GEO GROUP INC
Form 10-K
March 02, 2011

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 2, 2011

OR

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-14260

The GEO Group, Inc.
(Exact name of registrant as specified in its charter)

Florida	**65-0043078**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
One Park Place, Suite 700, 621 Northwest 53rd Street Boca Raton, Florida	**33487-8242**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number (including area code):
(561) 893-0101
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value	New York Stock Exchange

Indicate by a check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the 47,864,477 voting and non-voting shares of common stock held by non-affiliates of the registrant as of July 2, 2010 (based on the last reported sales price of such stock on the New York Stock Exchange on such date of $20.69 per share) was approximately $990,316,029.

As of February 24, 2011, the registrant had 64,441,459 shares of common stock outstanding.

Certain portions of the registrant s annual report to security holders for fiscal year ended January 2, 2011 are incorporated by reference into Part III of this report. Certain portions of the registrant s definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 for its 2011 annual meeting of shareholders are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business*

As used in this report, the terms we, us, our, GEO and the Company refer to The GEO Group, Inc., its consolida subsidiaries and its unconsolidated affiliates, unless otherwise expressly stated or the context otherwise requires.

General

We are 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. We operate 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. We offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems at most of the domestic facilities we manage. We develop new facilities based on contract awards, using our project development expertise and experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency. We also provide secure transportation services for offender and detainee populations as contracted.

Our acquisition of Cornell Companies, Inc., which we refer to as Cornell and we refer to this transaction as the Cornell Acquisition, in August 2010 added scale to our presence in the U.S. correctional and detention market, and combined Cornell s adult community-based and youth treatment services into GEO Care s behavioral healthcare services platform to create a leadership position in this growing market. As of January 2, 2011, our worldwide operations included the management and/or ownership of approximately 81,000 beds at 118 correctional, detention and residential treatment facilities, including projects under development. On December 21, 2010, we entered into a Merger Agreement to acquire BII Holding Corporation, which we refer to as BII Holding and we refer to this transaction as the BI Acquisition. On February 10, 2011, we completed our acquisition of BII Holding, the indirect owner of 100% of the equity interests of B.I. Incorporated, which we refer to as BI, for $415.0 million in cash, subject to adjustments. BI is 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, BI has an exclusive contract with U.S. Immigration and Customs Enforcement, which we refer to as ICE, to provide supervision and reporting services designed to improve the participation of non-detained aliens in the immigration court system. We believe the addition of BI will provide us with the ability to offer turn-key solutions to our customers in managing the full lifecycle of an offender from arraignment to reintegration into the community, which we refer to as the corrections lifecycle.

We provide a diversified scope of services on behalf of our government clients:

- our correctional and detention management services involve the provision of security, administrative, rehabilitation, education, health and food services, primarily at adult male correctional and detention facilities;

- our mental health and residential treatment services involve working with governments to deliver quality care, innovative programming and active patient treatment, primarily in state-owned mental healthcare facilities;

- our community-based services involve supervision of adult parolees and probationers and the provision of temporary housing, programming, employment assistance and other services with the intention of the

successful reintegration of residents into the community;

our youth services include residential, detention and shelter care and community-based services along with rehabilitative, educational and treatment programs;

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we develop new facilities, using our project development experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency;

we provide secure transportation services for offender and detainee populations as contracted; and

as a result of the BI Acquisition, we also provide comprehensive electronic monitoring and supervision services.

We maintained an average companywide facility occupancy rate of 94.5% for the fiscal year ended January 2, 2011, excluding facilities that are either idle or under development. As a result of our merger with Cornell and our acquisition of BI on February 10, 2011, we will benefit from the combined company s increased scale and diversification of service offerings.

Business Segments

We conduct our business through four reportable business segments: our U.S. Detention & Corrections segment; our International Services segment; our GEO Care segment and our Facility Construction & Design segment. We have identified these four segments to reflect our current view that we operate four distinct business lines, each of which constitutes a material part of our overall business. Our U.S. Detention & Corrections segment primarily encompasses our U.S.-based privatized corrections and detention business. Our International Services segment primarily consists of our privatized corrections and detention operations in South Africa, Australia and the United Kingdom. Our GEO Care segment comprises our privatized mental health and residential treatment services business, our community-based services business and our youth services business, all of which are currently conducted in the U.S. Following the BI Acquisition, our GEO Care segment also comprises electronic monitoring and supervision services. Our Facility Construction & Design segment primarily contracts with various state, local and federal agencies for the design and construction of facilities for which we generally have been, or expect to be, awarded management contracts. Financial information about these segments for fiscal years 2010, 2009 and 2008 is contained in Note 18 Business Segments and Geographic Information of the Notes to Consolidated Financial Statements included in this Form 10-K and is incorporated herein by this reference.

Recent Developments

Acquisition of BII Holding

On February 10, 2011, GEO completed its previously announced acquisition of BI, a Colorado corporation, pursuant to an Agreement and Plan of Merger, dated as of December 21, 2010 (the Merger Agreement), with 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. Under the terms of the Merger Agreement, Merger Sub merged with and into BII Holding (the Merger), with BII Holding emerging as the surviving corporation of the merger. As a result of the Merger, GEO paid merger consideration of $415.0 million in cash excluding transaction related expenses and subject to certain adjustments. 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 $415.0 million of merger consideration. BI will be integrated into our wholly-owned subsidiary, GEO

Care.

Senior Notes due 2021

On February 10, 2011, we completed the issuance of $300.0 million in aggregate principal amount of ten-year, 6.625% senior unsecured notes due 2021, which we refer to as the 6.625% Senior Notes, in a private offering under an Indenture dated as of February 10, 2011 among us, certain of our domestic subsidiaries, as

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guarantors, and Wells Fargo Bank, National Association, as trustee. The 6.625% Senior Notes were offered and sold to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended, and outside the United States in accordance with Regulation S under the Securities Act. The 6.625% Senior Notes were issued at a coupon rate and yield to maturity of 6.625%. Interest on the 6.625% Senior Notes will accrue at the rate of 6.625% per annum and will be payable semi-annually in arrears on February 15 and August 15, commencing on August 15, 2011. The 6.625% Senior Notes mature on February 15, 2021. We used the net proceeds from this offering along with $150.0 million of borrowings under our senior credit facility to finance the acquisition of BI and to pay related fees, costs, and expenses. We used the remaining net proceeds for general corporate purposes.

Acquisition of Cornell

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

Senior Credit Facility

On August 4, 2010, we entered into a new Credit Agreement, between us, as Borrower, certain of our subsidiaries as Guarantors, and BNP Paribas, as Lender and Administrative Agent, which we refer to as our Senior Credit Facility , comprised of (i) a $150.0 million Term Loan A, referred to as Term Loan A , initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015, (ii) a $200.0 million Term Loan B referred to as Term Loan B , initially bearing interest at LIBOR plus 3.25% with a LIBOR floor of 1.50% and maturing August 4, 2016 and (iii) a Revolving Credit Facility, referred to as Revolving Credit Facility or Revolver , of $400.0 million initially bearing interest at LIBOR plus 2.5% and maturing August 4, 2015. On August 4, 2010, we used proceeds from borrowings under the Senior Credit Facility primarily to repay existing borrowings and accrued interest under the Third Amended and Restated Credit Agreement, which we refer to as the Prior Senior Credit Agreement , of $267.7 million and to pay $6.7 million for financing fees related to the Senior Credit Facility. On August 4, 2010, the Prior Senior Credit Agreement was terminated. On August 12, 2010, in connection with the Cornell merger, we primarily used aggregate proceeds of $290.0 million from the Term Loan A and from the Revolver under the Senior Credit Facility to repay Cornell s obligations plus accrued interest under its revolving line of credit due December 2011 of $67.5 million, to repay its obligations plus accrued interest under the existing 10.75% Senior Notes due July 2012 of $114.4 million, to pay $14.0 million in transaction costs and to pay the cash component of the Cornell merger consideration of $84.9 million.

Amendment of Senior Credit Facility

On February 8, 2011, we entered into Amendment No. 1, dated as of February 8, 2011, to the Credit Agreement dated as of August 4, 2010, by and among us, the Guarantors party thereto, the lenders party thereto and BNP Paribas, as administrative agent, which we refer to as Amendment No. 1. 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 Credit Agreement. Effective February 10, 2011, the revolving credit commitments under the Senior Credit Facility were increased by an aggregate principal amount equal to

$100.0 million, resulting in an aggregate of $500.0 million of revolving credit commitments. Also effective February 10, 2011, GEO obtained an additional $150.0 million of term loans under the Senior Credit Facility, specifically under a new $150.0 million incremental Term Loan A-2, initially bearing interest at LIBOR plus 2.75%. Following the execution of Amendment No. 1, the Senior Credit Facility is now comprised of: a $150.0 million Term Loan A due August 2015; a $150.0 million Term Loan A-2 due August 2015; a $200.0 million Term Loan B due August 2016; and a $500.0 million Revolving Credit Facility due August 2015. Incremental borrowings of $150.0 million under our amended Senior Credit Facility along with proceeds from our $300.0 million 6.625% Senior Notes were used to finance the acquisition of BI. As of February 10, 2011 and following the BI acquisition, the Company had $493.4 million in borrowings, net of discount, outstanding under the term loans, approximately $210.0 million in borrowings under the Revolving Credit Facility, approximately $56.2 million in letters of credit and approximately $233.8 million in additional borrowing capacity under the Revolving Credit Facility.

Retirement of Wayne H. Calabrese

Wayne H. Calabrese, our former Vice Chairman, President and Chief Operating Officer retired effective December 31, 2010, as previously announced on August 26, 2010. Mr. Calabrese s business development and oversight responsibilities have been reassigned throughout our senior management team and existing corporate structure. Mr. Calabrese will continue to work with us in a consulting capacity pursuant to a consulting agreement, dated as of August 26, 2010 (the Consulting Agreement) providing for a minimum term of one year. Under the terms of the Consulting Agreement, which began on January 3, 2011, Mr. Calabrese provides services to us and our subsidiaries for a monthly consulting fee. Services provided include business development and contract administration assistance relative to new and existing contracts.

Stock Repurchase Program

On February 22, 2010, we announced that our Board of Directors approved a stock repurchase program for up to $80.0 million of our common stock which was effective through March 31, 2011. The stock repurchase program was implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission requirements. The program also included repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The stock repurchase program did not obligate us to purchase any specific amount of our common stock and could be suspended or extended at any time at our discretion. During the fiscal year ended January 2 2011, we completed the program and purchased 4.0 million shares of our common stock at a cost of $80.0 million using cash on hand and cash flow from operating activities. Of the aggregate 4.0 million shares repurchased during the fiscal year ended January 2, 2011, 1.1 million shares were repurchased from executive officers at an aggregate cost of $22.3 million. Also during the fiscal year ended January 2, 2011, we repurchased 0.3 million shares of common stock from certain directors and executives for an aggregate cost of $7.1 million. These shares were retired immediately upon repurchase.

Facility activations

The following new projects were activated during the fiscal year ended January 2, 2011:

Facility	Location	Activation	Total Beds(1)	Start date
Aurora ICE Processing Center	Aurora, Colorado	New facility	N/A(2)	Third Quarter 2010

Harmondsworth Immigration Removal Centre	London, England	360-bed Expansion	620	Third Quarter 2010
Blackwater River Correctional Facility	Milton, FL	New contract	2,000	Fourth Quarter 2010
D. Ray James Correctional Facility	Folkston, GA	New contract	2,847	Fourth Quarter 2010

(1) Total Beds represents design capacity of the facility.

(2) We began transferring detainees from the 432-bed Aurora Detention Facility to the newly constructed 1,100-bed ICE Processing Center on July 17, 2010.

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In addition to the activations in the table above, we also announced an asset acquisition and several contract awards during the fiscal year 2010 as follows:

On June 7, 2010, we announced the acquisition of a 650-bed Correctional Facility in Adelanto, California, the Desert Sands Facility, for approximately $28.0 million financed with free cash flow and borrowings available under our Prior Senior Credit Agreement. During 2010, we began a project to retrofit this facility. We will market this facility to local, state and federal correctional and detention agencies.

On June 16, 2010, we announced the award of a contract from the Federal Bureau of Prisons (BOP) for the continued management of the company-owned Rivers Correctional Institution (Rivers) located in Winton, North Carolina. The new contract will have a term of ten years, inclusive of renewal options. Under the terms of the new contract, Rivers will house up to 1,450 BOP inmates with an occupancy guaranteed level of 90 percent, or 1,135 beds.

On June 22, 2010, we announced the signing of a new contract with the Louisiana Department of Public Safety and Corrections for the continued management of the 1,538-bed Allen Correctional Center located in Kinder, Louisiana. The new managed-only contract has a term of ten years effective July 1, 2010. We have managed this facility since December 2009.

On June 22, 2010, we announced the signing of a contract with the Mississippi Department of Corrections for the continued management of the 1,000-bed Marshall County Correctional Facility located in Holly Springs, Mississippi. The new managed-only contract has a term of five years effective September 1, 2010. We have managed this facility since June 1996.

On July 21, 2010, we announced the execution of a new contract with the State of Georgia, Department of Corrections for the development and operation of a new 1,500-bed correctional facility to be located in Milledgeville, Georgia. Under the terms of the contract, we will finance, develop, and operate the new 1,500-bed Facility on state-owned land pursuant to a 40-year ground lease. This facility is expected to cost $80.0 million and open in the first quarter of 2012.

On July 26, 2010, we announced our signing of a contract amendment with the East Mississippi Correctional Facility Authority (the Authority) for the continued management of the 1,500-bed East Mississippi Correctional Facility located in Meridian, Mississippi. The amendment extends our management contract with the Authority through March 15, 2015. The Authority in turn has a concurrent contract with the Mississippi Department of Corrections for the housing of Mississippi inmates at this facility.

On November 4, 2010, we announced our signing of a contract with the State of California, Department of Corrections and Rehabilitation for the out-of-state housing of up to 2,580 California inmates at our North Lake Correctional Facility located in Baldwin, Michigan. GEO will undertake a $60.0 million renovation and expansion project to convert this facility s existing dormitory housing units to cells and to increase the capacity of the 1,748-bed facility to 2,580 beds. We expect to complete the cell conversion of the existing dormitory housing units in the second quarter of 2011 and the new 832-bed expansion in the fourth quarter of 2011.

On November 5, 2010, we announced we were selected by the California Department of Corrections and Rehabilitation for contract awards for the housing of 650 female inmates at our owned 250-bed McFarland Community Correctional Facility and our 400-bed Mesa Verde Community Correctional Facility located in California. We were subsequently informed by the state that these contract awards have been put on hold, pending further review regarding the state s needs.

On November 18, 2010, we announced we were selected by the State of Indiana, Department of Correction, which we refer to as IDOC, for the management of the Short Term Offender Program at an existing state-owned facility in Plainfield, Indiana pending the completion of contract negotiations which were finalized in February 2011. GEO expects this facility to initially house approximately 300 inmates and ramp up to 1,066 inmates over time. We will manage the facility under a four-year contract with up to a four-year renewal option period.

On November 23, 2010, we announced that our wholly-owned subsidiary, GEO Care, signed a contract with Montgomery County, Texas for the management of the county-owned, 100-bed Montgomery County Mental Health Treatment Facility to be located in Conroe, Texas. The management contract between GEO Care and Montgomery County will have an initial term effective through August 31, 2011 with unlimited two-year renewal option periods. Montgomery County in turn has signed an Intergovernmental Agreement with the State of Texas for the housing of a mental health forensic population at this facility. We expect this facility to open in March 2011.

On December 8, 2010, we announced that Karnes County, Texas was awarded an Intergovernmental Services Agreement by ICE for the housing of up to 600 immigration detainees in a new 600-bed Civil Detention Center to be located in Karnes City, Texas. This center will be developed and operated by us pursuant to our subcontract with Karnes County and will be the first facility designed and operated for low risk detainees. We will finance, develop and manage the company-owned facility, which is expected to cost $32.0 million and be completed during the fourth quarter of 2011.

On December 15, 2010, we announced a 512-bed expansion of the 2,524-bed New Castle Correctional Facility in New Castle, Indiana managed by GEO under a contract with IDOC. We will fund and develop the high-security expansion, which is estimated to cost approximately $23.0 million, under a development agreement with the Indiana Finance Authority and will manage the expansion under an amendment to our existing management contract with IDOC. The amendment extends the management contract term, previously due to expire in September 2015, through June 30, 2030, including all renewal option periods.

Contract terminations

The following contracts were terminated during the fiscal year 2010. We do not expect that the termination of these contracts will have a material adverse impact, individually or in the aggregate, on our financial condition, results of operations or cash flows.

