GEO GROUP INC
Form 10-K
March 01, 2012
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

**(Mark One)**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended January 1, 2012**

**OR**

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

**Commission file number: 1-14260**

# The GEO Group, Inc.

**(Exact name of registrant as specified in its charter)**

| **Florida** | **65-0043078** |
|---|---|
| **(State or other jurisdiction of** | **(I.R.S. Employer** |

| **incorporation or organization)** | **Identification No.)** |
|---|---|
| **One Park Place, Suite 700,**<br>**621 Northwest 53rd Street**<br>**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** |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

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

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

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

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

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. x

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 | x | Accelerated filer | ¨ |
| Non-Accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

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

The aggregate market value of the 64,276,549 voting and non-voting shares of common stock held by non-affiliates of the registrant as of July 1, 2011 (based on the last reported sales price of such stock on the New York Stock Exchange on such date of $23.40 per share) was approximately $1,504,071,247.

As of February 27, 2012, the registrant had 61,172,672 shares of common stock outstanding.

Certain portions of the registrant s annual report to security holders for fiscal year ended January 1, 2012 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 2012 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 consolidated 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 are also a provider of innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. Additionally, we have an exclusive contract with the 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 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 domestically and in the United Kingdom through our joint venture, GEO Amey PECS Ltd., which we refer to as GEOAmey.

We acquired two companies, Cornell Companies, Inc. and BII Holding Corporation, during the past two years that have had, and we believe will continue to have, a significant impact on our business. As a result of these acquisitions, we expect to benefit from the increased scale and diversification of service offerings. Our acquisition in August 2010 of Cornell Companies, Inc., which we refer to as Cornell and we refer to this transaction as the Cornell Acquisition, 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. Our acquisition on February 10, 2011 of BII Holding, the indirect owner of 100% of the equity interests of B.I. Incorporated, which we refer to as BI and refer to this transaction as the BI Acquisition, provides 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. As of January 1, 2012, our worldwide operations included the management and/or ownership of approximately 79,400 beds at 115 correctional, detention and residential treatment facilities, including idle facilities and projects under development, and also included the provision of monitoring of approximately 70,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states.

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;

our monitoring services provide our governmental clients with innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants; including services provided under the Intensive Supervision Appearance Program, which we refer to as ISAP, to ICE for the provision of services designed to improve the participation of non-detained aliens in the immigration court system.

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; and

we provide secure transportation services for offender and detainee populations as contracted domestically, and in the United Kingdom, our joint venture GEOAmey is responsible for providing prisoner escort and custody services in the United Kingdom, including all of Wales and all of England except London and East of England.

We maintained an average companywide facility occupancy rate of 94.6% for the fiscal year ended January 1, 2012, excluding facilities that are either idle or under development.

**Business Segments**

We conduct our business through four reportable business segments: our U.S. Corrections & Detention segment; our GEO Care segment; our International Services segment and our Facility Construction & Design segment. We have identified these four reportable 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. Corrections & Detention segment primarily encompasses our U.S.-based privatized corrections and detention business. Our GEO Care segment, which conducts its services in the U.S., consists of mental health, residential and non-residential treatment services, educational and community based programs, pre-release and halfway house programs, compliance technologies, monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants. Our International Services segment primarily consists of our privatized corrections and detention operations in South Africa, Australia and the United Kingdom. Our Facility Construction & Design segment primarily contracts with various states, 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 2011, 2010 and 2009 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, which we refer to as 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, which we refer to as 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, which we refer to as the Merger, with BII Holding emerging as the surviving corporation of the Merger. As a result of the Merger, GEO paid merger consideration of $409.6 million in cash excluding cash acquired, transaction related expenses and any potential 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. We expect to fully settle the indemnification claims prior to June 30, 2012. At the time of the BI Acquisition, approximately $78.4 million, including accrued interest, was outstanding under BI s senior term loan and $107.5 million, including accrued interest was outstanding under its senior subordinated note purchase agreement, excluding the unamortized debt discount. All indebtedness of BI under its senior term loan and senior subordinated note purchase agreement were repaid by BI with a portion of the $409.6 million of merger consideration.

***6.625% Senior Notes due 2021***

On February 10, 2011, we completed the issuance of $300.0 million in aggregate principal amount of 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 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 accrues at the rate of 6.625% per annum, is payable semi-annually in arrears on February 15 and August 15, and commenced 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 Credit Agreement dated as of August 4, 2010, which we refer to as 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. On August 22, 2011, we completed our exchange offer for the full $300,000,000 aggregate principal amount of our 6.625% Senior Notes Due 2021, and the guarantees thereof, which were registered under the Securities Act of 1933, as amended, for a like amount of the outstanding 6.625% Senior Notes. The terms of the notes exchanged are identical to the notes originally issued in the private offering, except that the transfer restrictions, registration rights and additional interest provisions relating to a registration rights default will not apply to the registered notes exchanged. We did not receive any proceeds from the exchange offer.

***Amendment of Senior Credit Facility***

On February 8, 2011, we entered into Amendment No. 1, which we refer to as Amendment No. 1, to our Senior Credit Facility, dated as of August 4, 2010, by and among us, the Guarantors party thereto, the lenders party thereto and BNP Paribas, as administrative agent. Amendment No. 1, among other things amended certain definitions and covenants relating to the total leverage ratios and the senior secured leverage ratios set forth in the Senior Credit Facility. This amendment increased our borrowing capacity by $250.0 million. On May 2, 2011, we executed Amendment No. 2 to our Senior Credit Facility, which we refer to as Amendment No. 2. As a result of this amendment, relative to our Term Loan B, the Applicable Rate, as defined, was reduced to 2.75% per annum from 3.25% per annum in the case of Eurodollar loans and to 1.75% per annum from 2.25% per annum in the case of ABR loans and the LIBOR floor was reduced to 1.00% from 1.50%. As of January 1, 2012, the Senior Credit Facility was comprised of: a $150.0 million Term Loan A, due August 2015, which we refer to as Term Loan A, currently bearing interest at LIBOR plus 3.00%; a $150.0 million Term Loan A-2, due August 2015, which we refer to as Term Loan A-2, currently bearing interest at LIBOR plus 3.00%; a $200.0 million Term Loan B, due August 2016, which we refer to as Term Loan B, currently bearing interest at LIBOR plus 2.75% with a LIBOR floor of 1.00%; and a $500.0 million Revolving Credit Facility, due August 2015, which we refer to as the Revolver, currently bearing interest at LIBOR plus 3.00%. Incremental borrowings of $150.0 million under our amended Senior Credit Facility along with proceeds from our $300.0 million offering of the 6.625% Senior Notes were used to finance the acquisition of BI.

As of February 27, 2012, the Company had $476.7 million in aggregate borrowings outstanding, net of discount, under the term loan portion of our Senior Credit Facility, $312.0 million in borrowings under the Revolver, approximately $56.9 million in letters of credit and $131.1 million in additional borrowing capacity under the Revolver.

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*Employee Stock Purchase Plan*

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

*Stock Repurchase Program*

On July 14, 2011, we announced that our Board of Directors approved a stock repurchase program of up to $100.0 million of our common stock effective through December 31, 2012. The stock repurchase program will be funded primarily with cash on hand, free cash flow, and borrowings under our Revolver. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable securities and stock exchange requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The stock repurchase program does not obligate us to purchase any specific amount of our common stock and may be suspended or extended at any time at our discretion. During the fiscal year ended January 1, 2012, we purchased 3.9 million shares of our common stock at a cost of $75.0 million primarily purchased with proceeds from our Revolver. We believe we have the ability to continue to fund the stock repurchase program, our working capital, our debt service requirements, and our maintenance and growth capital expenditure requirements, while maintaining sufficient liquidity for other corporate purposes.

*Contract awards and facility activations*

The following new projects were activated during the fiscal year ended January 1, 2012:

| Facility | Location | Activation | Total Beds(1) | Start date |
|---|---|---|---|---|
| Montgomery County Mental Health Treatment Facility | Conroe, Texas | New contract | 100 | First Quarter 2011 |
| Indiana Short Term Offenders Program | Plainfield, Indiana | New contract | 1,066 | First Quarter 2011 |
| Dungavel House Immigration Removal Centre | South Lanarkshire, United Kingdom | New contract | 217 | Third Quarter 2011 |
| Adelanto ICE Processing Center East | Adelanto, California | New contract | 650 | Third Quarter 2011(2) |
| Riverbend Correctional Facility | Milledgeville, Georgia | New contract | 1,500 | Fourth Quarter 2011 |
| Total | | | 3,533 | |

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

(2) On June 1, 2011, we executed this contract with the City of Adelanto for the housing of federal immigration detainees at our existing 650-bed Detention Facility and at a 650-bed facility expansion, which we are constructing, to be located on land immediately adjacent to the facility. We completed the renovation and retrofitting of the existing 650-bed facility and began the initial intake of 650 detainees in August 2011. We expect to complete the new 650-bed expansion and begin the intake of the additional 650 detainees by August 2012.

In addition to the activations in the table above, we also announced other contract awards during fiscal year 2011 as follows:

On March 16, 2011, we announced that our newly formed joint venture, GEOAmey, had been awarded three contracts by the Ministry of Justice in the United Kingdom for the provision of prison escort and custody services in Lots 1, 3, and 4 which encompass all of Wales and all of England except London and the East of England. The contract for the provision of prison escort and custody services in the three Lots will have a base term of seven years with a renewal option period of no more than three years. GEOAmey commenced operations on August 29, 2011.

On September 19, 2011, we announced that we have signed a contract with ICE for the continued management of the company-owned Aurora ICE Processing Center (the Center ) located in Aurora, Colorado. The new contract will have a term of ten years, inclusive of renewal option periods. Under the terms of the new agreement, the contract capacity at the Center will be increased from 432 to 525 beds, and the transportation responsibilities will be expanded.

On December 28, 2011, we announced our execution of a contract with ICE for the continued management of our 1,904-bed South Texas Detention Center located in Pearsall, Texas. The new contract will have a term of approximately five years effective through November 30, 2016, inclusive of renewal option periods.

***Contract terminations***

Contracts terminated during the fiscal year ended January 1, 2012 generated aggregate revenue of $48.8 million and a net operating loss of $2.8 million, which includes $3.7 million of depreciation expense and also includes transition costs. The following contracts were terminated during fiscal year 2011:

Effective February 28, 2011, our contract for the management of the 424-bed North Texas ISF, located in Fort Worth, Texas, terminated.

Effective April 30, 2011, our contract for the management of the 970-bed Regional Correctional Center, located in Albuquerque, New Mexico, terminated.

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

On July 11, 2011, we announced that the State of California decided to implement its Criminal Justice Realignment Plan, which is expected to delegate tens of thousands of low level state offenders to local county jurisdictions in California effective October 1, 2011. As a result of the implementation of the Criminal Justice Realignment Plan, the State of California has decided to discontinue contracts with Community Correctional Facilities which currently house low level state offenders across the state. We received written notice from the California Department of Corrections and Rehabilitation regarding the cancellation of our agreements for the housing of low level state offenders at three of our facilities: (i) the company-leased 305-bed Leo Chesney Community Correctional Facility which was terminated effective September 30, 2011; (ii) the company-owned 625-bed Central Valley Modified Community Correctional Facility which was terminated effective October 12, 2011; and (iii) the company-owned 643-bed Desert View Modified Community Correctional Facility which was terminated effective November 30, 2011. We are in the process of actively marketing these facilities to local county agencies in California. Given that most local county jurisdictions in California are presently operating at or above their correctional capacity, we are hopeful that we will be able to market these facilities to local county agencies for the housing of low level offenders who will be the responsibility of local county jurisdictions. Included in revenue for the fiscal year ended January 1, 2012 is $26.4 million of revenue related to these terminated contracts.

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On July 31, 2011, our contract for the management of the Brooklyn Community Re-entry Center located in Brooklyn, New York terminated.

On September 2, 2011, we initiated discussions with the California Department of Corrections & Rehabilitation, which we refer to as CDCR, to terminate our management agreement for the operation of the company-owned North Lake Correctional Facility. On September 26, 2011, CDCR notified us that our contract would terminate effective October 2, 2011. Included in revenue for the fiscal year ended January 1, 2012 is $2.4 million of revenue related to this terminated contract.

In an effort to consolidate existing Youth Services facilities and to maximize overall utilization, we terminated our contracts for the management of Contact Interventions, located in Wauconda, Illinois and the Abraxas Center for Adolescent Females located in Pittsburgh, Pennsylvania. Additionally, our contract to manage Philadelphia Community-Based Programs located in Philadelphia, Pennsylvania terminated June 30, 2011 due to lack of funding.

On October 3, 2011, we exercised the termination clause in our contract for the management of the Frio County Detention Center. Effective December 2, 2011, we no longer managed this facility.

Contracts terminated after January 1, 2012 generated aggregate revenue during the fiscal year ended January 1, 2012 of $14.4 million and a pre tax operating profit of $4.7 million, which includes $0.8 million of depreciation expense. The following contracts terminated after January 1, 2012:

On or about January 31, 2012, we were formally notified by the California Department of Corrections of their intention to exercise the right to terminate our contract for the management of the Golden State Medium Community Correctional Facility, which we refer to as Golden State. Effective July 1, 2012, we will no longer manage this facility.

In February 2012, we were notified that our contract for the management of the Migrant Operations Center in Guantanamo Bay NAS, Cuba would terminate effective March 31, 2012.

We are currently marketing approximately 7,700 vacant beds at nine of our idle facilities, including Golden State, to potential customers. The carrying values of these idle facilities totaled $297.3 million as of January 1, 2012, excluding equipment and other assets that can be easily transferred for use at other facilities.

**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 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 99.8% as of January 1, 2012. Approximately 75.9% of our 2011 U.S. Corrections & Detention revenue was derived from ACA accredited facilities for the year ended January 1, 2012. In January 2012, we also received accreditation at our Blackwater River Correctional Facility and at Hudson Correctional Facility. We have also achieved and maintained accreditation by The Joint Commission (TJC), at three of our correctional facilities, at nine of our youth services locations and at four of our residential treatment facilities. Our managed-only 720-bed Florida Civil Commitment Center in Arcadia, Florida obtained successful accreditation by the Commission on Accreditation of Rehabilitation Facilities, or CARF, 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 and we have achieved this accreditation at six of our U.S. Corrections & Detention facilities and at two youth services locations. Additionally, BI has achieved a certification for ISO 9001:2008 for the design, production, installation and servicing of products and services produced by the Electronic Monitoring business units, including electronic home arrest and domestic violence intervention monitoring services and products, installation services, and automated caseload management services.

