

LILLY ELI & CO
Form DEF 14A
March 23, 2015

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

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

ELI LILLY AND COMPANY
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
 - (4) Proposed maximum aggregate value of transaction:
 - (5) Total fee paid:
- Fee paid previously with preliminary materials.
 - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid:
 - (2) Form, Schedule or Registration Statement No.:
 - (3) Filing Party:
 - (4) Date Filed:

SEC 1913 (11-01) Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Notice of 2015 Annual Meeting of Shareholders and Proxy Statement

Your vote is important

Please vote by using the Internet, telephone, or by signing, dating, and returning the enclosed proxy card.

Table of Contents	
<u>Notice of Annual Meeting of Shareholders</u>	1
<u>Proxy Statement Overview</u>	2
<u>Governance</u>	8
<u>Item 1 - Election of Directors</u>	8
<u>Board Operations and Governance</u>	8
<u>Director Compensation</u>	15
<u>Director Independence</u>	17
<u>Committees of the Board of Directors</u>	19
<u>Membership and Meetings of the Board and Its Committees</u>	21
<u>Board Oversight of Compliance and Risk Management</u>	21
<u>Highlights of the Company's Corporate Governance</u>	22
<u>Shareholder Engagement on Governance Issues</u>	25
<u>Prior Management Proposals to Eliminate Classified Board</u>	25
<u>Shareholder Proposals and Nominations</u>	26
<u>Ownership of Company Stock</u>	27
<u>Compensation</u>	28
<u>Item 2 - Advisory Vote on Compensation Paid to Named Executive Officers</u>	28
<u>Compensation Discussion and Analysis</u>	29
<u>Executive Compensation</u>	42
<u>Compensation Committee Matters</u>	51
<u>Audit Matters</u>	53
<u>Item 3 - Proposal to Ratify the Appointment of Principal Independent Auditor</u>	53
<u>Other Information</u>	55
<u>Meeting and Voting Logistics</u>	55
<u>Other Matters</u>	58
<u>Appendix A - Summary of Adjustments Related to the Annual Bonus and Performance Award</u>	59
<u>Annual Meeting Admission Ticket</u>	61

Notice of Annual Meeting of Shareholders

To the holders of Common Stock of Eli Lilly and Company:

The 2015 Annual Meeting of Shareholders of Eli Lilly and Company will be held as shown below:

WHEN: 11:00 a.m. EDT, Monday, May 4, 2015

WHERE: The Lilly Center Auditorium Lilly Corporate Center Indianapolis,
Indiana 46285

ITEMS OF BUSINESS: Election of the four directors listed in the proxy statement to serve
three-year terms
Approval, by non-binding vote, of the compensation paid to the
company's named executive officers
Ratification of Ernst & Young LLP as the principal independent
auditors for 2015

WHO CAN VOTE: Shareholders of record at the close of business on February 27,
2015

See the back page of this report for information regarding how to attend the meeting. Every shareholder vote is important. If you are unable to attend the meeting in person, please sign, date, and return your proxy and/or voting instructions by mail, telephone or through the Internet promptly so that a quorum may be represented at the meeting.

By order of the Board of Directors,

James B. Lootens

Secretary

March 23, 2015

Indianapolis, Indiana

Important notice regarding the availability of proxy materials for the shareholder meeting to be held May 4, 2015: The annual report and proxy statement are available at <http://www.lilly.com/pdf/lillyar2014.pdf>

Proxy Statement Overview

General Information

This overview highlights information contained elsewhere in this proxy statement. It does not contain all the information you should consider, and you should read the entire proxy statement carefully before voting.

Meeting:	Annual Meeting of Shareholders	Date:	May 4, 2015
Time:	11:00 a.m. EDT	Location:	The Lilly Center Auditorium Lilly Corporate Center Indianapolis, Indiana 46285
Record Date:	February 27, 2015		
Items of Business:	Item 1: Election of the four directors listed in this proxy statement to serve three-year terms. Item 2: Approval, by non-binding vote, of the compensation paid to the company's named executive officers. Item 3: Ratification of Ernst & Young LLP as the principal independent auditors for 2015.		

What Is New In This Year's Proxy Statement

Below is a summary of changes to our compensation programs in 2014:

In anticipation of significant revenue declines due to major product patent expirations, we took two significant compensation actions for 2014 in order to devote the resources necessary to launch three major new products, aggressively advance our pipeline of potential new medicines, and provide appropriate capital returns to our shareholders:

- A freeze on salary increases for most employees, including executive officers; and
- A one-time reduction of the company annual bonus payout.

Additionally, effective in 2014 we adopted a policy prohibiting all members of senior management (and outside directors) from pledging company shares (i.e., using them as collateral for a loan). This formalizes a practice that had already been in effect.

Highlights of 2014 Company Performance

The following provides a brief look at our 2014 performance in three dimensions: operating performance, innovation progress, and returns to shareholders. See our 2014 annual report on Form 10-K for more details.

Operating Performance

Last year was one of the most challenging years in our history – the final year in a multi-year period of patent expirations of several major products. In 2014, we experienced severe declines in revenue and net income due to the expiration of the U.S. patents for the blockbuster drugs Cymbalta® (our largest selling product) and Evista®. We partially offset these declines with growth in several other brands; new product launches in diabetes and oncology; growth in Japan, emerging markets, and our animal health business; and careful expense management. Performance highlights included:

- 2014 revenue of \$19.6 billion declined 15 percent but slightly exceeded our business plan target

Edgar Filing: LILLY ELI & CO - Form DEF 14A

2014 earnings per share (EPS) declined 48 percent on a reported basis to \$2.23, and declined 33 percent on a non-GAAP basis to \$2.78. The non-GAAP EPS results slightly exceeded our business plan target. Operating cash flows remained strong and exceeded our business plan target at \$4.37 billion.

Innovation Progress

We made significant advances with our pipeline in 2014, including:

- Approval and launch of three new products: Cyramza® for certain gastric and lung cancers, and Jardiance® and Trulicity™ for type 2 diabetes
- Approval of our insulin glargine product for diabetes in Europe and Japan and tentative approval in the U.S.
- Submission of necitumumab for squamous cell non-small cell lung cancer
- Positive results in final-stage clinical trials for ixekizumab for psoriasis and baricitinib for rheumatoid arthritis.

Returns to Shareholders

We achieved strong total shareholder returns (share price appreciation plus dividends, reinvested quarterly) for the one-, three-, and five-year periods through year-end 2014, including a 40 percent increase in 2014. Our returns exceeded the peer group in two of those periods and exceeded the S&P 500 in all three periods:

Consistent with our commitment to returning excess cash to shareholders, we returned approximately \$2.9 billion in cash to shareholders in 2014 in the form of dividends and share repurchases, and we announced a dividend increase commencing in the first quarter of 2015. In the past three years, we have returned \$6.9 billion in cash to shareholders through dividends and share repurchases.

Governance (pages 8-26)

Item 1: Election of Directors (pages 8-25)

Name and principal occupation	Joined the Board	Age	Public boards	Management recommendation	Vote required to pass
Katherine Baicker, Ph.D. Professor of Health Economics - Harvard University	2011	43	None	Vote FOR	Majority of votes cast
J. Erik Fyrwald President and CEO - Univar, Inc.	2005	55	None	Vote FOR	Majority of votes cast
Ellen R. Marram President - The Barnegat Group LLC	2002	68	Ford Motor Company The New York Times Company	Vote FOR	Majority of votes cast
Jackson P. Tai Former Vice Chairman and CEO - DBS Group Holdings and DBS Bank	2013	64	The Bank of China, Limited MasterCard Incorporated Royal Philips NV	Vote FOR	Majority of votes cast

Our Corporate Governance Policies Reflect Best Practices

- Our Board membership is marked by leadership, experience, and diversity.
- All 13 of our nonemployee directors, and all Board committee members, are independent.
- We have a strong, independent lead director role.
 - Our Board actively participates in company strategy and CEO/senior executive succession planning.
- Our Board oversees compliance and enterprise risk management practices.
- We have in place meaningful stock ownership requirements.
- We have a majority voting standard and resignation policy for the election of directors.

Compensation (pages 28-52)

Item 2: Advisory Vote on Compensation Paid to Named Executive Officers (pages 28-29)

	Management recommendation	Vote required to pass
Item 2 Approve, by non-binding vote, compensation paid to the company's named executive officers.	Vote FOR	Majority of votes cast

Our Executive Compensation Programs Reflect Best Practices

- We have had strong shareholder support of compensation practices: in 2014, over 98 percent of shares cast voted in favor of our executive compensation.
- Our compensation programs are designed to align with shareholder interests and link pay to performance through a blend of short- and long-term performance measures.
- Our Compensation Committee annually reviews compensation programs to ensure appropriate risk mitigation.
- We have a broad compensation recovery policy that applies to all executives and covers a wide range of misconduct.

Edgar Filing: LILLY ELI & CO - Form DEF 14A

Our executives and senior management are prohibited from hedging or pledging their company stock.

Our executives are subject to robust stock ownership guidelines.

- We do not have "top hat" retirement plans - supplemental plans are open to all employees and are limited to restoring benefits lost due to IRS limits on qualified plans.

We do not provide tax gross-ups to executive officers (except for limited gross-ups related to international assignments).

We have a very restrictive policy on perquisites.

Our severance plans related to change-in-control generally require a double trigger.

We do not have employment agreements with any of our executive officers.

Executive Compensation Summary for 2014

The total compensation paid to our named executive officers (the five officers whose compensation is disclosed in this proxy statement) for 2014 remained in the middle range of the company's peer group. Consistent with the pay freeze for most company employees for 2014, there were no salary increases for the named executive officers for 2014, and only our newest named executive officer received an increase in target equity compensation. Incentive compensation program payouts were aligned with the company's performance in 2014, as outlined below under "Pay for Performance."

Pay for Performance

As described more fully in the Compensation Disclosures and Analysis (CD&A) section, we link our incentive pay programs to a balanced mix of measures on three dimensions of company performance: (1) operating performance; (2) progress with our innovation pipeline; and (3) shareholder returns.

The summary information below highlights why the Compensation Committee believes our incentive pay programs are appropriately aligned with company performance. Please see the CD&A for details of how our three incentive pay programs work and how the payouts for 2014 were calculated.

2014 Annual Bonus Multiple

The company exceeded its annual bonus targets for revenue, adjusted non-GAAP EPS, and pipeline progress. However, in order to manage expenses in light of the severe impact of the patent expirations, the Compensation Committee reduced the bonus multiple by 0.25.

(7,360) (195) (452) (8,007)

Net carrying value at April 4, 2010

\$8,560 \$2,324 \$6,148 \$17,032

Amortization expense was \$0.6 million and \$0.4 million for thirteen weeks ended April 4, 2010 and March 29, 2009, respectively and primarily related to the U.S. corrections amortization of intangible assets for acquired management contracts. The Company's weighted average useful life related to the acquired facility management contracts is 12.46 years.

8. FAIR VALUE OF ASSETS AND LIABILITIES

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

The following tables provide a summary of the Company's significant financial assets and liabilities carried at fair value and measured on a recurring basis as of April 4, 2010 and January 3, 2010 (in thousands):

	Fair Value Measurements at April 4, 2010			
	Total Carrying Value at April 4, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap derivative assets	\$ 1,982	\$	\$ 1,982	\$
Investments other than derivatives	1,620		1,620	
Liabilities:				
Interest rate swap derivative liabilities	\$ 1,526	\$	\$ 1,526	\$

Table of Contents

	Fair Value Measurements at January 3, 2010			
	Total Carrying Value at January 3, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap derivative assets	\$ 2,020	\$	\$ 2,020	\$
Investments other than derivatives	1,527		1,527	

Liabilities:

Interest rate swap derivative liabilities	\$ 1,887	\$	\$ 1,887	\$
---	----------	----	----------	----

The financial instruments included in the Company's Level 2 fair value measurements consist of an interest rate swap asset held by our Australian subsidiary, interest rate swap liabilities of the Company, and also an investment in Canadian dollar denominated fixed income securities. The Australian subsidiary's interest rate swap asset is valued using a discounted cash flow model based on current Australian borrowing rates. The Company's interest rate swap liabilities are based on pricing models which consider prevailing interest rates, credit risk and similar instruments. The Canadian dollar denominated securities, not actively traded, are valued using quoted rates for these and similar securities.

9. FINANCIAL INSTRUMENTS

The Company's balance sheet reflects certain financial instruments at carrying value. The following table presents the carrying values of those instruments and the corresponding fair values at April 4, 2010 and January 3, 2010:

	April 4, 2010	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	\$ 30,276	\$ 30,276
Restricted cash	36,606	36,606
Liabilities:		
Borrowings under the Senior Credit Facility	\$221,050	\$215,172
7 ³ / ₄ % Senior Notes	250,000	253,750
Non-recourse debt	109,099	108,998

	January 3, 2010	
	Carrying Value	Estimated Fair Value
Assets:		
Cash and cash equivalents	\$ 33,856	\$ 33,856
Restricted cash	34,068	34,068
Liabilities:		
Borrowings under the Senior Credit Facility	\$212,963	\$203,769
7 ³ / ₄ % Senior Notes	250,000	255,000
Non-recourse debt	113,724	113,360

The fair values of the Company's Cash and cash equivalents and Restricted cash approximate the carrying values of these assets at April 4, 2010 and January 3, 2010. The fair values of publicly traded debt and other non-recourse debt

are based on market prices, where available. The fair value of the non-recourse debt related to the Company's Australian subsidiary is estimated using a discounted cash flow model based on current Australian borrowing rates for similar instruments. The fair value of the borrowings under the Senior Credit Facility is based on an estimate of trading value considering the Company's borrowing rate, the undrawn spread and similar trades.

