from long-term debt	617,247	673,000
Distribution to MCF partners	(4,012)	
Payments for purchase of treasury shares	(49,987)	(80,000)
Payments for retirement of common stock		(7,078)

Proceeds from the exercise of stock options	2,446	5,747
Income tax benefit of equity compensation	536	786
Debt issuance costs	(11,192)	(5,750)
Net cash provided by financing activities	427,494	244,245
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(3,853)	2,361
Net Increase in Cash and Cash Equivalents	4,292	19,910
Cash and Cash Equivalents, beginning of period	39,664	33,856
Cash and Cash Equivalents, end of period	$ 43,956	$ 53,766
Supplemental Disclosures:		
Non-cash Investing and Financing activities:		
Capital expenditures in accounts payable and accrued expenses	$ 21,886	$ 8,565

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

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THE GEO GROUP, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements of The GEO Group, Inc., a Florida corporation, and subsidiaries (the Company , or GEO), included in this Quarterly Report on Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to the Company s Annual Report on Form 10-K for the year ended January 2, 2011. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Quarterly Report on Form 10-Q have been made. Results of operations for the thirty-nine weeks ended October 2, 2011 are not necessarily indicative of the results for the entire fiscal year ending January 1, 2012.

The GEO Group, Inc. is a leading provider of government-outsourced services specializing in the management of correctional, detention, mental health, residential treatment and re-entry facilities, and the provision of community based services and youth services 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, mental health, residential treatment and community based re-entry facilities. The Company offers counseling, education and/or treatment to inmates with alcohol and drug abuse problems at most of the domestic facilities it manages. In February 2011, the Company acquired BII Holding Corporation (BII Holding), the indirect owner of 100% of the equity interests of B.I. Incorporated (BI). The Company, through its acquisition of BI, is also a provider of innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. Additionally, BII Holding has an exclusive contract with the U.S. Immigration and Customs Enforcement (ICE) to provide supervision and reporting services designed to improve the participation of non-detained aliens in the immigration court system. The Company develops new facilities based on contract awards, using its project development expertise and experience to design, construct and finance what it believes are state-of-the-art facilities that maximize security and efficiency. The Company also provides secure transportation services for offender and detainee populations as contracted.

On August 12, 2010, the Company acquired Cornell Companies, Inc., (Cornell) and on February 10, 2011, the Company acquired BII Holding. As of October 2, 2011, the Company s worldwide operations included the management and/or ownership of approximately 79,600 beds at 116 correctional, detention and residential treatment facilities, including projects under development, and also included the provision of monitoring of more than 67,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states.

Except as discussed in Note 15, the accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2011 for the fiscal year ended January 2, 2011. As discussed in Note 15, during the thirty-nine weeks ended October 2, 2011, the Company implemented Accounting Standards Update (ASU) No. 2009-13 which provides amendments to revenue recognition criteria for separating consideration in multiple element arrangements. 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 such that consideration can be allocated to the deliverables using the relative selling price method based on GEO s specific assumptions. At this time, the Company has not identified any differences in accounting policies that would have a material impact on the consolidated financial statements as of October 2, 2011.

As discussed in Note 2, relative to our acquisition of Cornell, the Company recognized adjustments primarily to certain tax assets and liabilities, which was one of the areas of purchase accounting not finalized as of January 2, 2011. According to United States Generally Accepted Accounting Principles (US GAAP) business combination accounting, an acquirer is required to recognize adjustments to provisional amounts retrospectively and as if the accounting for the business combination had been completed at the acquisition date. As such, the Company has revised comparative information in its consolidated balance sheet for the year ended January 2, 2011 to reflect these adjustments as if the purchase price allocation had been complete at the acquisition date.

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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. When material, the Company reflects such events as discontinued operations so long as the financial results can be clearly identified, the operations and cash flows are completely eliminated from ongoing operations, and so long as the Company does not have any significant continuing involvement in the operations of the component after the disposal or termination transaction. The component unit for which cash flows are considered to be completely eliminated exists at the customer level. Historically, the Company has classified operations as discontinued in the period they are announced as normally all continuing cash flows cease within three to six months of that date.

2. BUSINESS COMBINATIONS

Acquisition of BII Holding

On February 10, 2011, the Company completed its acquisition of B.I. Incorporated (BI), a Colorado corporation, pursuant to an Agreement and Plan of Merger, dated as of December 21, 2010 (the Merger Agreement), among GEO, BII Holding, a Delaware corporation, which owns BI, GEO Acquisition IV, Inc., a Delaware corporation and wholly-owned subsidiary of GEO (Merger Sub), BII Investors IF LP, in its capacity as the stockholders representative, and AEA Investors 2006 Fund L.P (the BI Acquisition). Under the terms of the Merger Agreement, Merger Sub merged with and into BII Holding, with BII Holding emerging as the surviving corporation of the merger. As a result of the BI Acquisition, the Company paid merger consideration of $409.6 million in cash, net of cash acquired of $9.7 million, excluding transaction related expenses and any potential adjustments, for 100% of BI s outstanding common stock. Under the Merger Agreement, $12.5 million of the merger consideration was placed in an escrow account for a one-year period to satisfy any applicable indemnification claims pursuant to the terms of the Merger Agreement by GEO, the Merger Sub or its affiliates. At the time of the BI Acquisition, approximately $78.4 million, including accrued interest, was outstanding under BI s senior term loan and $107.5 million, including accrued interest, was outstanding under its senior subordinated note purchase agreement, excluding the unamortized debt discount. All indebtedness of BI under its senior term loan and senior subordinated note purchase agreement were repaid by BI with a portion of the $409.6 million of merger consideration. In connection with the BI Acquisition and included in general and administrative expenses, the Company incurred $4.3 million in non-recurring transaction costs for the thirty-nine weeks ended October 2, 2011.

The Company is identified as the acquiring company for US GAAP accounting purposes and believes its acquisition of BI provides it with the ability to offer turn-key solutions to its customers in managing the full lifecycle of an offender from arraignment to reintegration into the community, which the Company refers to as the corrections lifecycle. Under the acquisition method of accounting, the purchase price for BI was allocated to BI s net tangible and intangible assets based on their estimated fair values as of February 10, 2011, the date of closing and the date that the Company obtained control over BI. In order to determine the fair values of certain tangible and intangible assets acquired, the Company has engaged a third party independent valuation specialist. For all other assets acquired and liabilities assumed, the recorded fair value was determined by the Company s management and represents an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The allocation of the purchase price had not been finalized as of October 2, 2011. The primary areas of the preliminary purchase price allocations that are not yet finalized relate to: (i) final agreement of the adjustment to the purchase price based upon the level of net working capital, and the fair value of certain components thereof, transferred at closing; and (ii) deferred tax assets and liabilities. The Company expects to continue to obtain information to assist in determining the fair value of the net assets acquired at the acquisition date during the measurement period. Measurement period adjustments that the Company determines to be material will be applied retrospectively to the period of acquisition. The Company does not believe that any of the goodwill recorded as a result of the BI Acquisition will be deductible for federal income tax purposes. At this time, the Company has not identified any differences in accounting policies that would have a material impact on the consolidated financial statements as of October 2, 2011. The preliminary purchase price consideration of $409.6 million, net of cash acquired of $9.7 million, excluding transaction related expenses and any potential adjustments, was allocated to the assets acquired and liabilities assumed, based on management s estimates at the time of this Quarterly Report.

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The Company has retrospectively adjusted provisional amounts with respect to the BI Acquisition that were recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. These adjustments relate to the Company s valuation of accounts receivable, property and equipment, intangible assets and other non-current assets and resulted in a net decrease to goodwill of $7.0 million. The increase in amortization expense for the adjustment to intangible assets was not significant for any quarterly or fiscal year to date period within the thirty-nine weeks ended October 2, 2011. The preliminary purchase price allocation as of April 3, 2011 and as of October 2, 2011 is as follows (in thousands):

	Acquisition Date Estimated Fair Value as of April 3, 2011	Measurement Period Adjustments	Adjusted Acquisition Date Estimated Fair Value as of October 2, 2011
Accounts receivable	$ 18,321	$ 1,298	$ 19,619
Prepaid expenses and other current assets	3,896		3,896
Deferred income tax assets	15,857		15,857
Property and equipment	22,359	901	23,260
Intangible assets	126,900	4,900	131,800
Other non-current assets	8,884	(119)	8,765
Total assets acquired	$ 196,217	$ 6,980	$ 203,197
Accounts payable	(3,977)		(3,977)
Accrued expenses	(8,461)		(8,461)
Deferred income tax liabilities	(43,824)		(43,824)
Other non-current liabilities	(11,431)		(11,431)
Long-term debt	(2,014)		(2,014)
Total liabilities assumed	(69,707)		(69,707)
Total identifiable net assets	126,510	6,980	133,490
Goodwill	283,097	(6,980)	276,117
Total cash consideration	$ 409,607	$	$ 409,607

For the thirteen weeks ended October 2, 2011, the Company has included revenue and earnings, excluding intercompany transactions, of $31.1 million and $4.6 million, respectively, in its consolidated statement of income. For the thirty-nine weeks ended October 2, 2011, the Company has included revenue and earnings, excluding intercompany transactions, of approximately $79.8 million and $9.4 million, respectively, in its consolidated statement of income which represents revenue and earnings since February 10, 2011, the date BI was acquired.