**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 include: governmental agencies responsible for local, state and federal correctional facilities in the United States; governmental agencies responsible for correctional facilities in Australia, South Africa and the United Kingdom; federal, state and local government agencies in the United States responsible for mental health, residential treatment and community-based services for adult and juvenile offenders; federal, state and local government agencies responsible for monitoring community-based parolees, probationers and pretrial defendants; and other 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, community based re-entry services, and electronic monitoring services business.

For our facility management contracts, 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.

For our facility management contracts, 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.

For the services provided by BI, state, local and federal experience has been that a period of approximately thirty to ninety days is generally required from the issuance of an RFP or Invitation to Bid, or ITB, to the submission of our response; that between one and three months elapse between the submission of our response and the agency s award for a contract; and that between one and three months elapse between the award of a contract and the commencement of a program or the implementation of a program operations, as applicable. The term of our local, state and federal contracts range from one to five years and some contracts include provisions for optional renewal years beyond the initial contract term. Contracts can, and are periodically, extended beyond the contract term and optional renewal years through alternative procurement processes including sole source justification processes, cooperative procurement vehicles and agency decisions to add extension time periods.

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.

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During 2011, we activated five new or expansion projects representing an aggregate of 3,533 additional beds compared to the activation of three new or expansion projects representing an aggregate of 4,867 beds during 2010. Internationally, we activated three contracts for the provision of Prison Escort and Custody Services (PECS) during 2011 under a newly formed joint venture, GEOAmey.

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 and scale of service offerings 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 1, 2012, we had provided services for the design and construction of approximately forty-seven facilities and for the redesign and renovation and expansion of approximately thirty-three facilities. Internationally, as of January 1, 2012, 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.

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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 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 |
|---|---|---|---|---|---|
| New Castle Correctional Facility, Indiana | 512 | 3,196 | Q1 2012 | IDOC | GEO |
| Adelanto ICE Processing Center West, California | 650 | 1,300 | Q3 2012 | ICE(1) | GEO |
| Total | 1,162 | | | | |

(1) We will provide services at this facility through an Inter-Governmental Agreement, or IGA, with the City of Adelanto.

**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 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 approximately 34 states and 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 25 years, the State of California for 24 years, the State of Texas for approximately 24 years, various Australian state government entities for 20 years and the State of Florida for approximately 18 years. These customers accounted for approximately 66.5% of our consolidated revenues for the fiscal year ended January 1, 2012. 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 provided 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 approximating 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 $976.3 million in 2007 to $1.6 billion in 2011. We expect our operating cash flow to be well in excess of our anticipated annual maintenance capital expenditure needs, which would provide us 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 4,700 beds at 27 mental health and community-based residential facilities, the ability to provide treatment and other services at 19 residential and non-residential facilities and the monitoring of approximately 70,000 offenders in a community-based environment generating aggregate revenues of $426.8 million for fiscal year ended 2011 from 1,773 beds at 6 residential facilities generating revenues of $110.2 million for fiscal year ended 2007. We believe that GEO Care s service offerings of providing diversified mental health, residential treatment, community-based services and monitoring 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 $215.5 million of revenues, representing 13.4% of our consolidated revenues, for the year ended January 1, 2012. 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, Ph.D., has led our Company for 27 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 $1.6 billion in 2011. Mr. 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 our company for over eleven years and has led the integration of our recent acquisitions and financing activities. Our top seven senior executives have an average tenure with our company of over ten years.

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**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 have 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.

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**Facilities and Day Reporting Centers**

The following table summarizes certain information with respect to: (i) U.S. and international detention and corrections facilities; (ii) residential treatment facilities; (iii) community-based services facilities; and (iv) residential and non-residential youth services facilities. The information in the table includes the facilities that GEO (or a subsidiary or joint venture of GEO) owned, operated under a management contract, had an agreement to provide services, had an award to manage or was in the process of constructing or expanding as of January 1, 2012:

| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| ***Corrections & Detention Western Region:*** | | | | | | | | |
| Adelanto ICE Processing Center East, Adelanto, CA | 650 | ICE | Federal Detention | Minimum/ Medium | May 2011 | 5 years | None | Own |
| Adelanto ICE Processing Center West , Adelanto, CA(3) | 650 | Under construction | | | | | | Own |
| Alhambra City Jail, Los Angeles, CA | 72 | City of Alhambra | City Jail | All Levels | July 2008 | 3 years | Two, One-year | Manage Only |
| Arizona State-Prison Florence West Florence, AZ | 750 | AZ DOC | State DUI/ RTC Correctional | Minimum | October 2002 | 10 years | Two, Five-year | Lease |
| Arizona State-Prison Phoenix West Phoenix, AZ | 450 | AZ DOC | State DWI Correctional | Minimum | July 2002 | 10 years | Two, Five-year | Lease |
| Aurora Detention Facility Aurora, CO | 432 | Idle | | | | | | Own |
| Aurora ICE Processing Center Aurora, CO | 1,100 | ICE | Federal Detention | Minimum/ Medium | September 2011 | 2 years | Four, Two-year | Own |
| Baker Community Correctional Facility Baker, CA(4) | 262 | Idle | | | | | | Own |
| Baldwin Park City Jail, Los Angeles, CA | 32 | City of Baldwin Park | City Jail | All Levels | July 2003 | 3 years | Three, Three-year | Manage Only |
| Bell Gardens City Jail Los Angeles, CA(5) | 14 | City of Bell Garden | City Jail | All Levels | March 2008 | 4 months | Unlimited, One-month | Manage Only |
| Central Arizona Correctional Facility Florence, AZ | 1,280 | AZ DOC | State Sex Offender Correctional | Minimum/ Medium | December 2006 | 10 years | Two, Five-year | Lease |
| Central Valley MCCF McFarland, CA | 640 | Idle | | | | | | Own |
| Desert View MCCF Adelanto, CA | 650 | Idle | | | | | | Own |
| Downey City Jail Los Angeles, CA | 25 | City of Downey | City Jail | All Levels | June 2003 | 3 years | Three, Three-year | Manage Only |
| Fontana City Jail Los Angeles, CA | 41 | City of Fontana | City Jail | All Levels | February 2007 | 5 months | Five, One-year | Manage Only |
| Garden Grove City Jail Los Angeles, CA | 17 | City of Garden Grove | City Jail | All Levels | January 2010 | 30 months | Unlimited | Manage Only |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| Golden State MCCF McFarland, CA(6) | 625 | CDCR | State Correctional | Medium | March 1997 | 10 years | One, Five-year | Own |
| Guadalupe County Correctional Facility Santa Rosa, NM(7) | 600 | NMCD | Local/State Correctional | Medium | January 1999 | 3 years | Five, One to Two-Year | Own |
| High Plains Correctional Facility Brush, CO | 272 | Idle | | | | | | Own |
| Hudson Correctional Facility Hudson, CO | 1,250 | AK DOC | State Correctional | Medium | September 2009 | 3 years | Seven, One-year | Lease |
| Lea County Correctional Facility Hobbs, NM(7) | 1,200 | NMCD | Local/State Correctional | Medium | September 1998 | 5 years | Eight, one-year | Own |
| Leo Chesney Community Correctional Facility Live Oak, CA | 318 | Idle | | | | | | Lease |
| McFarland Community Correctional Facility McFarland, CA | 260 | Idle | | | | | | Own |
| Mesa Verde Community Correctional Facility Bakersfield, CA | 400 | Idle | | | | | | Own |
| Montebello City Jail Los Angeles, CA | 35 | City of Montebello | City Jail | All Levels | January 1996 | 2 years | Unlimited, One-year | Manage Only |
| Northeast New Mexico Detention Facility Clayton, NM(7) | 625 | NMCD | Local/State Correctional | Medium | August 2008 | 5 years | Five, one-year | Manage Only |
| Northwest Detention Center Tacoma, WA | 1,575 | ICE | Federal Detention | All Levels | October 2009 | 1 year | Four, one-year | Own |
| Ontario City Jail Los Angeles, CA | 42 | City of Ontario | City Jail | Any Level | September 2006 | 3 years | Unlimited, One-year | Manage Only |
| Western Region Detention Facility San Diego, CA | 770 | OFDT/ USMS | Federal Detention | Maximum | Janaury 2006 | 5 years | One, Five-year | Lease |
| ***Corrections & Detention Central Region:*** | | | | | | | | |
| Big Spring Correctional Center Big Spring, TX | 3,509 | BOP | Federal Correctional | Medium | April 2007 | 4 years | Three, Two-year and One, six-month | Lease(8) |
| Central Texas Detention Facility San Antonio, TX(7) | 688 | USMS | Local & Federal Detention | Minimum/ Medium | April 2009 | 10 years | None | Lease |
| Cleveland Correctional Center Cleveland, TX | 520 | TDCJ | State Correctional | Minimum | Janaury 2009 | 2.6 years | Two, Two-year | Manage Only |
| Great Plains Correctional Facility Hinton, OK | 2,048 | Idle | | | | | | Lease (8) |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| Joe Corley Detention Facility Conroe, TX(7) | 1,287 | USMS/ICE | Local Correctional | Medium | August 2008/August 2008 | 2 years/ 5 years | Unlimited, two-year/ None | Manage Only |
| Karnes Correctional Center Karnes City, TX(7) | 679 | ICE/ USMS | Local & Federal Detention | All Levels | December 2010/May 1998 | 5 years/ 30 years | Unspecified | Own |
| Karnes Civil Detention Center Karnes City, TX(7),(9) | 600 | Under construction | Federal Detention | All Levels | December 2010 | 5 years | None | Own |
| Lawton Correctional Facility Lawton, OK | 2,526 | OK DOC | State Correctional | Medium | July 2008 | 1 year | Five, One-year Unlimited, Four-year | Own |
| Lockhart Secure Work Program Facilities Lockhart, TX | 1,000 | TDCJ | State Correctional | Minimum/ Medium | January 2009 | 2.6 years | Two, two-year | Manage Only |
| Maverick County Detention Facility Maverick, TX(7) | 688 | USMS | Local Detention | Medium | April 2007 | N/A | Perpetual until terminated | Manage Only |
| Oak Creek Confinement Center Bronte, TX(4) | 200 | Idle | | | | | | Own |
| Reeves County Detention Complex R1/R2 Pecos, TX(7) | 2,407 | BOP | Federal Correctional | Low | February 2007 | 10 years | Unlimited, Ten year | Manage Only |
| Reeves County Detention Complex R3 Pecos, TX(7) | 1,356 | BOP | Federal Correctional | Low | January 2007 | 10 years | Unlimited, Ten year | Manage Only |
| Rio Grande Detention Center Laredo, TX | 1,500 | USMS/ OFDT | Federal Detention | Medium | October 2008 | 5 years | Three, Five-year | Own |
| South Texas Detention Complex Pearsall, TX | 1,904 | ICE | Federal Detention | All Levels | December 2011 | 11 months | Four, One-year | Own |
| Val Verde Correctional Facility Del Rio, TX(7) | 1,407 | USMS | Local & Federal Detention | All Levels | January 2001 | 20 years | Unlimited, Five-year | Own |
| ***Corrections & Detention Eastern Region:*** | | | | | | | | |
| Allen Correctional Center Kinder, LA | 1,538 | LA DPS&C | State Correctional | Medium/ Maximum | July 2010 | 10 years | None | Manage only |
| Blackwater River Correctional Facility Milton, FL | 2,000 | DMS | State Correctional | Medium/ close | April 2010 | 3 years | Two, two-year | Manage Only |
| Broward Transition Center Deerfield Beach, FL | 700 | ICE | Federal Detention | Minimum | April 2009 | 11 months | Four, One-year, Unlimited 6-month | Own |
| D. Ray James Correctional Facility Folkston, GA | 2,847 | BOP | Federal Detention | All Levels | October 2010 | 4 years | Three, two-year | Lease(8) |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| East Mississippi Correctional Facility Meridian, MS(7) | 1,500 | ICE | State Mental Health Correctional | All Levels | March 2010 | 5 years | None | Manage only |
| Indiana STOP Program Plainfield, IN | 1,066 | IDOC | State Correctional | Minimum | March 2011 | 4 years | One, Unspecified | Manage Only |
| LaSalle Detention Facility Jena, LA(7) | 1,160 | ICE | Federal Detention | Minimum/ Medium | July 2007 | Perpetual | N/A | Own |
| Lawrenceville Correctional Center Lawrenceville, VA | 1,536 | VA DOC | State Correctional | Medium | March 2003 | 5 years | Ten, One-year | Manage Only |
| Marshall County Correctional Facility Holly Springs, MS | 1,000 | MS DOC | State Correctional | Medium | September 2010 | 5 years | None | Manage Only |
| Migrant Operations Center Guantanamo Bay NAS, Cuba(10) | 130 | ICE | Federal Migrant Center | Minimum | November 2006 | 11 months | Four, One-year | Manage Only |
| Moshannon Valley Correctional Center Philipsburg, PA | 1,495 | BOP | Federal Correctional | Medium | April 2006 | 36 months | Seven, One-year | Own |
| New Castle Correctional Facility New Castle, IN | 2,684+512 expansion | IDOC | State Correctional | All Levels | January 2006 | 4 years | Two, Five-year | Manage Only |
| North Lake Correctional Facility Baldwin, MI | 1,740 | Idle | | | | | | Own |
| Queens Detention Facility Jamaica, NY | 222 | USMS | Federal Detention | Minimum/ Medium | January 2008 | 2 year | Four, two-year | Own |
| Riverbend Correctional Facility Milledgeville, GA | 1,500 | GDOC | State Correctional | Medium | July 2010 | Partial 1 year | Forty, One-year and one partial year | Own |
| Rivers Correctional Institution Winton, NC | 1,450 | BOP | Federal Correctional | Low | April 2011 | 4 years | Three, Two-year | Own |
| Robert A. Deyton Detention Facility Lovejoy, GA | 768 | USMS/ OFDT | Federal Detention | Medium | February 2008 | 5 years | Three, Five year | Lease |
| South Bay Correctional Facility South Bay, FL | 1,862 | DMS | State Correctional | Medium/ Close | July 2009 | 3 years | Unlimited, Two-year | Manage Only |
| Walnut Grove Youth Correctional Facility Walnut Grove, MS | 1,450 | MS DOC | State Correctional | Maximum | October 2006 | 3 years | Unspecified | Manage Only |
| ***Corrections & Detention Australia:*** | | | | | | | | |
| Arthur Gorrie Correctional Centre Queensland, Australia | 890 | QLD DCS | State Remand Prison | High/ Maximum | January 2008 | 5 years | One, Five-year | Manage Only |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| Fulham Correctional Centre & Nalu Challenge Community Victoria, Australia | 785 | VIC DOJ | State Prison | Minimum/ Medium | October 1995 | 22 years | None | Lease |
| Junee Correctional Centre New South Wales, Australia | 790 | NSW | State Prison | Minimum/ Medium | April 2009 | 5 years | Two, Five-year | Manage Only |
| Pacific Shores Healthcare Victoria, Australia(11) | N/A | VIC CV | Health Care Services | N/A | July 2009 | 17 months | Two, six-month | Manage Only |
| Parklea Correctional Centre Sydney, Australia | 823 | NSW | State Remand Prison | All Levels | October 2009 | 5 years | One, Three-year | Manage Only |
| ***Corrections & Detention United Kingdom:*** | | | | | | | | |
| Dungavel House Immigration Removal Centre, South Lanarkshire, UK | 217 | UKBA | Detention Centre | Minimum | September 2011 | 5 years | None | Manage Only |
| Harmondsworth Immigration Removal Centre London, UK | 620 | UKBA | Detention Centre | Minimum | June 2009 | 3 years | None | Manage Only |
| ***Corrections & Detention South Africa:*** | | | | | | | | |
| Kutama-Sinthumule Correctional Centre Limpopo Province, Republic of South Africa | 3,024 | RSA DCS | National Prison | Maximum | February 2002 | 25 years | None | Manage Only |
| ***Corrections & Detention Canada:*** | | | | | | | | |
| New Brunswick Youth Centre Mirimachi, Canada(12) | N/A | PNB | Provincial Juvenile Facility | All Levels | October 1997 | 25 years | One, Ten-year | Manage Only |
| ***Corrections & Detention Leased:*** | | | | | | | | |
| Delaney Hall Newark, NJ | 1,200 | Community Education Centers | Community Corrections | Community | May 2003 | | | Own |
| ***GEO Care Residental Treatment Services:*** | | | | | | | | |
| Columbia Regional Care Center Columbia, SC | 354 | SCDMH/ GDOC | Correctional Health Care Hospital | Medical and Mental Health | July 2005/ Unspecified | 8 years/ Unspecified | None/ Unlimited | Lease |
| Florida Civil Commitment Center Arcadia, FL | 720 | DCF | State Civil Commitment | All Levels | April 2009 | 5 years | Three, five-year | Manage Only |
| Montgomery County Mental Health Treatment Facility Montgomery, TX | 100 | MC | Mental Health Treatment Facility | Mental Health | March 2011 | Partial six-month | Unlimited, One-year | Manage Only |
| Palm Beach County Jail Palm Beach, FL | N/A | PBC as Subcontractor to Armor Healthcare | Mental Health Services to County Jail | All Levels | May 2006 | 5 years | Unspecified, Unlimited | Manage Only |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| South Florida State Hospital Pembroke Pines, FL | 335 | DCF | State Psychiatric Hospital | Mental Health | July 2008 | 5 years | Three, Five-year | Manage Only |
| South Florida Evaluation and Treatment Center Miami, FL | 238 | DCF | State Forensic Hospital | Mental Health | January 2006 | 5 years | Three, Five-year | Manage Only |
| Treasure Coast Forensic Treatment Center Stuart, FL | 223 | DCF | State Forensic Hospital | Mental Health | April 2007 | 5 years | One, Five-year | Manage Only |
| ***GEO Care Community Based Services:*** | | | | | | | | |
| Beaumont Transitional Treatment Center Beaumont, TX | 180 | TDCJ | Community Corrections | Community | September 2003 | 2 years | Five, Two-year and One, six-month | Own |
| Bronx Community Re-entry Center Bronx, NY | 110 | BOP | Community Corrections | Community | October 2007 | 2 years | Three, One-year | Lease |
| Brooklyn Community Re-entry Center Brooklyn, NY | 177 | Idle | | | | | | Lease |
| Cordova Center Anchorage, AK | 192 | AK DOC | Community Corrections | Community | September 2007 | 7 months | Four, one-year, One five-month | Lease(8) |
| El Monte Center El Monte, CA | 61 | BOP | Community Corrections | Community | March 2008 | 7 months | Four, one-year | Lease |
| Grossman Center Leavenworth, KS | 150 | BOP | Community Corrections | Community | October 2007 | 2 years | Three, one-year | Lease |
| Las Vegas Community Correctional Center Las Vegas, NV | 124 | BOP/ USPO | Community Corrections | Community | October 2010 | 2 years | Three, one-year | Own |
| Leidel Comprehensive Sanction Center Houston, TX | 190 | BOP/ USPO | Community Corrections | Community | January 2011 | 2 years | Three, one-year | Lease(8) |
| Marvin Gardens Center Los Angeles, CA(13) | 60 | BOP | Community Corrections | Community | May 2006 | 2 years | Three, one-year | Lease |
| McCabe Center Austin, TX | 113 | BOP and various local | Community Corrections | Community | April 2007 | 2 years | Three, one-year | Own |
| Mid Valley House Edinburg, TX | 120 | BOP/ USPO | Community Corrections | Community | December 2008 | 2 years | Three, one-year | Lease |
| Midtown Center Anchorage, AK | 32 | AK DOC | Community Corrections | Community | September 2007 | 7 months | Four, one-year, One five-month | Own |
| Northstar Center Fairbanks, AK | 143 | AK DOC | Community Corrections | Community | February 2011 | 5 months | Four, one-year, One five-month | Lease |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| Oakland Center Oakland, CA | 69 | BOP | Community Corrections | Community | November 2008 | 3 years | Seven, one-year | Own |
| Parkview Center Anchorage, AK | 112 | AK DOC | Community Corrections | Community | September 2007 | 7 months | Four, one-year, One five-month | Lease(8) |
| Reality House Brownsville, TX(4) | 94 | BOP/ USPO | Community Corrections | Community | September 2011/October 2009 | 2 years/ 2 years | Three, one-year/ Two, one-year | Own |
| Reid Community Residential Facility Houston, TX | 500 | TDCJ | Community Corrections | Community | September 2003 | 2 years | Five, two-year | Lease(8) |
| Salt Lake City Center Salt Lake City, UT | 115 | BOP/ USPO | Community Corrections | Community | June 2011/October 2009 | 2 years/ 2 years | Three, one-year/ Two, two-year | Lease |
| Seaside Center Nome, AK | 50 | AK DOC | Community Corrections | Community | December 2007 | 1 year | Five, one-year | Lease |
| Taylor Street Center San Francisco, CA | 210 | BOP/ CDCR | Community Corrections | Community | February 2006 | 3 years | Seven, one-year | Own |
| Tundra Center Bethel, AK(14) | 85 | AK DOC | Community Corrections | Community | December 2006 | 1 year | Five, one-year | Lease(8) |
| ***GEO Care Youth Services:*** | | | | | | | | |
| *Residential Facilities* | | | | | | | | |
| Abraxas Academy Morgantown, PA | 214 | Various | Youth Residential | Secure | 2006 | N/A | N/A | Own |
| Abraxas Center For Adolescent Females Pittsburgh, PA | 108 | Idle | | | | | | Own |
| Abraxas I Marienville, PA | 274 | Various | Youth Residential | Staff Secure | 1973 | N/A | N/A | Lease(8) |
| Abraxas Ohio Shelby, OH | 108 | Various | Youth Residential | Staff Secure | 1993 | N/A | N/A | Lease(8) |
| Abraxas III, Pittsburgh, PA(4) | 24 | Idle | | | | | | Own |
| Abraxas Youth Center South Mountain, PA | 72 | Various | Youth Residential | Secure/ Staff Secure | 1999 | N/A | N/A | Lease |
| Contact Interventions Wauconda, IL | 32 | Idle | | | | | | Own |
| DuPage Interventions Hinsdale, IL | 36 | IL DASA, Medicaid, Private | Youth Residential | Staff Secure | 1999 | N/A | N/A | Own |
| Erie Residential Programs Erie, PA | 41 | Various | Youth Residential | Staff Secure | 1974 | N/A | N/A | Own |
| Hector Garza Center San Antonio, TX | 133 | TDFPS, TYC and County Probation | Youth Residential | Staff Secure | 2003 | N/A | N/A | Lease(8) |