10. VARIABLE INTEREST ENTITIES

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

Table of Contents

economic performance and (ii) the obligation to absorb the losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.

The Company does not consolidate its 50% owned South African joint venture in SACS, a VIE. The Company has determined it is not the primary beneficiary of SACS since it does not have the power to direct the activities of SACS that most significantly impact its performance. As such, this entity is reported as an equity affiliate. SACS was established in 2001, to design, finance and build the Kutama Sinthumule Correctional Centre and was subsequently, awarded a 25-year contract to design, construct, manage and finance a facility in Louis Trichardt, South Africa. To fund the construction of the prison, SACS obtained long-term financing from the government which is fully guaranteed, except in the event of default, for which the government provides an 80% guarantee. The Company's maximum exposure for loss under this contract is limited to its investment in the joint venture of \$8.9 million at April 4, 2010 and its guarantees related to SACS discussed in Note 12.

The Company consolidates South Texas Local Development Corporation (STLDC), a VIE. STLDC was created to finance construction for the development of a 1,904-bed facility in Frio County, Texas. STLDC, the owner of the complex, issued \$49.5 million in taxable revenue bonds and has an operating agreement with the Company, which provide the Company with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. The bonds have a ten-year term and are non-recourse to the Company. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. See Note 12.

11. NONCONTROLLING INTEREST IN SUBSIDIARY

The Company includes the results of operations and financial position of South African Custodial Management Pty. Limited (SACM or the joint venture), its majority-owned subsidiary, in its consolidated financial statements. SACM was established in 2001 to operate correctional centers in South Africa. The joint venture currently provides security and other management services for the Kutama Sinthumule Correctional Centre in the Republic of South Africa under a 25-year management contract which commenced in February 2002. The Company's share and the second joint venture partner's share in the profits of the joint venture is 88.75% and 11.75%, respectively. There were no changes in the Company's ownership percentage of the consolidated subsidiary during the thirteen weeks ended April 4, 2010. The noncontrolling interest as of April 4, 2010 and January 3, 2010 is included in Total Shareholders' Equity in the accompanying Consolidated Balance Sheets. The net income and other comprehensive income attributable to the noncontrolling interest are not material to the Company's results of operations and are not presented separately. There were no contributions from owners or distributions to owners in the thirteen weeks ended April 4, 2010.

12. DEBT***The Senior Credit Facility***

On October 5, 2009, on October 15, 2009, and again on December 4, 2009, the Company completed amendments to the Senior Credit Facility through the execution of Amendment Nos. 5, 6, and 7, respectively, to the Amended and Restated Credit Agreement (as amended, the Senior Credit Facility) between the Company, as Borrower, certain of its subsidiaries, as Guarantors, and BNP Paribas, as Lender and as Administrative Agent. As of April 4, 2010, the Company's Senior Credit Facility is comprised of a \$154.1 million Term Loan B bearing interest at LIBOR plus 2.00% and maturing in January 2014 and the \$330.0 million Revolver which currently bears interest at LIBOR plus 3.25% and matures in September 2012. The Company has the ability to increase its borrowing capacity under the Senior Credit Facility by another \$200.0 million subject to lender demand, market conditions and existing borrowings. As of April 4, 2010, the Company had \$154.1 million outstanding under the Term Loan B, and its \$330.0 million Revolver had \$67.0 million outstanding in loans, \$45.2 million outstanding in letters of credit and \$217.8 million available for borrowings, which the Company refers to as its Unused Revolver, after considering its debt covenants. The Company intends to use future borrowings from the Revolver for the purposes permitted under the Senior Credit Facility, including for general corporate purposes.

Table of Contents

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

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

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

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

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

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

All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of the Company's existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of the Company's present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, as specified in the Credit Agreement. In addition, the Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict the Company's ability to be party to certain transactions, as further specified in the Credit Agreement. Events of default under the Senior Credit Facility include, but are not limited to, (i) the Company's failure to pay principal or interest when due, (ii) the Company's material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental state of claims which are asserted against it, and (viii) a change of control. The Company's failure to comply with any of the covenants under its Senior Credit Facility could cause an event of default under such documents and result in an acceleration of all of the outstanding senior secured indebtedness. The Company believes it was in compliance with all of the covenants of the Senior Credit Facility as of April 4, 2010.

7³/₄% Senior Notes

In October, 2009, the Company completed a private offering of \$250.0 million in aggregate principal amount of its 7³/₄% Senior Notes due 2017. These senior unsecured notes pay interest semi-annually in cash in arrears on April 15 and October 15 of each year, beginning on April 15, 2010. The Company realized net proceeds of \$246.4 million at the close of the transaction, net of the discount on the notes of \$3.6 million. The Company used the net proceeds of the offering to fund the repurchase of all of its 8¹/₄% Senior Notes due 2013 and pay down part of the Revolver.

The 7³/₄% Senior Notes and the guarantees are unsecured, senior obligations of GEO and these obligations and rank as follows: pari passu with any unsecured, senior indebtedness of GEO and the guarantors; senior to any future indebtedness of GEO and the guarantors that is expressly subordinated to the notes and the guarantees; effectively junior to any secured indebtedness of GEO and the guarantors, including indebtedness under the Company's Senior Credit Facility, to the extent of the value of the assets securing such indebtedness; and effectively junior to all

obligations of the Company's subsidiaries that are not guarantors After October 15, 2013, the Company may, at its option, redeem all or a part of the 7³/₄% Senior Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and liquidated damages, if any,

Table of Contents

on the 7³/₄% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

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

Before October 15, 2013, the Company may redeem some or all of the 7³/₄% Senior Notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make-whole premium together with accrued and unpaid interest and liquidated damages, if any. In addition, at any time on or prior to October 15, 2012, the Company may redeem up to 35% of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 107.750% of the aggregate principal amount of the notes to be redeemed, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption.

The indenture governing the notes contains certain covenants, including limitations and restrictions on the Company and its restricted subsidiaries' ability to: incur additional indebtedness or issue preferred stock; make dividend payments or other restricted payments; create liens; sell assets; enter into transactions with affiliates; and enter into mergers, consolidations, or sales of all or substantially all of our assets. As of the date of the indenture, all of the Company's subsidiaries, other than CSC of Tacoma, LLC, GEO International Holdings, Inc., certain dormant domestic subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries. In addition, there is a cross-default provision which becomes enforceable upon failure of payment of indebtedness at final maturity. The Company's unrestricted subsidiaries will not be subject to any of the restrictive covenants in the indenture. The Company believes it was in compliance with all of the covenants of the Indenture governing the 7³/₄% Senior Notes as of April 4, 2010.

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

The Company has a debt service requirement related to the development of the South Texas Detention Complex, a 1,904-bed detention complex in Frio County, Texas acquired in November 2005 from Correctional Services Corporation (CSC). CSC was awarded the contract in February 2004 by the Department of Homeland Security, U.S. Immigration and Customs Enforcement (ICE) for development and operation of the detention center. In order to finance its construction, South Texas Local Development Corporation (STLDC) was created and issued \$49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 4.34% and 5.07%. Additionally, the Company is owed \$5.0 million in the form of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

The Company has an operating agreement with STLDC, the owner of the complex, which provides it with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from the contract with ICE be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to the Company to cover operating expenses and management fees. The Company is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten-year term and are non-recourse to the Company and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to the Company. The Company has determined that it is the primary beneficiary of STLDC and consolidates the entity as a result. The carrying value of the facility as of April 4, 2010 and January 3, 2010 was \$27.2 million and \$27.2 million, respectively and is included in property and equipment in the accompanying balance sheets.

On February 1, 2010, STLDC made a payment from its restricted cash account of \$4.6 million for the current portion of its periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of April 4, 2010, the remaining balance of the debt service requirement under the STLDC financing agreement is

\$32.1 million, of which \$4.8 million is due within the next twelve months. Also, as of April 4, 2010, included in current restricted cash and non-current restricted cash is \$6.3 million and \$4.7 million, respectively, of funds held in trust with respect to the STLDC for debt service and other reserves.

Table of Contents*Northwest Detention Center*

On June 30, 2003, CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington, referred to as the Northwest Detention Center, which was completed and opened for operation in April 2004. The Company began to operate this facility following its acquisition in November 2005. In connection with the original financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a \$57.0 million note payable to the Washington Economic Development Finance Authority, referred to as WEDFA, an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance back to CSC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to the Company and the loan from WEDFA to CSC is non-recourse to the Company. These bonds mature in February 2014 and have fixed coupon rates between 3.50% and 4.10%.

The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the thirteen weeks ended April 4, 2010 in relation to the WEDFA bond indenture. As of April 4, 2010, the remaining balance of the debt service requirement is \$31.6 million, of which \$5.9 million is classified as current in the accompanying balance sheet.

As of April 4, 2010, included in current restricted cash and non-current restricted cash is \$7.0 million and \$7.3 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

The Company's wholly-owned Australian subsidiary financed the development of a facility and subsequent expansion in 2003 with long-term debt obligations. These obligations are non-recourse to the Company and total \$45.4 million and \$45.4 million at April 4, 2010 and January 3, 2010, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million, which, at April 4, 2010, was \$4.6 million. This amount is included in restricted cash and the annual maturities of the future debt obligation are included in non-recourse debt.

Guarantees

In connection with the creation of South African Custodial Services Ltd., referred to as SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. The Company guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or \$8.3 million, to SACS' senior lenders through the issuance of letters of credit. Additionally, SACS is required to fund a restricted account for the payment of certain costs in the event of contract termination. The Company has guaranteed the payment of 60% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 8.4 million South African Rand, or \$1.2 million, as security for its guarantee. The Company's obligations under this guarantee expire upon SACS' release from its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in the Company's outstanding letters of credit under its Revolver.

The Company has agreed to provide a loan, of up to 20.0 million South African Rand, or \$2.8 million, referred to as the Standby Facility, to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under the Standby Facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company's obligations under the Standby Facility expire upon the earlier of full funding or SACS' release from its obligations under its debt agreements. The lenders' ability to draw on the Standby Facility is limited to certain circumstances, including termination of the contract.

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

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is Canadian Dollar (CAD) 2.5 million, or \$2.5 million, commencing in 2017. The Company has a liability of \$1.6 million and \$1.5 million related to this exposure as April 4,

Table of Contents

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

At April 4, 2010, the Company also had nine letters of guarantee outstanding under separate international facilities relating to performance guarantees of its Australian subsidiary totaling \$9.1 million.

13. COMMITMENTS AND CONTINGENCIES***Litigation, Claims and Assessments***

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that its Australian subsidiary formerly operated. The claim (No. SC 656 of 2006 to be heard by the Supreme Court of the Australian Capital Territory) relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUD 18 million or \$16.6 million, plus interest. The Company believes that it has several defenses to the allegations underlying the litigation and the amounts sought and intends to vigorously defend its rights with respect to this matter. The Company has established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of legal counsel in connection with this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and the Company's preliminary review of the claim and related reserve for loss, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on its financial condition, results of operations or cash flows. The Company is uninsured for any damages or costs that it may incur as a result of this claim, including the expenses of defending the claim.

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

The Company is currently under examination by the Internal Revenue Service for its U.S. income tax returns for fiscal years 2006 through 2008 and expects this examination to be concluded in 2010. Based on the status of the audit to date, the Company does not expect the outcome of the audit to have a material adverse impact on its financial condition, results of operation or cash flows.

The Company's South Africa joint venture is 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. SARS has notified the Company that it proposes to disallow these deductions. The Company has appealed these proposed disallowed deductions with SARS and believes it has defenses in these matters. However, if resolved unfavorably, the Company's maximum exposure would be \$2.6 million.

The Company is currently developing a number of projects using company financing. The Company's management estimates that these existing capital projects will cost approximately \$197 million, of which \$173.7 million was spent during fiscal years 2008 and 2009 and through First Quarter of 2010. The Company has future committed capital projects for which it estimates its remaining capital requirements to be approximately \$23.3 million, which will be spent through fiscal year 2010. Capital expenditures related to facility maintenance costs are expected to range between \$10.0 million and \$15.0 million for fiscal year 2010. In addition to these current estimated capital requirements for 2010 and 2011, the Company is currently in the process of bidding on, or evaluating potential bids

for the design, construction and management of a number of new projects. In the event that the Company wins bids for these projects and decides to self-finance their construction, its capital requirements in 2010 and/or 2011 could materially increase.

The nature of the Company's business exposes it to various types of claims or litigation against the Company, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, indemnification claims by its customers and other third parties, contractual claims and claims for personal injury or other damages resulting from contact with the Company's facilities, programs, personnel or prisoners, including damages arising from a prisoner's

Table of Contents

escape or from a disturbance or riot at a facility. Except as otherwise disclosed above, the Company does not expect the outcome of any pending claims or legal proceedings to have a material adverse effect on its financial condition, results of operations or cash flows.