Acquisition of Cornell Companies, Inc.

On August 12, 2010, the Company completed its acquisition of Cornell pursuant to a definitive merger agreement entered into on April 18, 2010, and amended on July 22, 2010, among the Company, GEO Acquisition III, Inc., and Cornell. Under the terms of the merger agreement, the Company acquired 100% of the outstanding common stock of Cornell for aggregate consideration of $618.3 million. The measurement period for certain tax assets and liabilities, which was the only area of the purchase price not yet finalized, ended on August 12, 2011.

During the measurement period, the Company retrospectively adjusted provisional amounts with respect to the Cornell acquisition that were recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Those changes are reflected in the table below. The Company made a measurement period adjustment for income taxes in the thirteen weeks ended October 2, 2011 which reduced goodwill by $7.4 million. The purchase price allocation as of January 2, 2011 and as of October 2, 2011 and adjustments made to the estimated acquisition date fair values during the thirty-nine weeks ended October 2, 2011 are as follows (in thousands):

	Acquisition Date Estimated Fair Value as of January 2, 2011	Measurement Period Adjustments	Final Acquisition Date Fair Value as of October 2, 2011
Accounts receivable	$ 55,142	$ 294	$ 55,436
Prepaid and other current assets	13,314	(333)	12,981
Deferred income tax assets	21,273	(3,011)	18,262
Restricted assets	44,096		44,096
Property and equipment	462,771		462,771
Intangible assets	75,800		75,800
Out of market lease assets	472		472
Other long-term assets	7,510		7,510
Total assets acquired	680,378	(3,050)	677,328
Accounts payable and accrued expenses	(56,918)	3,175	(53,743)
Fair value of non-recourse debt	(120,943)		(120,943)
Out of market lease liabilities	(24,071)		(24,071)
Deferred income tax liabilities	(42,771)	8,228	(34,543)
Other long-term liabilities	(1,368)		(1,368)
Total liabilities assumed	(246,071)	11,403	(234,668)
Total identifiable net assets	434,307	8,353	442,660
Goodwill	204,724	(8,353)	196,371
Fair value of Cornell s net assets	639,031		639,031
Noncontrolling interest	(20,700)		(20,700)
Total consideration for Cornell, net of cash acquired	$ 618,331	$	$ 618,331

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The Company recognized a reduction of operating expenses of $1.4 million and $3.9 million, respectively, in the thirteen and thirty-nine weeks ended October 2, 2011 for items related to Cornell that occurred after the measurement period or purchase price allocation period had ended. These adjustments to operating expenses were the result of a recovery of accounts receivable and an insurance settlement for property damage at one of Cornell s facilities.

Pro forma financial information

The pro forma financial statement information set forth in the table below is provided for informational purposes only and presents comparative revenue and earnings for the Company as if the acquisitions of BI and Cornell and the financing of these transactions had occurred on January 4, 2010, which is the beginning of the first period presented. The pro forma information provided below is compiled from the financial statements of the combined companies and includes pro forma adjustments for: (i) estimated changes in depreciation expense, interest expense and amortization expense, (ii) adjustments to eliminate intercompany transactions, (iii) adjustments to remove $0.1 million and $6.8 million, respectively, for the thirteen and thirty-nine weeks ended October 2, 2011 in non-recurring charges directly related to these acquisitions that are included in the combined Companies financial results, and (iv) the income tax impact of the adjustments. For the purposes of the table and disclosure below, earnings is the same as net income attributable to The GEO Group, Inc. shareholders (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
Pro forma revenues	$ 406,847	$ 401,042	$ 1,220,021	$ 1,225,780
Pro forma net income attributable to The GEO Group, Inc. shareholders	$ 21,567	$ 21,091	$ 63,172	$ 63,676

3. SHAREHOLDERS EQUITY

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

	Common shares		Additional Paid-In	Retained	Accumulated Other Comprehensive Income	Treasury shares		Noncontrolling	Total Shareholder s
	Shares	**Amount**	**Capital**	**Earnings**	**(Loss)**	**Shares**	**Amount**	**Interests**	**Equity**
Balance January 2, 2011	64,432	$ 845	$ 718,489	$ 428,545	$ 10,071	20,074	$ (139,049)	$ 20,589	$ 1,039,490
Stock option and restricted stock award transactions	674	7	2,439						2,446
Tax benefit related to equity compensation			536						536
Stock based compensation expense			4,843						4,843
Purchase of treasury shares	(2,494)					2,494	(49,987)		(49,987)
Other adjustments to Additional Paid-In Capital			(200)						(200)
Distribution to noncontrolling interest								(4,012)	(4,012)
Comprehensive income (loss):									
Net income (loss):				59,886				(1,050)	58,836
Change in foreign currency translation, net					(5,608)			(110)	(5,718)
Pension liability, net					28				28
Unrealized loss on derivative instruments, net					(1,029)				(1,029)
				59,886	(6,609)			(1,160)	52,117

Total comprehensive income (loss)									
Balance October 2, 2011	62,612	$ 852	$ 726,107	$ 488,431	$ 3,462	22,568	$ (189,036)	$ 15,417	$ 1,045,233

Noncontrolling interests

Noncontrolling interests in consolidated entities represent equity that other investors have contributed to Municipal Correctional Finance, L.P. (MCF) and the noncontrolling interest in South African Custodial Management Pty. Limited (SACM). Noncontrolling interests are adjusted for income and losses allocable to the other shareholders in these entities.

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Upon acquisition of Cornell in August 2010, the Company assumed MCF as a variable interest entity and allocated a portion of the purchase price to the noncontrolling interest based on the estimated fair value of MCF as of August 12, 2010. The noncontrolling interest in MCF represents 100% of the equity in MCF which was contributed by its partners at inception in 2001. The Company includes the results of operations and financial position of MCF in its consolidated financial statements. MCF owns eleven facilities which it leases to the Company. In the thirty-nine weeks ended October 2, 2011, there was a cash distribution to the partners of MCF of $4.0 million.

The Company includes the results of operations and financial position of SACM, its majority-owned subsidiary, in its consolidated financial statements. SACM was established in 2001 to operate correctional centers in South Africa. SACM currently provides security and other management services for the Kutama Sinthumule Correctional Centre in the Republic of South Africa under a 25-year management contract which commenced in February 2002. The Company s and the second joint venture partner s shares in the profits of SACM are 88.75% and 11.25%, respectively. There were no changes in the Company s ownership percentage of the consolidated subsidiary during the thirty-nine weeks ended October 2, 2011. The noncontrolling interest as of October 2, 2011 and January 2, 2011 is included in Total Shareholders Equity in the accompanying Consolidated Balance Sheets. There were no contributions from owners or distributions to owners in the thirty-nine weeks ended October 2, 2011.

4. EQUITY INCENTIVE PLANS

The Company had awards outstanding under four equity compensation plans at October 2, 2011: The Wackenhut Corrections Corporation 1994 Stock Option Plan (the 1994 Plan); the 1995 Non-Employee Director Stock Option Plan (the 1995 Plan); the Wackenhut Corrections Corporation 1999 Stock Option Plan (the 1999 Plan); and The GEO Group, Inc. 2006 Stock Incentive Plan (the 2006 Plan and, together with the 1994 Plan, the 1995 Plan and the 1999 Plan, the Company Plans).

On August 12, 2010, the Company s Board of Directors adopted and its shareholders approved an amendment to the 2006 Plan to increase the number of shares of common stock subject to awards under the 2006 Plan by 2,000,000 shares from 2,400,000 to 4,400,000 shares of common stock. On February 16, 2011, the Company s Board of Directors approved Amendment No. 1 to the 2006 Plan to provide that of the 2,000,000 additional shares of Common Stock that were authorized to be issued pursuant to awards granted under the 2006 Plan, up to 1,083,000 of such shares may be issued in connection with awards, other than stock options and stock appreciation rights, that are settled in common stock. The 2006 Plan, as amended, specifies that up to 2,166,000 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. As of October 2, 2011, under the 2006 Plan, the Company had 1,707,484 shares of common stock available for issuance pursuant to future awards that may be granted under the plan of which up to 943,804 shares were available for the issuance of awards other than stock options. See Restricted Stock below for further discussion.

Stock Options

The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. During the thirty-nine weeks ended October 2, 2011, the Company s Board of Directors approved the issuance of 529,350 stock option awards to employees of the Company and 25,000 stock option awards to the Company s directors. These awards vested 20% on the date of grant and will vest in 20% increments annually through 2015. A summary of the activity of stock option awards issued and outstanding under Company Plans is presented below.

Fiscal Year	Shares (in thousands)	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at January 2, 2011	1,401	$ 15.01	5.84	$ 13,517
Options granted	554	24.71		
Options exercised	(297)	8.22		
Options forfeited/canceled/expired	(43)	19.71		
Options outstanding at October 2, 2011	1,615	19.47	6.97	$ 3,561
Options exercisable at October 2, 2011	901	16.80	5.53	$ 3,429

The fair value of each option awarded on March 1, 2011 and April 15, 2011 was $9.72 and $10.06, respectively. For the thirty-nine weeks ended October 2, 2011 and October 3, 2010, the amount of stock-based compensation expense related to stock options was $2.2 million and $1.0 million, respectively. As of October 2, 2011, the Company had $4.6 million of unrecognized compensation costs related to non-vested stock option awards that are expected to be recognized over a weighted average period of 3.0 years.