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| Facility Name & Location | Capacity(1) | Primary Customer | Facility Type | Security Level | Commencement of Current Contract (2) | Base Period | Renewal Options | Manage Only Lease/ Own |
|---|---|---|---|---|---|---|---|---|
| Leadership Development Program South Mountain, PA | 128 | Various | Youth Residential | Staff Secure | 1994 | N/A | N/A | Lease |
| Schaffner Youth Center Steelton, PA | 24 | Dauphin County | Youth Residential | Secure/Staff Secure | 2009 | 2 years | N/A | Manage Only |
| Southern Peaks Regional Treatment Center Canon City, CO | 136 | Various | Youth Residential | Staff Secure | 2004 | N/A | N/A | Own |
| Southwood Interventions Chicago, IL | 128 | IL DASA, City of Chicago, Medicaid, Private | Youth Residential | Staff Secure | 1999 | N/A | N/A | Own |
| Texas Adolescent Treatment Center San Antonio, TX | 145 | Idle | | | | | | Own |
| Woodridge Interventions Woodridge, IL | 90 | IL DASA, Medicaid, Private | Youth Residential | Staff Secure | 1999 | N/A | N/A | Own |
| ***GEO Care Youth Services:*** | | | | | | | | |
| *Non-residential Facilities:* | | | | | | | | |
| Abraxas Counseling Center Columbus, OH | 78 | Various | Youth Non-residential | Open | 2008 | N/A | N/A | Lease |
| Delaware Community-Based Programs Milford, DE | 66 | State of Delaware | Youth Non-residential | Open | 1994 | N/A | N/A | Lease |
| Harrisburg Community-Based Programs Harrisburg, PA | 136 | Dauphin or Cumberland Counties | Youth Non-residential | Open | 1995 | N/A | N/A | Lease |
| Lehigh Valley Community-Based Programs Lehigh Valley, PA | 60 | Lehigh and Northampton Counties | Youth Non-residential | Open | 1987 | N/A | N/A | Lease |
| Philadelphia Community-Based Programs Philadelphia, PA(4) | 71 | Idle | | | | | | Own |
| WorkBridge Pittsburgh, PA | 600 | Allegheny County | Youth Non-residential | Open | 1987 | N/A | N/A | Lease |
| York County Juvenile Drug Court Programs Harrisburg, PA | 36 | YCCYS | Youth Non-residential | Open | 1995 | N/A | N/A | Lease |

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The following table summarizes certain information with respect to our re-entry Day Reporting Centers, which we refer to as DRCs. The information in the table includes the DRCs that GEO (or a subsidiary or joint venture of GEO) operated under a management contract or had an agreement to provide services as of January 1, 2012:

| DRC Location | Number of reporting centers | Type of Customers | Commencement of current contract(s) | Base period | Renewal options | Manage only/ lease |
|---|---|---|---|---|---|---|
| California | 12 | State, County | Various, 2007 2012 | Various, 1 to 5 years | Varies | Lease |
| Illinois | 8 | State, County | 2003 | 5 years | One, Five year | Lease or Manage only |
| Colorado(15) | 5 | State, County | Various, 2004 2011 | Various, 1 year to 18 months | One to Four, One year | Lease |
| Kansas | 1 | County | 2011 | 4 years | Four, One year | Lease |
| Louisiana | 1 | State | 2010 | 1 year | Two, One year | Lease |
| Kentucky | 1 | County | 2010 | 2 years | Three, One year | Lease |
| New Jersey | 4 | State | 2008 | 3 years | Two, One year | Lease |
| New York | 1 | County | 2010 | 6 months | Four, One year | Lease |
| Pennsylvania | 2 | County | Various, 2006 2010 | Various, 1 to 3 years | Indefinite, One year | Lease |

***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 |
| CO DOC | Colorado Department of Corrections |
| DCF | Florida Department of Children & Families |
| DMS | Florida Department of Management Services |
| EM CFA | East Mississippi Correctional Facility Authority |
| 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 |
| PBC | Palm Beach County |
| PNB | Province of New Brunswick |

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| | |
|---|---|
| QLD DCS | Department of Corrective Services of the State of Queensland |
| RSA DCS | Republic of South Africa Department of Correctional Services |
| SCDMH | South Carolina Department of Mental Health |
| SCDOH | South Carolina Department of Health |
| TDCJ | Texas Department of Criminal Justice |
| TDFPS | Texas Department of Family and Protective Services |
| TYC | Texas Youth Commission |
| UKBA | United Kingdom Border Agency |
| USMS | United States Marshals Service |
| USPO | United States Probation Office |
| VA DOC | Virginia Department of Corrections |
| 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 operational capacity consisting of total beds for all facilities except for the seven 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) 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.

(3) In June 2011, we announced that the City of Adelanto, California signed a contract with us for the housing of federal immigration detainees at our existing 650-bed Detention Facility in Adelanto, California, and at a 650-bed facility expansion we are constructing on land adjacent to the facility. We completed the renovation and retrofitting of the existing 650-bed facility and began the initial intake of 650 detainees in August 2011. We expect to complete the new 650-bed expansion and begin the intake of the additional 650 detainees by August 2012.

(4) These facilities are classified as Assets Held for Sale as of January 1, 2012. We sold Baker Community Correctional Facility in January 2012.

(5) This contract renewal period expired June 30, 2011 and was extended on a month-to-month basis until it was terminated effective January 22, 2012.

(6) The Company was notified by the CDCR in January 2012 that this contract would terminate effective July 1, 2012 due to lack of funding.

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

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

(9) The construction on this facility was substantially complete on December 31, 2011. We began intake of inmates in January 2012.

(10) The contract for the management of this facility will terminate effective March 31, 2012.

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

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

(13) This contract expired February 29, 2012. We entered into a new contract for the management of this facility effective March 1, 2012.

(14) This contract expired January 31, 2012. We entered into a new contract for the management of this facility effective February 1, 2012.

(15) The Colorado Day Reporting Centers provide many of the same services as the full service Day Reporting Centers, but rather than providing these services through comprehensive treatment plans dictated by the governing authority, these services are provided on a fee for service basis. Such services may be connected to government agency contracts and would be reimbursed by those agencies. Other services are offered directly to offenders allowing them to meet court-ordered requirements and paid by the offender as the service is provided.