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

On April 14, 2010, we announced the results of the re-bids of two of our managed-only contracts. The State of Florida issued a Notice of Intent to Award contracts for the 1,884-bed Graceville Correctional Facility located in Graceville, Florida and the 985-bed Moore Haven Correctional Facility located in Moore Haven, Florida to another operator. These contracts terminated effective September 26, 2010 and August 1, 2010, respectively.

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

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

Effective May 29, 2011, our subsidiary in the United Kingdom will no longer manage the 215-bed Campsfield House Immigration Removal Centre in Kidlington, England.

Quality of Operations

We operate each facility in accordance with our company-wide policies and procedures and with the standards and guidelines required under the relevant management contract. For many facilities, the standards and guidelines include those established by the American Correctional Association, or ACA. The ACA is an independent organization of corrections professionals, which establishes correctional facility standards and guidelines that are generally acknowledged as a benchmark by governmental agencies responsible for correctional facilities. Many of our contracts in the United States require us to seek and maintain ACA

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accreditation of the facility. We have sought and received ACA accreditation and re-accreditation for all such facilities. We achieved a median re-accreditation score of 99.6% as of January 2, 2011. Approximately 71.8% of our 2010 U.S. Detention & Corrections revenue was derived from ACA accredited facilities for the year ended January 2, 2011. We have also achieved and maintained accreditation by The Joint Commission (TJC), at three of our correctional facilities, at our forensic unit in South Carolina and at three of our other adult treatment facilities. In addition, our managed-only 720-bed Florida Civil Commitment Center in Arcadia, Florida obtained successful Commission on Accreditation of Rehabilitation Facilities, CARF, accreditation within 18 months of operation. We have been successful in achieving and maintaining accreditation under the National Commission on Correctional Health Care, or NCCHC, in a majority of the facilities that we currently operate. The NCCHC accreditation is a voluntary process which we have used to establish comprehensive health care policies and procedures to meet and adhere to the ACA standards. The NCCHC standards, in most cases, exceed ACA Health Care Standards.

Business Development Overview

We intend to pursue a diversified growth strategy by winning new clients and contracts, expanding our government services portfolio and pursuing selective acquisition opportunities. Our primary potential customers are governmental agencies responsible for local, state and federal correctional facilities in the United States and governmental agencies responsible for correctional facilities in Australia, South Africa and the United Kingdom. Other primary customers include state agencies in the United States responsible for mental health facilities, juvenile offenders and other adult parolees and probationers as well as foreign governmental agencies. We achieve organic growth through competitive bidding that begins with the issuance by a government agency of a request for proposal, or RFP. We primarily rely on the RFP process for organic growth in our U.S. and international corrections operations as well as in our mental health and residential treatment, youth services, and community based re-entry services business.

Our state and local experience has been that a period of approximately sixty to ninety days is generally required from the issuance of a request for proposal to the submission of our response to the request for proposal; that between one and four months elapse between the submission of our response and the agency s award for a contract; and that between one and four months elapse between the award of a contract and the commencement of facility construction or management of the facility, as applicable.

Our federal experience has been that a period of approximately sixty to ninety days is generally required from the issuance of a request for proposal to the submission of our response to the request for proposal; that between twelve and eighteen months elapse between the submission of our response and the agency s award for a contract; and that between four and eighteen weeks elapse between the award of a contract and the commencement of facility construction or management of the facility, as applicable.

If the state, local or federal facility for which an award has been made must be constructed, our experience is that construction usually takes between nine and twenty-four months to complete, depending on the size and complexity of the project. Therefore, management of a newly constructed facility typically commences between ten and twenty-eight months after the governmental agency s award.

We believe that our long operating history and reputation have earned us credibility with both existing and prospective customers when bidding on new facility management contracts or when renewing existing contracts. Our success in the RFP process has resulted in a pipeline of new projects with significant revenue potential. During 2010, we activated four new or expansion projects representing an aggregate of 4,867 additional beds compared to the activation of eight new or expansion projects representing an aggregate of 2,698 beds during 2009. Also in 2010, we received awards for 7,846 beds out of the aggregate total of 19,849 beds awarded by governmental agencies during the year.

In addition to pursuing organic growth through the RFP process, we will from time to time selectively consider the financing and construction of new facilities or expansions to existing facilities on a speculative basis without having a signed contract with a known customer. We also plan to leverage our experience to expand the range of government-outsourced services that we provide. We will continue to pursue selected acquisition opportunities in our core services and other government services areas that meet our criteria for

growth and profitability. We have engaged and intend in the future to engage independent consultants to assist us in developing privatization opportunities and in responding to requests for proposals, monitoring the legislative and business climate, and maintaining relationships with existing customers.

Facility Design, Construction and Finance

We offer governmental agencies consultation and management services relating to the design and construction of new correctional and detention facilities and the redesign and renovation of older facilities. Domestically, as of January 2, 2011, we had provided services for the design and construction of approximately forty-six facilities and for the redesign and renovation and expansion of approximately thirty-three facilities. Internationally, as of January 2, 2011, we had provided services for the design and construction of ten facilities and for the redesign, renovation and expansion of one facility.

Contracts to design and construct or to redesign and renovate facilities may be financed in a variety of ways. Governmental agencies may finance the construction of such facilities through any of the following methods:

- a one time general revenue appropriation by the governmental agency for the cost of the new facility;
- general obligation bonds that are secured by either a limited or unlimited tax levy by the issuing governmental entity; or
- revenue bonds or certificates of participation secured by an annual lease payment that is subject to annual or bi-annual legislative appropriations.

We may also act as a source of financing or as a facilitator with respect to the financing of the construction of a facility. In these cases, the construction of such facilities may be financed through various methods including the following:

- funds from equity offerings of our stock;
- cash on hand and/or cash flows from our operations;
- borrowings by us from banks or other institutions (which may or may not be subject to government guarantees in the event of contract termination); or
- lease arrangements with third parties.

If the project is financed using direct governmental appropriations, with proceeds of the sale of bonds or other obligations issued prior to the award of the project, then financing is in place when the contract relating to the construction or renovation project is executed. If the project is financed using project-specific tax-exempt bonds or other obligations, the construction contract is generally subject to the sale of such bonds or obligations. Generally, substantial expenditures for construction will not be made on such a project until the tax-exempt bonds or other obligations are sold; and, if such bonds or obligations are not sold, construction and therefore, management of the facility, may either be delayed until alternative financing is procured or the development of the project will be suspended or entirely cancelled. If the project is self-financed by us, then financing is generally in place prior to the commencement of construction.

Under our construction and design management contracts, we generally agree to be responsible for overall project development and completion. We typically act as the primary developer on construction contracts for facilities and

subcontract with bonded National and/or Regional Design Build Contractors. Where possible, we subcontract with construction companies that we have worked with previously. We make use of an in-house staff of architects and operational experts from various correctional disciplines (e.g. security, medical service, food service, inmate programs and facility maintenance) as part of the team that participates from conceptual design through final construction of the project. This staff coordinates all aspects of the development with subcontractors and provides site-specific services.

When designing a facility, our architects use, with appropriate modifications, prototype designs we have used in developing prior projects. We believe that the use of these designs allows us to reduce the potential of

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cost overruns and construction delays and to reduce the number of correctional officers required to provide security at a facility, thus controlling costs both to construct and to manage the facility. Our facility designs also maintain security because they increase the area under direct surveillance by correctional officers and make use of additional electronic surveillance.

The following table sets forth current expansion and development projects at various stages of completion:

Facilities Under Construction	Additional Beds	Capacity Following Expansion/ Construction	Estimated Completion Date	Customer	Financing
Adelanto Facility, California	n/a	650	Q1 2011	(1)	GEO
North Lake Correctional Facility, Michigan	832	2,580	Q4 2011	CDCR(2)	GEO
Riverbend Correctional Facility, Georgia	1,500	1,500	Q1 2012	GDOC(3)	GEO
Karnes County Civil Detention Facility, Texas	600	600	Q4 2011	ICE(4)	GEO
New Castle Correctional Facility, Indiana	512	3,196	Q1 2012	IDOC	GEO
Total	3,444				

(1) We currently do not have a customer for this facility but are marketing these beds to various local, state and federal agencies.

(2) On November 4, 2010, we announced our signing of a contract with the State of California, Department of Corrections and Rehabilitation for the out-of-state housing of California inmates at the North Lake Correctional Facility. As a result of this new contract, we will complete a cell conversion on the existing 1,748-bed facility in Q2 2011 and expect to complete the expansion of this facility by 832 beds by the end of Q4 2011.

(3) On July 21, 2010, we announced the execution of our contract to develop and operate this facility under a contract with the Georgia Department of Corrections, which we refer to as GDOC .

(4) We will provide services at this facility through an Inter-Governmental Agreement, or IGA, through Karnes County.

Competitive Strengths

Leading Corrections Provider Uniquely Positioned to Offer a Continuum of Care

We are the second largest provider of privatized correctional and detention facilities worldwide, the largest provider of community-based re-entry services and youth services in the U.S. and, following the BI Acquisition, we are the largest provider of electronic monitoring services in the U.S. corrections industry. We believe these leading market positions and our diverse and complimentary service offerings enable us to meet the growing demand from our clients for comprehensive services throughout the entire corrections lifecycle. Our continuum of care enables us to provide consistency and continuity in case management, which we believe results in a higher quality of care for offenders, reduces recidivism, lowers overall costs for our clients, improves public safety and facilitates successful reintegration

of offenders back into society.

Large Scale Operator with National Presence

We operate the sixth largest correctional system in the U.S. by number of beds, including the federal government and all 50 states. We currently have operations in 24 states and, following the BI Acquisition, we will offer electronic monitoring services in every state. In addition, we have extensive experience in overall facility operations, including staff recruitment, administration, facility maintenance, food service, healthcare, security, and in the supervision, treatment and education of inmates. We believe our size and breadth of service offerings enable us to generate economies of scale which maximize our efficiencies and allows us to pass along cost savings to our clients. Our national presence also positions us to bid on and develop new facilities across the U.S.

Long-Term Relationships with High-Quality Government Customers

We have developed long-term relationships with our federal, state and other governmental customers, which we believe enhance our ability to win new contracts and retain existing business. We have provided correctional and detention management services to the United States Federal Government for 24 years, the State of California for 23 years, the State of Texas for approximately 23 years, various Australian state government entities for 19 years and the State of Florida for approximately 17 years. These customers accounted for approximately 65.9% of our consolidated revenues for the fiscal year ended January 2, 2011. The acquisitions of Cornell and BI have increased our business with our three largest federal clients, the Federal Bureau of Prisons, U.S. Marshals Service and ICE. The BI Acquisition also provides us with a new service offering for ICE, our largest client.

Recurring Revenue with Strong Cash Flow

Our revenue base is derived from our long-term customer relationships, with contract renewal rates and facility occupancy rates both in excess of 90% over the past five years. We have been able to expand our revenue base by continuing to reinvest our strong operating cash flow into expansionary projects and through strategic acquisitions that provide scale and further enhance our service offerings. Our consolidated revenues have grown from $565.5 million in 2004 to $1.3 billion in 2010. Additionally, we expect to achieve annual cost savings of $12-$15 million from the Cornell Acquisition and $3-$5 million from the BI Acquisition. We expect our operating cash flow to be well in excess of our anticipated annual maintenance capital expenditure needs, which would provide us significant flexibility for growth capital expenditures, acquisitions and/or the repayment of indebtedness.

Unique Privatized Mental Health, Residential Treatment and Community-Based Services Growth Platform

With the acquisitions of Cornell and BI, we have significantly expanded the service offerings of GEO Care s privatized mental health and residential treatment services business by adding substantial adult community-based residential operations, as well as new operations in community-based youth behavioral treatment services, electronic monitoring services and community re-entry and immigration related supervision services. Through both organic growth and acquisitions we have been able to grow GEO Care s business to approximately 6,500 beds and $213.8 million of revenues for the fiscal year ended January 2, 2011 from 325 beds and $31.7 million of revenues for the fiscal year ended 2004. We believe that GEO Care s core competency of providing diversified mental health, residential treatment, and community-based services uniquely position us to meet client demands for solutions that improve successful society re-integration rates for offenders throughout the corrections system.

Sizeable International Business

Our international infrastructure, which leverages our operational excellence in the U.S., allows us to aggressively target foreign opportunities that our U.S. based competitors without overseas operations may have difficulty pursuing. We currently have international operations in Australia, Canada, South Africa and the United Kingdom. Our International services business generated $190.5 million of revenues, representing 15.0% of our consolidated revenues, for the year ended January 2, 2011. We believe we are well positioned to continue benefiting from foreign governments initiatives to outsource correctional services.

Experienced, Proven Senior Management Team

Our Chief Executive Officer and the Founder, George C. Zoley, has led our Company for 26 years and has established a track record of growth and profitability. Under his leadership, our annual consolidated revenues from continuing operations have grown from $40.0 million in 1991 to $1.3 billion in 2010. Dr. Zoley is one of the pioneers of the industry, having developed and opened what we believe to be one of the first privatized detention facilities in the

U.S. in 1986. Our Chief Financial Officer, Brian R. Evans, has been with

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our company for over ten years and has led the integration of our recent acquisitions and financing activities. Our top six senior executives have an average tenure with our company of over ten years.

Business Strategies

Provide High Quality, Comprehensive Services and Cost Savings Throughout the Corrections Lifecycle

Our objective is to provide federal, state and local governmental agencies with a comprehensive offering of high quality, essential services at a lower cost than they themselves could achieve. We believe government agencies facing budgetary constraints will increasingly seek to outsource a greater proportion of their correctional needs to reliable providers that can enhance quality of service at a reduced cost. We believe our expanded and diversified service offerings uniquely position us to bundle our high quality services and provide a comprehensive continuum of care for our clients, which we believe will lead to lower cost outcomes for our clients and larger scale business opportunities for us.

Maintain Disciplined Operating Approach

We refrain from pursuing contracts that we do not believe will yield attractive profit margins in relation to the associated operational risks. In addition, although we engage in facility development from time to time without having a corresponding management contract award in place we endeavor to do so only where we have determined that there is medium to long-term client demand for a facility in that geographical area. We have also elected not to enter certain international markets with a history of economic and political instability. We believe that our strategy of emphasizing lower risk, higher profit opportunities helps us to consistently deliver strong operational performance, lower our costs and increase our overall profitability.

Pursue International Growth Opportunities

As a global provider of privatized correctional services, we are able to capitalize on opportunities to operate existing or new facilities on behalf of foreign governments. We have seen increased business development opportunities in recent years in the international markets in which we operate and are currently bidding on several new projects. We will continue to actively bid on new international projects in our current markets and in new markets that fit our target profile for profitability and operational risk. We also intend to cross sell our expanded service offerings into these markets, including the electronic monitoring and supervision services which we acquired in the BI Acquisition.

Selectively Pursue Acquisition Opportunities

We intend to continue to supplement our organic growth by selectively identifying, acquiring and integrating businesses that fit our strategic objectives and enhance our geographic platform and service offerings. Since 2005, and including the BI Acquisition, we will have successfully completed six acquisitions for total consideration, including debt assumed, in excess of $1.7 billion. Our management team utilizes a disciplined approach to analyze and evaluate acquisition opportunities, which we believe has contributed to our success in completing and integrating our acquisitions.