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Restricted Stock

Shares of restricted stock become unrestricted shares of common stock upon vesting on a one-for-one basis. The cost of these awards is determined using the fair value of the Company s common stock on the date of the grant and compensation expense is recognized over the vesting period. A summary of the activity of restricted stock outstanding is as follows:

	Shares (in thousands)	Wtd. Avg. Grant Date Fair Value
Restricted stock outstanding at January 2, 2011	161	$ 21.12
Granted	376	24.57
Vested	(84)	22.85
Forfeited/canceled		
Restricted stock outstanding at October 2, 2011	453	$ 23.66

The shares of restricted stock granted under the 2006 Plan prior to our fiscal year beginning January 3, 2011 vest in equal 25% increments on each of the four anniversary dates immediately following the date of grant. During the thirty-nine weeks ended October 2, 2011, the Company issued 205,000 performance based shares to the Company s Chief Executive Officer and Senior Vice Presidents which will vest in equal increments annually over a 3-year period. These performance based shares will be forfeited if the Company does not achieve certain targeted revenue in its fiscal year ended January 1, 2012. Also during the thirty-nine weeks ended October 2, 2011, the Company issued awards for 171,010 shares of restricted stock to certain other employees and directors. Of these restricted stock awards, 49,010 of these shares vest in equal increments annually over three years while the remaining 122,000 vest in equal increments annually over four years. The aggregate fair value of all of these awards, based on the closing price of the Company s common stock on the respective grant dates, was $9.2 million. During the thirty-nine weeks ended October 2, 2011 and October 3, 2010, the Company recognized $2.6 million and $2.5 million, respectively, of compensation expense related to its outstanding shares of restricted stock. As of October 2, 2011, the Company had $8.4 million of unrecognized compensation expense related to restricted stock awards that is expected to be recognized over a weighted average period of 2.6 years.

Employee Stock Purchase Plan

On July 9, 2011, the Company adopted The GEO Group Inc. 2011 Employee Stock Purchase Plan (the Plan). The Plan was approved by the Company s Compensation Committee and its Board of Directors on May 4, 2011. The purpose of the Plan, which is qualified under Section 423 of the Internal Revenue Service Code of 1986, as amended, is to encourage stock ownership through payroll deductions by the employees of GEO and designated subsidiaries of GEO in order to increase their identification with the Company s goals and secure a proprietary interest in the Company s success. These deductions will be used to purchase shares of the Company s Common Stock at a 5% discount from the then current market price. The Plan is subject to approval by the Company s shareholders on or before June 29, 2012 and, as such, no shares will be issued until such time as the Plan is approved by our shareholders. If the Plan is approved by the Company s shareholders, the Company will offer up to 500,000 shares of its common stock for sale to eligible employees.

5. EARNINGS PER SHARE

Stock repurchase program

On July 14, 2011, the Company announced that its Board of Directors approved a stock repurchase program of up to $100.0 million of our common stock effective through December 31, 2012. The stock repurchase program will be funded primarily with cash on hand, free cash flow, and borrowings under the Company s Revolving Credit Facility. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable securities and stock 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 the Company to purchase any specific amount of its common stock and may be suspended or extended at any time at the Company s discretion. During the thirteen weeks ended October 2, 2011, the Company purchased 2.5 million shares of its common stock at a cost of $50.0 million primarily purchased with proceeds from the Company s Revolving Credit Facility. The Company believes it has the ability to continue to fund the stock repurchase program, its working capital, its debt service requirements, and its maintenance and growth capital expenditure requirements, while maintaining sufficient liquidity for other corporate purposes.

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Earnings per share

Basic earnings per share is computed by dividing the net income attributable to The GEO Group, Inc. shareholders by the weighted average number of outstanding shares of common stock. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator includes dilutive common stock equivalents such as stock options and shares of restricted stock. Basic and diluted earnings per share (EPS) were calculated for the thirteen and thirty-nine weeks ended October 2, 2011 and October 3, 2010 as follows (in thousands, except per share data):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Net income	$ 21,293	$ 5,010	$ 58,836	$ 39,743
Net loss attributable to noncontrolling interests	225	271	1,050	227
Income attributable to The GEO Group, Inc.	$ 21,518	$ 5,281	$ 59,886	$ 39,970
Basic earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	63,340	57,799	64,028	52,428
Per share amount	$ 0.34	$ 0.09	$ 0.94	$ 0.76
Diluted earnings per share attributable to The GEO Group, Inc.:				
Weighted average shares outstanding	63,340	57,799	64,028	52,428
Effect of dilutive securities: Stock options and restricted stock	215	399	360	616
Weighted average shares assuming dilution	63,555	58,198	64,388	53,044
Per share amount	$ 0.34	$ 0.09	$ 0.93	$ 0.75

Thirteen Weeks

For the thirteen weeks ended October 2, 2011, 123,738 weighted average shares of stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive. 106 shares of restricted stock were anti-dilutive.

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

Thirty-nine Weeks

For the thirty-nine weeks ended October 2, 2011, 79,466 weighted average shares of stock underlying options were excluded from the computation of diluted EPS because the effect would be anti-dilutive. No shares of restricted stock were anti-dilutive.

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

6. DERIVATIVE FINANCIAL INSTRUMENTS

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

As of October 2, 2011, the Company had four interest rate swap agreements in the aggregate notional amount of $100.0 million. The Company has designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7 3/4% Senior Notes due 2017 (7 3/4% Senior Notes) due to changes in underlying interest rates. These swap agreements, which have payment, expiration dates and call provisions that mirror the terms of the 7 3/4% Senior Notes, effectively convert $100.0 million of the 7 3/4% Senior Notes into variable rate obligations. Each of the swaps has a termination clause that gives the counterparty the right to terminate the interest rate swaps at fair market value, under certain circumstances. In addition to the termination clause, the Agreements also have call provisions which specify that the lender can elect to settle the swap for the call option price. Under the Agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 7 3/4% per year calculated on the notional $100.0 million amount, while it makes a variable interest rate payment to the same counterparties equal to the three-month LIBOR plus a fixed margin of between 4.16% and 4.29%, also calculated on the notional $100.0 million amount. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the 7 3/4% Senior Notes. Total net gains, entirely offset by a corresponding increase in the fair value of the variable rate portion of the 7 3/4% Senior Notes, recognized and recorded in earnings related to these fair value hedges was $3.7 million and $4.8 million in the thirteen and thirty-nine weeks ended October 2, 2011, respectively. Total net gains, entirely offset by a corresponding increase in the fair value of the variable rate portion of the 7 3/4% Senior Notes, recognized and recorded in earnings related to these fair value hedges was $3.3 million and $9.2 million in the thirteen and thirty-nine weeks ended October 3, 2010, respectively. As of October 2, 2011 and January 2, 2011, the swap assets fair values were $8.1 million and $3.3 million, respectively and are included as Other Non-Current Assets in the accompanying balance sheets. There was no material ineffectiveness of these interest rate swaps during the fiscal periods ended October 2, 2011 or October 3, 2010.

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The Company s Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on its variable rate non-recourse debt to 9.7%. The Company has determined the swap, which has a notional amount of $50.9 million, payment and expiration dates, and call provisions that coincide with the terms of the non-recourse debt to be an effective cash flow hedge. Accordingly, the Company records the change in the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. Total unrealized loss, net of tax, recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to this cash flow hedge was $0.7 million and $1.0 million for the thirteen and thirty-nine weeks ended October 2, 2011, respectively. Total net unrealized gain (loss) recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was $0.2 million and $(0.3) million for the thirteen and thirty-nine weeks ended October 3, 2010, respectively. The total value of the swap asset as of October 2, 2011 and January 2, 2011 was $0.2 million and $1.8 million, respectively, and is recorded as a component of other assets within the accompanying consolidated balance sheets. There was no material ineffectiveness of this interest rate swap for the fiscal periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Adjustments to goodwill

During the thirteen weeks ended October 2, 2011, the Company retrospectively adjusted a portion of its goodwill with respect to the BI Acquisition to reflect changes in provisional amounts recognized at February 10, 2011 based on new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Refer to Note 2. Such adjustments resulted in a net decrease to goodwill of $6.8 million and $7.0 million for the thirteen and thirty-nine weeks ended October 2, 2011, respectively. These adjustments are included in total Acquisitions for the thirty-nine weeks ended October 2, 2011 in the table below.

During the thirteen weeks ended October 2, 2011, the Company completed its purchase accounting relative to the Cornell Acquisition after making adjustments to taxes, which was the only area of the purchase price allocation not yet finalized. As a result of these adjustments, the Company has retrospectively adjusted a portion of its goodwill with respect to the Cornell acquisition to reflect changes in the provisional amounts recognized at January 2, 2011 based on new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Refer to Note 2. Such adjustments resulted in a net decrease to goodwill of $7.5 million and $8.4 million for the thirteen and thirty-nine weeks ended October 2, 2011, respectively. These adjustments are included in the balance as of January 2, 2011 in the table below.