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**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 have not considered these contracts to ever be in the renewal or re-bid stage since they are more perpetual in nature. As such, the contracts for youth services are not considered as renewals or rebids nor are they included 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 1, 2012, 54 of our facility management contracts representing approximately 21,000 beds are scheduled to expire on or before December 30, 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 26.3% of our consolidated revenues for the fiscal year ended January 1, 2012. We undertake substantial efforts to renew our facility management contracts. Our average historical facility management contract renewal approximates 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 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.

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As of January 1, 2012, 14 of our facility management contracts representing 1.6% and $26.1 million of our fiscal year 2011 consolidated revenues are subject to competitive re-bid in 2012. 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 |
|---|---|---|
| 2012 | 14 | 1,182 |
| 2013 | 4 | 213 |
| 2014 | 5 | 2,955 |
| 2015 | 12 | 6,239 |
| 2016 | 7 | 4,662 |
| Thereafter | 27 | 32,692 |
| Total | 69 | 47,943 |

In addition to the facility management contracts subject to competitive re-bid in the table above, certain other of our management contracts are also subject to competitive re-bid including our contract to provide services to ICE under the Intensive Supervision Appearance Program which is subject to competitive re-bid in 2014. We generated revenues under this contract during the fiscal year ended January 1, 2012 of $37.8 million, or 2.4%, of our consolidated revenues.

**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. Corrections & Detention 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 1, 2012, we had 18,894 full-time employees. Of our full-time employees, 273 were employed at our headquarters and regional offices and 18,621 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 1,651 and 1,839 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.

With respect to BI and the ISAP services contract, new employees are required to complete training requirements as outlined in the contract within 14 days of hire and prior to being assigned autonomous ISAP related duties. These employees receive 25 hours of refresher training annually thereafter. Program managers for our ISAP contract must receive 24 hours of additional initial training. BI s Monitoring Services maintains its own comprehensive certification and training program for all Monitoring Service Specialists. We require all new personnel hired for a position in Monitoring Operations to complete a seven-week training program. Successful completion of our training program training and a final certification is required of all of our personnel performing monitoring operations. We require that certification is achieved prior to being permitted to work independently in the call center.

**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 policies with total limits of $67.0 million per occurrence and in the aggregate covering the operations of U.S. Corrections & Detention, GEO Care s community based services, GEO Care s youth services and BI. In addition, GEO Care s residential treatment services division has a separate claims-made liability insurance program for their mental health facilities with a specific loss limit of $35.0 million per occurrence and in the aggregate. That same $35.0 million limit also applies to medical professional liability claims arising out of correctional healthcare services. 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 of $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 and the Pacific Northwest, 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. In addition to these policies, our Australian subsidiary carries tail insurance on a general liability policy 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 $45.3 million and $40.2 million as of January 1, 2012 and January 2, 2011, 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 2011 and 2010 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

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business opportunities throughout Europe. Since June 29, 2009, GEO UK has managed the 620-bed Harmondsworth Immigration Removal Centre in London, England. In September 2011, we activated the 217-bed Dungavel House Immigration Removal Centre located near Glasgow, Scotland. 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 and Supplementary Data Note 18 Business Segments 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 | 2011 | 2010 | 2009 |
|---|---|---|---|
| Various agencies of the U.S Federal Government: | 40% | 35% | 31% |
| Various agencies of the State of Florida: | 11% | 14% | 16% |

**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 1, 2012 was $1,338.4 million, excluding non-recourse debt of $241.8 million and capital lease obligations of $14.2 million. As of January 1, 2012, we had $58.6 million outstanding in letters of credit and $302.0 million in borrowings outstanding under the Revolver. Also as of January 1, 2012, we had the ability to borrow $139.4 million under the Revolver, after applying the limitations and restrictions in our debt covenants and subject to our satisfying the relevant borrowing conditions under the Senior Credit Facility with respect to the incurrence of additional indebtedness.

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 7 3/4% 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 1, 2012, we were developing a number of projects that we estimate will cost approximately $245.8 million, of which $156.1 million was spent through January 1, 2012. We estimate our remaining capital requirements to be approximately $89.7 million, which we anticipate will be spent in fiscal years 2012 and 2013. Capital expenditures related to facility maintenance costs are expected to range between $30.0 million and $35.0 million for fiscal year 2012. 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 2012 and 2013, 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 2012 and/or 2013 could materially increase. As of January 1, 2012, we had the ability to borrow $139.4 million under the revolver portion of our Senior Credit Facility after applying the limitations and restrictions in our debt covenants and subject to our satisfying the relevant borrowing conditions under the Senior Credit Facility. 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 7 3/4% 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 1, 2012, we had the ability to borrow an additional $139.4 million under the revolver portion of our Senior Credit Facility after applying the limitations and restrictions in our debt covenants and subject to our satisfying the relevant borrowing conditions under the Senior Credit Facility. We also would have had the ability to borrow an additional $250.0 million under the accordion

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feature of our senior credit facility subject to lender demand, prevailing market conditions and satisfying relevant borrowing conditions. Also, we may refinance all or a portion of our indebtedness, including borrowings under our Senior Credit Facility, the 7 3/4% 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 7 3/4% 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 7 3/4% 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 7 3/4% 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.

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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 7 3/4% 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 1, 2012 we had $783.0 million of indebtedness outstanding under our Senior Credit Facility (net of discount of $1.5 million), and a one percent increase in the interest rate applicable to the Senior Credit Facility would increase our annual interest expense by $7.8 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 1, 2012, our subsidiaries accounted for 68.9% of our consolidated revenues, and as of January 1, 2012, our subsidiaries accounted for 75.7% 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. We are currently marketing approximately 7,700 vacant beds at nine of our idle facilities to potential customers. The annual carrying cost of idle facilities in 2012 is estimated to be $16.6 million, including depreciation expense of $8.1 million, if the facilities remain vacant for the remainder of 2012. As of January 1, 2012, these facilities had a net book value of $297.3 million. The Company reviews its facilities for impairment whenever events or changes in circumstances indicate the net book value of the facility may not be recoverable. Impairment charges taken on our facilities could require material non-cash charges to our results of operations. 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.

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***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. 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 these contracts to ever be in the renewal or re-bid stage since they are more perpetual in nature. 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 1, 2012, 54 of our facility management contracts representing approximately 21,000 beds are scheduled to expire on or before December 30, 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 26.3% of our consolidated revenues for the fiscal year ended January 1, 2012. We undertake substantial efforts to renew our facility management contracts. Our average historical facility management contract renewal rate approximates 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 1, 2012, 14 of our facility management contracts representing $26.1 million (or 1.6%) of our consolidated revenues for the year ended January 1, 2012 are subject to competitive re-bid in 2012. 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.

***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. An inability to realize the full extent of, or any of, the anticipated synergies or other benefits of an 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.

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

We have a substantial amount of goodwill and other intangible assets resulting from business acquisitions. As of January 1, 2012 we had $708.4 million 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 Generally Accepted Accounting Principles, or GAAP, we will evaluate this goodwill for impairment by first assessing qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting unit is less than the carrying amount. Estimated fair values could change if there are changes in our 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.

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***Our growth depends on our ability to secure contracts to develop and manage new correctional, detention and mental health facilities and to secure contracts to provide electronic monitoring services, community-based re-entry services and monitoring and supervision services, the demand for which is outside our control.***

Our growth is primarily 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. Additionally, our growth is generally dependent upon our 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, electronic monitoring services, community-based re-entry services and monitoring and supervision 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, 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, four customers accounted for over 50% of our consolidated revenues for the year ended January 1, 2012. In addition, three federal governmental agencies with correctional and detention responsibilities, the Bureau of Prisons, ICE, and the U.S. Marshals Service, accounted for 39.9% of our total consolidated revenues for the year ended January 1, 2012, with the Bureau of Prisons accounting for 16.0% of our total consolidated revenues for such period, ICE accounting for 13.4% of our total consolidated revenues for such period, and the U.S. Marshals Service accounting for 10.5% of our total consolidated revenues for such period. Government agencies from the State of Florida accounted for 10.6% of

our total consolidated revenues for the year ended January 1, 2012. 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, the State of California implemented its Criminal Justice Realignment Plan. As a result of the implementation of the Criminal Justice Realignment Plan, the State of California discontinued contracts with Community Correctional Facilities which housed low level state offenders across the state. The implementation of the Criminal Justice Realignment Plan by California resulted in the cancellation of our agreements for the housing of low level state offenders at three of our California Community Corrections facilities as well as an agreement for the housing of out-of-state California inmates at our North Lake Correctional Facility in Michigan. In January 2012, we also received notice from the CDCR of its intention to terminate the contract at Golden State Medium Community Correctional Facility effective July 1, 2012. Also, in Michigan 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 most states anticipate revenues to increase in fiscal year 2012 compared with fiscal year 2011, several states still face budget shortfalls. According to the National Conference of State Legislatures, 38 states faced budget gaps when they were enacting their fiscal 2012 budgets, and new budget gaps could develop before fiscal year 2012 ends. At January 1, 2012, we had twelve state correctional clients: Florida, Georgia, Alaska, Mississippi, Louisiana, Virginia, Indiana, Texas, Oklahoma, New Mexico, Arizona, and California. Effective October 1, 2011, the State of California began implementing its Criminal Justice Realignment Plan, which is expected to delegate tens of thousands of low level state offenders to local county jurisdictions in California. As a result of this decision, we received written notice from the California Department of Corrections and Rehabilitation regarding the cancellation of our agreements for the housing of low level state offenders at three of our California community corrections facilities as well as an agreement for the housing of out-of-state California inmates at our North Lake Correctional Facility in Michigan. If state budgetary constraints persist or intensify, our state customers may choose to implement plans similar to California s Criminal Justice Realignment Plan, 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 in 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.

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***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 7 3/4% 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 2012. 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.

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

Our GEO Care business segment 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 educational and rehabilitative programming, active patient treatment services, employment assistance and monitoring services at state-owned mental health care facilities, jails, sexually violent offender facilities, community-based service facilities and/ or 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 1, 2012, GEO Care generated $426.8 million in revenues, representing 26.4% 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.

***Operating juvenile correctional facilities poses certain unique or increased risks and difficulties compared to operating other facilities.***

As a result of the Cornell Acquisition in 2010, we re-entered the market of operating juvenile correctional facilities. We intentionally had exited the market of operating juvenile correctional facilities a number of years prior to the Cornell Acquisition. 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 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, any failures experienced by our electronic monitoring services or the loss or unauthorized access to any of the data we maintain in the course of providing our services 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 7 $^{3}/4$% 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. 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 1, 2012, our international operations accounted for 13.4% 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 conduct our prisoner escort and related custody services in the United Kingdom through our 50% unconsolidated joint venture in GEO Amey PECS Limited, which we refer to as GEOAmey. 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. We also share equal voting control on all significant matters to come before GEOAmey. 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, Ph.D., our Chairman and Chief Executive Officer, Brian R. Evans, our Chief Financial Officer, John M. Hurley, our Senior Vice President, Operations and President, U.S. Corrections & Detention, Jorge A. Dominicis, Senior Vice President Residential Treatment Services and President, GEO Care, Inc. and also our other five executive officers at the 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 within the level of 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. Achieving the anticipated benefits of any acquisition will depend in significant part upon whether we integrate such acquired businesses in an efficient and effective manner. The actual integration of any acquisition 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 an acquired business 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 1, 2012, approximately 18% of our workforce was covered by collective bargaining agreements and, as of such date, collective bargaining agreements with approximately 8% of our employees were set to expire in less than one year. While only approximately 18% 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.

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

Technological changes within the electronic monitoring business in which we conduct business may require us to expend substantial resources in an effort to develop and/or utilize new electronic monitoring products and technology. We may not be able to anticipate or respond to technological changes in a timely manner, and our response may not result in successful electronic monitoring product development and timely product introductions. If we are unable to anticipate or timely respond to technological changes, our business could be adversely affected and could compromise our competitive position, particularly if our competitors announce or introduce new electronic monitoring products and services in advance of us. 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 our 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 our business, financial condition and results of operations.

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***We depend on a limited number of third parties to manufacture and supply quality infrastructure components for its electronic monitoring products. If our suppliers cannot provide the components or services we require and with such quality as we expect, our ability to market and sell our electronic monitoring products and services could be harmed.***

If our suppliers fail to supply components in a timely manner that meets our quantity, quality, cost requirements, or technical specifications, we 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 our marketing and sales initiatives, which could adversely affect our financial condition and results of operations.

***Providing electronic monitoring services is a new line of business for us and as a result we are subject to all of the risks and uncertainties of developing a new line of business.***

Prior to our acquisition of BI, we had never provided electronic monitoring services and had no prior experience in the electronic monitoring services industry. As a result of our acquisition of BI, we entered into a new line of business. Our success providing electronic monitoring services will be subject to all of the uncertainties regarding the development of a new business. There can be no assurance regarding the continued acceptance of electronic monitoring services by our customers. Additionally, we may experience difficulties keeping ahead of or reacting to technological changes in the electronic monitoring services industry as well as reacting to other challenges of the electronic monitoring services industry due to our lack of experience in this industry.

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

Certain segments of our business depend significantly on effective information systems. As with all companies that utilize information technology, we are vulnerable to negative impacts if information is inadvertently interrupted, delayed, compromised or lost. We routinely process, store and transmit large amounts of data for our clients. The interruption, delay or failure of our information systems or loss of client data could cost us both monetarily and in terms of client good will, lost business, disruption of business, adverse impacts to our results of operations and exposure to the risks of litigation. Such interruptions, delays or failures could damage our brand and reputation. Prior to our acquisition of BI, 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. We continually work to update and maintain effective information systems however, there can be no assurance that we will not experience a future interruption, delay or failure of our services, information systems or loss of client data that would adversely impact our business.

***An inability to acquire, protect or maintain our intellectual property and patents in the electronic monitoring space could harm our ability to compete or grow.***

We have numerous United States and foreign patents issued as well as a number of United States patents pending in the electronic monitoring space. There can be no assurance that the protection afforded by these patents will provide us with a competitive advantage, prevent our competitors from duplicating our products, or that we will be able to assert our intellectual property rights in infringement actions.