Facilities

The following table summarizes certain information as of January 2, 2011 with respect to U.S. and international facilities that GEO (or a subsidiary or joint venture of GEO) owned, operated under a

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management contract, had an agreement to provide services, had an award to manage or was in the process of constructing or expanding:

e	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options
on							
	650	Under construction					
	67	City of Alhambra	City Jail	All Levels	July 2008	3 years	Two, One-year
	750	AZ DOC	State DUI/RTC Correctional Facility	Minimum	October 2002	10 years	Two, Five-year
	450	AZ DOC	State DWI Correctional Facility	Minimum	July 2002	10 years	Two, Five-year
	432	Idle					
	1,100	ICE	Federal Detention Facility	Minimum/Medium	October 2006	8 months	Four, One-year
	262	Idle					
	32	City of Baldwin Park	City Jail	All Levels	July 2003	3 years	Three, Three-year
	15	City of Bell Garden	City Jail	All Levels	March 2008	4 months	

							Two, Three-year
na	1,280	AZ DOC	State Sex Offender Correctional Facility	Minimum/ Medium	December 2006	10 years	Two, Five-year
A	625	CDCR	State Correctional Facility	Medium	March 1997	10 years	One, Five year
to,	643	CDCR	State Correctional Facility	Medium	March 1997	10 years	One, Five-year
Jail CA	30	City of Downey	City Jail	All Levels	June 2003	3 years	Three, Three-year
ail CA	39	City of Fontana	City Jail	All Levels	February 2007	5 months	Five, One-year
	16	City of Garden Grove	City Jail	All Levels	January 2010	30 months	Unlimited
A	625	CDCR	State Correctional Facility	Medium	March 1997	10 years	One, Five-year
	600	Guadalupe County/NMCD	Local/State Correctional Facility	Medium	January 1999	3 years	One, two-year and Five, one-year
,	272	Idle					

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ame on	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options	Man Lea
nal udson,	1,250	CO DOC/ AK DOC	State Correctional Facility	Medium	November 2009	2.5 years	Three, One-year	I
ty nal obbs, o	1,200	Lea County/ NMCD	Local/State Correctional Facility	Medium	September 1998	5 years	Eight, one-year	
ney ty nal ive	305	CDCR	State Correctional Facility	Medium	October 2005	5 years	Two, Five-year	I
d ty nal d, CA	250	Idle						
de ty nal d, CA	400	Idle						
o City ngeles,	25	City of Montebello	City Jail	All Levels	January 1996	2 years	Unlimited, One-year	Man
New NM(2)	625	Clayton/ NMCD	Local/ State Correctional Facility	Medium	August 2008	5 years	Five, one-year	Man
t Center WA	1,575	ICE	Federal Detention Facility	All Levels	October 2009	1 year	Four, one-year	
	40	City of Ontario	City Jail	Any Level	September 2006	3 years		Man

ity Jail les, CA							Unlimited, One-year	
nal que,	970	USMS/BOP/ Bernalillo County	Federal/Local Correctional Facility	Maximum	March 2005	6 years	N/A	I
Region , CA	770	OFDT/USMS	Federal Detention Facility	Maximum	January 2006	5 years	One, Five-year	I
egion:								
g nal g X	3,509	BOP	Federal Correctional Facility	Medium	April 2007	4 years	Three, Two-year and One, six-month	Le
exas nio,	688	Bexar County/ ICE & USMS	Local & Federal Detention Facility	Minimum/ Medium	April 2009	10 years	N/A	I
nal , TX	520	TDCJ	State Correctional Facility	Minimum	January 2009	2.6 years	Two, Two-year	Man
ty Center TX(2)	391	Frio County/BOP/ Other Counties	Local Detention Facility	All Levels	November 1997	12 years	One, Five-year	I
ns nal	2,048	Idle						Le
/ onroe,	1,287	USMS/ICE/BOP Montgomery County	Local Correctional Facility	Medium	August 2008	2 years	Unlimited, two-year	Man

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Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options
679	Karnes County/ ICE & USMS	Local & Federal Detention Facility	All Levels	May 1998	30 years	N/A
600	Under construction	Federal Detention Facility	All Levels	December 2010	5 years	N/A
2,526	OK DOC	State Correctional Facility	Medium	July 2008	1 year	Five, one-year
1,000	TDCJ	State Correctional Facility	Minimum/ Medium	January 2009	2.6 years	Two, one-year
688	USMS/BOP Maverick County	Local Detention Facility	Medium	December 2008	3 Years	Unlimited, Two-year
424	TDJC	State Intermediate Sanction Facility	Medium	March 2004	3 Years	Four, one-year
200	Idle					
2,407	Reeves County/ BOP	Federal Correctional Facility	Low	February 2007	10 years	Unlimited ten year
1,356	Reeves County/ BOP	Federal Correctional Facility	Low	January 2007	10 years	Unlimited ten year

r	1,500	OFDT/USMS	Federal Detention Facility	Medium	October 2008	5 years	Three, Five-year
	1,904	ICE	Federal Detention Facility	All Levels	June 2005	1 year	Four, One-year
,	1,407	Val Verde County/USMS/ Border Patrol	Local & Federal Detention Facility	All Levels	January 2001	20 years	Unlimited, Five-year
:							
	1,538	LA DPS&C	State Correctional Facility	Medium/ Maximum	July 2010	10 years	N/A
er	2,000	FL DMS	State Correctional Facility	Medium/ close	April 2010	3 years	Two, two-year
er ,	700	ICE	Federal Detention Facility	Minimum	April 2009	11 months	Four, One-year, Unlimited 6-month

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ne	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options	M I
s .	2,847	BOP/USMS/ Charlton County	Local & Federal Detention Facility	All Levels	October 2010	4 years	Three, two-year	
S	1,500	MS DOC/IGA	State Mental Health Correctional Facility	All Levels	August 2006	2 years	Three, One-year	M
?	1,066	IDOC						M
e	1,160	LEDD/ICE	Federal Detention Facility	Minimum/ Medium	July 2007	Perpetual until termi nated	N/A	
e,	1,536	VA DOC	State Correctional Facility	Medium	March 2003	5 years	Ten, One-year	M
y	1,000	MS DOC	State Correctional Facility	Medium	September 2010	5 years	N/A	M
	130	ICE	Federal Migrant Center	Minimum	November 2006	11 months	Four, One-year	M
	1,495	BOP	Federal Correctional Facility	Medium	April 2006	36 months	Seven, one-year	

	2,684+512 expansion	IDOC	State Correctional Facility	All Levels	January 2006	4 years	Three, two-year	M
	2,580	CDCR	State Correctional Facility	Medium/Maximum	June 2011	5 years	Two-year unspecified	
	222	OFDT/USMS	Federal Detention Facility	Minimum/ Medium	January 2008	2 year	Four, two-year	
,	1,500	GDOC	State Correctional Facility	Medium	July 2010	Partial 1 year	Forty, One-year and one partial year	
	1,450	BOP	Federal Correctional Facility	Low	March 2001	3 years	Seven, One-year	
	768	OFDT/USMS	Federal Detention Facility	Medium	February 2008	5 years	Three, Five year	
n e	1,862	DMS	State Correctional Facility	Medium/ close	July 2009	3 years	Unlimited, Two-year	M
ut	1,450	MS DOC	State Correctional Facility	Maximum	October 2006	3 years	N/A	M

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ne	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options	M L
l Services:								
e Centre Australia	890	QLD DCS	State Remand Prison	High/ Maximum	January 2008	5 years	One, Five-year	M
ectional lu ommunity stralia	785	VIC DOJ	State Prison	Minimum/ Medium	October 1995	22 years	None	
tional South alia	790	NSW	State Prison	Minimum/Medium	April 2009	5 years	Two, Five-year	M
es ictoria,	N/A	VIC CV	Health Care Services	N/A	July 2009	17 months	Two, six-month	M
ectional ey,	823	NSW	State Remand Prison	All Levels	October 2009	5 years	One, Three-year	M
dom:								
House Removal ngton,	215	UK Home Office of Immigration	Detention Centre	Minimum	May 2006	3 years	One, Two-year	M
orth Removal on, England	620	United Kingdom Border Agency	Detention Centre	Minimum	June 2009	3 years	None	M
:								
humule Centre ovince, South	3,024	RSA DCS	National Prison	Maximum	February 2002	25 years	None	M

ick Youth achi,	N/A	PNB	Provincial Juvenile Facility	All Levels	October 1997	25 years	One, Ten-year	M
Treatment								
gional Columbia,	354	SCDOH/GDOC ICE/USMS	Correctional Health Care Hospital	Medical and Mental Health	July 2005	8 years	None	
Center	720	DCF	State Civil Commitment	All Levels	April 2009	5 years	Three, five-year	M
County h cility , TX	100	MC	Mental Health Treatment Facility	Mental Health	March 2011	Partial six-month	Unlimited two-year	M
County Jail FL	N/A	PBC as Subcontractor to Armor Healthcare	Mental Health Services to County Jail	All Levels	May 2006	5 years	N/A	M
a State broke	335	DCF	State Psychiatric Hospital	Mental Health	July 2008	5 years	Three, Five-year	M

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ty Name cation	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options	Manage Lease/ C
Florida ation and ment r Miami,	238	DCF	State Forensic Hospital	Mental Health	January 2006	5 years	Three, Five-year	Manage
ure Coast sic ment r Stuart,	223	DCF	State Forensic Hospital	Mental Health	April 2007	5 years	One, Five-year	Manage
nunity l Services:								
mont itional ment r mont, TX	180	TDCJ	Community Corrections Facility	Community	Sept 2003	2 years	Five, Two-year and One, six-month	Owr
k nunity try Center k, NY	110	BOP	Community Corrections Facility	Community	October 2007	2 years	Three, One-year	Leas
klyn nunity try Center klyn, NY	177	BOP	Community Corrections Facility	Community	August 2010	6 months	Three, two-month	Leas
ova Center orage, AK	192	AK DOC	Community Corrections Facility	Community	September 2007	7 months	Four, one-year, One five-month	Lease
onte r El e, CA	55	BOP	Community Corrections Facility	Community	March 2008	7 months	Four, one-year	Leas
man r enworth,	150	BOP	Community Corrections Facility	Community	October 2007	2 years	Three, one-year	Leas

/egas nunity ctional r Las s, NV	100	BOP/USPO	Community Corrections Facility	Community	October 2010	2 years	Three, one-year	Owr
l orehensive ion Center on, TX	190	BOP/USPO	Community Corrections Facility	Community	January 2011	2 years	Three, one-year	Lease(
n Gardens r Los es, CA	52	BOP	Community Corrections Facility	Community	May 2006	2 years	Three, one-year	Leas
be Center , TX	90	BOP/ Travis County/ Angelina County	Community Corrections Facility	Community	April 2007	2 years	Three, one-year	Owr
/alley e urg, TX	96	BOP/US Probation	Community Corrections Facility	Community	December 2008	2 years	Three, one-year	Leas
own Center orage, AK	32	AK DOC	Community Corrections Facility	Community	September 2007	7 months	Four, one-year, One five-month	Owr
star r anks, AK	135	AK DOC/ BOP	Community Corrections Facility	Community	December 2005	7 months	N/A	Leas
nd Center nd, CA	61	BOP	Community Corrections Facility	Community	November 2008	3 years	Seven, one-year	Owr

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Name tion	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options	Manag Lease
v Center ge, AK	112	AK DOC	Community Corrections Facility	Community	September 2007	7 months	Four, one-year, One five-month	Lea
House ville, TX	66	BOP/ US Probation	Community Corrections Facility	Community	December 2005	2 years	Three, one-year, One two-month	O
mmunity tial Facility , TX	500	TDCJ	Community Corrections Facility	Community	September 2003	2 years	Five, two-year	Lea
e City Center e City, UT	78	BOP/ US Probation	Community Corrections Facility	Community	December 2005	1 year	Three, one-year, One two-month	Le
Center Nome,	48	AK DOC	Community Corrections Facility	Community	December 2007	1 year	Five, one-year	Le
treet Center ncisco, CA	177	BOP/ CDCR	Community Corrections Facility	Community	February 2006	3 years	Seven, one-year	O
Center Bethel,	85	AK DOC	Community Corrections Facility	Community	December 2006	1 year	Five, one-year	Lea
ervices:								
ial Facilities								
Academy own, PA	214	Various	Youth Residential Facility	Secure	2006	N/A	N/A	O
Center For ent Females g, PA	108	Various	Youth Residential Facility	Staff Secure	1989	N/A	N/A	O

I ille, PA	274	Various	Youth Residential Facility	Staff Secure	1973	N/A	N/A	Lea
Ohio Shelby,	108	Various	Youth Residential Facility	Staff Secure	1993	N/A	N/A	Lea
III, gh, PA	24	Idle						O
Youth outh n, PA	72	Various	Youth Residential Facility	Secure/Staff Secure	1999	N/A	N/A	Le
Interventions da, IL	32	IL DASA, Medicaid, Private	Youth Residential Facility	Staff Secure	1999	N/A	N/A	O
Interventions e, IL	36	IL DASA, Medicaid, Private	Youth Residential Facility	Staff Secure	1999	N/A	N/A	O
idential s Erie, PA	40	Various	Youth Residential Facility	Staff Secure	1974	N/A	N/A	O
Garza Center onio, TX	122	TDFPS, TYC and County Probation Depts.	Youth Residential Facility	Staff Secure	2003	N/A	N/A	Lea

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me n	Capacity(1)	Customer	Facility Type	Security Level	Commencement of Current Contract(7)	Base Period	Renewal Options	Ma Le
Development uth Mountain,	128	Various	Youth Residential Facility	Staff Secure	1994	N/A	N/A	
outh Center A	63	Dauphin County	Youth Residential Facility	Secure/ Staff Secure	January 2009	2 years	N/A	Ma
eaks Regional Center Canon	136	Various	Youth Residential Facility	Staff Secure	2004	N/A	N/A	
Interventions .	128	IL DASA, City of Chicago, Medicaid, Private	Youth Residential Facility	Staff Secure	1999	N/A	N/A	
escent Center , TX	145	Idle						
DC Facility , DC(8)	70	Idle						
Interventions IL	90	IL DASA, Medicaid, Private	Youth Residential Facility	Staff Secure	1999	N/A	N/A	
ntial Facilities						N/A	N/A	
unseling mbus, OH	78	Various	Youth Non-residential Service Center	Open	2008	N/A	N/A	
-Based ilford, DE	66	State of Delaware	Youth Non-residential Service Center	Open	1994	N/A	N/A	
-Based arrisburg, PA	136	Dauphin or Cumberland Counties	Youth Non-residential Service Center	Open	1995	N/A	N/A	
ey -Based	60	Lehigh and Northampton	Youth Non-residential	Open	1987	N/A	N/A	

ehigh Valley,		Counties	Service Center				
Interventions J	231	IL DASA, Medicaid, Private	Youth Non-residential Service Center	Open	1999	N/A	N/A
a -Based hiladelphia,	236	City of Philadelphia, Philadelphia School District	Youth Non-residential Service Center	Open	1994	N/A	N/A
e Pittsburgh,	600	Allegheny County	Youth Non-residential Service Center	Open	1987	N/A	N/A
y Juvenile Programs PA	36	YCCYS	Youth Non-residential Service Center	Open	1995	N/A	N/A

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Customer Legend:

Abbreviation	Customer
AZ DOC	Arizona Department of Corrections
AK DOC	Alaska Department of Corrections
BOP	Federal Bureau of Prisons
CDCR	California Department of Corrections & Rehabilitation
CDE	Colorado Department of Education
CO DHS DYC	Colorado Department of Human Services, Division of Youth Corrections
DCF	Florida Department of Children & Families
DMS	Florida Department of Management Services
GDOC	Georgia Department of Corrections
ICE	U.S. Immigration & Customs Enforcement
IDOC	Indiana Department of Correction
IGA	Intergovernmental Agreement
IL DASA	Illinois Department of Alcoholism and Substance Abuse
LA DPS&C	Louisiana Department of Public Safety & Corrections
LEDD	LaSalle Economic Development District
MC	Montgomery County
MS DOC	Mississippi Department of Corrections (East Mississippi & Marshall County)
NMCD	New Mexico Corrections Department
NSW	Commissioner of Corrective Services for New South Wales
OK DOC	Oklahoma Department of Corrections
OFDT	Office of Federal Detention Trustee
PA BSCF	Pennsylvania Department of Public Welfare, Bureau of State Children and Families
PA DHS CY	Pennsylvania Department of Human Services, Children and Youth Division
PA DPW	Pennsylvania Department of Public Welfare
PBC	Palm Beach County
PNB	Province of New Brunswick
QLD DCS	Department of Corrective Services of the State of Queensland
RSA DCS	Republic of South Africa Department of Correctional Services
SCDOH	South Carolina Department of Health
TDCJ	Texas Department of Criminal Justice
TDFPS	Texas Department of Family and Protective Services
TYC	Texas Youth Commission
USMS	United States Marshals Service
USPO	United States Probation Office
VA DOC	Virginia Department of Corrections
VIC CC	The Chief Commissioner of the Victoria Police
VIC CV	The State of Victoria represented by Corrections Victoria
VIC DOJ	Department of Justice of the State of Victoria
YCCYS	York County Human Services Division, Children and Youth Services

(1) Capacity as used in the table refers to design capacity consisting of total beds for all facilities except for the eight Non-residential service centers under Youth Services for which we have provided service capacity which represents the number of juveniles that can be serviced daily.

(2) GEO provides services at these facilities through various Inter-Governmental Agreements, or IGAs, through the various counties and other jurisdictions.

(3) The full term of this contract expired in December 2009 and was extended until December 12, 2011.

(4) The contract for this facility only requires GEO to provide maintenance services.

(5) GEO provides comprehensive healthcare services to nine government-operated prisons under this contract.