Changes in the Company s goodwill balances for the thirty-nine weeks ended October 2, 2011 were primarily related to the BI Acquisition and are as follows (in thousands):

	January 2, 2011	Acquisitions	Foreign currency translation	October 2, 2011
U.S. Detention & Corrections	$ 170,376	$	$	$ 170,376
GEO Care	65,456	276,117		341,573
International Services	762		(42)	720
Total Goodwill	$ 236,594	$ 276,117	$ (42)	$ 512,669

On February 10, 2011, the Company acquired BI and recorded goodwill representing the strategic benefits of the Acquisition including the combined Company s increased scale and the diversification of service offerings. Goodwill resulting from business combinations includes the excess of the Company s purchase price over net assets of BI acquired of $276.1 million.

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Identifiable intangible assets

Intangible assets consisted of the following (in thousands):

	Useful Life in Years	U.S. Detention & Corrections	International Services	GEO Care	Total
Finite-lived intangible assets:					
Management contracts	1-17	$ 49,850	$ 2,754	$ 41,300	$ 93,904
Covenants not to compete	1-4	4,349		2,821	7,170
Gross carrying value of January 2, 2011		54,199	2,754	44,121	101,074
Changes to gross carrying value during the thirty-nine weeks ended October 2, 2011:					
Finite-lived intangible assets:					
Management contracts - BI Acquisition	11-14			65,200	65,200
Covenants not to compete - BI Acquisition	2			1,400	1,400
Technology - BI Acquisition	7			21,200	21,200
Foreign currency translation			(501)		(501)
Indefinite-lived intangible assets:					
Trade names - BI Acquisition	Indefinite			44,000	44,000
Gross carrying value as of October 2, 2011		54,199	2,253	175,921	232,373
Accumulated amortization expense		(14,561)	(358)	(12,323)	(27,242)
Net carrying value at October 2, 2011		$ 39,638	$ 1,895	$ 163,598	$ 205,131

On February 10, 2011, the Company acquired BI and recorded identifiable intangible assets related to management contracts, existing technology, non-compete agreements for certain former BI executives and for the trade name associated with BI s business which is now part of the Company s GEO Care reportable segment. The weighted average amortization period in total for these acquired intangible assets is 11.4 years and for the acquired management contracts is 13.0 years. As of October 2, 2011, the weighted average period before the next contract renewal or extension for the intangible assets acquired from BI was approximately 1.4 years.

Accumulated amortization expense for the Company s finite-lived intangible assets in total and by asset class as of October 2, 2011 is as follows (in thousands):

	U.S. Detention & Corrections	International Services	GEO Care	Total
Management contracts	$ 12,710	$ 358	$ 8,117	$ 21,185
Technology			1,943	1,943
Covenants not to compete	1,851		2,263	4,114
Total accumulated amortization expense	$ 14,561	$ 358	$ 12,323	$ 27,242

Amortization expense was $5.0 million and $14.1 million for the thirteen and thirty-nine weeks ended October 2, 2011, respectively and primarily related to the amortization of intangible assets for acquired management contracts. Amortization expense was $1.8 million and $2.9 million for the thirteen and thirty-nine weeks ended October 3, 2010, respectively and primarily related to the amortization of intangible assets for acquired management contracts. As of October 2, 2011, the weighted average period before the next contract renewal or extension for all of the Company s facility management contracts was approximately 1.4 years. Although the facility management contracts acquired have renewal and extension terms in the near term, the Company has historically maintained these relationships beyond the contractual periods.

Estimated amortization expense related to the Company s finite-lived intangible assets for the remainder of fiscal year 2011 through fiscal year 2015 and thereafter is as follows (in thousands):

Fiscal Year	U.S. Detention & Corrections - Expense Amortization	International Services - Expense Amortization	GEO Care - Expense Amortization	Total Expense Amortization
Remainder of 2011	$ 1,368	$ 63	$ 3,392	$ 4,823
2012	4,894	123	13,090	18,107
2013	3,556	123	11,517	15,196
2014	3,556	123	11,301	14,980
2015	3,556	123	11,270	14,949
Thereafter	22,708	1,340	69,028	93,076
	$ 39,638	$ 1,895	$ 119,598	$ 161,131

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The table above includes the estimated amortization of the finite-lived intangible assets acquired from BI on February 10, 2011. As discussed in Note 2, the preliminary allocation of the purchase price is based on the best information available and is provisional pending, among other things, the finalization of the valuation of intangible assets, including the estimated useful lives of the finite-lived intangible assets. The finalization of fair value assessments relative to the finite-lived intangible assets may have an impact on the Company s estimated future amortization expense.

8. FINANCIAL INSTRUMENTS

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

All of the Company s interest rate swap derivatives were in the Company s favor as of October 2, 2011 and are presented as assets in the table below and in the accompanying balance sheets. The following tables provide a summary of the Company s significant financial assets and liabilities carried at fair value and measured on a recurring basis as of October 2, 2011 and January 2, 2011 (in thousands):

		Fair Value Measurements at October 2, 2011		
	Total Carrying Value at October 2, 2011	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Interest rate swap derivative assets	$ 8,337	$	$ 8,337	$
Restricted investments	40,952	7,454	33,498	
Fixed income securities	1,915		1,915	

		Fair Value Measurements at January 2, 2011		
	Total Carrying Value at January 2, 2011	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Interest rate swap derivative assets	$ 5,131	$	$ 5,131	$
Restricted investments	11,910	6,168	5,742	
Fixed income securities	1,791		1,791	

The Company s Level 1 investment relates to its rabbi trust established for GEO employee and employer contributions to The GEO Group Inc. Non-qualified Deferred Compensation Plan. These contributions are invested in mutual funds for which quoted market prices in active markets are available. The Company s restricted investment in the rabbi trust is measured at fair value on a recurring basis and is disclosed in Restricted investments in the table above. Previously, these investments were disclosed in Note 9 at fair value as of January 2, 2011.

The Company s Level 2 financial instruments included in the table above as of October 2, 2011 and January 2, 2011 consist of an interest rate swap asset held by our Australian subsidiary, other interest rate swap assets of the Company, an investment in Canadian dollar denominated fixed income securities, a guaranteed investment contract which is a restricted investment related to CSC of Tacoma LLC and, as of October 2, 2011, an Investment Repurchase Agreement (Repo Agreement) relative to MCF, the Company s consolidated VIE. During the thirteen weeks ended October 2, 2011, MCF entered into the Repo Agreement to establish an investment for its debt service reserve fund and bond fund payment account. The Repo Agreement consists of a guaranteed investment in the principal amount of $23.8 million related to the debt service reserve fund and a second guaranteed investment related to the bond fund payment account which was $4.0 million as of October 2, 2011. Both of these investments are restricted to eligible investments as defined in 8.47% Revenue Bond indenture (refer to Note 11) and mature on August 1, 2016. As of October 2, 2011, the Repo Agreement is included above as a Level 2 restricted investment since its fair value is based using market interest rates for similar securities. The Australian subsidiary s interest rate swap asset is valued using a discounted cash flow model based on projected Australian borrowing rates. The Company s other interest rate swap assets and liabilities are based on pricing models which consider prevailing interest rates, credit risk and similar instruments. The Canadian dollar denominated securities, not actively traded, are valued using quoted rates for these and similar securities. The restricted investment in the guaranteed investment contract is valued using quoted rates for these and similar securities.

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9. FAIR VALUE OF ASSETS AND LIABILITIES

The Company s balance sheet reflects certain financial assets and liabilities at carrying value. The following tables present the carrying values of those instruments and the corresponding fair values at October 2, 2011 and January 2, 2011 (in thousands):

	October 2, 2011	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 43,956	$ 43,956
Restricted cash	53,355	53,355
Liabilities:		
Borrowings under the Senior Credit Facility	$ 722,129	$ 766,071
7 3/4% Senior Notes	247,046	259,245
6.625% Senior Notes	300,000	295,875
Non-recourse debt, Australian subsidiary	39,708	39,125
Other non-recourse debt, including current portion	155,782	155,986

	January 2, 2011	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	$ 39,664	$ 39,664
Restricted cash	78,732	78,732
Liabilities:		
Borrowings under the Senior Credit Facility	$ 557,758	$ 562,610
7 3/4% Senior Notes	250,078	265,000
Non-recourse debt, Australian subsidiary	46,300	46,178
Other non-recourse debt, including current portion	176,384	180,340

The fair values of the Company s Cash and cash equivalents, and restricted cash approximates the carrying values of these assets at October 2, 2011 and January 2, 2011. Restricted cash consists of debt service funds used for payments on the Company s non-recourse debt. The fair values of our 7 3/4% Senior Notes, our 6.625% senior unsecured notes due 2021 (6.625% Senior Notes), and certain non-recourse debt are based on market prices, where available, or similar instruments. The fair value of the non-recourse debt related to the Company s Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of the non-recourse debt related to MCF is estimated using a discounted cash flow model based on the Company s current borrowing rates for similar instruments. The fair value of the borrowings under the Credit Agreement is based on an estimate of trading value considering the Company s borrowing rate, the undrawn spread and similar instruments.