Contract Termination

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

14. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION**Operating and Reporting Segments**

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

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Revenues:		
U.S. corrections	\$ 192,511	\$ 191,770
International services	45,880	25,678
GEO Care	34,700	28,603
Facility construction and design	14,451	13,010
Total revenues	\$ 287,542	\$ 259,061
Depreciation and amortization:		
U.S. corrections	\$ 7,951	\$ 9,084
International services	435	332
GEO Care	852	400
Facility construction and design		
Total depreciation and amortization	\$ 9,238	\$ 9,816
Operating income:		
U.S. corrections	\$ 45,837	\$ 41,493
International services	1,791	1,867
GEO Care	3,346	3,479
Facility construction and design	948	79
Operating income from segments	51,922	46,918
General and administrative expenses	(17,448)	(17,236)

Total operating income	\$ 34,474	\$ 29,682
	April 4, 2010	January 3, 2010
Segment assets:		
U.S. corrections	\$ 1,176,390	\$ 1,145,571
International services	96,573	95,659
GEO Care	58,819	107,908
Facility construction and design	11,056	13,736
Total segment assets	\$ 1,342,838	\$ 1,362,874

Table of Contents**Pre-Tax Income Reconciliation of Segments**

The following is a reconciliation of the Company's total operating income from its reportable segments to the Company's income before income taxes, equity in earnings of affiliates, discontinued operations and minority interest, in each case, during the thirteen weeks ended April 4, 2010 and March 29, 2009, respectively.

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Total operating income from segments	\$ 51,922	\$ 46,918
Unallocated amounts:		
General and administrative expenses	(17,448)	(17,236)
Net interest expense	(6,585)	(6,114)
Income before income taxes, equity in earnings of affiliate and discontinued operations	\$ 27,889	\$ 23,568

Asset Reconciliation of Segments

The following is a reconciliation of the Company's reportable segment assets to the Company's total assets as of April 4, 2010 and January 3, 2010, respectively.

	April 4, 2010	January 3, 2010
Reportable segment assets	\$ 1,342,838	\$ 1,362,874
Cash	30,276	33,856
Deferred income tax	17,020	17,020
Restricted cash	36,606	34,068
Total assets	\$ 1,426,740	\$ 1,447,818

Sources of Revenue

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

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Revenues:		
Correctional and detention	\$ 238,391	\$ 217,448
GEO Care	34,700	28,603
Facility construction and design	14,451	13,010
Total revenues	\$ 287,542	\$ 259,061

Equity in earnings of affiliate includes the Company's joint venture in South Africa, SACS. This entity is accounted for under the equity method of accounting and the Company's investment in SACS is presented as a component of other non-current assets in the accompanying consolidated balance sheets.

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

	Thirteen Weeks Ended	
	April 4, 2010	March 29, 2009
Statement of Operations Data		
Revenues	\$10,761	\$ 7,572
Operating income	4,092	2,847
Net income	1,180	1,287
	April 4, 2010	January 3, 2010
Balance Sheet Data		
Current assets	\$25,405	\$ 33,808
Non-current assets	47,911	47,453
Current liabilities	3,317	2,888
Non-current liabilities	52,112	53,877
Shareholders' equity	17,887	24,496

Table of Contents

During the thirteen weeks ended April 4, 2010, the Company's consolidated South African subsidiary received a dividend of \$3.9 million from SACS which reduced the Company's investment in its joint venture. As of April 4, 2010 and January 3, 2010, the Company's investment in SACS was \$8.9 million and \$12.2 million, respectively. The investment is included in other non-current assets in the accompanying consolidated balance sheets.

15. BENEFIT PLANS

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

As of April 4, 2010, the Company had non-qualified deferred compensation agreements with two key executives. These agreements were modified in 2002, and again in 2003. The current agreements provide for a lump sum payment when the executives retire, no sooner than age 55. As of April 4, 2010, both executives had reached age 55 and are eligible to receive the payments upon retirement.

The following table summarizes key information related to the Company's pension plans and retirement agreements. The table illustrates the reconciliation of the beginning and ending balances of the benefit obligation showing the effects during the period attributable to each of the following: service cost, interest cost, plan amendments, termination benefits, actuarial gains and losses. The Company's liability relative to its pension plans and retirement agreements was \$16.5 million and \$16.2 million as of April 4, 2010 and January 3, 2010, respectively, and is included in Other Non-Current liabilities in the accompanying balance sheets. The assumptions used in the Company's calculation of accrued pension costs are based on market information and the Company's historical rates for employment compensation and discount rates, respectively.

	April 4, 2010	January 3, 2010
	(in thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	\$ 16,206	\$ 19,320
Service cost	131	563
Interest cost	187	717
Actuarial gain		(1,047)
Benefits paid	(61)	(3,347)
Projected benefit obligation, end of period	\$ 16,463	\$ 16,206
Change in Plan Assets		
Plan assets at fair value, beginning of period	\$	\$
Company contributions	61	3,347
Benefits paid	(61)	(3,347)
Plan assets at fair value, end of period	\$	\$
Unfunded Status of the Plan	\$ (16,463)	\$ (16,206)
Amounts Recognized in Accumulated Other Comprehensive Income		
Prior service cost	31	41
Net loss	1,006	1,014
Accrued pension cost	\$ 1,037	\$ 1,055

	April 4, 2010	March 29, 2009
Components of Net Periodic Benefit Cost		
Service cost	\$ 131	\$ 141
Interest cost	187	179
Amortization of:		
Prior service cost	10	10
Net loss	8	62
Net periodic pension cost	\$ 336	\$ 392
Weighted Average Assumptions for Expense		
Discount rate	5.75%	5.75%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	4.50%	5.00%
The Company expects to pay benefits of \$0.2 million in the fiscal year ended January 2, 2011.		

Table of Contents**16. RECENT ACCOUNTING STANDARDS**

The Company implemented the following accounting standards in the thirteen weeks ended April 4, 2010:

In December 2009, the FASB issued ASU No. 2009-17, previously known as FAS No. 167, Amendments to FASB Interpretation No. FIN 46(R) (SFAS No. 167). ASU No. 2009-17 amends the manner in which entities evaluate whether consolidation is required for VIEs. The consolidation requirements under the revised guidance require a company to consolidate a VIE if the entity has all three of the following characteristics (i) the power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity's economic performance, (ii) the obligation to absorb the expected losses of the legal entity, and (iii) the right to receive the expected residual returns of the legal entity. Further, this guidance requires that companies continually evaluate VIEs for consolidation, rather than assessing based upon the occurrence of triggering events. As a result of adoption, which was effective for the Company's interim and annual periods beginning after November 15, 2009, companies are required to enhance disclosures about how their involvement with a VIE affects the financial statements and exposure to risks. The implementation of this standard in the thirteen weeks ended April 4, 2010 did not have a material impact on the Company's financial position, results of operations and cash flows.

In January 2010, the FASB issued ASU No. 2010-2 which addresses implementation issues related to changes in ownership provisions of consolidated subsidiaries, investees and joint ventures. The amendment clarifies that the scope of the decrease in ownership provisions outlined in the current consolidation guidance apply to (i) a subsidiary or group of assets that is a business or nonprofit activity, (ii) a subsidiary that is a business or nonprofit activity and is transferred to an equity method investee or joint venture and (iii) to an exchange of a group of assets that constitute a business or nonprofit activity for a noncontrolling interest in an entity. The amendment also makes certain other clarifications and expands disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets within the scope of the current consolidation guidance. These amendments became effective for the Company in the thirteen weeks ended April 4, 2010, its first interim reporting period after December 15, 2009. The implementation of this standard did not have a material impact on the Company's financial position, results of operations and cash flows. In January 2010, the FASB issued ASU No. 2010-6 which requires additional disclosures relative to transfers of assets and liabilities between Levels 1 and 2 of the fair value hierarchy. Additionally, the amendment requires companies to present activity in the reconciliation for Level 3 fair value measurements on a gross basis rather than on a net basis. This update also provides clarification to existing disclosures relative to the level of disaggregation and disclosure of inputs and valuation techniques for fair value measurements that fall into either Level 2 or Level 3. This amendment became effective for the Company in the thirteen weeks ended April 4, 2010, its first interim reporting period after December 15, 2009, except for disclosures related to activity in Level 3 fair value measurements which are effective for the Company's first reporting period beginning after December 15, 2010. The implementation of this standard did not have a material impact on the Company's financial position, results of operations and cash flows.

The following accounting standard has an implementation date subsequent to the period ended April 4, 2010 and as such, has not yet been adopted by the Company. The Company does not anticipate that the adoption of this standard will have a material impact on its financial position, results of operations or cash flows.

In October 2009, the FASB issued ASU No. 2009-13 which provides amendments to revenue recognition criteria for separating consideration in multiple element arrangements. As a result of these amendments, multiple deliverable arrangements will be separated more frequently than under existing GAAP. The amendments, among other things, establish the selling price of a deliverable, replace the term fair value with selling price and eliminate the residual method so that consideration would be allocated to the deliverables using the relative selling price method. This amendment also significantly expands the disclosure requirements for multiple element arrangements. Although this standard can be adopted earlier than its effective date, the Company has not elected to early adopt and as such, this guidance will become effective for the Company prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010.

Table of Contents**17. SUBSEQUENT EVENTS*****New contracts and contract terminations***

On April 14, 2010, the Company announced that the State of Florida has issued a Notice of Intent to Award contracts for the 1,884-bed Graceville Correctional Facility located in Graceville, Florida and the 985-bed Moore Haven Correctional Facility located in Moore Haven, Florida to another operator. These contracts will terminate effective September 26, 2010 and August 1, 2010, respectively.

On May 5, 2010, the Company announced the signing of a contract with the State of Florida, Department of Management Services (the Department) for the management of the 2,000-bed Blackwater River Correctional Facility (Blackwater) located in Santa Rosa County, Florida. Under the terms of the managed-only contract, Blackwater is scheduled to open and begin the intake of inmates on November 1, 2010. The ramp-up of the population is expected to be completed in the first quarter of 2011. This facility has 2,000 beds and will house medium and close-custody security adult male inmates with a minimum occupancy guarantee of 90 percent.

Merger with Cornell Companies

On April 19, 2010, the Company, along with Cornell Companies, Inc. (Cornell) announced that their respective boards of directors approved a definitive merger agreement which provides that the Company will acquire Cornell. If the merger is approved, stockholders of Cornell will have the option to elect to receive either (x) 1.3 shares of the Company's common stock for each share of Cornell common stock or (y) an amount of cash consideration equal to the greater of (i) the fair market value of one share of the Company's common stock plus \$6.00 or (ii) the fair market value of 1.3 shares of the Company's common stock. In order to preserve the tax-deferred treatment of the transaction, no more than 20% of the outstanding shares of Cornell's common stock may be exchanged for the cash consideration. If elections are made such that the aggregate cash consideration to be received by Cornell stockholders would exceed \$100 million in the aggregate, such excess amount may be paid at the Company's election in shares of its common stock or in cash. Based on the closing stock price of the Company's common stock as of April 29, 2010, and assuming the maximum cash election, the Company would issue approximately 15.8 million shares of stock in connection with the merger. The Company will assume or refinance approximately \$300 million of Cornell debt, comprising of approximately \$180 million in recourse debt and approximately \$120 million in non-recourse debt related to Cornell's special purpose entity Municipal Corrections Finance, L.P. (MCF) bonds, excluding cash.

On April 27, 2010, GEO, along with Cornell and Cornell's directors, were named in a purported stockholder class action complaint filed by Todd Shelby, individually and on behalf of all others similarly situated, in the district court of Harris County, Texas. The complaint alleges, among other things, that Cornell's directors breached their fiduciary duties by entering into the merger agreement without first taking steps to obtain adequate, fair and maximum consideration for Cornell's stockholders by shopping the company or initiating an auction process, by structuring the transaction to take advantage of Cornell's current low stock valuation, and by structuring the transaction to benefit GEO while making an alternative transaction either prohibitively expensive or otherwise impossible, and that the corporate defendants have aided and abetted such breaches by Cornell's directors. The plaintiffs are seeking, among other things, both an injunction prohibiting the merger and a constructive trust in an unspecified amount over any benefits improperly received by the defendants as a result of their alleged wrongful conduct. One of the conditions to the closing of the merger is that there not be any legal prohibition preventing the consummation of the merger, which would include the injunction sought by the plaintiffs in this case if it were to be granted. As a result, if the plaintiffs are successful in obtaining the injunction they seek, the merger may be blocked or delayed, or there could be substantial costs to GEO. It is possible that other similar lawsuits may be filed in the future. GEO cannot estimate any possible loss from this or similar future litigation at this time.

On May 5, 2010, the Company filed a preliminary joint merger proxy statement with Cornell and a prospectus relating to shares of the Company's common stock issuable as consideration in connection with the consummation of the merger. The preliminary joint merger proxy statement includes a proposal to the Company's shareholders seeking approval for the issuance of shares of the Company's common stock in connection with the merger agreement executed on April 18, 2010, as discussed below and a proposal to amend the 2006 Plan to increase the number of shares of common stock subject to awards under the 2006 Plan.

18. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Edgar Filing: LILLY ELI & CO - Form DEF 14A

On October 20, 2009, the Company completed an offering of \$250.0 million aggregate principal amount of its 7³/₄% Senior Notes due 2017 (the Original Notes). The Original Notes were sold to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and outside the United States only to non-U.S. persons in accordance with Regulation S promulgated under the Securities Act. In connection with the sale of the Original Notes, the Company entered into a

Table of Contents

Registration Rights Agreement with the initial purchasers of the Original Notes party thereto, pursuant to which the Company and its Subsidiary Guarantors (as defined below) agreed to file a registration statement with respect to an offer to exchange the Original Notes for a new issue of substantially identical notes registered under the Securities Act (the Exchange Notes , and together with the Original Notes, the 7³/₄% Senior Notes). The 7³/₄% Senior Notes are fully and unconditionally guaranteed on a joint and several senior unsecured basis by the Company and certain of its wholly-owned domestic subsidiaries (the Subsidiary Guarantors).

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

- (i) The GEO Group, Inc., as the issuer of the 7³/₄% Senior Notes;
- (ii) The Subsidiary Guarantors, on a combined basis, which are guarantors of the 7³/₄% Senior Notes;
- (iii) The Company's other subsidiaries, on a combined basis, which are not guarantors of the 7³/₄% Senior Notes (the Subsidiary Non-Guarantors);
- (iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Company, the Subsidiary Guarantors and the Subsidiary Non-Guarantors and (b) eliminate the investments in the Company's subsidiaries; and
- (v) The Company and its subsidiaries on a consolidated basis.

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET
(dollars in thousands)**

	As of April 4, 2010				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 8,643	\$ 715	\$ 20,918	\$	\$ 30,276
Restricted cash			13,306		13,306
Accounts Receivable, net	106,968	37,226	35,654		179,848
Deferred income tax asset, net	12,197	1,354	3,469		17,020
Other current assets, net	3,713	1,761	7,642		13,116
Total current assets	131,521	41,056	80,989		253,566
Restricted Cash	3,506		19,794		23,300
Property and Equipment, Net	443,682	488,359	71,876		1,003,917
Assets Held for Sale	3,083	1,265			4,348
Direct Finance Lease Receivable			36,969		36,969
Intercompany Receivable	18,663	14,212	1,782	(34,657)	
Goodwill	34	39,428	685		40,147
Intangible Assets, net		14,708	2,324		17,032
Investment in Subsidiaries	620,537			(620,537)	
Other Non-Current Assets	22,847	1,866	22,748		47,461
	\$ 1,243,873	\$ 600,894	\$ 237,167	\$ (655,194)	\$ 1,426,740
Current Liabilities					
Accounts payable	\$ 25,805	\$ 10,887	\$ 7,899	\$	\$ 44,591
Accrued payroll and related taxes	16,729	3,162	12,793		32,684
Accrued expenses	62,606	4,665	20,954		88,225
Current portion of debt	3,650	720	15,620		19,990
Total current liabilities	108,790	19,434	57,266		185,490
Deferred Income Tax Liability	6,652		408		7,060
Intercompany Payable	1,782	15,197	17,678	(34,657)	
Other Non-Current Liabilities	32,670	1,297	89		34,056
Capital Lease Obligations		14,233			14,233
Long-Term Debt	462,391				462,391
Non-Recourse Debt			91,922		91,922
Commintments & Contingencies (Note 13)					
Total Shareholders Equity	631,588	550,733	69,804	(620,537)	631,588

Edgar Filing: LILLY ELI & CO - Form DEF 14A

\$ 1,243,873 \$ 600,894 \$ 237,167 \$ (655,194) \$ 1,426,740

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET (Continued)**
(dollars in thousands)

	As of January 3, 2010				
	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Cash and cash equivalents	\$ 12,376	\$ 5,333	\$ 16,147	\$	\$ 33,856
Restricted cash			13,313		13,313
Accounts Receivable, net	110,643	53,457	36,656		200,756
Deferred income tax asset, net	12,197	1,354	3,469		17,020
Other current assets, net	4,428	2,311	7,950		14,689
Total current assets	139,644	62,455	77,535		279,634
Restricted Cash	2,900		17,855		20,755
Property and Equipment, Net	438,504	489,586	70,470		998,560
Assets Held for Sale	3,083	1,265			4,348
Direct Finance Lease Receivable			37,162		37,162
Intercompany Receivable	3,324	13,000	1,712	(18,036)	
Goodwill	34	39,387	669		40,090
Intangible Assets, net		15,268	2,311		17,579
Investment in subsidiaries	650,605			(650,605)	
Other Non-Current Assets	23,431		26,259		49,690
	\$ 1,261,525	\$ 620,961	\$ 233,973	\$ (668,641)	\$ 1,447,818
Current Liabilities					
Accounts payable	\$ 35,949	\$ 6,622	\$ 9,285	\$	\$ 51,856
Accrued payroll and related taxes	6,729	5,414	13,066		25,209
Accrued expenses	55,720	2,890	22,149		80,759
Current portion of debt	3,678	705	15,241		19,624
Total current liabilities	102,076	15,631	59,741		177,448
Deferred Income Tax Liability	6,652		408		7,060
Intercompany Payable	1,712		16,324	(18,036)	
Other Non-Current Liabilities	32,127	1,015			33,142
Capital Lease Obligations		14,419			14,419
Long-Term Debt	453,860				453,860
Non-Recourse Debt			96,791		96,791
Commintments & Contingencies					
Total shareholders equity	665,098	589,896	60,709	(650,605)	665,098
	\$ 1,261,525	\$ 620,961	\$ 233,973	\$ (668,641)	\$ 1,447,818

Table of Contents

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
(dollars in thousands)

For the Thirteen Weeks Ended April 4, 2010

	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues	\$ 152,860	\$ 86,996	\$ 60,490	\$ (12,804)	\$ 287,542
Operating Expenses	131,019	55,975	52,192	(12,804)	226,382
Depreciation and Amortization	4,212	4,047	979		9,238
General and Administrative Expenses	8,880	5,055	3,513		17,448
Operating Income	8,749	21,919	3,806		34,474
Interest Income	301	346	1,169	(587)	1,229
Interest Expense	(5,759)	(508)	(2,134)	587	(7,814)
Income Before Income Taxes, Equity in Earnings of Affiliates, and Discontinued Operations	3,291	21,757	2,841		27,889
Provision for Income Taxes	1,323	8,750	734		10,807
Equity in Earnings of Affiliates, net of income tax			590		590
Income from Continuing Operations Before Equity Income of Consolidated Subsidiaries	1,968	13,007	2,697		17,672
Income in Consolidated Subsidiaries, net of income tax	15,704			(15,704)	
Net Income	\$ 17,672	\$ 13,007	\$ 2,697	\$ (15,704)	\$ 17,672

Table of Contents

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

For the Thirteen Weeks Ended March 29, 2009

	The GEO Group Inc.	Combined Subsidiary	Combined Non-Guarantor	Eliminations	Consolidated
Revenues	\$ 149,473	\$ 83,391	\$ 38,797	\$ (12,600)	\$ 259,061
Operating Expenses	129,540	53,313	32,074	(12,600)	202,327
Depreciation and Amortization	4,119	4,503	1,194		9,816
General and Administrative Expenses	9,484	5,291	2,461		17,236
Operating Income	6,330	20,284	3,068		29,682
Interest Income	210	320	1,014	(454)	1,090
Interest Expense	(5,263)	(324)	(2,071)	454	(7,204)
Income Before Income Taxes, Equity in Earnings of Affiliates, and Discontinued Operations	1,277	20,280	2,011		23,568
Provision for Income Taxes	496	7,876	769		9,141
Equity in Earnings of Affiliates, net of income tax			644		644
Income from Continuing Operations Before Equity Income of Consolidated Subsidiaries	781	12,404	1,886		15,071
Equity in Income of Consolidated Subsidiaries	14,290			(14,290)	
Income from Continuing Operations	15,071	12,404	1,886	(14,290)	15,071
Loss from Discontinued Operations, net of income tax	(366)	(173)		173	(366)
Net Income	\$ 14,705	\$ 12,231	\$ 1,886	\$ (14,117)	\$ 14,705

Table of Contents**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**
(dollars in thousands)**For the Thirteen Weeks Ended April 4, 2010**

	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Consolidated
Operating activities:				
Net cash (used in) provided by operating activities	\$ 54,412	\$ (2,588)	\$ 12,910	\$ 64,734
Cash Flow from Investing Activities:				
Just Care purchase price adjustment		(41)		(41)
Proceeds from sale of assets		100		100
Purchase of shares in consolidated affiliate				
Change in restricted cash			(2,257)	(2,257)
Capital expenditures	(13,610)	(1,918)	(209)	(15,737)
Net cash used in investing activities	(13,610)	(1,859)	(2,466)	(17,935)
Cash Flow from Financing Activities:				
Payments on long-term debt	(6,940)	(171)	(5,688)	(12,799)
Proceeds from long-term debt	15,000			15,000
Payments for purchase of treasury shares	(53,845)			(53,845)
Income tax benefit of equity compensation	112			112
Proceeds from the exercise of stock options	1,138			1,138
Debt issuance costs				
Net cash used in by financing activities	(44,535)	(171)	(5,688)	(50,394)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			15	15
Net Increase (Decrease) in Cash and Cash Equivalents	(3,733)	(4,618)	4,771	(3,580)
Cash and Cash Equivalents, beginning of period	12,376	5,333	16,147	33,856
Cash and Cash Equivalents, end of period	\$ 8,643	\$ 715	\$ 20,918	\$ 30,276

Table of Contents

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

For the Thirteen Weeks Ended March 29, 2009

	The GEO Group Inc.	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Consolidated
Operating activities:				
Net cash provided by operating activities	\$ 32,084	\$ 3,796	\$ 11,368	\$ 47,248
Cash Flow from Investing Activities:				
Dividend from subsidiary	3,640		(3,640)	
Change in restricted cash			1,039	1,039
Capital expenditures	(19,330)	(3,637)	(447)	(23,414)
Net cash used in investing activities	(15,690)	(3,637)	(3,048)	(22,375)
Cash Flow from Financing Activities:				
Proceeds from long-term debt	18,000			18,000
Income tax benefit of equity compensation				
Debt issuance costs	(322)			(322)
Termination of interest rate swap agreement	1,031			1,031
Payments on long-term debt	(8,940)	(176)	(5,229)	(14,345)
Proceeds from the exercise of stock options				
Net cash provided by (used in) financing activities	9,769	(176)	(5,229)	4,364
Effect of Exchange Rate Changes on Cash and Cash Equivalents			(883)	(883)
Net Increase (Decrease) in Cash and Cash Equivalents	26,163	(17)	2,208	28,354
Cash and Cash Equivalents, beginning of period	15,807	130	15,718	31,655
Cash and Cash Equivalents, end of period	\$ 41,970	\$ 113	\$ 17,926	\$ 60,009

Table of Contents

THE GEO GROUP, INC.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Forward-Looking Information

This Quarterly Report on Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, anticipate, intend, plan, believe, seek, estimate or continue or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or cautionary statements, include, but are not limited to:

- our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;
- the instability of foreign exchange rates, exposing us to currency risks in Australia, the United Kingdom, and South Africa, or other countries in which we may choose to conduct our business;
- our ability to reactivate the North Lake Correctional Facility in Michigan;
- an increase in unreimbursed labor rates;
- our ability to expand, diversify and grow our correctional, mental health and residential treatment services business;
- our ability to win management contracts for which we have submitted proposals and to retain existing management contracts;
- our ability to raise new project development capital given the often short-term nature of the customers' commitment to use newly developed facilities;
- our ability to estimate the government's level of dependency on privatized correctional services;
- our ability to accurately project the size and growth of the U.S. and international privatized corrections industry;
- our ability to develop long-term earnings visibility;
- our ability to accurately estimate the growth to our aggregate annual revenues and the amount of annual synergies we can achieve as a result of consummation of the merger with Cornell;
- our ability to obtain future financing at competitive rates;
- our exposure to rising general insurance costs;
- our exposure to state and federal income tax law changes internationally and domestically and our exposure as a result of federal and international examinations of our tax returns or tax positions;
- our exposure to claims for which we are uninsured;
- our exposure to rising employee and inmate medical costs;
- our ability to maintain occupancy rates at our facilities;
- our ability to manage costs and expenses relating to ongoing litigation arising from our operations;

Table of Contents

our ability to accurately estimate on an annual basis, loss reserves related to general liability, workers compensation and automobile liability claims;
our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisitions on satisfactory terms, including our pending acquisition of Cornell;
the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us;
and
other factors contained in our filings with the Securities and Exchange Commission, or the SEC, including, but not limited to, those detailed in this Quarterly Report on Form 10-Q, our Annual Report on Form 10-K and our Current Reports on Form 8-K filed with the SEC.

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

Introduction

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of numerous factors including, but not limited to, those described above under Forward Looking Information and under Item 1A. Risk Factors in this Quarterly Report on Form 10-Q. The discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Quarterly Report on Form 10-Q. For the purposes of this discussion and analysis, we refer to the thirteen weeks ended April 4, 2010 as First Quarter 2010, and we refer to the thirteen weeks ended March 29, 2009 as First Quarter 2009.