(6) These facilities are owned by Municipal Corrections Finance, L.P., our variable interest entity.

(7) For Youth Services Residential Facilities and Non-residential Service Centers, the contract commencement date represents either the program start date or the date that the facility operations were acquired by Cornell. The service agreements under these arrangements, with the exception of Schaffner Youth Center, provide for services on an as-contracted basis and there are no guaranteed minimum populations or management contracts with specified renewal dates. These arrangements are more perpetual in nature.

(8) This facility is classified as held for sale as of January 2, 2011.

(9) This contract was awarded during fiscal year 2010 and its terms are under negotiation.

Government Contracts Terminations, Renewals and Competitive Re-bids

Generally, we may lose our facility management contracts due to one of three reasons: the termination by a government customer with or without cause at any time; the failure by a customer to renew a contract with us upon the expiration of the then current term; or our failure to win the right to continue to operate under a contract that has been competitively re-bid in a procurement process upon its termination or expiration. Our facility management contracts typically allow a contracting governmental agency to terminate a contract with or without cause at any time by giving us written notice ranging from 30 to 180 days. If government agencies were to use these provisions to terminate, or renegotiate the terms of their agreements with us, our financial condition and results of operations could be materially adversely affected. See Risk Factors We are subject to the loss of our facility management contracts due to terminations, non-renewals or competitive re- bids, which could adversely affect our results of operations and liquidity, including our ability to secure new facility management contracts from other government customers .

Aside from our customers unilateral right to terminate our facility management contracts with them at any time for any reason, there are two points during the typical lifecycle of a contract which may result in the loss by us of a facility management contract with our customers. We refer to these points as contract renewals and contract re-bids. Many of our facility management contracts with our government customers have an initial fixed term and subsequent renewal rights for one or more additional periods at the unilateral option of the customer. Because most of our contracts for youth services do not guarantee placement or revenue, we do not consider these contracts to ever be in the renewal or re-bid stage since they are more perpetual in nature. As such, they are not considered in the table below. We count each government customer s right to renew a particular facility management contract for an additional period as a separate renewal. For example, a five-year initial fixed term contract with customer options to renew for five separate additional one-year periods would, if fully exercised, be counted as five separate renewals, with one renewal coming in each of the five years following the initial term. As of January 2, 2011, 32 of our facility management contracts representing 19,450 beds are scheduled to expire on or before January 1, 2012, unless renewed by the customer at its sole option in certain cases, or unless renewed by mutual agreement in other cases. These contracts represented 21.5% of our consolidated revenues for the fiscal year ended January 2, 2011. We undertake substantial efforts to renew our facility management contracts. Our historical facility management contract renewal rate exceeds 90%. However, given their unilateral nature, we cannot assure you that our customers will in fact exercise their renewal options under existing contracts. In addition, in connection with contract renewals, either we or the contracting government agency have typically requested changes or adjustments to contractual terms. As a result, contract renewals may be made on terms that are more or less favorable to us than those in existence prior to the renewals.

We define competitive re-bids as contracts currently under our management which we believe, based on our experience with the customer and the facility involved, will be re-bid to us and other potential service providers in a

competitive procurement process upon the expiration or termination of our contract, assuming all renewal options are exercised. Our determination of which contracts we believe will be competitively re-bid may in some cases be subjective and judgmental, based largely on our knowledge of the dynamics involving a particular contract, the customer and the facility involved. Competitive re-bids may result from the expiration of the term of a contract, including the initial fixed term plus any renewal periods, or the early termination of a contract by a customer. Competitive re-bids are often required by applicable federal or state procurement laws periodically in order to encourage competitive pricing and other terms for the government

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customer. Potential bidders in competitive re-bid situations include us, other private operators and other government entities. While we are pleased with our historical win rate on competitive re-bids and are committed to continuing to bid competitively on appropriate future competitive re-bid opportunities, we cannot in fact assure you that we will prevail in future competitive re-bid situations. Also, we cannot assure you that any competitive re-bids we win will be on terms more favorable to us than those in existence with respect to the expiring contract.

As of January 2, 2011, 15 of our facility management contracts representing 7.6% and $96.3 million of our fiscal year 2010 consolidated revenues are subject to competitive re-bid in 2011. The following table sets forth the number of facility management contracts that we currently believe will be subject to competitive re-bid in each of the next five years and thereafter, and the total number of beds relating to those potential competitive re-bid situations during each period:

Year	Re-bid	Total Number of Beds up for Re-bid
2011	15	5,768
2012	15	4,881
2013	5	842
2014	4	4,816
2015	11	5,498
Thereafter	29	34,263
Total	79	56,068

Competition

We compete primarily on the basis of the quality and range of services we offer; our experience domestically and internationally in the design, construction, and management of privatized correctional and detention facilities; our reputation; and our pricing. We compete directly with the public sector, where governmental agencies responsible for the operation of correctional, detention, youth services, community based services, and mental health, residential treatment and re-entry facilities are often seeking to retain projects that might otherwise be privatized. In the private sector, our U.S. Detention & Correction s and International Services business segments compete with a number of companies, including, but not limited to: Corrections Corporation of America; Management and Training Corporation; Louisiana Corrections Services, Inc.; Emerald Companies; Community Education Centers; LaSalle Southwest Corrections; Group 4 Securicor; Sodexo Justice Services (formerly Kaylx); and Serco. Our GEO Care business segment competes with a number of different small-to-medium sized companies, reflecting the highly fragmented nature of the youth services, community based services, and mental health and residential treatment services industry. BI s electronic monitoring business segment competes with a number of companies, including, but not limited to: G4 Justice Services, LLC; Elmo-Tech, a 3M Company; and Pro-Tech, a 3M Company. Some of our competitors are larger and have more resources than we do. We also compete in some markets with small local companies that may have a better knowledge of the local conditions and may be better able to gain political and public acceptance.

Employees and Employee Training

At January 2, 2011, we had 19,352 full-time employees. Of our full-time employees, 433 were employed at our headquarters and regional offices and 18,919 were employed at facilities and international offices. We employ personnel in positions of management, administrative and clerical, security, educational services, human services,

health services and general maintenance at our various locations. Approximately 1,574 and 1,669 employees are covered by collective bargaining agreements in the United States and at international offices, respectively. We believe that our relations with our employees are satisfactory.

Under the laws applicable to most of our operations, and internal company policies, our correctional officers are required to complete a minimum amount of training. We generally require at least 40 hours of pre-service training before an employee is allowed to assume their duties plus an additional 120 hours of training

during their first year of employment in our domestic facilities, consistent with ACA standards and/or applicable state laws. In addition to the usual 160 hours of training in the first year, most states require 40 or 80 hours of on-the-job training. Florida law requires that correctional officers receive 520 hours of training. We believe that our training programs meet or exceed all applicable requirements.

Our training program for domestic facilities typically begins with approximately 40 hours of instruction regarding our policies, operational procedures and management philosophy. Training continues with an additional 120 hours of instruction covering legal issues, rights of inmates, techniques of communication and supervision, interpersonal skills and job training relating to the particular position to be held. Each of our employees who has contact with inmates receives a minimum of 40 hours of additional training each year, and each manager receives at least 24 hours of training each year.

At least 160 hours of training are required for our employees in Australia and South Africa before such employees are allowed to work in positions that will bring them into contact with inmates. Our employees in Australia and South Africa receive a minimum of 40 hours of refresher training each year. In the United Kingdom, our corrections employees also receive a minimum of 240 hours prior to coming in contact with inmates and receive additional training of approximately 25 hours annually.

Business Regulations and Legal Considerations

Many governmental agencies are required to enter into a competitive bidding procedure before awarding contracts for products or services. The laws of certain jurisdictions may also require us to award subcontracts on a competitive basis or to subcontract or partner with businesses owned by women or members of minority groups.

Certain states, such as Florida, deem correctional officers to be peace officers and require our personnel to be licensed and subject to background investigation. State law also typically requires correctional officers to meet certain training standards.

The failure to comply with any applicable laws, rules or regulations or the loss of any required license could have a material adverse effect on our business, financial condition and results of operations. Furthermore, our current and future operations may be subject to additional regulations as a result of, among other factors, new statutes and regulations and changes in the manner in which existing statutes and regulations are or may be interpreted or applied. Any such additional regulations could have a material adverse effect on our business, financial condition and results of operations.

Insurance

The nature of our business exposes us to various types of third-party legal claims, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, product liability claims, intellectual property infringement claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, contractual claims and claims for personal injury or other damages resulting from contact with our facilities, programs, electronic monitoring products, personnel or prisoners, including damages arising from a prisoner s escape or from a disturbance or riot at a facility. In addition, our management contracts generally require us to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. We maintain a broad program of insurance coverage for these general types of claims, except for claims relating to employment matters, for which we carry no insurance. There can be no assurance that our insurance coverage will be adequate to cover all claims to which we may be exposed. It is our general practice to bring merged

or acquired companies into our corporate master policies in order to take advantage of certain economies of scale.

We currently maintain a general liability policy and excess liability policy for U.S. Detention & Corrections, GEO Care s Community-Based Services, GEO Care s Youth Services and BI, Inc. with limits of

$62.0 million per occurrence and in the aggregate. A separate $35.0 million limit applies to medical professional liability claims arising out of correctional healthcare services. Our wholly owned subsidiary, GEO Care, Inc., has a separate insurance program for their residential services division, with a specific loss limit of $35.0 million per occurrence and in the aggregate with respect to general liability and medical professional liability. We are uninsured for any claims in excess of these limits. We also maintain insurance to cover property and other casualty risks including, workers compensation, environmental liability and automobile liability.

For most casualty insurance policies, we carry substantial deductibles or self-insured retentions $3.0 million per occurrence for general liability and hospital professional liability, $2.0 million per occurrence for workers compensation and $1.0 million per occurrence for automobile liability. In addition, certain of our facilities located in Florida and other high-risk hurricane areas carry substantial windstorm deductibles. Since hurricanes are considered unpredictable future events, no reserves have been established to pre-fund for potential windstorm damage. Limited commercial availability of certain types of insurance relating to windstorm exposure in coastal areas and earthquake exposure mainly in California may prevent us from insuring some of our facilities to full replacement value.

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

Of the reserves discussed above, our most significant insurance reserves relate to workers compensation and general liability claims. These reserves are undiscounted and were $40.2 million and $27.2 million as of January 2, 2011 and January 3, 2010, respectively. We use statistical and actuarial methods to estimate amounts for claims that have been reported but not paid and claims incurred but not reported. In applying these methods and assessing their results, we consider such factors as historical frequency and severity of claims at each of our facilities, claim development, payment patterns and changes in the nature of our business, among other factors. Such factors are analyzed for each of our business segments. Our estimates may be impacted by such factors as increases in the market price for medical services and unpredictability of the size of jury awards. We also may experience variability between our estimates and the actual settlement due to limitations inherent in the estimation process, including our ability to estimate costs of processing and settling claims in a timely manner as well as our ability to accurately estimate our exposure at the onset of a claim. Because we have high deductible insurance policies, the amount of our insurance expense is dependent on our ability to control our claims experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition, results of operations and cash flows could be materially adversely impacted.

International Operations

Our international operations for fiscal years 2010 and 2009 consisted of the operations of our wholly-owned Australian subsidiaries, our wholly owned subsidiary in the United Kingdom, and South African Custodial Management Pty. Limited, our consolidated joint venture in South Africa, which we refer to as SACM. In Australia, our wholly-owned subsidiary, GEO Australia, currently manages four facilities and provides comprehensive healthcare services to nine government operated prisons. We operate one facility in South Africa through SACM. During Fourth Quarter 2004, we opened an office in the United Kingdom to pursue new business opportunities throughout Europe. On June 29, 2009, GEO UK assumed management functions of the 260-bed Harmondsworth Immigration Removal Centre in London, England. The Harmondsworth Immigration Removal Centre was expanded by 360 beds during fiscal year 2010 and is managed by our subsidiary under a three-year contract. See Item 7 for more discussion related to the results of our international operations. Financial information about our operations in different geographic regions appears in Item 8. Financial Statements Note 18 Business Segment and Geographic Information.

Business Concentration

Except for the major customers noted in the following table, no other single customer made up greater than 10% of our consolidated revenues, excluding discontinued operations, for these years.

Customer	2010	2009	2008
Various agencies of the U.S Federal Government:	35%	31%	28%
Various agencies of the State of Florida:	14%	16%	17%

Available Information

Additional information about us can be found at *www.geogroup.com.* We make available on our website, free of charge, access to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, our annual proxy statement on Schedule 14A and amendments to those materials filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934 as soon as reasonably practicable after we electronically submit such materials to the Securities and Exchange Commission, or the SEC. In addition, the SEC makes available on its website, free of charge, reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including GEO. The SEC s website is located at http://www.sec.gov. Information provided on our website or on the SEC s website is not part of this Annual Report on Form 10-K.

Item 1A. *Risk Factors*

The following are certain risks to which our business operations are subject. Any of these risks could materially adversely affect our business, financial condition, or results of operations. These risks could also cause our actual results to differ materially from those indicated in the forward-looking statements contained herein and elsewhere. *The risks described below are not the only risks we face. Additional risks not currently known to us or those we currently deem to be immaterial may also materially and adversely affect our business operations.*

Risks Related to Our High Level of Indebtedness

Our significant level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt service obligations.

We have a significant amount of indebtedness. Our total consolidated indebtedness as of January 2, 2011 was $807.8 million, excluding non-recourse debt of $222.7 million and capital lease obligations of $14.5 million. As of January 2, 2011, we had $57.0 million outstanding in letters of credit and $212.0 million in borrowings outstanding under the Revolver. Our total consolidated indebtedness as of February 10, 2011, upon consummation of the BI Acquisition and following the execution of Amendment No. 1 to the Senior Credit Facility, which included an additional $150.0 million of term loans and an increase of $100.0 million revolving credit commitments, was $1,251.4 million, excluding non-recourse debt of $216.8 million and capital lease obligations of $14.3 million. As of February 10, 2011, we had $210.0 million in borrowings under the Revolver. Consequently, as of February 10, 2011, we had the ability to borrow $233.8 million under our Revolver.

Our substantial indebtedness could have important consequences. For example, it could:

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

increase our vulnerability to adverse economic and industry conditions;

place us at a competitive disadvantage compared to competitors that may be less leveraged; and

limit our ability to borrow additional funds or refinance existing indebtedness on favorable terms.

If we are unable to meet our debt service obligations, we may need to reduce capital expenditures, restructure or refinance our indebtedness, obtain additional equity financing or sell assets. We may be unable to restructure or refinance our indebtedness, obtain additional equity financing or sell assets on satisfactory terms or at all. In addition, our ability to incur additional indebtedness will be restricted by the terms of our senior credit facility, the indenture governing the 73/4% senior notes and the indenture governing the 6.625% senior notes.

We are incurring significant indebtedness in connection with substantial ongoing capital expenditures. Capital expenditures for existing and future projects may materially strain our liquidity.

As of January 2, 2011, we were developing a number of projects that we estimate will cost approximately $282.4 million, of which $54.9 million was spent through January 2, 2011. We estimate our remaining capital requirements to be approximately $227.5 million, which we anticipate will be spent in fiscal years 2011 and 2012. Capital expenditures related to facility maintenance costs are expected to range between $20.0 million and $25.0 million for fiscal year 2011. We intend to finance these and future projects using our own funds, including cash on hand, cash flow from operations and borrowings under the revolver portion of our Senior Credit Facility. In addition to these current estimated capital requirements for 2011, we are currently in the process of bidding on, or evaluating potential bids for the design, construction and management of a number of new projects. In the event that we win bids for these projects and decide to self-finance their construction, our capital requirements in 2011 could materially increase. As of January 2, 2011, we had the ability to borrow $131.0 million under the revolver portion of our Senior Credit Facility subject to our satisfying the relevant borrowing conditions under the Senior Credit Facility. As of February 10, 2011, upon consummation of the BI Acquisition and following the execution of Amendment No. 1 to the senior credit facility, our obtaining an additional $150.0 million of term loans and an increase of $100.0 million aggregate principal amount of revolving credit commitments under the Senior Credit Facility, we had the ability to borrow $233.8 million under the revolver portion of our Senior Credit Facility subject to our satisfying the relevant borrowing conditions thereunder. In addition, we have the ability to borrow $250.0 million under the accordion feature of our Senior Credit Facility subject to lender demand and prevailing market conditions and satisfying the relevant borrowing conditions thereunder. While we believe we currently have adequate borrowing capacity under our Senior Credit Facility to fund our operations and all of our committed capital expenditure projects, we may need additional borrowings or financing from other sources in order to complete potential capital expenditures related to new projects in the future. We cannot assure you that such borrowings or financing will be made available to us on satisfactory terms, or at all. In addition, the large capital commitments that these projects will require over the next 12-18 month period may materially strain our liquidity and our borrowing capacity for other purposes. Capital constraints caused by these projects may also cause us to have to entirely refinance our existing indebtedness or incur more indebtedness. Such financing may have terms less favorable than those we currently have in place, or not be available to us at all. In addition, the concurrent development of these and other large capital projects exposes us to material risks. For example, we may not complete some or all of the projects on time or on budget, which could cause us to absorb any losses associated with any delays.