10. VARIABLE INTEREST ENTITIES

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

The Company consolidates South Texas Local Development Corporation (STLDC), a VIE. STLDC was created to finance construction for the development of a 1,904-bed facility in Frio County, Texas. STLDC, the owner of the complex, issued $49.5 million in taxable revenue bonds and has an operating agreement with the Company, which provides the Company with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract to be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including the payment of all operating expenses whether or not there are sufficient revenues. The bonds have a ten-year term and are non-recourse to the Company. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. See Note 11.

As a result of the acquisition of Cornell in August 2010, the Company assumed the variable interest in MCF of which it is the primary beneficiary and consolidates the entity as a result. MCF was created in August 2001 as a special limited partnership for the purpose of acquiring, owning, leasing and operating low to medium security adult and juvenile correction and treatment facilities. At its inception, MCF purchased assets representing eleven facilities from Cornell and leased those assets back to Cornell under a Master Lease Agreement (the Lease). These assets were purchased from Cornell using proceeds from the 8.47% Revenue Bonds due 2016,

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which are limited non-recourse obligations of MCF and collateralized by the bond reserves, assignment of subleases and substantially all assets related to the eleven facilities. Under the terms of the Lease with Cornell, assumed by the Company, the Company will lease the assets for the remainder of the 20-year base term, which ends in 2021, and has options at its sole discretion to renew the Lease for up to approximately 25 additional years. MCF s sole source of revenue is from the Company and as such the Company has the power to direct the activities of the VIE that most significantly impact its performance. The Company s risk is generally limited to the rental obligations under the operating leases. This entity is included in the accompanying consolidated financial statements and all intercompany transactions are eliminated in consolidation. MCF maintains separate financial statements and all of the assets to which MCF has title are included therein. It should be noted that even though the Company consolidates MCF for accounting purposes, this VIE is a separate entity owned by unrelated third parties. MCF s assets and credit are not available to satisfy the debts and other obligations of the Company.

The Company does not consolidate its 50% owned South African joint venture in South African Custodial Services Pty. Limited (SACS), a VIE. SACS joint venture investors are GEO and Kensani Corrections, Pty. Ltd; each partner owns a 50% share. The Company has determined it is not the primary beneficiary of SACS since it does not have the power to direct the activities of SACS that most significantly impact its performance. As such, this entity is reported as an equity affiliate. SACS was established and subsequently, in 2001, was awarded a 25-year contract to design, finance and build the Kutama Sinthumule Correctional Centre in Louis Trichardt, South Africa. To fund the construction of the prison, SACS obtained long-term financing from its equity partners and lenders, the repayment of which is fully guaranteed by the South African government, except in the event of default, in which case the government guarantee is reduced to 80%. The Company s maximum exposure for loss under this contract is limited to its investment in the joint venture of $9.4 million at October 2, 2011 and its guarantees related to SACS discussed in Note 11.

The Company does not consolidate its 50% owned joint venture in the United Kingdom. In February 2011, The GEO Group Limited, the Company s wholly-owned subsidiary in the United Kingdom (GEO UK), executed a Shareholders Agreement (the Shareholders Agreement) with Amey Community Limited (Amey), GEO Amey PECS Limited (GEOAmey) and Amey UK PLC (Amey Guarantor) to form a private company limited by shares incorporated in England and Wales. GEOAmey was formed by GEO UK and Amey for the purpose of performing prisoner escort and related custody services in the United Kingdom and Wales. In order to form this private company, GEOAmey issued share capital of £100 divided into 100 shares of £1 each and allocated the shares 50/50 to GEO UK and Amey. GEO UK and Amey each have three directors appointed to the Board of Directors and neither party has the power to direct the activities that most significantly impact the performance of GEOAmey. Both parties provide lines of credit of £12 million, or $18.7 million as of October 2, 2011, to ensure that GEOAmey can comply with future contractual commitments related to the performance of its operations. As of October 2, 2011, $9.9 million, including accrued interest, was owed to the Company by GEOAmey under the line of credit. GEOAmey commenced operations on August 29, 2011. The Company has recorded $1.1 million and $1.1 million in losses, net of tax impact, for GEOAmey s operations during the thirteen and thirty-nine weeks ended October 2, 2011, which is included in Equity in earnings of affiliates in the accompanying consolidated statement of income and comprehensive income.

11. DEBT

Senior Credit Facility

On August 4, 2010, the Company terminated its Third Amended and Restated Credit Agreement (Prior Senior Credit Agreement) and entered into a new Credit Agreement (the Senior Credit Facility), by and among GEO, as Borrower, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto. On February 8, 2011, the Company entered into Amendment No. 1 (Amendment No. 1), to the Senior Credit Facility. Amendment No. 1, among other things amended certain definitions and covenants relating to the total leverage ratios and the senior secured leverage ratios set forth in the Senior Credit Facility. This amendment increased the Company s borrowing capacity by $250.0 million. On May 2, 2011, the Company executed Amendment No. 2 to its Senior Credit Facility (Amendment No. 2). As a result of this amendment, relative to the Company s Term Loan B, the Applicable Rate, as defined in the Credit Agreement dated August 4, 2011, was reduced to 2.75% per annum from 3.25% per annum in the case of Eurodollar loans and to 1.75% per annum from 2.25% per annum in the case of ABR loans and the LIBOR floor was reduced to 1.00% from 1.50%. As of October 2, 2011, the Senior Credit Facility, as amended, was comprised of: (i) a $150.0 million Term Loan A due August 2015 (Term Loan A), currently bearing interest at LIBOR plus 2.75% and maturing August 4, 2015, (ii) a $150.0 million Term Loan A-2 due August 2015 (Term Loan A-2), currently bearing interest at LIBOR plus 2.75% and maturing August 4, 2015, (iii) a $200.0 million Term Loan B due August 2016 (Term Loan B) currently bearing interest at LIBOR plus 2.75% with a LIBOR floor of 1.00% and maturing August 4, 2016, and (iv) a $500.0 million Revolving Credit Facility due August 2015 (Revolver) currently bearing interest at LIBOR plus 2.75% and maturing August 4, 2015.

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Incremental borrowings of $150.0 million under the Company s amended Senior Credit Facility along with proceeds from the Company s $300.0 million offering of the 6.625% Senior Notes were used to finance the acquisition of BI. In connection with these borrowings, as of October 2, 2011, the Company has $10.4 million of deferred financing fees, net of accumulated amortization, included in Other Non-Current Assets in the accompanying consolidated balance sheet. Also, as of October 2, 2011, the Company had $485.1 million in aggregate borrowings outstanding, net of discount, under the Term Loan A, Term Loan A-2 and Term Loan B, $287.0 million in borrowings under the Revolver, approximately $56.8 million in letters of credit and $156.2 million in additional borrowing capacity under the Revolver. The weighted average interest rate on outstanding borrowings under the Senior Credit Facility, as amended, as of October 2, 2011 was 3.2%.

Indebtedness under the Revolver, the Term Loan A and the Term Loan A-2 bears interest based on the Total Leverage Ratio as of the most recent determination date, as defined, in each of the instances below at the stated rate:

	Interest Rate under the Revolver, Term Loan A and Term Loan A-2
LIBOR borrowings	LIBOR plus 2.00% to 3.00%.
Base rate borrowings	Prime Rate plus 1.00% to 2.00%.
Letters of credit	2.00% to 3.00%.
Unused Revolver	0.375% to 0.50%.

The Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict the Company s ability to, among other things as permitted (i) create, incur or assume indebtedness, (ii) create, incur, assume or permit liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) make restricted payments, (vi) issue, sell or otherwise dispose of capital stock, (vii) engage in transactions with affiliates, (viii) allow the total leverage ratio or senior secured leverage ratio to exceed certain maximum ratios or allow the interest coverage ratio to be less than a certain ratio, (ix) cancel, forgive, make any voluntary or optional payment or prepayment on, or redeem or acquire for value any senior notes, (x) alter the business the Company conducts, and (xi) materially impair the Company s lenders security interests in the collateral for its loans.

The Company must not exceed the following Total Leverage Ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period:

Period	Total Leverage Ratio - Maximum Ratio
Through and including the last day of the fiscal year 2011	5.25 to 1.00
First day of fiscal year 2012 through and including the last day of fiscal year 2012	5.00 to 1.00
First day of fiscal year 2013 through and including the last day of fiscal year 2013	4.75 to 1.00
Thereafter	4.25 to 1.00

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

Period	Senior Secured Leverage Ratio - Maximum Ratio
Through and including the last day of the Third Quarter of the fiscal year 2012	3.25 to 1.00
	3.00 to 1.00

First day of the Third Quarter of fiscal year 2012 through and including the last day of the Third Quarter of the fiscal year 2013	
Thereafter	2.75 to 1.00

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

Events of default under the 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 representations or warranty, (iii) covenant defaults, (iv) liquidation, reorganization or other relief relating to bankruptcy or insolvency, (v) cross default under certain other material indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental liability claims which have been asserted against the Company, and (viii) a change in control. All of the obligations under the Senior Credit Facility are unconditionally guaranteed by certain of the Company s subsidiaries and secured by substantially all of the Company s present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, including but not limited to (i) a first-priority pledge

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of substantially all of the outstanding capital stock owned by the Company and each guarantor, and (ii) perfected first-priority security interests in substantially all of the Company s, and each guarantors, present and future tangible and intangible assets and the present and future tangible and intangible assets of each guarantor. The Company 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 outstanding senior secured indebtedness. The Company believes it was in compliance with all of the covenants of the Senior Credit Facility as of October 2, 2011.