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

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There can be no assurance that any pending or future patent applications held by us will result in an issued patent, or that if patents are issued to us, 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 our patents or find them unenforceable. Competitors may also be able to design around our patents. Our patents and patent applications cover particular aspects of our 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 our sales. We may not be able to prevent the unauthorized disclosure or use of our 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 our intellectual property rights effectively or to the same extent as the laws of the United States. If our intellectual property rights are not adequately protected, we may not be able to commercialize our technologies, products or services and our competitors could commercialize our technologies, which could result in a decrease in our sales and market share that would harm our business and operating results.

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

***Our electronic monitoring 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 us from using technology that is essential to our products.***

There can be no assurance that our 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 us, whether successfully or not, these assertions could distract management from other tasks important to the success of our business, necessitate us expending potentially significant funds and resources to defend or settle such claims and harm our reputation. We cannot be certain that we will have the financial resources to defend ourselves against any patent or other intellectual property litigation.

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

- cease selling or using any products that incorporate the asserted intellectual property, which would adversely affect our 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, our 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 our failure to license essential technology, our sales could be harmed and/or our costs could be increased, which would harm our financial condition.

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***We license intellectual property rights in the electronic monitoring space, including patents, from third party owners. If such owners do not properly maintain or enforce the intellectual property underlying such licenses, our competitive position and business prospects could be harmed. Our licensors may also seek to terminate our license.***

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

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

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

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

**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.

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***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 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.

***Although the Board has adopted a dividend policy pursuant to which we intend to pay quarterly dividends on our common stock beginning in the fourth quarter of 2012, we cannot assure the amount of dividends, if any, that may be paid in the future.***

Our Board determined in February 2012 to adopt a dividend policy. Under the dividend policy, we anticipate that we will pay quarterly dividends beginning in the fourth quarter of 2012 in the amount of $.10 per share for a total of $.40 per share in annual dividends, subject to capital availability and periodic determinations by our Board that cash dividends are in the best interests of our shareholders and are in compliance with all laws and our agreements applicable to the declaration of cash dividends, including our indentures and Senior Credit Facility. There can be no assurance that we will declare cash dividends beginning in the fourth quarter of 2012 or how long we will continue to declare dividends after the fourth quarter of 2012. The declaration of dividends in the future may be affected by, among other factors:

- our views on potential future capital requirements;
- use of cash to consummate various acquisition transactions;
- stock repurchase programs;
- changes in federal and state income tax laws or corporate laws; and
- changes to our business model.

If we determine in the future to reduce the amount of any quarterly dividend payments or suspend the payment of quarterly dividends, this could have a material adverse effect on our stock price.

***Our stock repurchase program could increase the volatility of the price of our common stock.***

As of January 1, 2012, $25.0 million remains available under the current stock repurchase program. Repurchases may be made in the open market, in privately negotiated transactions or by other means, from time to time, subject to market conditions, applicable legal requirements and other factors, including the limitations set forth in our indentures and Senior Credit Facility. There can be no assurance that we will buy additional shares of our common stock under our stock repurchase program or that any future repurchases will have a positive impact on our stock price or earnings per share. Important factors that could cause us to discontinue or decrease our share repurchases include, among others, unfavorable market conditions, the market price of our common stock, the nature of other investment or strategic opportunities presented to us from time to time, the rate of dilution of our equity compensation programs, our ability to make appropriate, timely, and beneficial decisions as to when, how, and whether to purchase shares under the stock repurchase program, and the availability of funds necessary to continue purchasing stock. If we curtail our repurchase program, our stock price may be negatively affected.

**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 October 2011. The current lease expires March 2020 and has two 5-year renewal options, which if exercised will result in a maximum 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; our western regional office in Los Angeles, California; and our youth services division in Pittsburgh, Pennsylvania. As a result of the BI acquisition in February 2011, we are also currently leasing office space in Boulder, Colorado. 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.

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See the Facilities listing under Item 1 for a list of the correctional, detention, mental health and re-entry properties we own or lease in connection with our operations. In addition to the properties listed under Item 1, we also lease 35 ISAP service centers, 8 electronic monitoring field offices and an electronic monitoring call center in Anderson, Indiana. We consider our correctional, detention, mental health and re-entry properties, our field offices and our electronic monitoring call center adequate for our current and planned levels of operations.

**Item 3.** ***Legal Proceedings***

On June 22, 2011, a jury verdict for $6.5 million was returned against GEO in a wrongful death action brought by the Personal Representative of the Estate of Ronald Sites, a former inmate at our Lawton Oklahoma Correctional Facility. On August 22, 2011, the court entered judgment against GEO in the amount of $8.4 million, which includes pre judgment interest on the amount of the verdict from January 26, 2007, the date of the filing of the lawsuit, through the date of the jury verdict. The lawsuit, Ronald L. Sites, as the administrator of the Estate of Ronald S. Sites, deceased v. The GEO Group, Inc. was filed on January 28, 2007 in the District Court of Comanche County, State of Oklahoma, Case No. CJ-2007-84. It was alleged that on January 29, 2005, Mr. Sites was harmed by his cellmate as a result of our negligence. We disagree with the judgment and are pursuing an appeal. A supersedeas bond in the amount of $10.0 million was posted on August 29, 2011 by the insurance company of the State of Pennsylvania. We intend to vigorously defend our rights and believe our accrual relative to this judgment is adequate. Under our insurance plan, we are responsible for the first $3.0 million of liability. Aside from this amount, which we would pay directly from general corporate funds, we believe we have insurance coverage for this matter.

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities formerly operated by our Australian subsidiary. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did not specify the amount of damages being sought. In August 2007, a lawsuit (Commonwealth of Australia v. Australasian Correctional Services PTY, Limited No. SC 656) was filed against us in the Supreme Court of the Australian Capital Territory seeking damages of up to approximately AUD 18 million or $18.4 million based on exchange rates as of January 1, 2012, plus interest. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. We have established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of 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.

Our South Africa joint venture had been in discussions with the South African Revenue Service ( SARS ) with respect to the deductibility of certain expenses for the tax periods 2002 through 2004. The joint venture operates the Kutama Sinthumule Correctional Centre and accepted inmates from the South African Department of Correctional Services in 2002. During 2009, SARS notified us that it proposed to disallow these deductions. We appealed these proposed disallowed deductions with SARS and in October 2010 received a favorable Tax Court ruling relative to these deductions, which was subsequently appealed by SARS. The Court of Appeals ruled on November 30, 2011 that the disputed expenses are deductible.

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

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

The nature of 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. 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.** ***Mine Safety Disclosures***

Not applicable.

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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 2011 and 2010. The prices shown have been rounded to the nearest $1/100. The approximate number of shareholders of record as of February 27, 2012 is 315.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| **Quarter** | **High** | **Low** | **High** | **Low** |
| First | $ 26.31 | $ 22.66 | $ 23.18 | $ 17.91 |
| Second | 26.95 | 22.41 | 22.27 | 18.23 |
| Third | 24.28 | 18.20 | 23.73 | 20.04 |
| Fourth | 19.31 | 16.40 | 26.77 | 23.43 |

On July 14, 2011, we announced that our Board of Directors approved a stock repurchase program of up to $100.0 million of our common stock effective through December 31, 2012. The stock repurchase program will be funded primarily with cash on hand, free cash flow, and borrowings under our Revolver. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable securities and stock exchange requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The stock repurchase program does not obligate us to purchase any specific amount of our common stock and may be suspended or extended at any time at our discretion. During the fiscal year ended January 1, 2012, we purchased 3.9 million shares of our common stock at a cost of $75.0 million primarily purchased with proceeds from our Revolver.

The following table presents information related to repurchases of our common stock made during the quarter ended January 1, 2012:

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)(2) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 3, 2011 November 2, 2011 | | | | $ 50,012,366 |
| November 3, 2011 December 2, 2011 | 1,305,600 | $ 17.32 | 1,305,600 | $ 27,396,595 |
| December 3, 2011 January 1, 2012 | 130,377 | $ 18.25 | 130,377 | $ 25,017,638 |

(1) On July 14, 2011, the Company announced that its Board of Directors approved a stock repurchase program of up to $100 million of its common stock effective through December 31, 2012. The stock repurchase program will be funded primarily with cash on hand, free cash flow, and borrowings under the Company s Revolving Credit Facility. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable securities and stock exchange requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options.

(2) All shares purchased to date pursuant to the Company s share repurchase program have been deposited into treasury and retained for future uses.

We did not pay any cash dividends on our common stock for fiscal years 2011 and 2010. In February 2012, our Board determined to adopt a dividend policy. Under the dividend policy, we anticipate that we will pay quarterly dividends beginning in the fourth quarter of 2012 in the amount of $.10 per share per quarter, or $.40 per share for the year. The amount and timing of 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 7 3/4% 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. Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 14-Debt in Item 8 Financial Statements and Supplementary Data , for further description of these restrictions. We believe we have the ability to continue to fund the stock repurchase program, our working capital, our debt service requirements, and our maintenance and growth capital expenditure requirements, while maintaining sufficient liquidity for other corporate purposes.

**Performance Graph**

The following performance graph compares the performance of our common stock to the Russell 2000, 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., Russell 2000, and**

**S&P 500 Commercial Services and Supplies**

**and Wilshire 5000 Equity Indexes**

**(Performance through January 1, 2012)**

| Date | The GEO Group, Inc. | Russell 2000** | S&P 500 Commercial Services and Supplies | Wilshire 5000 Equity |
|---|---|---|---|---|
| December 31, 2006 | $ 100.00 | $ 100.00 | $ 100.00 | $ 100.00 |
| December 31, 2007 | $ 149.25 | $ 97.25 | $ 85.60 | $ 105.73 |
| December 31, 2008 | $ 96.11 | $ 63.41 | $ 60.62 | $ 66.25 |
| December 31, 2009 | $ 116.63 | $ 79.40 | $ 66.71 | $ 85.74 |
| December 31, 2010 | $ 131.45 | $ 99.49 | $ 72.55 | $ 101.06 |
| December 31, 2011 | $ 89.29 | $ 94.07 | $ 67.80 | $ 101.66 |

Assumes $100 invested on December 31, 2006 in our common stock and the Index companies.

* Total return assumes reinvestment of dividends.

** In the future, the peer group against which the performance of our common stock is compared will no longer include Wilshire 5000 Equity. We will replace this index with Russell 2000 as we have determined the performance of the small cap companies included in the Russell 2000 index are a better performance benchmark and provide a better comparison to our Company than the Wilshire 5000 Equity Index. The Russell 2000 Index measures the performance of small cap companies in the U.S. whereas the Wilshire 5000 Index measures the performance of most publicly traded companies (small cap, mid cap and large cap), except Bulletin Board/penny stock and stocks of extremely small companies.Our common stock is a member of the Russell 2000.

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**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 and operational data).

| **Fiscal Year Ended:(1)** | **2011** | **2010** | **2009** | **2008** | **2007** |
|---|---|---|---|---|---|
| ***Results of Continuing Operations:*** | | | | | |
| Revenues | $ 1,612,899 | $ 1,269,968 | $ 1,141,090 | $ 1,043,006 | $ 976,299 |
| Operating income from continuing operations | 192,169 | 140,473 | 135,445 | 114,396 | 90,727 |
| Income from continuing operations | $ 77,463 | $ 62,790 | $ 66,469 | $ 61,829 | $ 38,486 |
| Income from continuing operations per common share attributable to The GEO Group, Inc.: | | | | | |
| ***Basic:*** | $ 1.24 | $ 1.15 | $ 1.30 | $ 1.22 | $ 0.80 |
| ***Diluted:*** | $ 1.23 | $ 1.13 | $ 1.28 | $ 1.19 | $ 0.77 |
| ***Weighted Average Shares Outstanding:*** | | | | | |
| Basic | 63,425 | 55,379 | 50,879 | 50,539 | 47,727 |
| Diluted | 63,740 | 55,989 | 51,922 | 51,830 | 49,192 |
| ***Financial Condition:*** | | | | | |
| Current assets | $ 459,329 | $ 422,084 | $ 279,634 | $ 281,920 | $ 264,518 |
| Current liabilities | 288,818 | 267,287 | 177,448 | 185,926 | 186,432 |
| Total assets | 3,049,616 | 2,412,373 | 1,447,818 | 1,288,621 | 1,192,634 |
| Long-term debt, including current portion (excluding non-recourse debt and capital leases) | 1,338,384 | 807,837 | 457,538 | 382,126 | 309,273 |
| Total Shareholders equity | $ 1,038,521 | $ 1,039,490 | $ 665,098 | $ 579,597 | $ 529,347 |
| ***Operational Data:*** | | | | | |
| Facilities in operation | 115 | 118 | 57 | 59 | 57 |
| Operational capacity of contracts | 79,415 | 81,225 | 52,772 | 53,364 | 47,913 |
| Compensated mandays(2) | 21,780,654 | 18,822,731 | 17,305,608 | 15,919,511 | 15,000,576 |

(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, 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. As of January 1, 2012, our worldwide operations included the management and/or ownership of approximately 79,400 beds at 115 correctional, detention and residential treatment facilities, including idle facilities and projects under development, and also included the provision of monitoring approximately 70,000 offenders in a community-based environment on behalf of approximately 900 federal, state and local correctional agencies located in all 50 states. 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 by our GEO Care business segment and involve working 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, operated through our GEO Care business segment, 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 division, operated through the GEO Care business segment, include residential, detention and shelter care and community based services along with rehabilitative, educational and treatment programs. Our monitoring services, operated through the GEO Care business segment, provide our governmental clients with innovative compliance technologies, industry-leading monitoring services, and evidence-based supervision and treatment programs for community-based parolees, probationers and pretrial defendants; including services to ICE for the provision of services designed to improve the participation of non-detained aliens in the immigration court system. 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 also provide secure transportation services for offender and detainee populations as contracted domestically, and in the United Kingdom, our joint venture GEOAmey is responsible for providing prisoner escort and custody services in the United Kingdom, including all of Wales and all of England except London and East of England. For the fiscal year ended January 1, 2012, we had consolidated revenues of $1.6 billion and we maintained an average companywide facility occupancy rate of 94.6%, 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.

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

***Revenue Recognition***

Facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. 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 1% of our consolidated annual revenues. These performance targets are based on specific criteria to be met over specific periods of time. Such criteria includes our ability to achieve certain contractual benchmarks relative to the quality of service we provide, non-occurrence of certain disruptive events, effectiveness of our quality control programs and our responsiveness to customer requirements and concerns. For the limited number of contracts where revenue is based on the performance of certain targets, revenue is either (i) recorded pro rata when revenue is fixed and determinable or (ii) recorded when the specified time period lapses. In many instances, we are a party to more than one contract with a single entity. In these instances, each contract is accounted for separately. We have not recorded any revenue that is at risk due to future performance contingencies.