We are a leading provider of government-outsourced services specializing in the management of correctional, detention and mental health and residential treatment facilities in the United States, Australia, South Africa, the United Kingdom and Canada. We operate a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers and mental health and residential treatment facilities. Our correctional and detention management services involve the provision of security, administrative, rehabilitation, education, health and food services, primarily at adult male correctional and detention facilities. Our mental health and residential treatment services, which are operated through our wholly-owned subsidiary GEO Care Inc., involve the delivery of quality care, innovative programming and active patient treatment, primarily at privatized state mental health care facilities. We also develop new facilities based on contract awards, using our project development expertise and experience to design, construct and finance what we believe are state-of-the-art facilities that maximize security and efficiency.

As of April 4, 2010, we managed 56 facilities totaling approximately 52,700 beds worldwide. As of the end of First Quarter 2010, we had an additional 4,325 beds under development at three facilities, including an expansion and renovation of one vacant facility which we own, the expansion of one facility we currently own and operate and a new 2,000-bed facility which we will manage upon completion. We maintained an average companywide facility occupancy rate of 94.4% for First Quarter 2010.

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

Fiscal 2010 Developments

Stock Repurchase Program

On February 22, 2010, we announced that our Board of Directors approved a stock repurchase program for up to \$80.0 million of our common stock effective through March 31, 2011. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock

options. The stock repurchase program does not obligate us to purchase any specific amount of our
30

Table of Contents

common stock and may be extended or suspended at any time at our discretion. During the thirteen weeks ended April 4, 2010, we purchased 2.8 million shares of our common stock at a cost of \$53.9 million using cash on hand and cash flow from operating activities. Through March 31, 2011, we may purchase, at our discretion, additional shares with respect to \$26.1 million in funds available from cash on hand, borrowings under our Revolver and/ or cash flow from operating activities.

Contract Terminations

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

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

Facility Construction

The following table sets forth current expansion and development projects at April 4, 2010:

Facilities Under Construction	Additional Beds	Capacity Following Expansion/ Construction	Estimated Completion Date	Customer Federal or	Financing
North Lake Correctional Facility, Michigan(1)	1,225	1,755	Q2 2010	Various States	GEO
Aurora ICE Processing Center, Colorado(2)	1,100	1,532	Q2 2010	Federal	GEO
Broward Transition Center, Florida(3)	n/a	n/a	Q3 2010	Federal	GEO
Blackwater River Correctional Facility, Florida	2,000	2,000	Q2 2010	DMS	Third party
Total	4,325				

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

(2) We do not yet have customers for these expansion beds.

(3) We are currently operating this facility and have

a management contract for 700 beds. The ongoing construction at this facility is for a new administration building and other renovations to the existing structure.

Merger with Cornell Companies

On April 19, 2010, we, along with Cornell Companies, Inc., which we refer to as Cornell, announced that our respective boards of directors have approved a definitive merger agreement, which provides that we will acquire Cornell. If the merger is approved, stockholders of Cornell will have the option to elect to receive either (x) 1.3 shares of our common stock for each share of Cornell's common stock or (y) an amount of cash consideration equal to the greater of (i) the fair market value of one share of our common stock plus \$6.00 or (ii) the fair market value of 1.3 shares of our common stock. In order to preserve the tax-deferred treatment of the transaction, no more than 20% of the outstanding shares of Cornell's common stock may be exchanged for the cash consideration. If elections are made such that the aggregate cash consideration to be received by Cornell stockholders would exceed \$100 million in the aggregate, such excess amount may be paid at the our election in shares of our common stock or in cash. Based on the closing stock price of our common stock as of April 29, 2010, and assuming the maximum cash election, we would issue approximately 15.8 million shares of stock in connection with the merger. We will assume or refinance approximately \$300 million of Cornell's debt, comprising of approximately \$180 million in recourse debt and approximately \$120 million in non-recourse debt related to Cornell's special purpose entity Municipal Corrections Finance, L.P. (MCF) bonds, excluding cash.

Contracts Awards

On May 5, 2010, we announced the signing of a contract with the State of Florida, Department of Management Services (the Department) for the management of the 2,000-bed Blackwater River Correctional Facility (Blackwater) located in Santa Rosa

Table of Contents

County, Florida. Under the terms of the managed-only contract, Blackwater is scheduled to open and begin the intake of inmates on November 1, 2010. The ramp-up of the population is expected to be completed in the first quarter of 2011. This facility has 2,000 beds and will house medium and close-custody security adult male inmates with a minimum occupancy guarantee of 90 percent.

Critical Accounting Policies

The accompanying unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is contained in Note 1 to our financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2010.

Revenue Recognition

Facility management revenues are recognized as services are provided under facility management contracts with approved government appropriations based on a net rate per day per inmate or on a fixed monthly rate. Certain of our contracts have provisions upon which a portion of the revenue is based on our performance of certain targets, as defined in the specific contract. In these cases, we recognize revenue when the amounts are fixed and determinable and the time period over which the conditions have been satisfied has lapsed.

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

Reserves for Insurance Losses

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

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

Table of Contents

relating to employment matters, for which we carry no insurance. There can be no assurance that our insurance coverage will be adequate to cover all claims to which we may be exposed.

We currently maintain a general liability policy and excess liability policy for all U.S. corrections operations with limits of \$62.0 million per occurrence and in the aggregate. A separate \$35.0 million limit applies to medical professional liability claims arising out of correctional healthcare services. Our wholly owned subsidiary, GEO Care, is insured under their own program for general liability and medical professional liability with a specific loss limit of \$35.0 million per occurrence and in the aggregate. We are uninsured for any claims in excess of these limits. For most casualty insurance policies, we carry substantial deductibles or self-insured retentions \$3.0 million per occurrence for general liability and hospital professional liability, \$2.0 million per occurrence for workers compensation and \$1.0 million per occurrence for automobile liability. We also maintain insurance to cover property and other casualty risks including, workers compensation, environmental liability and automobile liability.

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

In addition, certain of our facilities located in Florida and determined by insurers to be in high-risk hurricane areas carry substantial windstorm deductibles. Since hurricanes are considered unpredictable future events, no reserves have been established to pre-fund for potential windstorm damage. Limited commercial availability of certain types of insurance relating to windstorm exposure in coastal areas and earthquake exposure mainly in California may prevent us from insuring some of our facilities to full replacement value.

Of the reserves discussed above, our most significant insurance reserves relate to workers compensation and general liability claims. These reserves are undiscounted and were \$28.0 million and \$27.2 million as of April 4, 2010 and January 3, 2010, respectively. We use statistical and actuarial methods to estimate amounts for claims that have been reported but not paid and claims incurred but not reported. In applying these methods and assessing their results, we consider such factors as historical frequency and severity of claims at each of our facilities, claim development, payment patterns and changes in the nature of our business, among other factors. Such factors are analyzed for each of our business segments. Our estimates may be impacted by such factors as increases in the market price for medical services and unpredictability of the size of jury awards. We also may experience variability between our estimates and the actual settlement due to limitations inherent in the estimation process, including our ability to estimate costs of processing and settling claims in a timely manner as well as our ability to accurately estimate our exposure at the onset of a claim. Because we have high deductible insurance policies, the amount of our insurance expense is dependent on our ability to control our claims experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition, results of operations and cash flows could be materially impacted.

Income Taxes

Deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Significant judgments are required to determine the consolidated provision for income taxes. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Realization of our deferred tax assets is dependent upon many factors such as tax regulations applicable to the jurisdictions in which we operate, estimates of future taxable income and the character of such taxable income. Based on our estimate of future earnings and our favorable earnings history, management currently expects full realization of the deferred tax assets net of any recorded valuation allowances. Additionally, judgment must be made as to certain tax positions which may not be fully sustained upon review by tax authorities. If actual circumstances differ from our assumptions, adjustments to the carrying value of deferred tax assets or liabilities may be required, which may result in an adverse impact on the results of our operations and our effective tax rate. Valuation allowances are recorded related to deferred tax assets based on the more likely than not criteria. Management has not made any significant changes to the way we account for our deferred tax assets and liabilities in any year presented in the consolidated financial statements. To the extent that the provision for income taxes increases/decreases by 1% of income before income taxes, equity in earnings of affiliate, discontinued operations, and consolidated income from continuing operations would have decreased/increased by

\$1.0 million, \$0.9 million and \$0.6 million, respectively, for the years ended January 3, 2010, December 28, 2008 and December 30, 2007.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 2 to 50 years. Equipment and furniture

Table of Contents

and fixtures are depreciated over 3 to 10 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing assessments of the estimated useful lives of the property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. If the assessment indicates that assets will continue to be used for a longer or shorter period than previously anticipated, the useful lives of the assets are revised, resulting in a change in estimate. During the thirteen weeks ended April 4, 2010, the Company completed a depreciation study on its owned correctional facilities. Based on the results of the depreciation study, the Company revised the estimated useful lives of its buildings from its historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. Refer to Results of Operations and to Item 1. Notes to Consolidated Financial Statements Note 1 Summary of Significant Accounting Policies for a discussion of the impact of this change in estimate relative to depreciation and amortization for the thirteen weeks ended April 4, 2010.

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

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

RESULTS OF OPERATIONS

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

Comparison of First Quarter 2010 and First Quarter 2009***Revenues***

	2010	% of Revenue	2009	% of Revenue	\$ Change	% Change
	(Dollars in thousands)					
U.S. corrections	\$ 192,511	67.0%	\$ 191,770	74.0%	\$ 741	0.4%
International services	45,880	16.0%	25,678	10.0%	20,202	78.7%
GEO Care	34,700	12.0%	28,603	11.0%	6,097	21.3%
Facility construction and design	14,451	5.0%	13,010	5.0%	1,441	11.1%
Total	\$ 287,542	100.0%	\$ 259,061	100.0%	\$ 28,481	11.0%

U.S. corrections

Revenues increased slightly in First Quarter 2010 compared to First Quarter 2009. The increase in revenues is due to (i) an aggregate increase of \$5.0 million from the activations of bed expansions and higher per diem rates at the Broward Transition Center located in Deerfield Beach, Florida and the Northwest Detention Center located in Tacoma, Washington; (ii) an increase of \$1.1 million at the South Bay Correctional Facility located in South Bay, Florida, due to per diem rates increases; (iii) a combined increase of \$1.0 million from higher populations at the Maverick County Detention Facility in Maverick, Texas and the Val Verde Correctional Facility in Del Rio, Texas; and (iv) an increase of \$0.5 million at the South Texas Detention Complex in Pearsall, Texas from a higher minimum guarantee and higher per diem rates that went into effect February 2009. We also experienced some increases at other facilities which were offset by a decrease in revenues of \$1.6 million at LaSalle Detention Facility located in Jena, Louisiana due to a population decrease and a decrease of \$6.1 million, in aggregate, due to the termination of our contracts at the McFarland Community Correctional

Table of Contents

Facility located in McFarland, California, the Sanders Estes Unit in Venus, Texas, the Jefferson County Downtown Jail in Beaumont, Texas, the Newton County Correctional Center in Newton, Texas and the Fort Worth Community Corrections Facility in Fort Worth, Texas.

The number of compensated mandays in U.S. corrections facilities decreased net by approximately 76,000 to 3.5 million mandays in First Quarter 2010 from 3.6 million mandays in First Quarter 2009 due to the above mentioned contract terminations offset by the activation of new beds from expansions also discussed above. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. correction and detention facilities was 93.5% of capacity in First Quarter 2010, excluding the terminated contracts for the McFarland Community Correctional Facility, the Sanders Estes Unit, the Jefferson County Downtown Jail, the Newton County Correctional Center and the Fort Worth Community Corrections Facility. The average occupancy in our U.S. correction and detention facilities was 94.5% in First Quarter 2009.

International services

Revenues for our International services segment during First Quarter 2010 increased significantly over the prior year primarily due to our new management contracts for the operation of the Parklea Correctional Centre in Sydney, Australia (Parklea) and the Harmondsworth Immigration Removal Centre in London, England (Harmondsworth) which contributed an aggregate of \$11.0 million in First Quarter 2010. We opened Harmondsworth in Second Quarter 2009 and Parklea in Fourth Quarter 2009. We also experienced an increase in revenues of \$8.7 million over First Quarter 2009 due to the favorable impact of changes in the foreign exchange rates in First Quarter 2010.

GEO Care

The increase in revenues for GEO Care in First Quarter 2010 compared to First Quarter 2009 is attributable to our operation of the Columbia Regional Care Center in Columbia, South Carolina as a result of our acquisition of Just Care. This 354-bed facility, which we began managing in Fourth Quarter 2009, generated \$6.7 million in revenues in First Quarter 2010. This increase was partially offset by an aggregate decrease in revenues of \$0.7 million at the Florida Civil Commitment Center in Arcadia, Florida which experienced a decrease in per diem rates in April 2009 and the South Florida State Hospital in Pembroke Pines, Florida which benefited in First Quarter 2009 from a one-time rate increase not experienced in First Quarter 2010.