Despite current indebtedness levels, we may still incur more indebtedness, which could further exacerbate the risks described above.

The terms of the indenture governing the 73/4% senior notes, the indenture governing the 6.625% senior notes and our Senior Credit Facility restrict our ability to incur but do not prohibit us from incurring significant additional indebtedness in the future. As of January 2, 2011, we had the ability to borrow an additional $131.0 million under the revolver portion of our Senior Credit Facility, subject to our satisfying the relevant borrowing conditions under the Senior Credit Facility. As of February 10, 2011, upon consummation of the BI Acquisition and following the execution of Amendment No. 1 to the Senior Credit Facility, our obtaining an additional $150.0 million of term loans and an increase of $100.0 million aggregate principal amount of revolving credit commitments under the Senior

Credit Facility, we had the ability to borrow $233.8 million under the revolver portion of our Senior Credit Facility subject to our satisfying the relevant borrowing conditions thereunder. We also would have had the ability to borrow an additional $250.0 million under the accordion feature of our senior credit facility subject to lender demand, prevailing market conditions and

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satisfying relevant borrowing conditions. Also, we may refinance all or a portion of our indebtedness, including borrowings under our Senior Credit Facility, the 73/4% Senior Notes and/or the 6.625% Senior Notes. The terms of such refinancing may be less restrictive and permit us to incur more indebtedness than we can now. If new indebtedness is added to our and our subsidiaries current debt levels, the related risks that we and they now face related to our significant level of indebtedness could intensify.

The covenants in the indenture governing the 73/4% Senior Notes, the indenture governing the 6.625% Senior Notes and our Senior Credit Facility impose significant operating and financial restrictions which may adversely affect our ability to operate our business.

The indenture governing the 73/4% Senior Notes, the indenture governing the 6.625% Senior Notes and our Senior Credit Facility impose significant operating and financial restrictions on us and certain of our subsidiaries, which we refer to as restricted subsidiaries. These restrictions limit our ability to, among other things:

- incur additional indebtedness;
- pay dividends and or distributions on our capital stock, repurchase, redeem or retire our capital stock, prepay subordinated indebtedness, make investments;
- issue preferred stock of subsidiaries;
- guarantee other indebtedness;
- create liens on our assets;
- transfer and sell assets;
- make capital expenditures above certain limits;
- create or permit restrictions on the ability of our restricted subsidiaries to make dividends or make other distributions to us;
- enter into sale/leaseback transactions;
- enter into transactions with affiliates; and
- merge or consolidate with another company or sell all or substantially all of our assets.

These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities. In addition, our Senior Credit Facility requires us to maintain specified financial ratios and satisfy certain financial covenants, including maintaining maximum senior secured leverage ratio and total leverage ratios, and a minimum interest coverage ratio. Some of these financial ratios become more restrictive over the life of the senior credit facility. We may be required to take action to reduce our indebtedness or to act in a manner contrary to our business objectives to meet these ratios and satisfy these covenants. We could also incur additional indebtedness having even more restrictive covenants. Our failure to comply with any of the covenants under our senior credit facility, the indenture governing the 73/4% Senior Notes and the indenture governing the 6.625% Senior Notes or any other indebtedness could prevent us from being able to draw on the revolver portion of our senior credit facility, cause an event of default under such documents and result in an acceleration of all of our outstanding indebtedness. If all of our outstanding indebtedness were to be accelerated, we likely would not be able to

simultaneously satisfy all of our obligations under such indebtedness, which would materially adversely affect our financial condition and results of operations.

Servicing our indebtedness will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund planned capital expenditures will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Our business may not be able to generate sufficient cash flow from operations or future borrowings may not be available to us under our Senior Credit Facility or otherwise in an amount sufficient to enable us to pay our indebtedness or debt securities, including the 73/4% Senior Notes and the 6.625% Senior Notes, or to fund our other liquidity needs. As a result, we may need to refinance all or a portion of our indebtedness on or before maturity. However, we may not be able to complete such refinancing on commercially reasonable terms or at all.

Because portions of our senior indebtedness have floating interest rates, a general increase in interest rates will adversely affect cash flows.

Borrowings under our Senior Credit Facility bear interest at a variable rate. As a result, to the extent our exposure to increases in interest rates is not eliminated through interest rate protection agreements, such increases will result in higher debt service costs which will adversely affect our cash flows. We currently do not have interest rate protection agreements in place to protect against interest rate fluctuations on borrowings under our Senior Credit Facility. As of January 2, 2011 we had $557.8 million of indebtedness outstanding under our Senior Credit Facility (net of discount of $1.9 million), and a one percent increase in the interest rate applicable to the Senior Credit Facility would increase our annual interest expense by $5.6 million.

We depend on distributions from our subsidiaries to make payments on our indebtedness. These distributions may not be made.

A substantial portion of our business is conducted by our subsidiaries. Therefore, our ability to meet our payment obligations on our indebtedness is substantially dependent on the earnings of certain of our subsidiaries and the payment of funds to us by our subsidiaries as dividends, loans, advances or other payments. Our subsidiaries are separate and distinct legal entities and, unless they expressly guarantee any indebtedness of ours, they are not obligated to make funds available for payment of our indebtedness in the form of loans, distributions or otherwise. Our subsidiaries ability to make any such loans, distributions or other payments to us will depend on their earnings, business results, the terms of their existing and any future indebtedness, tax considerations and legal or contractual restrictions to which they may be subject. If our subsidiaries do not make such payments to us, our ability to repay our indebtedness may be materially adversely affected. For the year ended January 2, 2011, our subsidiaries accounted for 58.9% of our consolidated revenues, and as of January 2, 2011, our subsidiaries accounted for 77.2% of our total assets.

Risks Related to Our Business and Industry

From time to time, we may not have a management contract with a client to operate existing beds at a facility or new beds at a facility that we are expanding and we cannot assure you that such a contract will be obtained. Failure to obtain a management contract for these beds will subject us to carrying costs with no corresponding management revenue.

From time to time, we may not have a management contract with a client to operate existing beds or new beds at facilities that we are currently in the process of renovating and expanding. While we will always strive to work diligently with a number of different customers for the use of these beds, we cannot assure you that a contract for the beds will be secured on a timely basis, or at all. While a facility or new beds at a facility are vacant, we incur carrying costs. Failure to secure a management contract for a facility or expansion project could have a material adverse impact on our financial condition, results of operations and/or cash flows. In addition, in order to secure a management contract for these beds, we may need to incur significant capital expenditures to renovate or further expand the facility to meet potential clients needs.

Negative conditions in the capital markets could prevent us from obtaining financing, which could materially harm our business.

Our ability to obtain additional financing is highly dependent on the conditions of the capital markets, among other things. The capital and credit markets have been experiencing significant volatility and disruption since 2008. The downturn in the equity and debt markets, the tightening of the credit markets, the general economic slowdown and other macroeconomic conditions, such as the current global economic environment

could prevent us from raising additional capital or obtaining additional financing on satisfactory terms, or at all. If we need, but cannot obtain, adequate capital as a result of negative conditions in the capital markets or otherwise, our business, results of operations and financial condition could be materially adversely affected. Additionally, such inability to obtain capital could prevent us from pursuing attractive business development opportunities, including new facility constructions or expansions of existing facilities, and business or asset acquisitions.

We are subject to the loss of our facility management contracts, due to terminations, non-renewals or competitive re-bids, which could adversely affect our results of operations and liquidity, including our ability to secure new facility management contracts from other government customers.

We are exposed to the risk that we may lose our facility management contracts primarily due to one of three reasons: the termination by a government customer with or without cause at any time; the failure by a customer to exercise its unilateral option to renew a contract with us upon the expiration of the then current term; or our failure to win the right to continue to operate under a contract that has been competitively re-bid in a procurement process upon its termination or expiration. BI s business is also subject to the risk that it may lose contracts as a result of termination by a government customer, non-renewal by a government customer or the failure to win a competitive re-bid of a contract. Our facility management contracts typically allow a contracting governmental agency to terminate a contract with or without cause at any time by giving us written notice ranging from 30 to 180 days. If government agencies were to use these provisions to terminate, or renegotiate the terms of their agreements with us, our financial condition and results of operations could be materially adversely affected.

Aside from our customers unilateral right to terminate our facility management contracts with them at any time for any reason, there are two points during the typical lifecycle of a contract which may result in the loss by us of a facility management contract with our customers. We refer to these points as contract renewals and contract re-bids. Many of our facility management contracts with our government customers have an initial fixed term and subsequent renewal rights for one or more additional periods at the unilateral option of the customer. Because most of our contracts for youth services do not guarantee placement or revenue, we have not considered youth services in the re-bid and renewal rates. We count each government customer s right to renew a particular facility management contract for an additional period as a separate renewal. For example, a five-year initial fixed term contract with customer options to renew for five separate additional one-year periods would, if fully exercised, be counted as five separate renewals, with one renewal coming in each of the five years following the initial term. As of January 2, 2011, 32 of our facility management contracts representing 19,450 beds are scheduled to expire on or before January 1, 2012, unless renewed by the customer at its sole option in certain cases, or unless renewed by mutual agreement in other cases. These contracts represented 21.5% of our consolidated revenues for the year ended January 2, 2011. We undertake substantial efforts to renew our facility management contracts. Our historical facility management contract renewal rate exceeds 90%. However, given their unilateral nature, we cannot assure you that our customers will in fact exercise their renewal options under existing contracts. In addition, in connection with contract renewals, either we or the contracting government agency have typically requested changes or adjustments to contractual terms. As a result, contract renewals may be made on terms that are more or less favorable to us than those in existence prior to the renewals.

We define competitive re-bids as contracts currently under our management which we believe, based on our experience with the customer and the facility involved, will be re-bid to us and other potential service providers in a competitive procurement process upon the expiration or termination of our contract, assuming all renewal options are exercised. Our determination of which contracts we believe will be competitively re- bid may in some cases be subjective and judgmental, based largely on our knowledge of the dynamics involving a particular contract, the customer and the facility involved. Competitive re-bids may result from the expiration of the term of a contract, including the initial fixed term plus any renewal periods, or the early termination of a contract by a customer. Competitive re-bids are often required by applicable federal or state procurement laws periodically in order to further

competitive pricing and other terms for the government

customer. Potential bidders in competitive re-bid situations include us, other private operators and other government entities.

As of January 2, 2011, 15 of our facility management contracts representing $96.3 million (or 7.6%) of our consolidated revenues for the year ended January 2, 2011 are subject to competitive re-bid in 2011. While we are pleased with our historical win rate on competitive re-bids and are committed to continuing to bid competitively on appropriate future competitive re-bid opportunities, we cannot in fact assure you that we will prevail in future re-bid situations. Also, we cannot assure you that any competitive re-bids we win will be on terms more favorable to us than those in existence with respect to the expiring contract.

For additional information on facility management contracts that we currently believe will be competitively re-bid during each of the next five years and thereafter, please see Business Government Contracts Terminations, Renewals and Competitive Re-bids . The loss by us of facility management contracts due to terminations, non-renewals or competitive re-bids could materially adversely affect our financial condition, results of operations and liquidity, including our ability to secure new facility management contracts from other government customers. The loss by BI of contracts with government customers due to terminations, non-renewals or competitive re-bids could materially adversely affect our financial condition, results of operations and liquidity, including our ability to secure new contracts from other government customers.

We may not fully realize the anticipated synergies and related benefits of acquisitions or we may not fully realize the anticipated synergies within the anticipated timing.

We may not be able to achieve the anticipated operating and cost synergies or long-term strategic benefits of our acquisitions within the anticipated timing or at all. For example, elimination of duplicative costs may not be fully achieved or may take longer than anticipated. For at least the first year after a substantial acquisition, and possibly longer, the benefits from the acquisition will be offset by the costs incurred in integrating the businesses and operations. We anticipate annual synergies of approximately $12-$15 million as a result of the Cornell Acquisition and annual synergies of approximately $3-$5 million as a result of the BI Acquisition. An inability to realize the full extent of, or any of, the anticipated synergies or other benefits of the Cornell Acquisition, the BI Acquisition, or any other acquisition as well as any delays that may be encountered in the integration process, which may delay the timing of such synergies or other benefits, could have an adverse effect on our business and results of operations.

We will incur significant transaction- and integration-related costs in connection with the Cornell Acquisition and the BI Acquisition.

We expect to incur non-recurring costs associated with combining the operations of Cornell and BI with our operations, including charges and payments to be made to some of their employees pursuant to change in control contractual obligations. Although a substantial majority of non-recurring expenses are comprised of transaction costs related to the two acquisitions, there will be other costs related to facilities and systems consolidation costs, fees and costs related to formulating integration plans and costs to perform these activities. Additional unanticipated costs may be incurred in the integration of Cornell s and BI s businesses. The elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of Cornell s and BI s businesses discussed above, may not offset incremental transaction- and other integration-related costs in the near term.

As a result of our acquisitions, our company has recorded and will continue to record a significant amount of goodwill and other intangible assets. In the future, the company s goodwill or other intangible assets may become impaired, which could result in material non-cash charges to its results of operations.

We have a substantial amount of goodwill and other intangible assets resulting from business acquisitions. As of January 2, 2011 we had $332.8 million of goodwill and other intangible assets. We expect that our acquisition of BI on February 10, 2011 will also generate a substantial amount of goodwill and other intangible assets. At least annually, or whenever events or changes in circumstances indicate a potential

impairment in the carrying value as defined by GAAP, we will evaluate this goodwill for impairment based on the fair value of each reporting unit. Estimated fair values could change if there are changes in the company s capital structure, cost of debt, interest rates, capital expenditure levels, operating cash flows, or market capitalization. Impairments of goodwill or other intangible assets could require material non-cash charges to our results of operations.

Our growth depends on our ability to secure contracts to develop and manage new correctional, detention and mental health facilities, the demand for which is outside our control.

Our growth is generally dependent upon our ability to obtain new contracts to develop and manage new correctional, detention and mental health facilities, because contracts to manage existing public facilities have not to date typically been offered to private operators. BI s growth is generally dependent upon its ability to obtain new contracts to offer electronic monitoring services, provide community-based re-entry services and provide monitoring and supervision services. Public sector demand for new privatized facilities in our areas of operation may decrease and our potential for growth will depend on a number of factors we cannot control, including overall economic conditions, governmental and public acceptance of the concept of privatization, government budgetary constraints, and the number of facilities available for privatization.

In particular, the demand for our correctional and detention facilities and services and BI s services could be adversely affected by changes in existing criminal or immigration laws, crime rates in jurisdictions in which we operate, the relaxation of criminal or immigration enforcement efforts, leniency in conviction, sentencing or deportation practices, and the decriminalization of certain activities that are currently proscribed by criminal laws or the loosening of immigration laws. For example, any changes with respect to the decriminalization of drugs and controlled substances could affect the number of persons arrested, convicted, sentenced and incarcerated, thereby potentially reducing demand for correctional facilities to house them. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities. Immigration reform laws which are currently a focus for legislators and politicians at the federal, state and local level also could materially adversely impact us. Various factors outside our control could adversely impact the growth of our GEO Care business, including government customer resistance to the privatization of mental health or residential treatment facilities, and changes to Medicare and Medicaid reimbursement programs.

We may not be able to meet state requirements for capital investment or locate land for the development of new facilities, which could adversely affect our results of operations and future growth.

Certain jurisdictions, including California, where we have a significant amount of operations, have in the past required successful bidders to make a significant capital investment in connection with the financing of a particular project. If this trend were to continue in the future, we may not be able to obtain sufficient capital resources when needed to compete effectively for facility management contracts. Additionally, our success in obtaining new awards and contracts may depend, in part, upon our ability to locate land that can be leased or acquired under favorable terms. Otherwise desirable locations may be in or near populated areas and, therefore, may generate legal action or other forms of opposition from residents in areas surrounding a proposed site. Our inability to secure financing and desirable locations for new facilities could adversely affect our results of operations and future growth.