Construction revenues are recognized from our contracts with certain customers to perform construction and design services ( project development services ) for various facilities. In these instances, we act as the primary developer and subcontract with bonded National and/or Regional Design Build Contractors. These construction revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to the estimated total cost for each contract. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which we determine that such losses and changes are probable. Typically, we enter into fixed price contracts and do not perform additional work unless approved change orders are in place. Costs attributable to unapproved change orders are expensed in the period in which the costs are incurred if we believe that it is not probable that the costs will be recovered through a change in the contract price. If we believe that it is probable that the costs will be recovered through a change in the contract price, costs related to unapproved change orders are expensed in the period in which they are incurred, and contract revenue is recognized to the extent of the costs incurred. Revenue in excess of the costs attributable to unapproved change orders is not recognized until the change order is approved. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined. As the primary contractor, we are exposed to the various risks associated with construction, including the risk of cost overruns. Accordingly, we record our construction revenue on a gross basis and include the related cost of construction activities in Operating Expenses.

When evaluating multiple element arrangements for certain contracts where we provide project development services to our clients in addition to standard management services, we follow revenue recognition guidance for multiple element arrangements. This revenue recognition guidance related to multiple deliverables in an arrangement provides guidance on determining if separate contracts should be evaluated as a single arrangement and if an arrangement involves a single unit of accounting or separate units of accounting and if the arrangement is determined to have separate units, how to allocate amounts received in the arrangement for revenue recognition purposes. In instances where we provide these project development services and subsequent management services, generally, the arrangement results in no delivered elements at the onset of the agreement. The elements are delivered over the contract period as the project development and management services are performed. Project development services are not provided separately to a customer without a management contract. During the fiscal year ended January 1, 2012 we implemented ASU No. 2009-13 which provides amendments to revenue recognition criteria for separating consideration in multiple element arrangements. The implementation of this standard in the fiscal year ended January 1, 2012 did not have a material impact on our

financial position, results of operations and cash flows. The amendments, among other things, establish the selling price of a deliverable, replace the term fair value with selling price and eliminate the residual method such that consideration can be allocated to the deliverables using the relative selling price method based on GEO s specific assumptions. As a result of the BI Acquisition, we also periodically sell our monitoring equipment and other services together in multiple-element arrangements. In such cases, we allocate revenue on the basis of the relative selling price of the delivered and undelivered elements. The selling price for each of the elements is estimated based on the price we charge when the elements are sold on a stand alone basis.

***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 policies with total limits of $67.0 million per occurrence and in the aggregate covering the operations of U.S. Corrections & Detention, GEO Care s community based services, GEO Care s youth services and BI. In addition, GEO Care s residential treatment services division has a separate claims-made liability insurance program for their mental health facilities with a specific loss limit of $35.0 million per occurrence and in the aggregate. That same $35.0 million limit also applies to medical professional liability claims arising out of correctional healthcare services. 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 of $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 and the Pacific Northwest, 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. In addition to these policies, our Australian subsidiary carries tail insurance on a general liability policy 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 $45.3 million and $40.2 million as of January 1, 2012 and January 2, 2011, 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 $1.2 million, $1.0 million and $1.0 million, respectively, for the years ended January 1, 2012, January 2, 2011 and January 3, 2010.

***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 facility construction. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset s estimated useful life.

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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. 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. If impairment indicators are present, we perform a recoverability test to determine whether or not an impairment loss should be measured. 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. For the purposes of the recoverability test, 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. When considering the future cash flows of a facility, we make assumptions based on historical experience with our customers, current data related to the pricing of our management contracts, residual value of our facilities, and/or terminal growth rates. 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 due to the investment we make in buildings and improvements for owned and leased facilities. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset.

**Impact of Future Accounting Pronouncements**

The following accounting standards have an implementation date subsequent to the fiscal year ended January 1, 2012 and as such, have not yet been adopted by us during the fiscal year ended January 1, 2012:

In May 2011, the FASB issued ASU No. 2011-04 which provides a consistent definition of fair value in US GAAP and International Financial Reporting Standards ( IFRS ) and ensures that their respective fair value measurement and disclosure requirements are the same (except for minor differences in wording and style). The amendments change certain fair value measurement principles and enhance the disclosure requirements particularly for level 3 fair value measurements. The standard will become effective for us during interim and annual periods beginning after December 15, 2011 and should be applied prospectively. We do not believe that the implementation of this standard will have a material impact on our financial position, results of operation and cash flows.

In June 2011, the Financial Accounting Standards Board ( FASB ) issued ASU No. 2011-05 which requires an entity to present all nonowner changes in stockholders equity either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. This standard will become effective for us in fiscal years, and interim periods within those years, beginning after December 15, 2011 and should be applied retrospectively. We do not believe that the implementation of this standard will have a material impact on our financial position, results of operation and cash flows.

In December 2011, the FASB issued ASU 2011-12 in order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments. No other requirements in ASU 2011-05 were affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. ASU 2011-12 is effective for us in fiscal years, and interim periods within those years, beginning after December 15, 2011. We do not believe that the implementation of this standard will have a material impact on our financial position, results of operation and cash flows.

**Results of Operations**

The following discussion should be read in conjunction with our consolidated financial statements and the notes to the consolidated financial statements accompanying this report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those

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anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those described under Item 1A. Risk Factors and those included in other portions of this report.

The discussion of our results of operations below excludes the results of discontinued operations reported in 2009. Also, as a result of the acquisition of Cornell, management s review of certain segment financial data was revised with regards to the Bronx Community Re-entry Center and the Brooklyn Community Re-entry Center. These facilities now report within the GEO Care segment and are no longer included with U.S. Corrections & Detention. Disclosures for business segments reflect these reclassifications for all periods presented.

For the purposes of the discussion below, 2011 means the 52 weeks fiscal year ended January 1, 2012, 2010 means the 52 week fiscal year ended January 2, 2011, and 2009 means the 53 weeks fiscal year ended January 3, 2010. Our fiscal quarters in the fiscal years discussed below are referred to as First Quarter, Second Quarter, Third Quarter and Fourth Quarter.

*2011 versus 2010*

***Revenues***

| | 2011 | % of Revenue | 2010 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **U.S. Corrections & Detention** | $ 970,507 | 60.2% | $ 842,417 | 66.4% | $ 128,090 | 15.2% |
| **GEO Care** | 426,759 | 26.4% | 213,819 | 16.8% | 212,940 | 99.6% |
| **International Services** | 215,514 | 13.4% | 190,477 | 15.0% | 25,037 | 13.1% |
| **Facility Construction & Design** | 119 | 0.0% | 23,255 | 1.8% | (23,136) | (99.5)% |
| **Total** | $ 1,612,899 | 100.0% | $ 1,269,968 | 100.0% | $ 342,931 | 27.0% |

***U.S. Corrections & Detention***

The increase in revenues for U.S. Corrections & Detention in 2011 compared to 2010 is due to several factors including primarily: (i) aggregate increases in revenues of $30.5 million from Blackwater River Correctional Facility ( Blackwater River ) located in Milton, Florida which we completed the construction and began intake of inmates in October 2010, Indiana Short Term Offender Program ( STOP ) in Plainfield, Indiana which began operations in March 2011, and Adelanto Processing Center East ( Adelanto East ) which began operations in August 2011; (ii) an increase of revenue of $43.1 million due to the October 2010 activation of D. Ray James Correctional Facility ( D. Ray James ) located in Folkston, Georgia; (iii) aggregate increases of $9.4 million at Maverick County Detention Facility ( Maverick ) located in Maverick, Texas, LaSalle Detention Facility ( LaSalle ) located in Jena, Louisiana and Val Verde Correctional Facility ( Val Verde ) located in Del Rio, Texas due to increases in population; (iv) aggregate increases of $6.9 million due to population increases and/ or changes in contractual rates at Western Region Detention Facility ( Western Region ) located in San Diego, California, Aurora ICE Processing Center ( Aurora ) located in Aurora, Colorado and South Texas Detention Complex ( STDC ) located in Pearsall, Texas; (v) an increase of $2.4 million in revenues due to the opening of North Lake Correctional Facility ( North Lake ) locate in Baldwin, Michigan which began operations in May 2011 and was terminated effective October 2011; and (vi) aggregate net increases due to a full year of operations at other facilities acquired from Cornell of $86.6 million. These increases were partially offset by aggregate decreases of $46.8 million due to our terminated contracts.

The number of compensated mandays in U.S. Corrections & Detention facilities increased by 2.2 million to 17.3 million mandays in 2011 from 15.1 million mandays in 2010. We experienced an increase of 1.5 million mandays due to the activations of Blackwater River, D. Ray James and STOP; a net increase of 1.6 million mandays due to the full year of operations at other facilities acquired from Cornell and net increases of 0.3 million mandays at the remaining facilities. These increases were offset by a decrease of 1.2 million mandays

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related to the terminated contracts previously discussed. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity, excluding idle facilities. The average occupancy in our U.S. Corrections & Detention facilities was 94.8% of capacity in 2011, excluding idle facilities. The average occupancy in our U.S. Corrections & Detention facilities was 93.8% in 2010 excluding idle facilities.

***GEO Care***

The increase in revenues for GEO Care in 2011 compared to 2010 is attributable to several factors: (i) increases in revenue of $10.4 million due to the opening of the 100-bed Montgomery County Mental Health Treatment Facility ( Montgomery County ) located in Conroe, Texas in March 2011; (ii) aggregate net increases of $93.1 million due to the facilities acquired from Cornell in August 2010; and (iii) an increase in revenues due to our acquisition of BI for monitoring services, which contributed an increase of $86.9 million, and for services provided at our Day Reporting Centers, which contributed $26.3 million in additional revenues. These increases were partially offset by a decrease of $3.4 million due to the termination of our management contract at Brooklyn Community Re-entry Center in July 2011.

The number of compensated residential mandays for GEO Care increased by 0.7 million to 1.9 million residential mandays in 2011 from 1.2 million residential mandays in 2010 primarily due to the full year of operations at the facilities acquired from Cornell. The average occupancy at our GEO Care facilities was 86.7% of capacity in 2011, excluding idle facilities and excluding the non-residential services provided at our youth services facilities. The average occupancy at our GEO Care residential facilities was 89.0% in 2010, excluding idle facilities. The decline in average occupancy is a result of the community-based and youth services facilities we acquired from Cornell which are occupancy sensitive.

***International Services***

Revenues for our International Services segment increased significantly in 2011 compared to 2010 due to several factors. We experienced an increase in revenues of $19.3 million due to fluctuations in foreign exchange rates primarily between the Australian dollar and the US dollar. Our Australian subsidiary experienced aggregate increases of $5.7 million due to population increases, contractual increases related to the inflationary index and to additional services provided under its management contracts. Our subsidiary in South Africa experienced increases of $1.9 million primarily due to increases in the inflationary index. During 2011, our subsidiary in the United Kingdom experienced aggregate increases of $5.0 million due to: (i) the commencement of operations at the 217-bed Dungavel Immigration Removal Centre ( Dungavel ) located near Glasgow, Scotland, (ii) the full year of operations of the 360-bed expansion at Harmondsworth Immigration Removal Centre ( Harmondsworth ) located in London, England; and (iii) contractual increases and additional services provided at Harmondsworth. These increases were partially offset by an aggregate decrease of $6.7 million in revenues due to the termination of the management contracts for the operation of Campsfield House Immigration Removal Centre ( Campsfield House ) and Melbourne Custody Centre ( Melbourne ).

***Facility Construction & Design***

The decrease in revenues from the Facility Construction & Design segment of $23.1 million in 2011 is primarily due to the completion of Blackwater River which was completed in October 2010 and activated on October 5, 2010.

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**Operating Expenses**

| | 2011 | % of Segment Revenues | 2010 | % of Segment Revenues | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **U.S. Corrections & Detention** | $ 696,262 | 71.7% | $ 598,275 | 71.0% | $ 97,987 | 16.4% |
| **GEO Care** | 326,297 | 76.5% | 179,473 | 83.9% | 146,824 | 81.8% |
| **International Services** | 198,939 | 92.3% | 176,399 | 92.6% | 22,540 | 12.8% |
| **Facility Construction & Design** | 82 | 68.9% | 20,873 | 89.8% | (20,791) | (99.6)% |
| **Total** | $ 1,221,580 | 75.7% | $ 975,020 | 76.8% | $ 246,560 | 25.3% |

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

***U.S. Corrections & Detention***

The increase in operating expenses for U.S. Corrections & Detention is due to several factors including primarily: (i) aggregate increases of $53.0 million in operating expenses due to the activation of the management contracts at Blackwater River, D. Ray James, STOP and Adelanto East; (ii) operating expenses of $2.5 million related to start-up costs for the Riverbend Correctional Facility ( Riverbend ) located in Milledgeville, Georgia which was activated in December 2011; (iii) increases of $20.4 million as a result of certain of our facilities mentioned above experiencing increases related to population and additional services provided under contract modifications; (iv) operating expenses at North Lake of $8.3 million; and (v) remaining net increases in operating expenses of $39.1 million due to the full year of operations at various facilities we acquired from Cornell offset by decreases in nonrecurring start-up costs and acquisition related costs incurred in 2010. These increases were partially offset by aggregate decreases in expenses of approximately $25.5 million as a result of terminated contracts.

***GEO Care***

Operating expenses increased by $146.8 million in 2011 compared to 2010 due to several factors including the operation of Montgomery County and the acquisition of BI which contributed an aggregate increase of $82.5 million, and the full year of operations at the facilities we acquired from Cornell in August of 2010 which contributed approximately $64.3 million of the increase. During 2011, we experienced a decrease in operating expenses as a percentage of revenue due to improved margins resulting from the acquisitions of Cornell in August 2010 and BI in February 2011.

***International Services***

Expenses increased at our international subsidiaries consistent with the revenue increases and are consistent as a percentage of segment revenues. Operating expenses increased by $17.7 million due to fluctuations in foreign currency exchange rates. Our Australian subsidiary experienced aggregate increases in operating expenses of $3.6 million as a result of population increases and additional services provided under certain contracts. Our subsidiary in the United Kingdom experienced a combined increase of $5.4 million in operating expenses as a result of increased populations related to the 360-bed Harmondsworth expansion and the commencement of operations at Dungavel in September 2011. Our South Africa subsidiary also experienced an increase in operating expenses of $1.1 million related to increases in the inflationary index. These increases were partially offset by a decrease in operating expenses of $5.7 million associated with the terminated contracts at Campsfield House and Melbourne.