Facility construction and design

Revenues from the Facility construction and design segment increased slightly in First Quarter 2010 compared to First Quarter 2009 due to increases of \$8.4 million related to the construction of Blackwater River Correctional Facility in Milton, Florida which commenced in First Quarter 2009. This increase in revenues was offset by a decrease in revenues of \$6.5 million due to the completion of Florida Civil Commitment Center in Second Quarter 2009, and the completion of Graceville Correctional Facility Expansion in First Quarter 2009.

Operating Expenses

	2010	% of Segment Revenue	2009 (Dollars in thousands)	% of Segment Revenue	\$ Change	% Change
U.S. corrections	\$ 138,723	72.1%	\$ 141,193	73.6%	\$ (2,470)	(1.7)%
International services	43,654	95.1%	23,479	91.4%	20,175	85.9%
GEO Care	30,502	87.9%	24,724	86.4%	5,778	23.4%
Facility construction and design	13,503	93.4%	12,931	99.4%	572	4.4%
Total	\$ 226,382	78.7%	\$ 202,327	78.1%	\$ 24,055	11.9%

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

U.S. corrections

The decrease in operating expenses for U.S. corrections is mainly driven by costs decreasing \$5.7 million primarily from the termination of certain contracts as discussed above. The decrease in operating expenses for U.S. corrections is offset by an increase of

Table of Contents

\$2.4 million in labor and operating costs due to the expansions at Northwest Detention Center located in Tacoma, Washington and Broward Transition Center located in South Bay, Florida also discussed above. Operating expenses as a percentage of revenues decreased in First Quarter 2010 compared to First Quarter 2009 due to higher margins on existing contracts while lower margin contracts have been terminated.

International services

Operating expenses for our International services segment during First Quarter 2010 increased significantly over the prior year primarily due to our new management contracts, as discussed above, where operational and start-up costs for Parklea and Harmondsworth were in aggregate \$11.5 million in First Quarter 2010. We also experienced an increase in operating expenses of \$8.1 million from First Quarter 2009 due to the unfavorable impact of changes in the foreign exchange rates quarter over quarter.

GEO Care

Operating expenses for residential treatment increased \$5.8 million during First Quarter 2010 from First Quarter 2009 primarily due to our operation of the Columbia Regional Care Center in Columbia, South Carolina as a result of our acquisition of Just Care, as discussed above.

Facility construction and design

Operating expenses for facility construction and design increased by \$0.6 million during First Quarter 2010 compared to First Quarter 2009 primarily due to the increase in construction at Blackwater River Correctional Facility offset by decreases in construction activity at Florida Civil Commitment Center.

Depreciation and amortization

	2010	% of Segment Revenue	2009 (Dollars in thousands)	% of Segment Revenue	\$ Change	% Change
U.S. corrections	\$ 7,951	4.1%	\$ 9,084	4.7%	\$ (1,133)	12.5%
International services	435	0.9%	332	1.3%	103	31.0%
GEO Care	852	2.5%	400	1.4%	452	113.0%
Facility construction and design						
Total	\$ 9,238	3.2%	\$ 9,816	3.8%	\$ (578)	(5.9)%

U.S. corrections

During First Quarter 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 our buildings from our historical estimate of 40 years to a revised estimate of 50 years, effective January 4, 2010. For First Quarter 2010, the change resulted in a reduction in depreciation and amortization expense of approximately \$0.9 million.

International Services

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

GEO Care

The increase in depreciation and amortization for GEO Care in First Quarter 2010 compared to First Quarter 2009 is primarily due to our acquisition of Just Care.

Table of Contents**Other Unallocated Operating Expenses**

	2010	% of Revenue	2009 (Dollars in thousands)	% of Revenue	\$ Change	% Change
General and Administrative Expenses	\$17,448	6.1%	\$17,236	6.7%	\$212	1.2%

General and administrative expenses comprise substantially all of our other unallocated expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses.

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

	2010	% of Revenue	2009 (Dollars in thousands)	% of Revenue	\$ Change	% Change
Interest Income	\$1,229	0.4%	\$1,090	0.4%	\$139	12.8%
Interest Expense	\$7,814	2.7%	\$7,204	2.8%	\$610	8.5%

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

The net increase in interest expense of \$0.6 million is primarily attributable to more indebtedness outstanding in First Quarter 2010 related to our 7 ³/₄% Senior Notes which resulted in an increase in interest expense of \$1.7 million. We also capitalized more interest in First Quarter 2010, which corresponded to a decrease in expense of \$1.1 million, primarily related to expansions at our Aurora ICE Processing Center in Aurora, Colorado, and our North Lake Correctional Facility in Baldwin, Michigan. Total Borrowings at April 4, 2010 and March 29, 2009, excluding non-recourse debt and capital lease liabilities, were \$466.0 million and \$391.2 million, respectively.

Provision for Income Taxes

	2010	Effective Rate	2009 (Dollars in thousands)	Effective Rate	\$ Change	% Change
Income Taxes	\$10,807	38.8%	\$9,141	38.8%	\$1,666	18.2%

The effective tax rate for First Quarter 2010 was approximately 38.8%, and slightly decreased compared to the effective income tax rate of 38.8% for the same period in the prior year. We estimate our annual effective tax rate for fiscal 2010 to be in the range of 38% to 39%.

Financial Condition**Capital Requirements**

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

We are currently developing a number of projects using company financing. We estimate that these existing capital projects will cost approximately \$197 million, of which \$173.7 million was spent during fiscal years 2008 and 2009 and through First Quarter of 2010. We have future committed capital projects for which we estimate our remaining

capital requirements to be approximately \$23.3 million, which will be spent through our fiscal year 2010. In addition to these construction commitments, in May 2010, we agreed to purchase a land and an existing facility in California for \$28.0 million. We expect to close this sale in June 2010. Capital expenditures related to facility maintenance costs are expected to range between \$10.0 million and \$15.0 million for fiscal year 2010. In addition to these current estimated capital requirements for 2010 and 2011, we are currently in the process of bidding on, or evaluating potential bids for the design, construction and management of a number of new projects. In the event that we win bids for these projects and decide to self-finance their construction, our capital requirements in 2010 and/or 2011 could materially increase.

Table of Contents*Merger with Cornell Companies*

On April 19, 2010, we, along with Cornell, announced that our respective boards of directors have approved a definitive merger agreement which provides that we will acquire Cornell for stock and/or cash as specified in the merger agreement. As a result of the merger agreement, one of our lenders committed to \$150 million in financing under the accordion feature of our Senior Credit Facility, which combined with our current debt availability, will be used to finance all cash consideration payable pursuant to the terms of the transaction. In accordance with the merger agreement, no more than 20% of the consideration offered to the stockholders of Cornell Companies will be made in cash. Further, if the cash settlement is greater than \$100 million, we may, at our discretion, reduce the total cash paid to the stockholders to \$100 million and pay the excess in shares of our common stock.

Liquidity and Capital Resources

We plan to fund all of our capital needs, including our capital expenditures and the closing of the Cornell transaction, from cash on hand, cash from operations, borrowings under our Senior Credit Facility and any other financings which our management and Board of Directors, in their discretion, may consummate. Our primary source of liquidity to meet these requirements is cash flow from operations and borrowings from our \$330.0 million Revolver as well as borrowings under the \$200.0 million accordion feature of our Senior Credit Facility.

As of April 4, 2010, we had a total of \$466.0 million of consolidated debt outstanding, excluding \$107.5 million of non-recourse debt and capital lease liability balances of \$15.0 million. As of April 4, 2010, we also had outstanding nine letters of guarantee totaling \$9.1 million under separate international credit facilities. Based on our debt covenants and the amount of indebtedness we have outstanding, as of April 29, 2010, we had the ability to borrow an additional approximately \$207.1 million under our Revolver after considering debt covenants. Our significant debt service obligations could have material consequences.

Our management believes that cash on hand, cash flows from operations and availability under our Senior Credit Facility, including our \$150 million financing commitment under the accordion feature of the Senior Credit Facility, will be adequate to support our capital requirements for 2010 and 2011 disclosed above, including the closing of the Cornell transaction. However, we are currently in the process of bidding on, or evaluating potential bids for, the design, construction and management of a number of new projects. In the event that we win bids for these projects and decide to self-finance their construction, our capital requirements in 2010 and/or 2011 could materially increase. In that event, our cash on hand, cash flows from operations and borrowings under the Senior Credit Facility may not provide sufficient liquidity to meet our capital needs through 2010 and 2011 and we could be forced to seek additional financing or refinance our existing indebtedness. There can be no assurance that any such financing or refinancing would be available to us on terms equal to or more favorable than our current financing terms, or at all.

In February, 2010, our Board of Directors approved a stock repurchase program for up to \$80.0 million of our common stock effective through March 31, 2011. The stock repurchase program is intended to be implemented through purchases made from time to time in the open market or in privately negotiated transactions, in accordance with applicable Securities and Exchange Commission requirements. The program may also include repurchases from time to time from executive officers or directors of vested restricted stock and/or vested stock options. The stock repurchase program does not obligate us to purchase any specific amount of our common stock and may be suspended or extended at any time at our discretion. During the thirteen weeks ended April 4, 2010, we purchased 2.8 million shares of our common stock at a cost of \$53.9 million using cash on hand and cash flow from operating activities. Through March 31, 2011, we may purchase, at our discretion, additional shares with respect to \$26.1 million in funds available from cash on hand, borrowings under our Revolver and/ or cash flow from operating activities.

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

Table of Contents*Executive Retirement Agreements*

We have entered into individual executive retirement agreements with our two top executives. These agreements provide each executive with a lump sum payment upon retirement. Under the agreements, the executives may retire at any time after reaching the age of 55. Both of the executives reached the eligible retirement age of 55 in 2005. However, under the retirement agreements, retirement may be taken at any time at the individual executive's discretion. In the event that both executives were to retire in the same year, we believe we will have funds available to pay the retirement obligations from various sources, including cash on hand, operating cash flows or borrowings under our Revolver. Based on our current capitalization, we do not believe that making these payments in any one period, whether in separate installments or in the aggregate, would materially adversely impact our liquidity.

The Senior Credit Facility

Our Senior Credit Facility, as amended, is comprised of a \$154.1 million Term Loan B bearing interest at LIBOR plus 2.00% and maturing in January 2014 and the \$330.0 million Revolver which currently bears interest at LIBOR plus 3.25% and matures in September 2012. We have the ability to increase our borrowing capacity under the Senior Credit Facility by another \$200.0 million subject to lender demand, market conditions and existing borrowings. As of April 4, 2010, we had \$154.1 million outstanding under the Term Loan B, and our \$330.0 million Revolver had \$67.0 million outstanding in loans, \$45.2 million outstanding in letters of credit and approximately \$217.8 million available for borrowings, which we refer to as our Unused Revolver, after considering our debt covenants. We intend to use future borrowings from the Revolver for the purposes permitted under the Senior Credit Facility, including for general corporate purposes.

7³/₄% Senior Notes

On October 20, 2009, we completed a private offering of \$250.0 million in aggregate principal amount of our 7³/₄% Senior Notes due 2017. These senior unsecured notes pay interest semi-annually in cash in arrears on April 15 and October 15 of each year, beginning on April 15, 2010. We realized net proceeds of \$246.4 million at the close of the transaction, net of the discount on the notes of \$3.6 million. We used the net proceeds of the offering to fund the repurchase of all of our 8¹/₄% Senior Notes due 2013 and pay down part of the Revolver.

The 7³/₄% Senior Notes and the guarantees are unsecured, senior obligations of GEO and these obligations rank as follows: pari passu with any unsecured, senior indebtedness of GEO and the guarantors; senior to any future indebtedness of GEO and the guarantors that is expressly subordinated to the notes and the guarantees; effectively junior to any secured indebtedness of GEO and the guarantors, including indebtedness under the our Senior Credit Facility, to the extent of the value of the assets securing such indebtedness; and effectively junior to all obligations of our subsidiaries that are not guarantors. After October 15, 2013, we may, at our option, redeem all or a part of the 7³/₄% Senior Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Liquidated Damages, if any, on the 7³/₄% Senior Notes redeemed, to the applicable redemption date, if redeemed during the 12-month period beginning on October 15 of the years indicated below:

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

Before October 15, 2013, we may redeem some or all of the 7³/₄% Senior Notes at a redemption price equal to 100% of the principal amount of each note to be redeemed plus a make-whole premium together with accrued and unpaid interest and liquidated damages, if any. In addition, at any time on or prior to October 15, 2012, we may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 107.750% of the principal amount of each note to be redeemed, plus accrued and unpaid interest and liquidated damages, if any, to the date of redemption.

The indenture governing the notes contains certain covenants, including limitations and restrictions on us and our restricted subsidiaries' ability to: incur additional indebtedness or issue preferred stock; make dividend payments or other restricted payments; create liens; sell assets; enter into transactions with affiliates; and enter into mergers,

consolidations, or sales of all or substantially all of our assets. As of the date of the indenture, all of our subsidiaries, other than CSC of Tacoma, LLC, GEO International Holdings, Inc., certain dormant domestic subsidiaries and all foreign subsidiaries in existence on the date of the indenture, were restricted subsidiaries.