6.625% Senior Notes

On February 10, 2011, the Company completed a private offering of $300.0 million in aggregate principal amount of 6.625% senior unsecured notes due 2021. These senior unsecured notes pay interest semi-annually in cash in arrears on February 15 and August 15, beginning on August 15, 2011. The Company realized net proceeds of $293.3 million upon the closing of the transaction and used the net proceeds of the offering, together with borrowings of $150.0 million under the Senior Credit Facility, to finance the BI Acquisition. The remaining net proceeds from the offering were used for general corporate purposes. On August 22, 2011, the Company completed its exchange offer for the full $300,000,000 aggregate principal amount of its 6.625% Senior Notes Due 2021, and the guarantees thereof, which were registered under the Securities Act of 1933, as amended, for a like amount of the outstanding 6.625% Senior Notes. The terms of the notes exchanged are identical to the notes originally issued in the private offering, except that the transfer restrictions, registration rights and additional interest provisions relating to a registration rights default will not apply to the registered notes exchanged. The Company did not receive any proceeds from the exchange offer.

The 6.625% Senior Notes are guaranteed by certain subsidiaries and are unsecured, senior obligations of the Company and these obligations rank as follows: pari passu with any unsecured, senior indebtedness of the Company and the guarantors, including the 7 $^{3}/4$% Senior Notes (see below); senior to any future indebtedness of the Company and the guarantors that is expressly subordinated to the 6.625% Senior Notes and the guarantees; effectively junior to any secured indebtedness of the Company and the guarantors, including indebtedness under its Senior Credit Facility, to the extent of the value of the assets securing such indebtedness; and structurally junior to all obligations of the Company s subsidiaries that are not guarantors.

On or after February 15, 2016, the Company may, at its option, redeem all or part of the 6.625% 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 6.625% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on February 15 of the years indicated below:

Year	Percentage
2016	103.3125%
2017	102.2083%
2018	101.1042%
2019 and thereafter	100.0000%

Before February 15, 2016, the Company may redeem some or all of the 6.625% Senior Notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make whole premium, together with accrued and unpaid interest and liquidated damages, if any, to the date of redemption. In addition, at any time before February 15, 2014, the Company may redeem up to 35% of the aggregate principal amount of the 6.625% Senior Notes with the net cash proceeds from specified equity offerings at a redemption price equal to 106.625% of the principal amount of each note to be redeemed, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption.

The indenture governing the notes contains certain covenants, including limitations and restrictions on the Company and its restricted subsidiaries ability to: incur additional indebtedness or issue preferred stock; make dividend payments or other restricted payments; create liens; sell assets; enter into transactions with affiliates; and enter into mergers, consolidations or sales of all or substantially all of the Company s assets. As of the date of the indenture, all of the Company s subsidiaries, other than certain dormant domestic and other subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries. The Company s failure to comply with certain of the covenants under the indenture governing the 6.625% Senior Notes could cause an event of default of any indebtedness and result in an acceleration of such indebtedness. 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 6.625% Senior Notes as of October 2, 2011.

7 3/4% Senior Notes

On October 20, 2009, the Company completed a private offering of $250.0 million in aggregate principal amount of its 7 3/4% Senior Notes due 2017 (7 3/4% Senior Notes). These senior unsecured notes pay interest semi-annually in cash in arrears on April 15 and

October 15 of each year, beginning on April 15, 2010. The Company realized net proceeds of $246.4 million at the close of the transaction, net of the discount on the notes of $3.6 million. The Company used the net proceeds of the offering to fund the repurchase of all of its 8 1/4% Senior Notes due 2013 and pay down part of the Revolving Credit Facility under our Prior Senior Credit Agreement. On October 21, 2010, the Company completed its exchange offer for the full $250,000,000 aggregate principal amount of its 7 3/4% Senior Notes Due 2021, and the guarantees thereof, which were registered under the Securities Act of 1933, as amended, for a like amount of the outstanding 7 3/4% Senior Notes. The terms of the notes exchanged are identical to the notes originally issued in the private offering, except that the transfer restrictions, registration rights and additional interest provisions relating to a registration rights default will not apply to the registered notes exchanged. The Company did not receive any proceeds from the exchange offer.

The 7 3/4% Senior Notes are guaranteed by certain subsidiaries and are unsecured, senior obligations of GEO and these obligations rank as follows: pari passu with any unsecured, senior indebtedness of GEO and the guarantors, including the 6.625% Senior Notes; 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.

On or after October 15, 2013, the Company may, at its option, redeem all or a part of the 7 3/4% Senior Notes upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and liquidated damages, if any, on the 7 3/4% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

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

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

The indenture governing the notes contains certain covenants, including limitations and restrictions on the Company and its restricted subsidiaries ability to: incur additional indebtedness or issue preferred stock; make dividend payments or other restricted payments; create liens; sell assets; enter into transactions with affiliates; and enter into mergers, consolidations, or sales of all or substantially all of our assets. As of the date of the indenture, all of the Company s subsidiaries, other than certain dormant and other domestic subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries. The Company s failure to comply with certain of the covenants under the indenture governing the 7 3/4% Senior Notes could cause an event of default of any indebtedness and result in an acceleration of such indebtedness. In addition, there is a cross-default provision which becomes enforceable upon failure of payment of indebtedness at final maturity. The Company s unrestricted subsidiaries will not be subject to any of the restrictive covenants in the indenture. The Company believes it was in compliance with all of the covenants of the indenture governing the 7 3/4% Senior Notes as of October 2, 2011.

Non-Recourse Debt

South Texas Detention Complex

The Company has a debt service requirement related to the development of the South Texas Detention Complex, a 1,904-bed detention complex in Frio County, Texas acquired in November 2005 from Correctional Services Corporation (CSC). CSC was awarded the contract in February 2004 by the Department of Homeland Security, U.S. Immigration and Customs Enforcement (ICE) for development and operation of the detention center. In order to finance the construction of the complex, STLDC was created and issued $49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 4.63% and 5.07%. Additionally, the Company is owed $5.0 million in the form of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

The Company has an operating agreement with STLDC, the owner of the complex, which provides it with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract with ICE to be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including the payment of all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten-year term and are non-recourse to the Company and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. The Company has determined that it is the primary beneficiary of STLDC and consolidates the entity as a result. The carrying value of the facility as of October 2, 2011 and January 2, 2011 was $26.1 million and $27.0 million, respectively, and is included in property and equipment in the accompanying balance sheets.

On February 1, 2011, STLDC made a payment from its restricted cash account of $4.8 million for the current portion of its periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of October 2, 2011, the remaining balance of the debt service requirement under the STLDC financing agreement is $27.3 million, of which $5.0 million is due within the next twelve months. Also, as of October 2, 2011, included in current restricted cash and non-current restricted cash is $6.2 million and $15.6 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 a detention center in Tacoma, Washington, known 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 of CSC in November 2005. In connection with this financing, CSC formed a special purpose entity, CSC of Tacoma LLC, of which CSC is the only member, the sole purposes of which are to own, operate, mortgage, lease, finance, refinance and otherwise deal with this facility. CSC of Tacoma LLC owns the facility, as well as all of its other assets; the Company provides detention, transportation and related services for the United States Government from this facility pursuant to a Use Agreement between the Company and CSC of Tacoma LLC. The assets of CSC of Tacoma LLC are owned by CSC of Tacoma LLC. They are included in the consolidated financial statements of the Company in accordance with generally accepted accounting principles. The assets and liabilities of CSC of Tacoma LLC are recognized on the CSC of Tacoma LLC balance sheet.

In connection with the original financing, CSC of Tacoma LLC, a wholly-owned subsidiary of CSC, issued a $57.0 million note payable to the Washington Economic Development Finance Authority, referred to as WEDFA, an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance back to CSC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to the Company and the loan from WEDFA to CSC is also non-recourse to the Company. These bonds mature in February 2014 and have fixed coupon rates between 3.80% and 4.10%. The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the thirty-nine weeks ended October 2, 2011. As of October 2, 2011, the remaining balance of the debt service requirement is $25.7 million, of which $6.1 million is classified as current in the accompanying balance sheet.