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*Facility Construction & Design*

The decrease in operating expenses for Facility Construction & Design of $20.8 million is primarily attributable to the completion of construction at Blackwater River Correctional Facility in October 2010.

**Depreciation and Amortization**

| | 2011 | % of Segment Revenue | 2010 | % of Segment Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **U.S. Corrections & Detention** | $ 55,676 | 5.7% | $ 39,744 | 4.7% | $ 15,932 | 40.1% |
| **GEO Care** | 27,530 | 6.5% | 6,600 | 3.1% | 20,930 | 317.1% |
| **International Services** | 2,135 | 1.0% | 1,767 | 0.9% | 368 | 20.8% |
| **Facility Construction & Design** | | | | | | |
| **Total** | $ 85,341 | 5.3% | $ 48,111 | 3.8% | $ 37,230 | 77.4% |

*U.S. Corrections & Detention*

U.S. Corrections & Detention depreciation and amortization expense increased by $15.9 million in 2011 compared to 2010. As a result of our acquisition of Cornell in August 2010, we experienced increases in depreciation and amortization expense of $9.6 million and $2.6 million, respectively. In addition, we completed construction projects at Broward, North Lake, Aurora, Adelanto East, and Central Texas Detention Facility ( Central Texas ) located in San Antonio, Texas, which increased depreciation by $3.1 million. The remaining increase is primarily driven by the activation of Riverbend in December 2011 which resulted in additional depreciation expense of $0.4 million.

*GEO Care*

The increase in depreciation and amortization expense for GEO Care of $20.9 million in fiscal year 2011 compared to fiscal year 2010 is primarily due to our acquisitions of BI and Cornell which contributed increases to depreciation and amortization expense of $15.8 million and $4.7 million, respectively.

*International Services*

Overall, depreciation and amortization expense increased slightly in fiscal year 2011 over fiscal year 2010 due to additional capital expenditures in Australia, the Harmondsworth expansion, and also from changes in the foreign currency exchange rates.

**Other Unallocated Operating Expenses**

| | 2011 | % of Revenue | 2010 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **General and Administrative Expenses** | $ 113,809 | 7.1% | $ 106,364 | 8.4% | $ 7,445 | 7.0% |

General and administrative expenses comprise substantially all of our other unallocated operating expenses primarily including corporate management salaries and benefits, professional fees and other administrative expenses. These expenses increased significantly in 2010 due to nonrecurring acquisition related costs of approximately $25 million related to the acquisitions of Cornell and BI. In 2011, we incurred $6.3 million in nonrecurring charges related to these acquisitions. Excluding the impact of the nonrecurring charges, general and administrative expenses as a percentage of revenue in 2011 would have been 6.7% of revenues. In 2010, excluding the impact of the $25 million in nonrecurring acquisition related costs, general and administrative expenses as a percentage of revenue in 2010 would have been 6.4%. Acquisition related costs consisted primarily of advisory, legal, and bank fees.

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**Non Operating Income and Expense**

***Interest Income and Interest Expense***

| | 2011 | % of Revenue | 2010 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **Interest Income** | $ 7,038 | 0.4% | $ 6,271 | 0.5% | $ 767 | 12.2% |
| **Interest Expense** | $ 75,382 | 4.7% | $ 40,707 | 3.2% | $ 34,675 | 85.2% |

The majority of our interest income generated in 2011 and 2010 is from the cash balances at our Australian subsidiary. The increase in the current period over the same period last year is mainly attributable to currency exchange rates and to higher average cash balances.

The increase in interest expense of $34.7 million is primarily attributable to more indebtedness outstanding in 2011 compared to 2010. We experienced increases in interest expense as a result of: (i) higher outstanding average borrowings under our Senior Credit Facility which resulted in increases to interest expense of $11.5 million; (ii) an increase of $18.3 million related to our 6.625% Senior Notes, which were issued in February 2011; (iii) less capitalized interest which increased interest expense in 2011 by $1.1 million; and (iv) an increase of $4.1 million, net of amortization of premium, in interest expense related to the non-recourse debt of MCF. Capitalized interest was $3.1 million and $4.1 million in 2011 and 2010, respectively. Total consolidated indebtedness at January 1, 2012 and January 2, 2011, excluding non-recourse debt and capital lease liabilities, was $1,338.4 million and $807.8 million, respectively.

We have interest rate swap agreements with respect to a notional amount of $100.0 million of the 7 3/4% Senior Notes which resulted in a savings in interest expense of $3.1 million and $3.1 million for the fiscal years ended January 1, 2012 and January 2, 2011, respectively.

**Provision for Income Taxes**

| | 2011 | Effective Rate | 2010 | Effective Rate |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| **Income Tax Provision** | $ 47,925 | 38.7% | $ 39,532 | 40.3% |

The effective tax rate during 2011 was 38.7%, compared to 40.3% in 2010. The effective tax rate in 2011 reflects foreign nonrecurring start-up expenses related to GEOAmey. In the absence of such nonrecurring expenses, the effective tax rate for 2011 would have been 38.2%. The effective tax rate in 2010 included nondeductible transaction costs related to the BI acquisition and a benefit due to a $2.3 million decrease in the reserve for unrecognized tax benefits.

**Equity in Earnings of Affiliate**

| | 2011 | % of Revenue | 2010 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **Equity in Earnings of Affiliate** | $ 1,563 | 0.1% | $ 4,218 | 0.3% | $ (2,655) | (62.9)% |

Equity in earnings of affiliates, presented net of income taxes, represent the earnings of SACS and GEOAmey. The overall decrease in equity in earnings of affiliate was due to a decrease in the net earnings of SACS in 2011 compared to 2010 due to additional taxes on dividend distributions and a loss at GEOAmey, our newly created joint venture in the United Kingdom. The dividend distributions from SACS were $9.9 million in 2011 compared to $3.9 million in 2010.

*2010 versus 2009*

***Revenues***

| | 2010 | % of Revenue | 2009 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **U.S. Corrections & Detention** | $ 842,417 | 66.4% | $ 772,497 | 67.7% | $ 69,920 | 9.1% |
| **GEO Care** | 213,819 | 16.8% | 133,387 | 11.7% | 80,432 | 60.3% |
| **International Services** | 190,477 | 15.0% | 137,171 | 12.0% | 53,306 | 38.9% |
| **Facility Construction & Design** | 23,255 | 1.8% | 98,035 | 8.6% | (74,780) | (76.3)% |
| **Total** | $ 1,269,968 | 100.0% | $ 1,141,090 | 100.0% | $ 128,878 | 11.3% |

***U.S. Corrections & Detention***

The increase in revenues for U.S. Corrections & Detention in 2010 compared to 2009 is primarily due to the acquisition of Cornell in August 2010 which contributed additional revenues of $85.5 million. Increases at other facilities in 2010 included: (i) $7.2 million from Blackwater River Correctional Facility located in Milton, Florida which we completed the construction and began intake of inmates in October 2010; and (ii) an aggregate increase of $13.3 million due to pre diem rate increases and increases in population. These increases were offset by: (i) an aggregate decrease of $9.1 million due to modest per diem reductions and lower populations at certain facilities; (ii) an aggregate decrease of $29.7 million due to our terminated contracts at the McFarland Community Correctional Facility ( McFarland ) in McFarland, California, Moore Haven Correctional Facility ( Moore Haven ) in Moore Haven, Florida, the Jefferson County Downtown Jail ( Jefferson County ) in Beaumont, Texas, Newton County Correctional Center ( Newton County ) in Newton, Texas, Graceville Correctional Facility ( Graceville ) in Graceville, Florida, South Texas Intermediate Sanction Facility ( South Texas ISF ) in Houston, Texas and Bridgeport Correctional Center ( Bridgeport ) in Bridgeport, Texas.

The number of compensated mandays in U.S. Corrections & Detention facilities increased by 0.7 million to 15.1 million mandays in 2010 from 14.4 million mandays in 2009 due to the acquisition of Cornell which resulted in an additional 1.4 million mandays. This increase in mandays was offset by a net decrease of 0.8 million mandays related to the terminated contracts previously discussed. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. Corrections & Detention facilities was 93.8% of capacity in 2010, excluding idle facilities. The average occupancy in our U.S. Corrections & Detention facilities was 93.6% in 2009 excluding idle facilities and taking into account the reclassification of our Bronx Community Re-entry Center and our Brooklyn Community Re-entry Center to GEO Care during 2010.

***GEO Care***

The increase in revenues for GEO Care in 2010 compared to 2009 is primarily attributable to the acquisition of Cornell in August 2010, which contributed $65.7 million in additional revenues. Additionally, revenues from our operation of the Columbia Regional Care Center in Columbia, South Carolina, as a result of our acquisition of Just Care, Inc., which we refer to as Just Care, in September 2009, contributed an increase of $17.8 million compared to 2009. These increases were offset by aggregate decreases of $2.7 million at other GEO Care Residential Treatment Services facilities. These decreases were primarily the result of lower per diem rates and lower average daily populations. In Fourth Quarter 2010, we reclassified the Bronx Community Re-entry Center and Brooklyn Community Re-entry Center from U.S. Corrections & Detention to GEO Care. The segment data has been revised for all periods presented to reflect the approach used by management to evaluate the performance of the business.

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The number of compensated mandays for GEO Care increased by 0.5 million to 1.2 million mandays in 2010 from 0.7 million mandays in 2009 primarily due to the acquisition of Cornell. The average occupancy at our GEO Care facilities was 89.0% of capacity in 2010, excluding idle facilities, excluding the non-residential services provided at our youth services facilities and taking into account the reclassification of our Bronx Community Re-entry Center and our Brooklyn Community Re-entry Center. The average occupancy at our GEO Care facilities was 95.7% in 2009. The decline in average occupancy is a result of the Cornell acquisition. We added 21 community-based facilities and 17 youth services facilities which are occupancy sensitive. In 2009, the residential treatment facilities were primarily fixed fee arrangements.

*International Services*

Revenues for our International Services segment during 2010 increased significantly due to several factors. Our new management contract for the operation of the Parklea Correctional Centre in Sydney, Australia ( Parklea ) which started in the fourth fiscal quarter of 2009 contributed an increase in revenues for fiscal year 2010 of $21.9 million. Our contract for the management of Harmondsworth experienced an increase in revenues of $11.4 million due to the activation of the 360-bed expansion in July 2010. In addition, we experienced increases at other international facilities due to contractual increases linked to the inflationary index at some facilities and additional services provided at other facilities. In the aggregate, these increases contributed revenues of $2.6 million in fiscal year 2010. We also experienced an increase in revenues of $21.3 million during fiscal year 2010 due to the fluctuation of foreign currencies. These increases were partially offset by a decrease in revenues of $3.7 million related to our terminated contract for the operation of the Melbourne Custody Centre in Melbourne, Australia.

*Facility Construction & Design*

The decrease in revenues from the Facility Construction & Design segment in 2010 is primarily due to a decrease in construction activities at Blackwater River Correctional Facility in Milton, Florida which resulted in a decrease in revenues of $68.3 million. The Blackwater River Correctional Facility construction was completed in October 2010 and we began intake of inmates on October 5, 2010. In addition, there was a $4.7 million decrease at the Florida Civil Commitment Center ( FCCC ) due to the completion of construction in Second Quarter 2009.

**Operating Expenses**

| | 2010 | % of Segment Revenues | 2009 | % of Segment Revenues | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **U.S. Corrections & Detention** | $ 598,275 | 71.0% | $ 558,313 | 72.3% | $ 39,962 | 7.2% |
| **GEO Care** | 179,473 | 83.9% | 113,426 | 85.0% | 66,047 | 58.2% |
| **International Services** | 176,399 | 92.6% | 127,706 | 93.1% | 48,693 | 38.1% |
| **Facility Construction & Design** | 20,873 | 89.8% | 97,654 | 99.6% | (76,781) | (78.6)% |
| **Total** | $ 975,020 | 76.8% | $ 897,099 | 78.6% | $ 77,921 | 8.7% |

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

*U.S. Corrections & Detention*

The increase in operating expenses for U.S. Corrections & Detention reflects the impact of our acquisition of Cornell which resulted in an increase in operating expenses of $63.1 million. We also experienced increases to operating expenses due to the activation of new management contracts at D. Ray James Correctional Facility and

Blackwater River Correctional Facility. Certain of our other facilities also experienced increases in expenses associated with increases in populations and contract modifications resulting in additional services. These increases were offset by decreases in expenses of approximately $30 million as a result of terminated contracts at McFarland, Moore Haven, Jefferson County, Graceville, Newton County, South Texas ISF, Bridgeport and Fort Worth.

***GEO Care***

Operating expenses increased by $66.0 million in 2010 compared to 2009 primarily due to an increase of $51.7 million in operating expenses related to the acquisition of Cornell. The remaining increase was primarily attributable to an increase of $16.4 million of operating expenses at the Columbia Regional Care Center in Columbia, South Carolina as a result of our acquisition of Just Care in Fourth Quarter 2009.

***International Services***

Expenses increased at all of our international subsidiaries consistent with the revenue increases and are slightly less as a percentage of segment revenues due to a decrease in start up costs in 2010 compared to 2009. The operating expenses associated with the new contracts in the United Kingdom and Australia for the operation of Harmondsworth and Parklea accounted for a combined increase over fiscal year 2009 of $26.6 million since these facilities were in operation for the entire year in 2010. Changes in foreign currency translation rates contributed an increase in operating expenses of approximately $20.0 million.

***Facility Construction & Design***

The decrease in operating expenses for Facility Construction & Design is primarily attributable to the completion of construction at Blackwater River Correctional Facility in October 2010 which resulted in a decrease of $70.3 million, and the completion of our expansion of FCCC in Second Quarter 2009 which decreased operating expenses by $5.1 million.