We depend on a limited number of governmental customers for a significant portion of our revenues. The loss of, or a significant decrease in business from, these customers could seriously harm our financial condition and results of operations.

We currently derive, and expect to continue to derive, a significant portion of our revenues from a limited number of governmental agencies. Of our governmental clients, three customers accounted for over 50% of our consolidated revenues for the year ended January 2, 2011. In addition, three federal governmental agencies with correctional and

detention responsibilities, the Bureau of Prisons, ICE, and the U.S. Marshals Service, accounted for 35.2% of our total consolidated revenues for the year ended January 2, 2011, with the Bureau of Prisons accounting for 9.5% of our total consolidated revenues for such period, ICE accounting for 13.0% of

our total consolidated revenues for such period, and the U.S. Marshals Service accounting for 12.8% of our total consolidated revenues for such period. Government agencies from the State of Florida accounted for 13.7% of our total consolidated revenues for the year ended January 2, 2011. The loss of, or a significant decrease in, business from the Bureau of Prisons, ICE, U.S. Marshals Service, the State of Florida or any other significant customers could seriously harm our financial condition and results of operations. We expect to continue to depend upon these federal and state agencies and a relatively small group of other governmental customers for a significant percentage of our revenues.

A decrease in occupancy levels could cause a decrease in revenues and profitability.

While a substantial portion of our cost structure is generally fixed, most of our revenues are generated under facility management contracts which provide for per diem payments based upon daily occupancy. Several of these contracts provide minimum revenue guarantees for us, regardless of occupancy levels, up to a specified maximum occupancy percentage. However, many of our contracts have no minimum revenue guarantees and simply provide for a fixed per diem payment for each inmate/detainee/patient actually housed. As a result, with respect to our contracts that have no minimum revenue guarantees and those that guarantee revenues only up to a certain specified occupancy percentage, we are highly dependent upon the governmental agencies with which we have contracts to provide inmates, detainees and patients for our managed facilities. Under a per diem rate structure, a decrease in our occupancy rates could cause a decrease in revenues and profitability. Recently, in California and Michigan for example, there have been recommendations for the early release of inmates to relieve overcrowding conditions. When combined with relatively fixed costs for operating each facility, regardless of the occupancy level, a material decrease in occupancy levels at one or more of our facilities could have a material adverse effect on our revenues and profitability, and consequently, on our financial condition and results of operations.

State budgetary constraints may have a material adverse impact on us.

While improving economic conditions have helped lower the number of states reporting new fiscal year 2011 budget gaps and have increased the number of states reporting stable revenue outlooks for the remainder of fiscal year 2011, several states still face ongoing budget shortfalls. According to the National Conference of State Legislatures, fifteen states reported new gaps since fiscal year 2011 began with the sum of these budget imbalances totaling $26.7 billion as of November 2010. Additionally, 35 states currently project budget gaps in fiscal year 2012. At January 2, 2011, we had twelve state correctional clients: Florida, Georgia, Alaska, Mississippi, Louisiana, Virginia, Indiana, Texas, Oklahoma, New Mexico, Arizona, and California. Recently, we have experienced a delay in cash receipts from California and other states may follow suit. If state budgetary constraints persist or intensify, our twelve state customers ability to pay us may be impaired and/or we may be forced to renegotiate our management contracts with those customers on less favorable terms and our financial condition, results of operations or cash flows could be materially adversely impacted. In addition, budgetary constraints at states that are not our current customers could prevent those states from outsourcing correctional, detention or mental health service opportunities that we otherwise could have pursued.

Competition for inmates may adversely affect the profitability of our business.

We compete with government entities and other private operators on the basis of cost, quality and range of services offered, experience in managing facilities, and reputation of management and personnel. Barriers to entering the market for the management of correctional and detention facilities may not be sufficient to limit additional competition in our industry. In addition, some of our government customers may assume the management of a facility currently managed by us upon the termination of the corresponding management contract or, if such customers have capacity at the facilities which they operate, they may take inmates currently housed in our facilities and transfer them to government operated facilities. Since we are paid on a per diem basis with no minimum guaranteed occupancy

under some of our contracts, the loss of such inmates and resulting decrease in occupancy could cause a decrease in both our revenues and our profitability.

We are dependent on government appropriations, which may not be made on a timely basis or at all and may be adversely impacted by budgetary constraints at the federal, state and local levels.

Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the contracting governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Any delays in payment, or the termination of a contract, could have a material adverse effect on our cash flow and financial condition, which may make it difficult to satisfy our payment obligations on our indebtedness, including the 6.625% Senior Notes, the 73/4% Senior Notes and the Senior Credit Facility, in a timely manner. In addition, as a result of, among other things, recent economic developments, federal, state and local governments have encountered, and may continue to encounter, unusual budgetary constraints. As a result, a number of state and local governments are under pressure to control additional spending or reduce current levels of spending which could limit or eliminate appropriations for the facilities that we operate. Additionally, as a result of these factors, we may be requested in the future to reduce our existing per diem contract rates or forego prospective increases to those rates. Budgetary limitations may also make it more difficult for us to renew our existing contracts on favorable terms or at all. Further, a number of states in which we operate are experiencing significant budget deficits for fiscal year 2011. We cannot assure that these deficits will not result in reductions in per diems, delays in payment for services rendered or unilateral termination of contracts.

Public resistance to privatization of correctional, detention, mental health and residential facilities could result in our inability to obtain new contracts or the loss of existing contracts, which could have a material adverse effect on our business, financial condition and results of operations.

The management and operation of correctional, detention, mental health and residential facilities by private entities has not achieved complete acceptance by either government agencies or the public. Some governmental agencies have limitations on their ability to delegate their traditional management responsibilities for such facilities to private companies and additional legislative changes or prohibitions could occur that further increase these limitations. In addition, the movement toward privatization of such facilities has encountered resistance from groups, such as labor unions, that believe that correctional, detention, mental health and residential facilities should only be operated by governmental agencies. Changes in governing political parties could also result in significant changes to previously established views of privatization. Increased public resistance to the privatization of correctional, detention, mental health and residential facilities in any of the markets in which we operate, as a result of these or other factors, could have a material adverse effect on our business, financial condition and results of operations.

Our GEO Care business, which has become a material part of our consolidated revenues, poses unique risks not associated with our other businesses.

Our wholly-owned subsidiary, GEO Care, Inc., operates our mental health and residential treatment services, youth services and community-based services divisions. The GEO Care business primarily involves the delivery of quality care, innovative programming and active patient treatment services at state-owned mental health care facilities, jails, sexually violent offender facilities, community-based service facilities and long-term care facilities. GEO Care s business has increased substantially over the last few years, both in general and as a percentage of our overall business. For the year ended January 2, 2011, GEO Care generated $213.8 million in revenues, representing 16.8% of our consolidated revenues from continuing operations. GEO Care s business poses several material risks unique to its operation that do not exist in our core business of correctional and detention facilities management, including, but not limited to, the following:

- the concept of the privatization of the mental health and residential treatment services provided by GEO Care has not yet achieved general acceptance by either government agencies or the public, which could materially limit GEO Care s growth prospects;

GEO Care s business is highly dependent on the continuous recruitment, hiring and retention of a substantial pool of qualified psychiatrists, physicians, nurses and other medically trained personnel as

well as counselors and social workers which may not be available in the quantities or locations sought, or on the employment terms offered;

GEO Care s business model often involves taking over outdated or obsolete facilities and operating them while it supervises the construction and development of new, more updated facilities; during this transition period, GEO Care may be particularly vulnerable to operational difficulties primarily relating to or resulting from the deteriorating nature of the older existing facilities; and

the facilities operated by GEO Care are substantially dependent on government funding, including in some cases the receipt of Medicare and Medicaid funding; the loss of such government funding for any reason with respect to any facilities operated by GEO Care could have a material adverse impact on our business.

The Cornell Acquisition resulted in our re-entry into the market of operating juvenile correctional facilities which may pose certain unique or increased risks and difficulties compared to other facilities.

As a result of the Cornell Acquisition, we have re-entered the market of operating juvenile correctional facilities. We intentionally exited this market a number of years ago. Operating juvenile correctional facilities may pose increased operational risks and difficulties that may result in increased litigation, higher personnel costs, higher levels of turnover of personnel and reduced profitability. Additionally, juvenile services contracts related to educational services may provide for annual collection several months after a school year is completed. We cannot assure you that we will be successful in operating juvenile correctional facilities or that we will be able to minimize the risks and difficulties involved while yielding an attractive profit margin.

Adverse publicity may negatively impact our ability to retain existing contracts and obtain new contracts.

Any negative publicity about an escape, riot or other disturbance or perceived poor conditions at a privately managed facility may result in publicity adverse to us and the private corrections industry in general. Any of these occurrences or continued trends may make it more difficult for us to renew existing contracts or to obtain new contracts or could result in the termination of an existing contract or the closure of one or more of our facilities, which could have a material adverse effect on our business. Such negative events may also result in a significant increase in our liability insurance costs.

We may incur significant start-up and operating costs on new contracts before receiving related revenues, which may impact our cash flows and not be recouped.

When we are awarded a contract to manage a facility, we may incur significant start-up and operating expenses, including the cost of constructing the facility, purchasing equipment and staffing the facility, before we receive any payments under the contract. These expenditures could result in a significant reduction in our cash reserves and may make it more difficult for us to meet other cash obligations, including our payment obligations on the 6.625% Senior Notes, the 73/4% Senior Notes and the Senior Credit Facility. In addition, a contract may be terminated prior to its scheduled expiration and as a result we may not recover these expenditures or realize any return on our investment.

Failure to comply with extensive government regulation and applicable contractual requirements could have a material adverse effect on our business, financial condition or results of operations.

The industry in which we operate is subject to extensive federal, state and local regulation, including educational, environmental, health care and safety laws, rules and regulations, which are administered by many regulatory authorities. Some of the regulations are unique to the corrections industry, and the combination of regulations affects all areas of our operations. Corrections officers and juvenile care workers are customarily required to meet certain

training standards and, in some instances, facility personnel are required to be licensed and are subject to background investigations. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with businesses owned by members of minority groups. We may not always successfully comply with these and other regulations to which we are subject and failure to comply can result in material penalties or the non-renewal or termination of facility management contracts.

In addition, changes in existing regulations could require us to substantially modify the manner in which we conduct our business and, therefore, could have a material adverse effect on us.

In addition, private prison managers are increasingly subject to government legislation and regulation attempting to restrict the ability of private prison managers to house certain types of inmates, such as inmates from other jurisdictions or inmates at medium or higher security levels. Legislation has been enacted in several states, and has previously been proposed in the United States House of Representatives, containing such restrictions. Although we do not believe that existing legislation will have a material adverse effect on us, future legislation may have such an effect on us.

Governmental agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund amounts we have received, to forego anticipated revenues and we may be subject to penalties and sanctions, including prohibitions on our bidding in response to Requests for Proposals, or RFPs, from governmental agencies to manage correctional facilities. Governmental agencies we contract with have the authority to audit and investigate our contracts with them. As part of that process, governmental agencies may review our performance of the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. For contracts that actually or effectively provide for certain reimbursement of expenses, if an agency determines that we have improperly allocated costs to a specific contract, we may not be reimbursed for those costs, and we could be required to refund the amount of any such costs that have been reimbursed. If we are found to have engaged in improper or illegal activities, including under the United States False Claims Act, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with certain governmental entities. For example, on December 2, 2010, a complaint against BI was unsealed in the U.S. District Court for the District of New Jersey, alleging that BI submitted false claims to the New Jersey State Parole Board with respect to services rendered at certain day reporting centers in the amount of $2.4 million through June 30, 2006, and seeking damages under the United States False Claims Act, which could subject us to the penalties and other risks discussed above. Although there can be no assurance, we do not believe this claim has merit or standing under the False Claims Act, nor do we believe that this matter will have a material adverse effect on our financial condition, results of operations or cash flows. An adverse determination in an action alleging improper or illegal activities by us could also adversely impact our ability to bid in response to RFPs in one or more jurisdictions.

In addition to compliance with applicable laws and regulations, our facility management contracts typically have numerous requirements addressing all aspects of our operations which we may not be able to satisfy. For example, our contracts require us to maintain certain levels of coverage for general liability, workers compensation, vehicle liability, and property loss or damage. If we do not maintain the required categories and levels of coverage, the contracting governmental agency may be permitted to terminate the contract. In addition, we are required under our contracts to indemnify the contracting governmental agency for all claims and costs arising out of our management of facilities and, in some instances, we are required to maintain performance bonds relating to the construction, development and operation of facilities. Facility management contracts also typically include reporting requirements, supervision and on-site monitoring by representatives of the contracting governmental agencies. Failure to properly adhere to the various terms of our customer contracts could expose us to liability for damages relating to any breaches as well as the loss of such contracts, which could materially adversely impact us.

We may face community opposition to facility location, which may adversely affect our ability to obtain new contracts.

Our success in obtaining new awards and contracts sometimes depends, in part, upon our ability to locate land that can be leased or acquired, on economically favorable terms, by us or other entities working with us in conjunction with our proposal to construct and/or manage a facility. Some locations may be in or near populous areas and, therefore,

may generate legal action or other forms of opposition from residents in areas surrounding a proposed site. When we select the intended project site, we attempt to conduct business in communities where local leaders and residents generally support the establishment of a privatized correctional

or detention facility. Future efforts to find suitable host communities may not be successful. In many cases, the site selection is made by the contracting governmental entity. In such cases, site selection may be made for reasons related to political and/or economic development interests and may lead to the selection of sites that have less favorable environments.

Our business operations expose us to various liabilities for which we may not have adequate insurance.

The nature of our business exposes us to various types of third-party legal claims, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, product liability claims, intellectual property infringement claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, contractual claims and claims for personal injury or other damages resulting from contact with our facilities, programs, electronic monitoring products, personnel or prisoners, including damages arising from a prisoner s escape or from a disturbance or riot at a facility. In addition, our management contracts generally require us to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. We maintain insurance coverage for these general types of claims, except for claims relating to employment matters, for which we carry no insurance. However, we generally have high deductible payment requirements on our primary insurance policies, including our general liability insurance, and there are also varying limits on the maximum amount of our overall coverage. As a result, the insurance we maintain to cover the various liabilities to which we are exposed may not be adequate. Any losses relating to matters for which we are either uninsured or for which we do not have adequate insurance could have a material adverse effect on our business, financial condition or results of operations. In addition, any losses relating to employment matters could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to obtain or maintain the insurance levels required by our government contracts.

Our government contracts require us to obtain and maintain specified insurance levels. The occurrence of any events specific to our company or to our industry, or a general rise in insurance rates, could substantially increase our costs of obtaining or maintaining the levels of insurance required under our government contracts, or prevent us from obtaining or maintaining such insurance altogether. If we are unable to obtain or maintain the required insurance levels, our ability to win new government contracts, renew government contracts that have expired and retain existing government contracts could be significantly impaired, which could have a material adverse affect on our business, financial condition and results of operations.

Our international operations expose us to risks which could materially adversely affect our financial condition and results of operations.

For the year ended January 2, 2011, our international operations accounted for 15.0% of our consolidated revenues from continuing operations. We face risks associated with our operations outside the United States. These risks include, among others, political and economic instability, exchange rate fluctuations, taxes, duties and the laws or regulations in those foreign jurisdictions in which we operate. In the event that we experience any difficulties arising from our operations in foreign markets, our business, financial condition and results of operations may be materially adversely affected.

We conduct certain of our operations through joint ventures, which may lead to disagreements with our joint venture partners and adversely affect our interest in the joint ventures.

We conduct our operations in South Africa through our consolidated joint venture, South African Custodial Management Pty. Limited, which we refer to as SACM, and through our 50% owned joint venture South African Custodial Services Pty. Limited, referred to as SACS. We may enter into additional joint ventures in the future. Although we have the majority vote in our consolidated joint venture, SACM, through our ownership of 62.5% of the voting shares, we share equal voting control on all significant matters to come before SACS. These joint venture partners, as well as any future partners, may have interests that are different

from ours which may result in conflicting views as to the conduct of the business of the joint venture. In the event that we have a disagreement with a joint venture partner as to the resolution of a particular issue to come before the joint venture, or as to the management or conduct of the business of the joint venture in general, we may not be able to resolve such disagreement in our favor and such disagreement could have a material adverse effect on our interest in the joint venture or the business of the joint venture in general.

We are dependent upon our senior management and our ability to attract and retain sufficient qualified personnel.

We are dependent upon the continued service of each member of our senior management team, including George C. Zoley, our Chairman and Chief Executive Officer, Brian R. Evans, our Chief Financial Officer, and our six officers at the Senior Vice President level and above. The unexpected loss of Mr. Zoley, Mr. Evans or any other key member of our senior management team could materially adversely affect our business, financial condition or results of operations.