As of October 2, 2011, included in current restricted cash and non-current restricted cash is $7.0 million and $7.5 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

MCF

MCF, one of the Company s consolidated variable interest entities, is obligated for the outstanding balance of the 8.47% Revenue Bonds. The bonds bear interest at a rate of 8.47% per annum and are payable in semi-annual installments of interest and annual installments of principal. All unpaid principal and accrued interest on the bonds is due on the earlier of August 1, 2016 (maturity) or as noted under the bond documents. The bonds are limited, non-recourse obligations of MCF and are collateralized by the property and equipment, bond reserves, assignment of subleases and substantially all assets related to the facilities owned by MCF. The bonds are not guaranteed by the Company or its subsidiaries. As of October 2, 2011, the aggregate principal amount of these bonds was $77.9 million, excluding premium of $9.0 million and net of the current portion of $15.8 million. As of January 2, 2011, the aggregate principal amount of these bonds was $93.7 million, excluding premium of $11.4 million and net of the current portion of $14.6 million. These balances are included as Non-Recourse Debt on the accompanying consolidated balance sheets.

The 8.47% Revenue Bond indenture provides for the establishment and maintenance by MCF for the benefit of the trustee under the indenture of a debt service reserve fund. As of October 2, 2011, the debt service reserve fund has a balance of $23.8 million. The debt service reserve fund is available to the trustee to pay debt service on the 8.47% Revenue Bonds when needed, and to pay final debt service on the 8.47% Revenue Bonds. If MCF is in default in its obligation under the 8.47% Revenue Bonds indenture, the trustee may declare the principal outstanding and accrued interest immediately due and payable. MCF has the right to cure a default of non-payment obligations. The 8.47% Revenue Bonds are subject to extraordinary mandatory redemption in certain instances upon casualty or condemnation. The 8.47% Revenue Bonds may be redeemed at the option of MCF prior to their final scheduled payment dates at par plus accrued interest plus a make-whole premium.

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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 $39.7 million (AUD 41.1 million) and $46.3 million (AUD 45.2 million), at October 2, 2011 and January 2, 2011, 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 October 2, 2011, was $4.8 million. This amount is included in restricted cash and the annual maturities of the future debt obligation are included in Non-Recourse Debt.

Guarantees

In connection with the creation of SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. The Company guaranteed certain obligations of SACS under its debt agreements to SACS senior lenders through the issuance of letters of credit for 60.0 million South African Rand. During the thirteen weeks ended October 2, 2011, the Company was notified by SACS lenders that these guarantees were reduced from 60.0 million South African Rand to 34.8 million South African Rand, or $4.3 million. Additionally, SACS was required to fund a restricted account for the payment of certain costs in the event of contract termination. As such, the Company had guaranteed the payment of 60% of amounts which may be payable by SACS into the restricted account by providing a standby letter of credit of 8.4 million South African Rand, or $1.0 million as of October 2, 2011, as security for this guarantee. During the thirteen weeks ended October 2, 2011, SACS was released from its obligations in respect to the restricted account under its debt agreements and the letter of credit for 8.4 million South African Rand relative to this guarantee was not renewed. No amounts were drawn against these letters of credit. The remaining guarantee of 34.8 million South African Rand is included as part of the value of Company s outstanding letters of credit under its Revolver as of October 2, 2011.

In addition to the above, the Company has also agreed to provide a loan, of up to 20.0 million South African Rand, or $2.5 million, referred to as the Standby Facility, to SACS for the purpose of financing SACS obligations under its contract with the South African government. No amounts have been funded under the Standby Facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company s obligations under the Standby Facility expire upon the earlier of full funding or SACS s release from its obligations under its debt agreements. The lenders ability to draw on the Standby Facility is limited to certain circumstances, including termination of the contract.

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

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a trust. 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 $1.9 million and $1.8 million related to this exposure as of October 2, 2011 and January 2, 2011, respectively. To secure this guarantee, the Company purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its consolidated balance sheets. The Company does not currently operate or manage this facility.

At October 2, 2011, the Company also had eight letters of guarantee outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling $9.3 million. Except as discussed above, the Company does not have any off balance sheet arrangements.

12. COMMITMENTS AND CONTINGENCIES

Litigation, Claims and Assessments

On June 22, 2011, a jury verdict for $6.5 million was returned against the Company in a wrongful death action brought by the Personal Representative of the Estate of Ronald Sites, a former inmate at the Company s Lawton Oklahoma Correctional Facility. On August 22, 2011, the court entered judgment against GEO in the amount of $8.4 million, which includes pre judgment interest on the amount of the verdict from January 26, 2007, the date of the filing of the lawsuit, through the date of the jury verdict. The lawsuit,

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Ronald L. Sites, as the administrator of the Estate of Ronald S. Sites, deceased v. The GEO Group, Inc. was filed on January 28, 2007 in the District Court of Comanche County, State of Oklahoma, Case No. CJ-2007-84. It was alleged that on January 29, 2005, Mr. Sites was harmed by his cellmate as a result of the Company s negligence. The Company disagrees with the judgment and intends to pursue an appeal. The Company intends to vigorously defend its rights and believes its accrual relative to this judgment is adequate. Under its insurance plan, the Company is responsible for the first $3.0 million of liability. Aside from this amount, which the Company would pay directly from general corporate funds, the Company believes it has insurance coverage for this matter.

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities formerly operated by its Australian subsidiary. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did not specify the amount of damages being sought. In August 2007, a lawsuit (Commonwealth of Australia v. Australasian Correctional Services PTY, Limited No. SC 656) was filed against the Company in the Supreme Court of the Australian Capital Territory seeking damages of up to approximately AUD 18 million, as of October 2, 2011, or $17.4 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.

The Company s South Africa joint venture had been in discussions with the South African Revenue Service (SARS) with respect to the deductibility of certain expenses for the tax periods 2002 through 2004. The joint venture operates the Kutama Sinthumule Correctional Centre and accepted inmates from the South African Department of Correctional Services in 2002. During 2009, SARS notified the Company that it proposed to disallow these deductions. The Company appealed these proposed disallowed deductions with SARS and in October 2010 received a favorable Tax Court ruling relative to these deductions. On March 9, 2011, SARS filed a notice that it would appeal the lower court s ruling. The case is scheduled to be heard by the Court of Appeals on November 7, 2011. The Company continues to believe in the merits of its position and will defend its rights vigorously as the case proceeds to the Court of Appeals. If resolved unfavorably, the Company s maximum exposure would be $2.6 million.

The Company is a participant in the IRS Compliance Assurance Process (CAP) for the 2011 fiscal year. Under the IRS CAP transactions that meet certain materiality thresholds are reviewed on a real-time basis shortly after their completion. Additionally, all transactions that are part of certain IRS tier and similar initiatives are audited regardless of their materiality. The program also provides for the audit of transition years that have not previously been audited. The IRS will be reviewing the Company s 2009 and 2010 years as transition years.

During the first quarter, following the Company s acquisition of BI, BI received notice from the IRS that it will audit its 2008 tax year. The audit was completed on October 7, 2011 with no change.

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.

Construction Commitments

The Company is currently developing a number of projects using company financing. The Company s management estimates that these existing capital projects will cost approximately $232.8 million, of which $122.9 million was spent through the third quarter of 2011. The Company estimates the remaining capital requirements related to these capital projects to be approximately $109.9 million, which will be spent through fiscal years 2011 and 2012. Capital expenditures related to facility maintenance costs are expected to range between $30.0 million and $35.0 million for fiscal year 2011. In addition to these current estimated capital requirements for 2011 and 2012, the Company is currently in the process of bidding on, or evaluating potential bids for the design, construction and management of a number of new projects. In the event that the Company wins bids for these projects and decides to self-finance their construction, its capital requirements in 2011 and/or 2012 could materially increase.

Contract Terminations

Effective February 28, 2011, the Company s contract for the management of the 424-bed North Texas ISF, located in Fort Worth, Texas, terminated. The Company does not expect the termination of this contract to have a material adverse impact on its financial condition, results of operations or cash flows.

Effective April 30, 2011, the Company s contract for the management of the 970-bed Regional Correctional Center, located in Albuquerque, New Mexico, terminated. The Company does not expect the termination of this contract to have a material adverse impact on its financial condition, results of operations or cash flows.

Effective May 29, 2011, the Company s subsidiary in the United Kingdom no longer managed the 215-bed Campsfield House Immigration Removal Centre in Kidlington, England. The Company does not expect the termination of this contract to have a material adverse impact on its financial condition, results of operations or cash flows.

On July 11, 2011, the Company announced that the State of California decided to implement its Criminal Justice Realignment Plan, which is expected to delegate tens of thousands of low level state offenders to local county jurisdictions in California effective October 1, 2011. As a result of the implementation of the Realignment Plan, the State of California has decided to discontinue contracts with Community Correctional Facilities which currently house low level state offenders across the state. The Company received written notice from the California Department of Corrections and Rehabilitation regarding the cancellation of its agreements for the housing of low level state offenders at three of its facilities: (i) the company-leased 305-bed Leo Chesney Community Correctional Facility which was terminated effective September 30, 2011 and vacated September 20, 2011; (ii) the company-owned 625-bed Central Valley Modified Community Correctional Facility which was terminated effective October 12, 2011 and vacated October 5, 2011; and (iii) the company-owned 643-bed Desert View Modified Community Correctional Facility which will terminate effective November 30, 2011 . The Company is in the process of actively marketing these facilities to local county agencies in California. Given that most local county jurisdictions in California are presently operating at or above their correctional capacity, the Company is hopeful that it will be able to market these facilities to local county agencies for the housing of low level offenders who will be the responsibility of local county jurisdictions. Included in revenue for the thirty-nine weeks ended October 2, 2011 is $23.8 million of revenue related to these terminated contracts.