Table of Contents

In addition, there is a cross-default provision which becomes enforceable upon failure of payment of indebtedness at final maturity. Our unrestricted subsidiaries will not be subject to any of the restrictive covenants in the indenture. We believe we were in compliance with all of the covenants of the Indenture governing the 7³/₄% Senior Notes as of April 4, 2010.

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

We have a debt service requirement related to the development of the South Texas Detention Complex, a 1,904-bed detention complex in Frio County, Texas acquired in November 2005 from Correctional Services Corporation, which we refer to as CSC. CSC was awarded the contract in February 2004 by the Department of Homeland Security, ICE, for development and operation of the detention center. In order to finance its construction, South Texas Local Development Corporation, which we refer to as STLDC, was created and issued \$49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 4.34% and 5.07%. Additionally, the Company is owed \$5.0 million in the form of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

We have an operating agreement with STLDC, the owner of the complex, which provides us with the sole and exclusive right to operate and manage the detention center. The operating agreement and bond indenture require the revenue from our contract with ICE be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to us to cover operating expenses and management fees. We are responsible for the entire operations of the facility including all operating expenses and are required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten-year term and are non-recourse to us and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center. At the end of the ten-year term of the bonds, title and ownership of the facility transfers from STLDC to us. We have determined that we are the primary beneficiary of STLDC and consolidate the entity as a result.

On February 1, 2010, STLDC made a payment from its restricted cash account of \$4.6 million for the current portion of its periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of April 4, 2010, the remaining balance of the debt service requirement under the STLDC financing agreement is \$32.1 million, of which \$4.8 million is due within the next twelve months. Also, as of April 4, 2010, included in current restricted cash and non-current restricted cash is \$6.3 million and \$4.7 million, respectively, of funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

On June 30, 2003, CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington, referred to as the Northwest Detention Center, which was completed and opened for operation in April 2004 and acquired by us in November 2005. In connection with the original financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a \$57.0 million note payable to the Washington Economic Development Finance Authority, referred to as WEDFA, an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance back to CSC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to us and the loan from WEDFA to CSC is non-recourse to us. These bonds mature in February 2014 and have fixed coupon rates between 3.50% and 4.10%.

The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the thirteen weeks ended April 4, 2010 in relation to the WEDFA bond indenture. As of April 4, 2010, the remaining balance of the debt service requirement is \$31.6 million, of which \$5.9 million is due within the next 12 months.

As April 4, 2010, included in current restricted cash and non-current restricted cash is \$7.0 million and \$7.3 million, respectively, as funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

In connection with the financing and management of one Australian facility, our wholly owned Australian subsidiary financed the facility's development and subsequent expansion in 2003 with long-term debt obligations. These

obligations are non-recourse to us and total \$45.4 million at April 4, 2010. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at April 4, 2010, was \$4.6 million. The term of the non-recourse debt is through 2017 and it bears interest at a variable

Table of Contents

rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria.

Guarantees

In connection with the creation of South African Custodial Services Ltd., referred to as SACS, we entered into certain guarantees related to the financing, construction and operation of the prison. We guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or \$8.3 million, to SACS senior lenders through the issuance of letters of credit. Additionally, SACS is required to fund a restricted account for the payment of certain costs in the event of contract termination. We have guaranteed the payment of 60% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 8.4 million South African Rand, or \$1.2 million, as security for our guarantee. Our obligations under this guarantee expire upon the release from SACS of its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in our outstanding letters of credit under our Revolver.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or \$2.8 million, referred to as the Standby Facility, to SACS for the purpose of financing the obligations under the contract between SACS and the South African government. No amounts have been funded under the Standby Facility, and we do not currently anticipate that such funding will be required by SACS in the future. Our obligations under the Standby Facility expire upon the earlier of full funding or release from SACS of its obligations under its debt agreements. The lenders ability to draw on the Standby Facility is limited to certain circumstances, including termination of the contract.

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

In connection with a design, build, finance and maintenance contract for a facility in Canada, we guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is CAD 2.5 million, or \$2.5 million commencing in 2017. We have a liability of \$1.6 million related to this exposure as of April 4, 2010. To secure this guarantee, we purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. We have recorded an asset and a liability equal to the current fair market value of those securities on our consolidated balance sheet. We do not currently operate or manage this facility.

At April 4, 2010, we also have outstanding nine letters of guarantee related to our Australian subsidiary totaling \$9.1 million under separate international facilities.

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

Derivatives

In November 2009, we executed three interest rate swap agreements in the aggregate notional amount of \$75.0 million. In January 2010, we executed a fourth interest rate swap agreement in the notional amount of \$25.0 million. We have designated these interest rate swaps as hedges against changes in the fair value of a designated portion of the 7³/₄% Senior Notes due 2017 (3⁷/₄% Senior Notes) due to changes in underlying interest rates. These interest rate swaps, which have payment, expiration dates and call provisions that mirror the terms of the 7³/₄% Senior Notes, effectively convert \$100.0 million of the 7³/₄% Senior Notes into variable rate obligations. Each of the swaps has a termination clause that gives the lender the right to terminate the interest rate swaps at fair market value if they are no longer a lender under the Credit Agreement. In addition to the termination clause, these interest rate swaps also have call provisions which specify that the lender can elect to settle the swap for the call option price. Under these interest rates swaps, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 7³/₄% per year calculated on the notional \$100.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the three-month LIBOR plus a fixed margin of between 4.16% and 4.29%, also calculated on the notional \$100.0 million amount. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the Notes.

Table of Contents

Total net gains recognized and recorded in earnings related to these fair value hedges was \$0.4 million in the thirteen weeks ended April 4, 2010. As of April 4, 2010 and January 3, 2010, the fair value of the swap liabilities was \$1.5 million and \$1.9 million, respectively. There was no material ineffectiveness of these interest rate swaps for the thirteen weeks ended April 4, 2010.

Our Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on its variable rate non-recourse debt to 9.7%. We have determined the swap, which has a notional amount of \$50.9 million, payment and expiration dates, and call provisions that coincide with the terms of the non-recourse debt to be an effective cash flow hedge. Accordingly, we record the change in the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. Total unrealized gains recognized in the periods and recorded in accumulated other comprehensive income, net of tax, related to these cash flow hedges was \$0.0 million and \$0.1 million for the thirteen weeks ended April 4, 2010 and March 29, 2009, respectively. The total value of the swap asset as of April 4, 2010 and January 3, 2010 was \$2.0 million and \$2.0 million, respectively, and is recorded as a component of other assets within the accompanying consolidated balance sheets. There was no material ineffectiveness of this interest rate swap for the fiscal periods presented. We do not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income (loss).

Cash Flow

Cash and cash equivalents as of April 4, 2010 was \$30.3 million, a decrease of \$3.6 million from January 3, 2010.

Cash provided by operating activities of continuing operations amounted to \$64.7 million in First Quarter 2010 versus cash provided by operating activities of continuing operations of \$41.8 million in First Quarter 2009. Cash provided by operating activities of continuing operations in First Quarter 2010 was positively impacted by the dividend received by our South Africa consolidated subsidiary from our South African joint venture of \$3.9 million, an increase in accounts payable and accrued expenses and accrued payroll and related taxes of \$9.7 million due to the timing of cash payments to our customers and our employees, and a decrease in accounts receivable of \$21.3 million due to the timing of cash collections from our customers. Cash provided by operating activities of continuing operations in First Quarter 2009 was positively impacted by a decrease in accounts receivable of \$21.1 million due to the timing of cash collections from our customers offset by a decrease in accounts payable and accrued expenses and accrued payroll and related taxes of \$9.7 million.

Cash used in investing activities amounted to \$17.9 million in First Quarter 2010 compared to cash used in investing activities of \$22.4 million in First Quarter 2009. Cash used in investing activities in First Quarter 2010 primarily reflects capital expenditures of \$15.7 million related to the construction of correctional and detention facilities and an increase in restricted cash of \$2.3 million. Cash used in investing activities in the First Quarter 2009 primarily reflects capital expenditures of \$23.4 million and a decrease in restricted cash of \$1.0 million.

Cash used in financing activities in First Quarter 2010 amounted to \$50.4 million compared to cash provided by financing activities of \$4.4 million in First Quarter 2009. Cash used in financing activities in the First Quarter 2010 reflects payments for repurchase of our common stock of \$53.9 million, payments on long-term debt and non-recourse debt of \$12.8 million offset by proceeds received from the Revolver of \$15.0 million. Cash provided by financing activities in the First Quarter 2009 reflects proceeds received from borrowings on our Revolver of \$18.0 million offset by payments on the Revolver of \$8.0 million and payments on long-term debt and non-recourse debt of \$6.3 million.

Outlook

The following discussion contains statements that are not historical statements and, therefore, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied in the forward-looking statement. Please refer to Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations-Forward-Looking Information above, and Item 1A. Risk Factors in this Quarterly Report on Form 10-Q, the Forward-Looking Statements Safe Harbor section in our Annual Report on Form 10-K, as well as the other disclosures contained in our Annual Report on Form 10-K, for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially

from those expressed in or implied by those forward-looking statements.

Table of Contents*Revenue*

Domestically, we continue to be encouraged by the number of opportunities that have recently developed in the privatized corrections and detention industry. Overcrowding at corrections facilities in various states, most recently California and Arizona and increased demand for bed space at federal prisons and detention facilities are two of the factors that have contributed to the greater number of opportunities for privatization. However, these positive trends may in the future be impacted by government budgetary constraints. While state budgetary pressures are expected to persist in fiscal years 2010 and 2011, we are encouraged by recent signs that the rate of decline in state revenue collections is slowing. While thirty-eight states still project budget gaps in fiscal year 2011, forty-one states project that fiscal year 2011 revenues will exceed final estimated revenue collections in fiscal year 2010, according to a March 2010 report issued by the National Conference on State Legislatures. As a result of budgetary pressures, state correctional agencies may pursue a number of cost savings initiatives which may include the early release of inmates, changes to parole laws and sentencing guidelines, and reductions in per diem rates and/or the scope services provided by private operators. These potential cost savings initiatives could have a material adverse impact on our current operations and/or our ability to pursue new business opportunities. Additionally, if state budgetary constraints, as discussed above, persist or intensify, our state customers' ability to pay us may be impaired and/or we may be forced to renegotiate our management contracts on less favorable terms and our financial condition results of operations or cash flows could be materially adversely impacted. We plan to actively bid on any new projects that fit our target profile for profitability and operational risk. Although we are pleased with the overall industry outlook, positive trends in the industry may be offset by several factors, including budgetary constraints, unanticipated contract terminations, contract non-renewals, and/or contract re-bids. Additionally, several of our management contracts are up for renewal and/or re-bid in 2010. Although we have historically had a relative high contract renewal rate, there can be no assurance that we will be able to renew our management contracts scheduled to expire in 2010 on favorable terms, or at all. Also, while we are pleased with our track record in re-bid situations, we cannot assure that we will prevail in any such future situations.

Internationally, in the United Kingdom and in Australia, we recently began the operation and management under two new contracts with an aggregate of 1,083 beds. These projects commenced operations the second half of fiscal year 2009. In South Africa, we have bid on projects for the design, construction and operation of four 3,000-bed prison projects totaling 12,000 beds. Requests for Proposal were issued in December 2008 and we submitted our bids on the projects at the end of May 2009. Once preferred bidders have been announced, we anticipate final close to occur within six months thereafter. No more than two prison projects can be awarded to any one bidder. In New Zealand, we have been short-listed to bid on a correctional center in Auckland. The New Zealand government has also announced intentions to solicit Expressions of Interest for a new design, build, finance and manage contract for a new correctional center in late 2010 for approximately 1,000 beds. We believe that additional opportunities will become available in international markets and plan to actively bid on any opportunities that fit our target profile for profitability and operational risk.

With respect to our mental health/residential treatment services business conducted through our wholly-owned subsidiary, GEO Care, we are currently pursuing a number of business development opportunities. In September 2009, we acquired Just Care, and began management of the 354-bed Columbia Care Regional Center in the fourth fiscal quarter. In addition, we continue to expend resources on informing state and local governments about the benefits of privatization and we anticipate that there will be new opportunities in the future as those efforts begin to yield results. We believe we are well positioned to capitalize on any suitable opportunities that become available in this area.

If the proposals that are required to be approved by GEO's stockholders and Cornell's stockholders in connection with the consummation of the merger with Cornell are approved, we expect to increase our aggregate annual revenues by approximately \$400 million to more than \$1.5 billion. This increase in revenues will occur in our U.S. corrections and GEO Care segments.

Operating Expenses

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. Labor and related cost represented 55.8% of our operating expenses in First Quarter 2010.