**Depreciation and Amortization**

| | 2010 | % of Segment Revenue | 2009 | % of Segment Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **U.S. Corrections & Detention** | $ 39,744 | 4.7% | $ 35,855 | 4.6% | $ 3,889 | 10.8% |
| **GEO Care** | 6,600 | 3.1% | 2,003 | 1.5% | 4,597 | 229.5% |
| **International Services** | 1,767 | 0.9% | 1,448 | 1.1% | 319 | 22.0% |
| **Facility Construction & Design** | | | | | | |
| **Total** | $ 48,111 | 3.8% | $ 39,306 | 3.4% | $ 8,805 | 22.4% |

***U.S. Corrections & Detention***

U.S. Corrections & Detention depreciation and amortization expense increased by $6.4 million as a result of the tangible and intangible assets purchased in connection with our acquisition of Cornell. In addition, the completion of the Aurora ICE Processing Center and the Northwest Detention Center construction projects in Second Quarter 2010 increased depreciation expense by $0.9 million and $0.8 million, respectively. These increases were partially offset by lower depreciation on existing facilities related to the depreciation study on our owned correctional facilities conducted in the first fiscal quarter of 2010. Based on the results of the depreciation study, we revised the estimated useful lives of certain of our buildings from our historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. For fiscal year 2010, the change resulted in a reduction in depreciation expense of approximately $3.7 million.

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*GEO Care*

The increase in depreciation and amortization expense for GEO Care in fiscal year 2010 compared to fiscal year 2009 is primarily due to our acquisitions of Just Care and Cornell which contributed increases to depreciation and amortization expense of $0.7 million and $3.1 million, respectively.

*International Services*

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

**Other Unallocated Operating Expenses**

| | 2010 | % of Revenue | 2009 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **General and Administrative Expenses** | $ 106,364 | 8.4% | $ 69,240 | 6.1% | $ 37,124 | 53.6% |

General and administrative expenses comprise substantially all of our other unallocated operating expenses primarily including corporate management salaries and benefits, professional fees and other administrative expenses. These expenses increased significantly in 2010 compared to 2009. Increases in general and administrative expenses of $11.3 million are related to the general and administrative expenses of Cornell from August 12, 2010 to January 2, 2011. The remaining increase is primarily the result of acquisition related expenses incurred for both the acquisitions of Cornell and BI which resulted in nonrecurring charges of approximately $25 million. Excluding the impact of Cornell and the $25 million in acquisition related costs, general and administrative expenses as a percentage of revenue in 2010 would have been 6.3%. Acquisition related costs consisted primarily of advisory, legal, and bank fees. We also experienced increases related to normal compensation adjustments and professional fees.

**Non Operating Income and Expense**

***Interest Income and Interest Expense***

| | 2010 | % of Revenue | 2009 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **Interest Income** | $ 6,271 | 0.5% | $ 4,943 | 0.4% | $ 1,328 | 26.9% |
| **Interest Expense** | $ 40,707 | 3.2% | $ 28,518 | 2.5% | $ 12,189 | 42.7% |

The majority of our interest income generated in 2010 and 2009 is from the cash balances at our Australian subsidiary. The increase in the 2010 period over the same in 2009 is mainly attributable to currency exchange rates and to higher average cash balances.

The increase in interest expense of $12.2 million is primarily attributable to higher outstanding average borrowings under our Senior Credit Facility which increased interest expense by $6.5 million. In addition, our 7 3/4% Senior Notes, which were issued in October 2009 and were outstanding for the entire fiscal year 2010, resulted in an increase to interest expense of $3.3 million. We also had less capitalized interest which increased interest expense in 2010 by $0.8 million. Capitalized interest was $4.1 million and $4.9 million in 2010 and 2009, respectively. Total consolidated indebtedness at January 2, 2011 and January 3, 2010, excluding non-recourse debt and capital lease liabilities, was $807.8 million and $457.5 million, respectively.

We have interest rate swap agreements with respect to a notional amount of $100.0 million of the 7 3/4% Senior Notes which resulted in a savings in interest expense of $3.1 million and $0.5 million for the fiscal years ended January 2, 2011 and January 3, 2010, respectively.

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**Provision for Income Taxes**

| | 2010 | Effective Rate | 2009 | Effective Rate |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| **Income Tax Provision** | $ 39,532 | 40.3% | $ 42,079 | 40.1% |

The effective tax rate during 2010 was 40.3%, compared to 40.1% in 2009. The 2010 effective tax rate increased due to the impact of nondeductible transaction costs, which was partially offset by a decrease of $2.3 million in the reserve for unrecognized tax benefits. In the absence of the transaction costs and the change in the reserve, the effective tax rate would be 39.4%. The effective tax rate in 2009 included an increase in the reserve for unrecognized tax benefits.

**Equity in Earnings of Affiliate**

| | 2010 | % of Revenue | 2009 | % of Revenue | $ Change | % Change |
|---|---|---|---|---|---|---|
| | | | (Dollars in thousands) | | | |
| **Equity in Earnings of Affiliate** | $ 4,218 | 0.3% | $ 3,517 | 0.3% | $ 701 | 19.9% |

Equity in earnings of affiliates represent the earnings of SACS in 2010 and 2009 and reflects an overall increase in earnings in 2010 primarily related to foreign currency exchange rates and to a lesser extent, contractual increases.

**Financial Condition**

***BI Acquisition***

On February 10, 2011, we completed our previously announced acquisition of BI, a Colorado corporation, pursuant to the Merger Agreement, entered into among GEO, BII Holding, a Delaware corporation, which owns BI, GEO Acquisition IV, Inc., a Delaware corporation and wholly-owned subsidiary of GEO ( Merger Sub ), BII Investors IF LP, in its capacity as the stockholders representative, and AEA Investors 2006 Fund L.P. Under the terms of the Merger Agreement, Merger Sub merged with and into BII Holding, with BII Holding emerging as the surviving corporation of the merger. As a result of the Merger, GEO paid merger consideration of $409.6 million in cash excluding cash acquired, transaction related expenses and any potential 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. We expect to fully settle the indemnification claims in March 2012. At the time of the BI Acquisition, approximately $78.4 million, including accrued interest was outstanding under BI s senior term loan and $107.5 million, including accrued interest was outstanding under its senior subordinated note purchase agreement, excluding the unamortized debt discount. All indebtedness of BI under its senior term loan and senior subordinated note purchase agreement were repaid by BI with a portion of the $409.6 million of merger consideration.

***Capital Requirements***

Our current cash requirements consist of amounts needed for working capital, debt service, supply purchases, investments in joint ventures, and capital expenditures related to either the development of new correctional, detention, mental health, residential treatment and re-entry facilities, or the maintenance of existing facilities. In addition, some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. Generally, these initial expenditures are subsequently fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. In connection with GEOAmey, our newly formed joint venture in the United Kingdom, we and our joint venture partner have each provided a line of credit of £12.0 million, or $18.7 million as of January 1, 2012, for GEOAmey s operations. As of January 1, 2012, $12.9 million was owed to us by GEOAmey under the line of credit. Additional capital needs may also arise in the future with respect to possible acquisitions, other corporate transactions or other corporate purposes.

We are currently developing a number of projects using company financing. We estimate that these existing capital projects will cost approximately $245.8 million, of which $156.1 million was spent through the fiscal year ended January 1, 2012. We have future committed capital projects for which we estimate our remaining capital requirements to be approximately $89.7 million, which will be spent in fiscal years 2012 and 2013. Capital expenditures related to facility maintenance costs are expected to range between $30.0 million and $35.0 million for fiscal year 2012. In addition to these current estimated capital requirements for 2012 and 2013, 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 2012 and/or 2013 could materially increase.

***Liquidity and Capital Resources***

On August 4, 2010, we entered into a new Credit Agreement, which we refer to as our Senior Credit Facility by and among GEO, as Borrower, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto. On 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 our 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, our Prior Senior Credit Agreement was terminated. We accounted for the termination of our Prior Senior Credit Agreement as an extinguishment of debt. In connection with repayment of all outstanding borrowings and the termination of the Prior Senior Credit Agreement, we wrote-off $7.9 million of associated deferred financing fees in Third Quarter 2010. On August 12, 2010, in connection with the Cornell Acquisition, we used aggregate proceeds of $290.0 million from the Term Loan A and the Revolver primarily to repay Cornell s obligations plus accrued interest under its revolving line of credit due December 2011 of $67.5 million, to repay its obligations plus accrued interest under the existing 10.75% senior notes due July 2012 of $114.4 million, to pay $14.0 million in transaction costs and to pay the cash component of the merger consideration of $84.9 million.

On February 8, 2011, we entered into Amendment No. 1 to the Senior Credit Facility, which we refer to as Amendment No. 1. Amendment No. 1, among other things, amended certain definitions and covenants relating to the total leverage ratio and the senior secured leverage ratios set forth in the Senior Credit Facility. This amendment increased our borrowing capacity under the Revolver by $100.0 million and increased the term loans under the Senior Credit Facility by $150.0 million, specifically under a new $150.0 million incremental Term Loan A-2. On February 10, 2011, we used the funds from the new $150.0 million incremental Term Loan A-2 along with the net cash proceeds from the offering of the 6.625% Senior Notes to finance the acquisition of BI.

On May 2, 2011, we executed Amendment No. 2 to the Senior Credit Facility, which we refer to as Amendment No. 2. As a result of this amendment, relative to our Term Loan B, the Applicable Rate was reduced to 2.75% per annum from 3.25% per annum in the case of Eurodollar loans and to 1.75% per annum from 2.25% per annum in the case of ABR loans and the LIBOR floor was reduced to 1.00% from 1.50%. As of January 1, 2012, the Senior Credit Facility was comprised of: (i) a $150.0 million Term Loan A bearing interest at LIBOR plus 3.00% and maturing August 4, 2015, (ii) a $150.0 million Term Loan A-2 bearing interest at LIBOR plus 3.00% and maturing August 4, 2015, (iii) a $200.0 million Term Loan B, bearing interest at LIBOR plus 2.75% with a LIBOR floor of 1.00% and maturing August 4, 2016 and (iv) the Revolver of $500.0 million bearing interest at LIBOR plus 3.00% and maturing August 4, 2015.

On July 14, 2011, we announced that our Board of Directors approved a stock repurchase program of up to $100.0 million of our common stock effective through December 31, 2012. The stock repurchase program will be funded primarily with cash on hand, free cash flow, and borrowings under our Revolver. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable securities and stock exchange requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The stock repurchase program does not obligate us to purchase any specific

amount of our common stock and may be suspended or extended at any time at our discretion. During the fiscal year ended January 1, 2012, we purchased 3.9 million shares of our common stock at a cost of $75.0 million primarily with proceeds from our Revolver.

Our Board determined in February 2012 to adopt a dividend policy. Under the dividend policy, we anticipate that we will pay quarterly dividends beginning in the fourth quarter of 2012 in the amount of $.10 per share for a total of $.40 per share in annual dividends, subject to capital availability and periodic determinations by our Board that cash dividends are in the best interests of our shareholders and are in compliance with all laws and our agreements applicable to the declaration of cash dividends, including our indentures and Senior Credit Facility. Based on 61.2 million shares outstanding as of January 1, 2012, a quarterly cash dividend of $.10 per share would have resulted in a quarterly cash dividend of $6.1 million in the aggregate. Based on our current capitalization, we do not believe that making dividend payments will materially adversely impact our liquidity. We believe we have the ability to declare quarterly cash dividends, as well as continue to fund the stock repurchase program, our working capital, our debt service requirements, and our maintenance and growth capital expenditure requirements, while maintaining sufficient liquidity for other corporate purposes.

As of January 1, 2012, we had $140.6 million outstanding under the Term Loan A, $144.4 million outstanding under the Term Loan A-2, $196.0 million outstanding under the Term Loan B, net of $1.5 million discount, and our $500.0 million Revolving Credit Facility had $302.0 million outstanding in loans, $58.6 million outstanding in letters of credit and $139.4 million available for borrowings. We also had the ability to borrow $250.0 million under the accordion feature of our Senior Credit Facility subject to lender demand and market conditions. Our significant debt obligations could have material consequences. See Risk Factors Risks Related to Our High Level of Indebtedness .

We plan to fund all of our capital needs, including our capital expenditures, from cash on hand, cash from operations, borrowings under our Senior Credit Facility and any other financings which our management and Board of Directors, in their discretion, may consummate. Currently, our primary source of liquidity to meet these requirements is cash flow from operations and borrowings from the $500.0 million Revolver. Our management believes that cash on hand, cash flows from operations and availability under our Senior Credit Facility will be adequate to support our capital requirements for 2012 and 2013 disclosed under Capital Requirements above. We are also in the process of bidding on, or evaluating potential bids for, the design, construction and management of a number of new projects. In the event that we win bids for these projects and decide to self-finance their construction, our capital requirements in 2012 and/or 2013 could materially increase. In that event, our cash on hand, cash flows from operations and borrowings under the existing Senior Credit Facility may not provide sufficient liquidity to meet our capital needs through 2013 and we could be forced to seek additional financing or refinance our existing indebtedness. There can be no assurance that any such financing or refinancing would be available to us on terms equal to or more favorable than our current financing terms, or at all.

In the future, our access to capital and ability to compete for future capital-intensive projects will also be dependent upon, among other things, our ability to meet certain financial covenants in the indenture governing the 7 3/4% Senior Notes, the indenture governing the 6.625% Senior Notes and our Senior Credit Facility. A substantial decline in our financial performance could limit our access to capital pursuant to these covenants and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations. In addition to these foregoing potential constraints on our capital, a number of state government agencies have been suffering from budget deficits and liquidity issues. While we expect to be in compliance with our debt covenants, if these constraints were to intensify, our liquidity could be materially adversely impacted as could our compliance with these debt covenants.

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***Executive Retirement Agreements***

As of January 1, 2012, we had a non-qualified deferred compensation agreement with our Chief Executive Officer, which we refer to as our CEO. The current agreement provides for a lump sum payment upon retirement, no sooner than age 55. As of January 1, 2012, the CEO had reached age 55 and was eligible to receive the payment upon retirement. If the Company s CEO had retired as of January 1, 2012, the Company would have had to pay him $5.8 million including a tax gross-up relating to the retirement payment equal to $2.1 million. Based on our current capitalization, we do not believe that making this payment would materially adversely impact our liquidity.

***Senior Credit Facility***

On August 4, 2010, we terminated our Prior Senior Credit Agreement and executed our Senior Credit Facility by and among GEO, as Borrower, BNP Paribas, as Administrative Agent, and the lenders who are, or may from time to time become, a party thereto. On February 8, 2011 and on May 2, 2011, we entered into Amendment No. 1 and Amendment No. 2, respectively, to the Senior Credit Facility. Indebtedness under the Revolver, the Term Loan A and the Term Loan A-2 bears interest based on the Total Leverage Ratio as of the most recent determination date, as defined, in each of the instances below at the stated rate:

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

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

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

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