On July 31, 2011, the Company s contract for the management of Brooklyn Community Re-entry Center located in Brooklyn, New York terminated. The Company does not expect the termination of this contract to have a material adverse impact on its financial condition, results of operations or cash flows.

On September 2, 2011, the Company initiated discussions with the California Department of Corrections & Rehabilitation (CDCR) to terminate its management agreement for the operation of the company-owned North Lake Correctional Facility. On September 26, 2011, CDCR notified the Company that its contract would terminate effective October 2, 2011. Included in revenue for the thirty-nine weeks ended October 2, 2011 is $2.4 million of revenue related to this terminated contract.

In an effort to consolidate existing Youth Services facilities and to maximize overall utilization, the Company terminated its contracts for the management of Contact Interventions, located in Wauconda, Illinois and the Abraxas Center for Adolescent Females located in Pittsburg, Pennsylvania. Additionally, the Company s contract to manage Philadelphia Community-Based Programs located in Philadelphia, Pennsylvania terminated June 30, 2011 due to lack of funding. The Company does not expect that the termination of these contracts will have a material adverse impact on its financial condition, results of operations or cash flows.

The Company is currently marketing approximately 6,800 vacant beds at eight of its idle facilities to potential customers. The carrying values of these idle facilities totaled $276.4 million as of October 2, 2011, excluding equipment and other assets that can be easily transferred for use at other facilities.

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13. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments

The Company conducts its business through four reportable business segments: the U.S. Detention & Corrections segment; the International Services segment; the GEO Care segment; and the Facility Construction & 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. Detention & 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 conducts its services in the U.S., represents services provided for mental health, residential and non-residential treatment, educational and community based programs, pre-release and halfway house programs, compliance technologies, monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. The Facility Construction & Design segment consists of contracts with various state, local and federal agencies for the design and construction of facilities for which the Company has management contracts. As a result of the acquisition of Cornell, management s review of certain segment financial data was revised with regards to the Bronx Community Re-entry Center and the Brooklyn Community Re-entry Center. These facilities now report within the GEO Care segment and are no longer included with U.S. Detention & Corrections. Disclosures for business segments reflect these reclassifications for all periods presented and are as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Revenues:				
U.S. Detention & Corrections	$ 243,952	$ 217,808	$ 727,256	$ 599,598
GEO Care	109,729	60,934	317,475	135,409
International Services	53,166	47,553	161,580	138,142
Facility Construction & Design		1,638	119	22,421
Total revenues	$ 406,847	$ 327,933	$ 1,206,430	$ 895,570
Depreciation and amortization:				
U.S. Detention & Corrections	$ 14,017	$ 11,048	$ 40,272	$ 27,131
GEO Care	7,429	1,905	19,956	3,679
International Services	528	431	1,604	1,286
Facility Construction & Design				
Total depreciation and amortization	$ 21,974	$ 13,384	$ 61,832	$ 32,096
Operating income:				
U.S. Detention & Corrections	$ 54,206	$ 52,074	$ 164,353	$ 142,545
GEO Care	18,326	8,272	53,618	17,085
International Services	4,663	2,599	10,939	7,848
Facility Construction & Design	(43)	504	37	1,648
Operating income from segments	77,152	63,449	228,947	169,126
General and administrative expenses	(25,922)	(33,925)	(86,420)	(72,028)
Total operating income	$ 51,230	$ 29,524	$ 142,527	$ 97,098

	October 2, 2011	January 2, 2011
Segment assets:		
U.S. Detention & Corrections	$ 1,947,785	$ 1,849,423
GEO Care	759,078	299,563
International Services	99,399	103,004
Facility Construction & Design	157	26

Total segment assets	$ 2,806,419	$ 2,252,016

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, in each case, during the thirteen and thirty-nine weeks ended October 2, 2011 and October 3, 2010, respectively (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	**October 3, 2010**	**October 2, 2011**	**October 3, 2010**
Total operating income from segments	$ 77,152	$ 63,449	$ 228,947	$ 169,126
Unallocated amounts:				
General and Administrative Expenses	(25,922)	(33,925)	(86,420)	(72,028)
Net interest expense	(17,560)	(10,183)	(50,735)	(23,730)
Loss on extinguishment of debt		(7,933)		(7,933)
Income before income taxes and equity in earnings of affiliates	$ 33,670	$ 11,408	$ 91,792	$ 65,435

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Asset Reconciliation of Segments

The following is a reconciliation of the Company s reportable segment assets to the Company s total assets as of October 2, 2011 and January 2, 2011, respectively (in thousands).

	October 2, 2011	January 2, 2011
Reportable segment assets	$ 2,806,419	$ 2,252,016
Cash	43,956	39,664
Deferred income tax	45,908	30,051
Restricted cash and investments	94,307	90,642
Total assets	$ 2,990,590	$ 2,412,373

Sources of Revenue

The Company derives most of its Detention & Corrections revenue from the management of privatized correctional and detention facilities and also receives revenue from related transportation services. GEO Care derives revenue from the management of residential treatment facilities and community based re-entry facilities and also from its electronic monitoring and evidence-based supervision and treatment services. Facility Construction & Design generates its revenue from the construction and expansion of new and existing correctional, detention and residential treatment facilities. All of the Company s revenue is generated from external customers (in thousands).

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Revenues:				
Detention & Corrections	$ 297,118	$ 265,361	$ 888,836	$ 737,740
GEO Care	109,729	60,934	317,475	135,409
Facility Construction & Design		1,638	119	22,421
Total revenues	$ 406,847	$ 327,933	$ 1,206,430	$ 895,570

Equity in Earnings of Affiliates

Equity in earnings of affiliates includes the Company s 50% owned joint ventures in SACS, located in South Africa, and GEOAmey, located in the United Kingdom. These entities are accounted for under the equity method of accounting. The Company s investments in these entities are presented as a component of other non-current assets in the accompanying consolidated balance sheets.

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	October 2, 2011	October 3, 2010	October 2, 2011	October 3, 2010
Statement of Operations Data				
Revenues	$ 12,580	$ 11,692	$ 37,581	$ 33,447
Operating income	4,994	4,571	15,123	13,171
Net income	2,688	2,298	6,848	5,735
			October 2, 2011	January 2, 2011
Balance Sheet Data				
Current assets			$ 29,085	$ 40,624
Non-current assets			39,517	50,613

Current liabilities	3,188	3,552
Non-current liabilities	46,540	60,129
Shareholders equity	18,874	27,556

During the thirty-nine weeks ended October 2, 2011, the Company s consolidated South African subsidiary, South African Custodial Holdings Pty. Ltd. (SACH) received a dividend of $5.4 million from SACS which reduced the Company s investment in its joint venture. As of October 2, 2011 and January 2, 2011, the Company s investment in SACS was $9.4 million and $13.8 million, respectively.

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In February 2011, GEOAmey was formed by GEO UK and its 50% joint venture partner for the purpose of providing prisoner escort and custody services in the United Kingdom and Wales under contracts with the UK Ministry of Justice. GEOAmey commenced operations on August 29, 2011. The Company has recorded $1.1 million and $1.1 million in losses, net of tax impact, for GEOAmey s operations during the thirteen and thirty-nine weeks ended October 2, 2011, respectively, which is included in Equity in earnings of affiliates in the accompanying consolidated statement of income and comprehensive income. As of October 2, 2011, the Company s investment in GEOAmey was equal to its share of reported losses of $1.1 million.

14. BENEFIT PLANS

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

As of October 2, 2011, the Company had a non-qualified deferred compensation agreement with its Chief Executive Officer (CEO). The current agreement provides for a lump sum payment upon retirement, no sooner than age 55. As of October 2, 2011, the CEO had reached age 55 and was eligible to receive the payment upon retirement. If the Company s CEO had retired as of October 2, 2011, the Company would have had to pay him $5.8 million including a tax gross-up relating to the retirement payment equal to $2.1 million. During the fiscal year ended January 2, 2011, the Company paid a former executive $4.4 million in discounted retirement benefits, including a gross up of $1.6 million for certain taxes, under the executive s non-qualified deferred compensation agreement. The Company s liability relative to its pension plans and retirement agreements was $14.7 million and $13.8 million as of October 2, 2011 and January 2, 2011, respectively. The long-term portion of the pension liability as of October 2, 2011 and January 2, 2011 was $14.5 million and $13.6 million, respectively, and is included in Other Non-Current liabilities in the accompanying balance sheets.

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 service cost, interest cost, plan amendments, termination benefits, actuarial gains and losses. 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.

	Thirty-nine Weeks Ended October 2, 2011	Fiscal Year Ended January 2, 2011
	(in thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	$ 13,830	$ 16,206
Service cost	483	525
Interest cost	501	746
Actuarial gain		986
Benefits paid	(137)	(4,633)
Projected benefit obligation, end of period	$ 14,677	$ 13,830
Change in Plan Assets		
Plan assets at fair value, beginning of period	$	$
Company contributions	137	4,633
Benefits paid	(137)	(4,633)
Plan assets at fair value, end of period	$	$