Additional significant operating expenses include food, utilities and inmate medical costs. In 2009, operating expenses totaled 78.7% of our consolidated revenues. Our operating expenses as a percentage of revenue in 2010 will be impacted by the opening of any new facilities. We expect our results in 2010 to reflect increases to interest expense due to higher rates related to incremental borrowings on our Senior Credit Facility, more average indebtedness and less capitalized interest due to a decrease in construction activity. We also expect increases to depreciation expense as a percentage of revenue due to the carrying costs we will incur for two newly constructed and expanded facilities for which we have no corresponding management contracts for the expansion beds. A portion of these increases will be offset by a savings to depreciation expense. During the thirteen weeks ended April 4, 2010, we completed a depreciation study on our owned correctional facilities and, as a result, revised the estimated useful lives of our buildings from our historical estimate of 40 years to a

Table of Contents

revised estimate of 50 years, effective January 4, 2010. The impact for the year ended January 2, 2011 is expected to be \$2.2 million, net of tax. In addition to the factors discussed relative to our current operations, we will experience increases in operating expenses if merger with Cornell is approved. As of March 31, 2010, Cornell operated 63 facilities representing 20,531 beds and Cornell owned five facilities, which were vacant, representing 861 beds. See discussion below relative to Synergies and Cost Savings.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees, business development costs and other administrative expenses. We expect business development costs to remain consistent as we pursue additional business development opportunities in all of our business lines and build the corporate infrastructure necessary to support our mental health residential treatment services business. In First Quarter 2010, general and administrative expenses totaled 6.1% of our consolidated revenues. Excluding the impact of the merger with Cornell, we expect general and administrative expenses as a percentage of revenue in 2010 to be generally consistent with our general and administrative expenses for 2009. If the merger with Cornell is approved by both companies' shareholders, we expect to incur approximately \$19 million in non-recurring transaction related expenses. Transaction costs, which we believe will be non deductible for Federal Income Tax purposes, include legal, financial advisory due diligence, filing fees and other costs necessary to close the transaction.

Synergies and Cost Savings

If the merger with Cornell is approved, our management anticipates annual synergies of \$12-15 million during the year following the completion of the merger, and believes there may be potential to achieve additional synergies thereafter. We believe the merger should result in a number of important synergies achieved primarily from greater operating efficiencies, capturing inherent economies of scale and leveraging corporate resources. Any synergies achieved will further enhance cash provided in operations and return on invested capital of the combined company. We do not anticipate significant synergies in 2010.

Future Adoption of Accounting Standards

In October 2009, the FASB issued ASU No. 2009-13 which provides amendments to revenue recognition criteria for separating consideration in multiple element arrangements. As a result of these amendments, multiple deliverable arrangements will be separated more frequently than under existing GAAP. The amendments, among other things, establish the selling price of a deliverable, replace the term fair value with selling price and eliminate the residual method so that consideration would be allocated to the deliverables using the relative selling price method. This amendment also significantly expands the disclosure requirements for multiple element arrangements. This guidance will become effective for the Company prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010.

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

We are exposed to market risks related to changes in interest rates with respect to our Senior Credit Facility. Payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Senior Credit Facility of \$221.1 million and \$45.2 million in outstanding letters of credit, as of April 4, 2010, for every one percent increase in the interest rate applicable to the Amended Senior Credit Facility, our total annual interest expense would increase by \$2.7 million.

In November 2009, we executed three interest rate swap agreements in the aggregate notional amount of \$75.0 million. Effective January 6, 2010, we executed a fourth swap agreement relative to a notional amount of \$25.0 million of our 7³/₄% Senior Notes. These interest rate swaps, which have payment, expiration dates and call provisions that mirror the terms of the 7³/₄% Senior Notes, effectively convert \$100.0 million of the Notes into variable rate obligations. Under these interest rate swaps, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 7³/₄% per year calculated on the notional \$100.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the three-month LIBOR plus a fixed margin of between 4.16% and 4.29% also calculated on the notional \$100.0 million amount. For every one percent increase in the interest rate applicable to our aggregate notional \$100.0 million of swap agreements relative to the 7³/₄% Senior Notes, our annual interest expense would increase by \$1.0 million.

We have entered into certain interest rate swap arrangements for hedging purposes, fixing the interest rate on our Australian non-recourse debt to 9.7%. The difference between the floating rate and the swap rate on these instruments is recognized in interest expense

Table of Contents

within the respective entity. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point change in the current interest rate would not have a material impact on our financial condition or results of operations.

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

Foreign Currency Exchange Rate Risk

We are also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar, the Australian dollar, the Canadian dollar, the South African Rand and the British Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at April 4, 2010, every 10 percent change in historical currency rates would have approximately a \$5.3 million effect on our financial position and approximately a \$0.2 million impact on our results of operations over the next fiscal year.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

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

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

(b) Changes in Internal Control Over Financial Reporting.

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

Table of Contents

**THE GEO GROUP, INC.
PART II OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS.

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that our Australian subsidiary formerly operated. The claim (No. SC 656 of 2006 to be heard by the Supreme Court of the Australian Capital Territory) relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when we were served with notice of a complaint filed against us by the Commonwealth of Australia seeking damages of up to approximately AUD 18 million or \$16.6 million, plus interest. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. We have established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our legal counsel in connection with this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. We are uninsured for any damages or costs that we may incur as a result of this claim, including the expenses of defending the claim.

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

On April 27, 2010, GEO, along with Cornell and Cornell's directors, were named in a purported stockholder class action complaint filed by Todd Shelby, individually and on behalf of all others similarly situated, in the district court of Harris County, Texas. The complaint alleges, among other things, that Cornell's directors breached their fiduciary duties by entering into the merger agreement without first taking steps to obtain adequate, fair and maximum consideration for Cornell's stockholders by shopping the company or initiating an auction process, by structuring the transaction to take advantage of Cornell's current low stock valuation, and by structuring the transaction to benefit GEO while making an alternative transaction either prohibitively expensive or otherwise impossible, and that the corporate defendants have aided and abetted such breaches by Cornell's directors. The plaintiffs are seeking, among other things, both an injunction prohibiting the merger and a constructive trust in an unspecified amount over any benefits improperly received by the defendants as a result of their alleged wrongful conduct. One of the conditions to the closing of the merger is that there not be any legal prohibition preventing the consummation of the merger, which would include the injunction sought by the plaintiffs in this case if it were to be granted. As a result, if the plaintiffs are successful in obtaining the injunction they seek, the merger may be blocked or delayed, or there could be substantial costs to GEO. It is possible that other similar lawsuits may be filed in the future. GEO cannot estimate any possible loss from this or similar future litigation at this time.

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

ITEM 1A. RISK FACTORS.

Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended January 3, 2010 filed on February 22, 2010 (the 2009 Form 10-K) includes a detailed discussion of the risk factors that could materially affect our business, financial condition or future prospects. Set forth below is a discussion of the material changes in our risk factors previously disclosed in the 2009 Form 10-K. The information below updates, and should be read in conjunction with, the risk factors in our 2009 Form 10-K. We encourage you to read these risk factors in their entirety.

Table of Contents

There can be no assurance that the merger pursuant to which GEO will acquire Cornell will be consummated. The announcement and pendency of the merger, or the failure of the merger to be consummated, could have an adverse effect on GEO's stock price, business, financial condition, results of operations or prospects.

The merger is subject to a number of conditions to closing, including (i) the approval of the issuance of shares of GEO common stock in accordance with the terms of the merger agreement, (ii) the adoption of the merger agreement by the Cornell stockholders, (iii) the expiration or termination of the waiting period (and any extension thereof) or the resolution of any litigation instituted applicable to the merger under the HSR Act or any other applicable federal or state statute or regulation, (iv) no temporary restraining order, preliminary or permanent injunction or other order shall have been issued (and remain in effect) by a court or other governmental entity having the effect of making the merger illegal or otherwise prohibiting the consummation of the merger, (v) the approval for listing on the NYSE of the shares of GEO common stock issuable in connection with the merger and (vi) the receipt of certain third party contractual approvals that are required as a result of the merger.

If the shareholders of GEO fail to approve the GEO share issuance or if Cornell stockholders fail to adopt the merger agreement, GEO and Cornell will not be able to complete the merger. Additionally, if the other closing conditions are not met or waived, the companies will not be able to complete the merger. As a result, there can be no assurance that the merger will be completed in a timely manner or at all.

Further, the announcement and pendency of the merger could disrupt GEO's business, in any of the following ways, among others:

GEO employees may experience uncertainty about their future roles with the combined company, which might adversely affect GEO's ability to retain and hire key managers and other employees;

the attention of GEO's management may be directed toward the completion of the merger and transaction-related considerations and may be diverted from GEO's day-to-day business operations; and

customers, suppliers or others may seek to modify or terminate their business relationships with GEO.

GEO may face additional challenges in competing for new business and retaining or renewing business. These disruptions could be exacerbated by a delay in the completion of the merger or termination of the merger agreement. For the foregoing reasons, there can be no assurance that the announcement and pendency of the merger, or the failure of the merger to be consummated, will not have an adverse effect on GEO's stock price, business, financial condition, results of operations or prospects.

There can be no assurance that GEO will be able to obtain the debt financing required in connection with the merger.

GEO's obligation to complete the merger is not conditioned on receipt of any financing. However, GEO needs approximately \$300.0 million to fund the cash component of the merger consideration, the redemption of Cornell's 10.75% senior notes, the refinancing of Cornell's credit facility and the payment of transaction fees and expenses. GEO intends to fund the foregoing utilizing a combination of existing cash and one or more draws upon GEO's senior credit facility. BNP Paribas has provided a commitment to extend \$150.0 million of additional financing under the accordion feature of GEO's existing senior credit facility. GEO may choose to draw upon its existing senior credit facility and the \$150.0 million of committed financing or it may choose to pursue alternate financing sources, including debt financing or accessing the capital markets. GEO is currently in compliance with its debt covenants; however, GEO cannot guarantee that it will continue to be in compliance with all necessary conditions in order to draw upon its existing senior credit facility or the \$150.0 million of committed financing, or that it will be able to obtain alternative financing on terms as favorable as its current debt financing arrangements, on commercially acceptable terms, or at all. If GEO is unable to access its current sources of debt financing or is unable to use its available cash and obtain any alternative financing in order to fund the payments it is obligated to make in connection with the merger, GEO will be in breach of the merger agreement.

GEO may experience difficulties integrating Cornell's business.

Currently, GEO and Cornell operate as independent public companies. Achieving the anticipated benefits of the merger will depend in significant part upon whether the two companies integrate their businesses in an efficient and

effective manner. Due to legal restrictions, GEO has been able to conduct only limited planning regarding the integration of the two companies following the merger and has not yet determined the exact nature of how the businesses and operations of the two companies will be combined after the merger. The actual integration may result in additional and unforeseen expenses, and the anticipated benefits of the integration plan may not be realized. GEO may not be able to accomplish the integration process smoothly, successfully or on a timely basis. The necessity of coordinating geographically separated organizations, systems of controls, and facilities and addressing possible differences

Table of Contents

in business backgrounds, corporate cultures and management philosophies may increase the difficulties of integration. GEO and Cornell operate numerous systems and controls, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance. The integration of operations following the merger will require the dedication of significant management and external resources, which may temporarily distract GEO's attention from the day-to-day business and be costly. Employee uncertainty and lack of focus during the integration process may also disrupt the business of the combined company. Any inability of GEO's management to successfully and timely integrate the operations of the two companies could have a material adverse effect on the business and results of operations of the combined company.

GEO may not fully realize the anticipated synergies and related benefits of the merger or within the timing anticipated.

GEO and Cornell entered into the merger agreement because each company believes that the merger will be beneficial to each of GEO, the GEO shareholders, Cornell and the Cornell stockholders including, among other things, as a result of the anticipated synergies resulting from the combined company's operations. GEO's management anticipates annual synergies of \$12-\$15 million during the year following the completion of the merger. GEO may not be able to achieve the anticipated operating and cost synergies or long-term strategic benefits of the merger within the timing anticipated 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 the merger, and possibly longer, the benefits from the merger will be offset by the costs incurred in integrating the businesses and operations, or adverse conditions imposed by regulatory authorities on the combined business in connection with granting approval for the merger. An inability to realize the full extent of, or any of, the anticipated synergies or other benefits of the merger, 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 the business and results of operations of the combined company, and may affect the value of the shares of GEO common stock after the completion of the merger.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Issuer Purchase of Equity Securities:

The following table presents information related to repurchases of our common stock made during the three months ended April 4, 2010:

Period	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)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
January 4, 2010-February 4, 2010				
February 5, 2010-March 4, 2010	362,471	\$ 19.45	362,471	\$ 72,944,501
March 5, 2010-April 4, 2010	2,405,410	\$ 19.45	2,405,410	\$ 26,102,735

(1) On February 22, 2010, the Company announced that its Board of

Directors approved a stock repurchase program of up to \$80.0 million of its common stock effective through March 31, 2011. The stock repurchase program 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 rules and requirements of the Securities and Exchange Commission. The program also may 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, and all future shares, if any,

will be
deposited, into
treasury and
retained for
future uses.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

Table of Contents

ITEM 4. REMOVED AND RESERVED.

ITEM 5. OTHER INFORMATION.

Not applicable.

ITEM 6. EXHIBITS.

(A) Exhibits

31.1 SECTION 302 CEO Certification.

31.2 SECTION 302 CFO Certification.

32.1 SECTION 906 CEO Certification.

32.2 SECTION 906 CFO Certification.

Table of Contents

SIGNATURES

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

THE GEO GROUP, INC.

Date: May 13, 2010

/s/ Brian R. Evans
Brian R. Evans
Senior Vice President & Chief Financial
Officer
(duly authorized officer and principal
financial officer)
50