In addition, the services we provide are labor-intensive. When we are awarded a facility management contract or open a new facility, depending on the service we have been contracted to provide, we may need to hire operating management, correctional officers, security staff, physicians, nurses and other qualified personnel. The success of our business requires that we attract, develop and retain these personnel. Our inability to hire sufficient qualified personnel on a timely basis or the loss of significant numbers of personnel at existing facilities could have a material effect on our business, financial condition or results of operations.

Our profitability may be materially adversely affected by inflation.

Many of our facility management contracts provide for fixed management fees or fees that increase by only small amounts during their terms. While a substantial portion of our cost structure is generally fixed, if, due to inflation or other causes, our operating expenses, such as costs relating to personnel, utilities, insurance, medical and food, increase at rates faster than increases, if any, in our facility management fees, then our profitability could be materially adversely affected.

Various risks associated with the ownership of real estate may increase costs, expose us to uninsured losses and adversely affect our financial condition and results of operations.

Our ownership of correctional and detention facilities subjects us to risks typically associated with investments in real estate. Investments in real estate, and in particular, correctional and detention facilities, are relatively illiquid and, therefore, our ability to divest ourselves of one or more of our facilities promptly in response to changed conditions is limited. Investments in correctional and detention facilities, in particular, subject us to risks involving potential exposure to environmental liability and uninsured loss. Our operating costs may be affected by the obligation to pay for the cost of complying with existing environmental laws, ordinances and regulations, as well as the cost of complying with future legislation. In addition, although we maintain insurance for many types of losses, there are certain types of losses, such as losses from earthquakes, riots and acts of terrorism, which may be either uninsurable or for which it may not be economically feasible to obtain insurance coverage, in light of the substantial costs associated with such insurance. As a result, we could lose both our capital invested in, and anticipated profits from, one or more of the facilities we own. Further, even if we have insurance for a particular loss, we may experience losses that may exceed the limits of our coverage.

Risks related to facility construction and development activities may increase our costs related to such activities.

When we are engaged to perform construction and design services for a facility, we typically act as the primary contractor and subcontract with other companies who act as the general contractors. As primary contractor, we are

subject to the various risks associated with construction (including, without limitation, shortages of labor and materials, work stoppages, labor disputes and weather interference) which could cause construction delays. In addition, we are subject to the risk that the general contractor will be unable to

complete construction at the budgeted costs or be unable to fund any excess construction costs, even though we typically require general contractors to post construction bonds and insurance. Under such contracts, we are ultimately liable for all late delivery penalties and cost overruns.

The rising cost and increasing difficulty of obtaining adequate levels of surety credit on favorable terms could adversely affect our operating results.

We are often required to post performance bonds issued by a surety company as a condition to bidding on or being awarded a facility development contract. Availability and pricing of these surety commitments is subject to general market and industry conditions, among other factors. Recent events in the economy have caused the surety market to become unsettled, causing many reinsurers and sureties to reevaluate their commitment levels and required returns. As a result, surety bond premiums generally are increasing. If we are unable to effectively pass along the higher surety costs to our customers, any increase in surety costs could adversely affect our operating results. In addition, we may not continue to have access to surety credit or be able to secure bonds economically, without additional collateral, or at the levels required for any potential facility development or contract bids. If we are unable to obtain adequate levels of surety credit on favorable terms, we would have to rely upon letters of credit under our senior credit facility, which would entail higher costs even if such borrowing capacity was available when desired, and our ability to bid for or obtain new contracts could be impaired.

We may not be able to successfully identify, consummate or integrate acquisitions.

We have an active acquisition program, the objective of which is to identify suitable acquisition targets that will enhance our growth. The pursuit of acquisitions may pose certain risks to us. We may not be able to identify acquisition candidates that fit our criteria for growth and profitability. Even if we are able to identify such candidates, we may not be able to acquire them on terms satisfactory to us. We will incur expenses and dedicate attention and resources associated with the review of acquisition opportunities, whether or not we consummate such acquisitions.

Additionally, even if we are able to acquire suitable targets on agreeable terms, we may not be able to successfully integrate their operations with ours. We have substantially integrated Cornell s business with our business and expect to fully integrate Cornell by the end of 2011. We expect to begin to integrate BI s business with our business during 2011. Achieving the anticipated benefits of any acquisition, including the Cornell Acquisition and the BI Acquisition, will depend in significant part upon whether we integrate Cornell s and BI s businesses in an efficient and effective manner. The actual integration of any acquisition, including Cornell and BI, may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. We may not be able to accomplish the integration process smoothly, successfully or on a timely basis. Any inability of management to successfully and timely integrate the operations of acquisition, including Cornell and BI, could have a material adverse effect on our business and results of operations. We may also assume liabilities in connection with acquisitions that we would otherwise not be exposed to.

Adverse developments in our relationship with our employees could adversely affect our business, financial condition or results of operations.

At January 2, 2011, approximately 17% of our workforce was covered by collective bargaining agreements and, as of such date, collective bargaining agreements with approximately 7% of our employees were set to expire in less than one year. While only approximately 17% of our workforce schedule is covered by collective bargaining agreements, increases in organizational activity or any future work stoppages could have a material adverse effect on our business, financial condition, or results of operations.

Risks Related to Our Acquisition of BI and BI s Business

Technological change could cause BI s electronic monitoring products and technology to become obsolete or require the redesign of BI s electronic monitoring products, which could have a material adverse effect on BI s business.

Technological changes within the electronic monitoring business in which BI conducts business may require BI to expend substantial resources in an effort to develop and/or utilize new electronic monitoring products and technology. BI may not be able to anticipate or respond to technological changes in a timely manner, and BI s response may not result in successful electronic monitoring product development and timely product introductions. If BI is unable to anticipate or timely respond to technological changes, BI s business could be adversely affected and could compromise BI s competitive position, particularly if BI s competitors announce or introduce new electronic monitoring products and services in advance of BI. Additionally, new electronic monitoring products and technology face the uncertainty of customer acceptance and reaction from competitors.

Any negative changes in the level of acceptance of or resistance to the use of electronic monitoring products and services by governmental customers could have a material adverse effect on BI s business, financial condition and results of operations.

Governmental customers use electronic monitoring products and services to monitor low risk offenders as a way to help reduce overcrowding in correctional facilities, as a monitoring and sanctioning tool, and to promote public safety by imposing restrictions on movement and serving as a deterrent for alcohol usage. If the level of acceptance of or resistance to the use of electronic monitoring products and services by governmental customers were to change over time in a negative manner so that governmental customers decide to decrease their usage levels and contracting for electronic monitoring products and services, this could have a material adverse effect on BI s business, financial condition and results of operations.

BI depends on a limited number of third parties to manufacture and supply quality infrastructure components for its electronic monitoring products. If BI s suppliers cannot provide the components or services BI requires and with such quality as BI expects, BI s ability to market and sell its electronic monitoring products and services could be harmed.

If BI s suppliers fail to supply components in a timely manner that meets BI s quantity, quality, cost requirements, or technical specifications, BI may not be able to access alternative sources of these components within a reasonable period of time or at commercially reasonable rates. A reduction or interruption in the supply of components, or a significant increase in the price of components, could have a material adverse effect on BI s marketing and sales initiatives, which could adversely affect its financial condition and results of operations.

As a result of our acquisition of BI, we may face new risks as we enter a new line of business.

As a result of our acquisition of BI, a company that provides electronic monitoring services, we will enter into a new line of business. We do not have prior experience in the electronic monitoring services industry and the success of BI will be subject to all of the uncertainties regarding the development of a new business. Although we intend to integrate BI s products and services, there can be no assurance regarding the successful integration and market acceptance of the electronic monitoring services by our clients.

The interruption, delay or failure of the provision of BI s services or information systems could adversely affect BI s business.

Certain segments of BI s business depend significantly on effective information systems. As with all companies that utilize information technology, BI is vulnerable to negative impacts if information is inadvertently interrupted, delayed, compromised or lost. BI routinely processes, stores and transmits large amounts of data for its clients. The interruption, delay or failure of BI s services, information systems or client data could cost BI both monetarily and in terms of client good will and lost business. Such interruptions,

delays or failures could damage BI s brand and reputation. BI experienced such an issue in October 2010 with one of its offender monitoring servers that caused the server s automatic notification system to be temporarily disabled resulting in delayed notifications to customers when a database exceeded its data storage capacity. The issue was resolved within approximately 12 hours. BI continually works to update and maintain effective information systems and while BI believes the issue encountered in October 2010 was an isolated issue that has been fully resolved, there can be no assurance that BI will not experience an interruption, delay or failure of its services, information systems or client data that would adversely impact its business.

An inability to acquire, protect or maintain BI s intellectual property and patents could harm BI s ability to compete or grow.

BI has numerous United States and foreign patents issued as well as a number of United States patents pending. There can be no assurance that the protection afforded by these patents will provide BI with a competitive advantage, prevent BI s competitors from duplicating BI s products, or that BI will be able to assert its intellectual property rights in infringement actions.

In addition, any of BI s patents may be challenged, invalidated, circumvented or rendered unenforceable. There can be no assurance that BI will be successful should one or more of BI s patents be challenged for any reason. If BI s patent claims are rendered invalid or unenforceable, or narrowed in scope, the patent coverage afforded to BI s products could be impaired, which could significantly impede BI s ability to market its products, negatively affect its competitive position and harm its business and operating results.

There can be no assurance that any pending or future patent applications held by BI will result in an issued patent, or that if patents are issued to BI, that such patents will provide meaningful protection against competitors or against competitive technologies. The issuance of a patent is not conclusive as to its validity or its enforceability. The United States federal courts or equivalent national courts or patent offices elsewhere may invalidate BI s patents or find them unenforceable. Competitors may also be able to design around BI s patents. BI s patents and patent applications cover particular aspects of its products. Other parties may develop and obtain patent protection for more effective technologies, designs or methods. If these developments were to occur, it could have an adverse effect on BI s sales. BI may not be able to prevent the unauthorized disclosure or use of its technical knowledge or trade secrets by consultants, vendors, former employees and current employees, despite the existence of nondisclosure and confidentiality agreements and other contractual restrictions. Furthermore, the laws of foreign countries may not protect BI s intellectual property rights effectively or to the same extent as the laws of the United States. If BI s intellectual property rights are not adequately protected, BI may not be able to commercialize its technologies, products or services and BI s competitors could commercialize BI s technologies, which could result in a decrease in BI s sales and market share that would harm its business and operating results.

Additionally, the expiration of any of BI s patents may reduce the barriers to entry into BI s electronic monitoring line of business and may result in loss of market share and a decrease in BI s competitive abilities, thus having a potential adverse effect on BI s financial condition, results of operations and cash flows.

BI s products could infringe on the intellectual property rights of others, which may lead to litigation that could itself be costly, could result in the payment of substantial damages or royalties, and/or prevent BI from using technology that is essential to its products.

There can be no assurance that BI s current products or products under development will not infringe any patent or other intellectual property rights of third parties. If infringement claims are brought against BI, whether successfully or not, these assertions could distract management from other tasks important to the success of BI s business, necessitate BI expending potentially significant funds and resources to defend or settle such claims and harm BI s

reputation. BI cannot be certain that it will have the financial resources to defend itself against any patent or other intellectual property litigation.

In addition, intellectual property litigation or claims could force BI to do one or more of the following:

- cease selling or using any products that incorporate the asserted intellectual property, which would adversely affect BI s revenue;
- pay substantial damages for past use of the asserted intellectual property;
- obtain a license from the holder of the asserted intellectual property, which license may not be available on reasonable terms, if at all; or
- redesign or rename, in the case of trademark claims, BI s products to avoid infringing the intellectual property rights of third parties, which may not be possible and could be costly and time-consuming if it is possible to do.

In the event of an adverse determination in an intellectual property suit or proceeding, or BI s failure to license essential technology, BI s sales could be harmed and/or its costs could be increased, which would harm BI s financial condition.

BI licenses intellectual property rights, including patents, from third party owners. If such owners do not properly maintain or enforce the intellectual property underlying such licenses, BI s competitive position and business prospects could be harmed. BI s licensors may also seek to terminate its license.

BI is a party to a number of licenses that give BI rights to third-party intellectual property that is necessary or useful to its business. BI s success will depend in part on the ability of its licensors to obtain, maintain and enforce its licensed intellectual property. BI s licensors may not successfully prosecute any applications for or maintain intellectual property to which BI has licenses, may determine not to pursue litigation against other companies that are infringing such intellectual property, or may pursue such litigation less aggressively than BI would. Without protection for the intellectual property BI licenses, other companies might be able to offer similar products for sale, which could adversely affect BI s competitive business position and harm its business prospects.

If BI loses any of its right to use third-party intellectual property, it could adversely affect its ability to commercialize its technologies, products or services, as well as harm its competitive business position and its business prospects.

BI may be subject to costly product liability claims from the use of its electronic monitoring products, which could damage BI s reputation, impair the marketability of BI s products and services and force BI to pay costs and damages that may not be covered by adequate insurance.

Manufacturing, marketing, selling, testing and the operation of BI s electronic monitoring products and services entail a risk of product liability. BI could be subject to product liability claims to the extent its electronic monitoring products fail to perform as intended. Even unsuccessful claims against BI could result in the expenditure of funds in litigation, the diversion of management time and resources, damage to BI s reputation and impairment in the marketability of BI s electronic monitoring products and services. While BI maintains liability insurance, it is possible that a successful claim could be made against BI, that the amount of BI s insurance coverage would not be adequate to cover the costs of defending against or paying such a claim, or that damages payable by BI would harm its business.

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Risks Related to Our Common Stock

Fluctuations in the stock market as well as general economic, market and industry conditions may harm the market price of our common stock.

The market price of our common stock has been subject to significant fluctuation. The market price of our common stock may continue to be subject to significant fluctuations in response to operating results and other factors, including:

actual or anticipated quarterly fluctuations in our financial results, particularly if they differ from investors expectations;

changes in financial estimates and recommendations by securities analysts;

general economic, market and political conditions, including war or acts of terrorism, not related to our business;

actions of our competitors and changes in the market valuations, strategy and capability of our competitors;

our ability to successfully integrate acquisitions and consolidations; and

changes in the prospects of the privatized corrections and detention industry.

In addition, the stock market in recent years has experienced price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations may harm the market price of our common stock, regardless of our operating results.

Future sales of our common stock in the public market could adversely affect the trading price of our common stock that we may issue and our ability to raise funds in new securities offerings.

Future sales of substantial amounts of our common stock in the public market, or the perception that such sales could occur, could adversely affect prevailing trading prices of our common stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. We cannot predict the effect, if any, that future sales of shares of common stock or the availability of shares of common stock for future sale will have on the trading price of our common stock.

Various anti-takeover protections applicable to us may make an acquisition of us more difficult and reduce the market value of our common stock.

We are a Florida corporation and the anti-takeover provisions of Florida law impose various impediments to the ability of a third party to acquire control of our company, even if a change of control would be beneficial to our shareholders. In addition, provisions of our articles of incorporation may make an acquisition of us more difficult. Our articles of incorporation authorize the issuance by our Board of Directors of blank check preferred stock without shareholder approval. Such shares of preferred stock could be given voting rights, dividend rights, liquidation rights or other similar rights superior to those of our common stock, making a takeover of us more difficult and expensive. We also have adopted a shareholder rights plan, commonly known as a poison pill, which could result in the significant dilution of the proportionate ownership of any person that engages in an unsolicited attempt to take over our company and, accordingly, could discourage potential acquirers. In addition to discouraging takeovers, the anti-takeover provisions of Florida law and our articles of incorporation, as well as our shareholder rights plan, may have the impact

of reducing the market value of our common stock.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 could have an adverse effect on our business and the trading price of our common stock.

If we fail to maintain the adequacy of our internal controls, in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as such standards are modified, supplemented or amended from time to time, our exposure to fraud and errors in accounting and financial reporting could materially

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increase. Also, inadequate internal controls would likely prevent us from concluding on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Such failure to achieve and maintain effective internal controls could adversely impact our business and the price of our common stock.

We may issue additional debt securities that could limit our operating flexibility and negatively affect the value of our common stock.

In the future, we may issue additional debt securities which may be governed by an indenture or other instrument containing covenants that could place restrictions on the operation of our business and the execution of our business strategy in addition to the restrictions on our business already contained in the agreements governing our existing debt. In addition, we may choose to issue debt that is convertible or exchangeable for other securities, including our common stock, or that has rights, preferences and privileges senior to our common stock. Because any decision to issue debt securities will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of any future debt financings and we may be required to accept unfavorable terms for any such financings. Accordingly, any future issuance of debt could dilute the interest of holders of our common stock and reduce the value of our common stock.

Because we have no current plans to pay dividends, shareholders will benefit from an investment in our common stock only if it appreciates in value.

We currently intend to retain our future earnings, if any, to finance the further expansion and continued growth of our business and do not have any current plans to pay any cash dividends. As a result, the success of an investment in our common stock will depend upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which shareholders purchase their shares.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate offices are located in Boca Raton, Florida, under a lease agreement which was amended in September 2010. The current lease expires March 2020 and has two 5-year renewal options for a full term ending March 2030. In addition, we lease office space for our eastern regional office in Charlotte, North Carolina; our central regional office in San Antonio, Texas; and our western regional office in Los Angeles, California. As a result of the Cornell acquisition in August 2010, we are also currently leasing office space in Houston, Texas and Pittsburgh, Pennsylvania. We also lease office space in Sydney, Australia, in Sandton, South Africa, and in Berkshire, England, through our overseas affiliates to support our Australian, South African, and UK operations, respectively. We consider our office space adequate for our current operations.

See the Facilities listing under Item 1 for a list of the correctional, detention and mental health properties we own or lease in connection with our operations.

Item 3. ***Legal Proceedings***

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities formerly operated by our Australian subsidiary. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did

not specify the amount of damages being sought. In August 2007, a lawsuit (Commonwealth of Australia v. Australasian Connectional Services PTY, Limited No. SC 656) was filed against us in the Supreme Court of the Australian Capital Territory seeking damages of up to approximately AUD 18 million or $18.4 million as of January 2, 2011, plus interest. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously

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defend our rights with respect to this matter. We have established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of legal counsel in connection with this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and our preliminary review of the claim and related reserve for loss, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations or cash flows. We are uninsured for any damages or costs that we may incur as a result of this claim, including the expenses of defending the claim.

During the fourth fiscal quarter of 2009, the Internal Revenue Service (IRS) completed its examination of our U.S. federal income tax returns for the years 2002 through 2005. Following the examination, the IRS notified us that it proposed to disallow a deduction that we realized during the 2005 tax year. In December of 2010 we reached an agreement with the office of IRS Appeals on the amount of the deduction, which is currently being reviewed at a higher level. As a result of the pending agreement, we reassessed the probability of potential settlement outcomes and reduced our income tax accrual of $4.9 million by $2.3 million during the fourth quarter of 2010. However, if the disallowed deduction were to be sustained in full, it could result in a potential tax exposure to us of $15.4 million. We believe in the merits of our position and intend to defend our rights vigorously, including our rights to litigate the matter if it cannot be resolved favorably with the office of IRS Appeals. If this matter is resolved unfavorably, it may have a material adverse effect on our financial position, results of operations and cash flows.

In October 2010, the IRS audit for our U.S. income tax returns for fiscal years 2006 through 2008 was concluded and resulted in no changes to our income tax positions.

Our South Africa joint venture has been in discussions with the South African Revenue Service (SARS) with respect to the deductibility of certain expenses for the tax periods 2002 through 2004. The joint venture operates the Kutama Sinthumule Correctional Centre and accepted inmates from the South African Department of Correctional Services in 2002. During 2009, SARS notified us that it proposed to disallow these deductions. We appealed these proposed disallowed deductions with SARS and in October 2010, received a notice of favorable ruling relative to these proceedings. If SARS should appeal, we believe we have defenses in these matters and intend to defend our rights vigorously. If resolved unfavorably, our maximum exposure would be $2.6 million.

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

The nature of our business exposes us to various types of claims or litigation against us, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, product liability claims, intellectual property infringement claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, indemnification claims by our customers and other third parties, contractual claims and claims for personal injury or other damages resulting from contact with our facilities, programs, electronic monitoring products, personnel or prisoners, including damages arising from a prisoner s escape or from a disturbance or riot at a facility. Except as otherwise disclosed above, we do not expect the outcome of any pending claims or legal proceedings to have a material adverse effect on our financial condition, results of operations or cash flows.

Item 4. ***(Removed and Reserved)***

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PART II

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

Our common stock trades on the New York Stock Exchange under the symbol GEO. The following table shows the high and low prices for our common stock, as reported by the New York Stock Exchange, for each of the four quarters of fiscal years 2010 and 2009. The prices shown have been rounded to the nearest $1/100. The approximate number of shareholders of record as of February 22, 2011 is 291.

	2010		2009	
Quarter	**High**	**Low**	**High**	**Low**
First	$ 23.18	$ 17.91	$ 19.25	$ 11.18
Second	22.27	18.23	18.56	13.06
Third	23.73	20.04	20.56	17.22
Fourth	26.77	23.43	22.41	19.75

On February 22, 2010, we announced that our Board of Directors approved a stock repurchase program for up to $80.0 million of our common stock which was effective through March 31, 2011. The stock repurchase program was implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission requirements. The program also included repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The stock repurchase program did not obligate us to purchase any specific amount of our common stock and could be extended or suspended at any time at our discretion. During the fiscal year ended January 2, 2011, we completed the program and purchased 4.0 million shares of our common stock at a cost of $80.0 million using cash on hand and cash flow from operating activities. Included in the 4.0 million shares repurchased were 1.1 million shares repurchased from executive officers at an aggregate cost of $22.3 million. Also during the fiscal year ended January 2, 2011, we repurchased 0.3 million shares of common stock from certain directors and executives for an aggregate cost of $7.1 million. These purchases all occurred during our first, second and third fiscal quarters. There were no repurchases of common stock in the fourth fiscal quarter.

We did not pay any cash dividends on our common stock for fiscal years 2010 and 2009. Future dividends, if any, will depend, on our future earnings, our capital requirements, our financial condition and on such other factors as our Board of Directors may take into consideration. In addition to these factors, the indenture governing our 73/4% Senior Notes, the indenture governing our 6.625% Senior Notes and our Senior Credit Facility also place material restrictions on our ability to pay dividends. See the Liquidity and Capital Resources section in Item 7 of Management s Discussion and Analysis and Note 14-Debt in Item 8 Financial Statements and Supplementary Data , for further description of these restrictions.

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Performance Graph

The following performance graph compares the performance of our common stock to the Wilshire 5000 Total Market Index and the S&P 500 Commercial Services and Supplies Index and is provided in accordance with Item 201(e) of Regulation S-K.

Comparison of Five-Year Cumulative Total Return*
The GEO Group, Inc., Wilshire 500 Equity, and
S&P 500 Commercial Services and Supplies Indexes
(Performance through January 2, 2011)

Date	The GEO Group, Inc.	Wilshire 5000 Equity	S&P 500 Commercial Services and Supplies
December 31, 2005	$ 100.00	$ 100.00	$ 100.00
December 31, 2006	$ 245.55	$ 115.88	$ 113.86
December 31, 2007	$ 366.49	$ 122.52	$ 113.74
December 31, 2008	$ 235.99	$ 76.77	$ 87.24
December 31, 2009	$ 286.39	$ 99.36	$ 96.70
December 31, 2010	$ 322.77	$ 117.11	$ 105.18

Assumes $100 invested on December 31, 2005 in our common stock and the Index companies.

* Total return assumes reinvestment of dividends.

Item 6. ***Selected Financial Data***

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

:(1)	2010		2009		2008		2007		
ing									
	$ 1,269,968	100.0%	$ 1,141,090	100.0%	$ 1,043,006	100.0%	$ 976,299	100.0%	$ 81
rom ns	140,473	11.1%	135,445	11.9%	114,396	11.0%	90,727	9.3%	6
uing	$ 62,790	4.9%	$ 66,469	5.8%	$ 61,829	5.9%	$ 38,486	3.9%	$ 2
uing mon The									
	$ 1.15		$ 1.30		$ 1.22		$ 0.80		$
	$ 1.13		$ 1.28		$ 1.19		$ 0.77		$
Shares									
	55,379		50,879		50,539		47,727		3
	55,989		51,922		51,830		49,192		3
n:									
	$ 425,134		$ 279,634		$ 281,920		$ 264,518		$ 32
	270,462		177,448		185,926		186,432		17
	2,423,776		1,447,818		1,288,621		1,192,634		74
luding luding nd									
	807,837		457,538		382,126		309,273		15
equity	$ 1,039,490		$ 665,098		$ 579,597		$ 529,347		$ 24
on	118		57		59		57		
ts	81,225		52,772		53,364		47,913		4
ays(2)	18,939,370		17,332,696		15,946,932		15,026,626		13,77

(1) Our fiscal year ends on the Sunday closest to the calendar year end. The fiscal year ended January 3, 2010 contained 53 weeks. The fiscal year ends for all other periods presented contained 52 weeks.

(2) Compensated mandays are calculated as follows: (a) for per diem rate facilities the number of beds occupied by residents on a daily basis during the fiscal year; and (b) for fixed rate facilities the capacity of the facility multiplied by the number of days the facility was in operation during the fiscal year.

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

Introduction

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of numerous factors including, but not limited to, those described above under Item 1A. Risk Factors, and Forward-Looking Statements Safe Harbor below. The discussion should be read in conjunction with the consolidated financial statements and notes thereto.

We are a leading provider of government-outsourced services specializing in the management of correctional, detention and mental health, 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. On August 12, 2010, we acquired Cornell and as of January 2, 2011, our worldwide operations included the management and/or ownership of approximately 81,000 beds at 118 correctional, detention and residential treatment facilities including projects under development. We operate a broad range of correctional

and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers, mental health, residential treatment and community based re-entry facilities. Our correctional and detention management services involve the provision of security, administrative, rehabilitation, education, health and food services, primarily at adult male correctional and detention facilities. Our mental health and residential treatment services are operated through our wholly-owned subsidiary GEO Care Inc. and involve partnering with governments to deliver quality care, innovative programming and active patient treatment primarily in privately operated state mental health care facilities. Our Community Based Services, acquired from Cornell and also operated through GEO Care, involve supervision of adult parolees and probationers and provide temporary housing, programming, employment assistance and other services with the intention of the successful reintegration of residents into the community. Youth Services, also acquired from Cornell and operating under GEO Care, include residential, detention and shelter care and community based services along with rehabilitative, educational and treatment programs. We develop new facilities based on contract awards, using our project development expertise and experiences to design facilities, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency. We also provide secure transportation services for offender and detainee populations as contracted. For the fiscal year ended January 2, 2011, we had consolidated revenues of $1.3 billion and we maintained an average companywide facility occupancy rate of 94.5%, excluding facilities that are either idle or under development.

Critical Accounting Policies

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

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that our management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. If actual results significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

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

Reserves for Insurance Losses

The nature of our business exposes us to various types of third-party legal claims, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, product liability claims, intellectual property infringement claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, contractual claims and claims for personal injury or other damages resulting from contact with our facilities,

programs, electronic monitoring products, personnel or prisoners, including damages arising from a prisoner s escape or from a disturbance or riot at a facility. In addition, our management contracts generally require us to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. We maintain a broad program of insurance coverage for these general

types of claims, except for claims relating to employment matters, for which we carry no insurance. There can be no assurance that our insurance coverage will be adequate to cover all claims to which we may be exposed. It is our general practice to bring merged or acquired companies into our corporate master policies in order to take advantage of certain economies of scale.

We currently maintain a general liability policy and excess liability policy for U.S. Detention & Corrections, GEO Care s Community-Based Services, GEO Care s Youth Services and BI, Inc. with limits of $62.0 million per occurrence and in the aggregate. A separate $35.0 million limit applies to medical professional liability claims arising out of correctional healthcare services. Our wholly owned subsidiary, GEO Care, Inc., has a separate insurance program for their residential services division, with a specific loss limit of $35.0 million per occurrence and in the aggregate with respect to general liability and medical professional liability. We are uninsured for any claims in excess of these limits. We also maintain insurance to cover property and other casualty risks including, workers compensation, environmental liability and automobile liability.

For most casualty insurance policies, we carry substantial deductibles or self-insured retentions $3.0 million per occurrence for general liability and hospital professional liability, $2.0 million per occurrence for workers compensation and $1.0 million per occurrence for automobile liability. In addition, certain of our facilities located in Florida and other high-risk hurricane areas carry substantial windstorm deductibles. Since hurricanes are considered unpredictable future events, no reserves have been established to pre-fund for potential windstorm damage. Limited commercial availability of certain types of insurance relating to windstorm exposure in coastal areas and earthquake exposure mainly in California may prevent us from insuring some of our facilities to full replacement value.

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

Of the reserves discussed above, our most significant insurance reserves relate to workers compensation and general liability claims. These reserves are undiscounted and were $40.2 million and $27.2 million as of January 2, 2011 and January 3, 2010, respectively. We use statistical and actuarial methods to estimate amounts for claims that have been reported but not paid and claims incurred but not reported. In applying these methods and assessing their results, we consider such factors as historical frequency and severity of claims at each of our facilities, claim development, payment patterns and changes in the nature of our business, among other factors. Such factors are analyzed for each of our business segments. Our estimates may be impacted by such factors as increases in the market price for medical services and unpredictability of the size of jury awards. We also may experience variability between our estimates and the actual settlement due to limitations inherent in the estimation process, including our ability to estimate costs of processing and settling claims in a timely manner as well as our ability to accurately estimate our exposure at the onset of a claim. Because we have high deductible insurance policies, the amount of our insurance expense is dependent on our ability to control our claims experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition, results of operations and cash flows could be materially adversely impacted.

Income Taxes

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Significant judgments are required to determine the consolidated provision for income taxes. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Realization of our deferred tax assets is dependent upon many factors such as tax regulations applicable to the jurisdictions in which we operate, estimates of future taxable

income and the character of such taxable income. Additionally, we must use significant judgment in addressing uncertainties in the application of complex tax laws and regulations. If actual circumstances differ from our assumptions, adjustments to the carrying value of deferred tax assets or liabilities may be required, which may result in an adverse impact on the results of our

operations and our effective tax rate. Valuation allowances are recorded related to deferred tax assets based on the more likely than not criteria. Management has not made any significant changes to the way we account for our deferred tax assets and liabilities in any year presented in the consolidated financial statements. Based on our estimate of future earnings and our favorable earnings history, management currently expects full realization of the deferred tax assets net of any recorded valuation allowances. Furthermore, tax positions taken by us may not be fully sustained upon examination by the taxing authorities. In determining the adequacy of our provision (benefit) for income taxes, potential settlement outcomes resulting from income tax examinations are regularly assessed. As such, the final outcome of tax examinations, including the total amount payable or the timing of any such payments upon resolution of these issues, cannot be estimated with certainty. To the extent that the provision for income taxes increases/decreases by 1% of income before income taxes, equity in earnings of affiliate, discontinued operations, and consolidated income from continuing operations would have decreased/increased by $1.0 million, $1.0 million and $0.9 million, respectively, for the years ended January 2, 2011, January 3, 2010 and December 28, 2008.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 2 to 50 years. Equipment and furniture and fixtures are depreciated over 3 to 10 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing assessments of the estimated useful lives of the property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. If the assessment indicates that assets will be used for a longer or shorter period than previously anticipated, the useful lives of the assets are revised, resulting in a change in estimate. In our first fiscal quarter ended April 4, 2010, we completed a depreciation study on our owned correctional facilities. Based on the results of the depreciation study, we revised the estimated useful lives of certain of our buildings from our historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. Maintenance and repairs are expensed as incurred. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset s estimated useful life.

We review long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. If a long-lived asset is part of a group that includes other assets, the unit of accounting for the long-lived asset is its group. Generally, we group our assets by facility for the purposes of considering whether any impairment exists. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset or asset group and its eventual disposition. When considering the future cash flows of a facility, we make assumptions based on historical experience with our customers, terminal growth rates and weighted average cost of capital. While these estimates do not generally have a material impact on the impairment charges associated with managed-only facilities, the sensitivity increases significantly when considering the impairment on facilities that are either owned or leased by us. Events that would trigger an impairment assessment include deterioration of profits for a business segment that has long-lived assets, or when other changes occur that might impair recovery of long-lived assets such as the termination of a management contract. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset.

Revenue Recognition

Facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. A limited

number of our contracts have provisions upon which a small portion of the revenue for the contract is based on the performance of certain targets. Revenue based on the performance of certain

targets is less than 2% of our consolidated annual revenues. These performance targets are based on specific criteria to be met over specific periods of time. Such criteria includes our ability to achieve certain contractual benchmarks relative to the quality of service we provide, non-occurrence of certain disruptive events, effectiveness of our qual