Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 1, 2006

Commission file number: 1-14260

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

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

Registrant's telephone number (including area code):
(561) 893-0101

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

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

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

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

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

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

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

Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o

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

The aggregate market value of the 7,040,265 shares of common stock held by non-affiliates of the registrant as of July 1, 2005 (based on the last reported sales price of such stock on the New York Stock Exchange on such date of $26.20 per share) was approximately $184,454,943.

As of March 13, 2006 the registrant had 9,701,814 shares of common stock outstanding.

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 for its 2006 annual meeting of shareholders are incorporated by reference into Part III of this report.

Table of Contents

TABLE OF CONTENTS

		Page
	PART I	
Item 1.	*Business*	1
	General	1
	Company Operations	
	Quality of Operations	2
	Marketing and Business Proposals	2
	Facility Design, Construction and Finance	3
	Competitive Strengths	4
	Business Strategies	5
	Facilities	6
	Competition	10
	Employees and Employee Training	10
	Business Regulations and Legal Considerations	11
	Insurance	11
	Business Concentration	12
	Securities and Exchange Commission	12
Item 1A.	*Risk Factors*	12
Item 1B.	*Unresolved Staff Comments*	22
Item 2.	*Properties*	22
Item 3.	*Legal Proceedings*	22
Item 4.	*Submission of Matters to a Vote of Security Holders*	23
	PART II	
Item 5.	*Market for Registrant's Common Equity and Related Stockholder Matters*	23
	Equity Compensation Plan Information	23
	Sales of Unregistered Securities	24
Item 6.	*Selected Financial Data*	24
Item 7.	*Management's Discussion and Analysis of Financial Condition and Results of Operations*	25
	Introduction	25
	Critical Accounting Policies	27
	Results of Operations	29
	Financial Condition	36
	Commitments and Contingencies	42
	Forward Looking Statements — Safe Harbor	45
Item 7A.	*Quantitative and Qualitative Disclosures About Market Risk*	46
Item 8.	*Financial Statements and Supplementary Data*	48
	Report of Independent Registered Certified Public Accountants	50
	Consolidated Statements of Income	52
	Consolidated Balance Sheets	53
	Consolidated Statements of Cash Flows	54
	Consolidated Statements of Shareholders' Equity and Comprehensive Income	55
	Notes to Consolidated Financial Statements	56

		Page
Item 9.	*Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*	93
Item 9A.	*Controls and Procedures*	93
Item 9B.	*Other Information*	94
	PART III	
Items 10, 11, 12, 13 and 14		94
	PART IV	
Item 15.	*Exhibits and Financial Statement Schedules*	94
Signatures		97
Asset Purchase Agreement		
Subsidiaries		
Consent of Ernst & Young LLP		
Section 302 Certification of CEO		
Section 302 Certification of CFO		
Section 906 Certification of CEO		
Section 906 Certification of CFO		

PART I

Item 1. *Business*

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

General

We are a leading provider of government-outsourced services specializing in the management of correctional, detention and mental health 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 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 residential treatment services involve the delivery of quality care, innovative programming and active patient treatment, primarily at privatized state mental health. 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.

On November 4, 2005, we completed the acquisition of Correctional Services Corporation, or CSC, a Florida-based provider of privatized jail, community corrections and alternative sentencing services. The acquisition was completed through the merger of CSC into GEO Acquisition, Inc., a wholly owned subsidiary of GEO, referred to as the Merger. Under the terms of the Merger, we acquired 100% of the 10.2 million outstanding shares of CSC common stock for $6.00 per share, or approximately $62.1 million in cash. As a result of the Merger, we became responsible for supervising the operation of the sixteen adult correctional and detention facilities, totaling 8,037 beds, formerly run by CSC. Immediately following the purchase of CSC, we sold Youth Services International, Inc., the former juvenile services division of CSC, for $3.75 million, $1.75 million of which was paid in cash and the remaining $2.0 million of which will be paid in the form of a three-year promissory note accruing interest at a rate of 6% per annum.

On January 1, 2006, the last day of our 2005 fiscal year, our mental health subsidiary Atlantic Shores Healthcare, Inc., or ASH, completed the sale of its 72 bed private mental health hospital which it had owned and operated since 1997, for approximately $11.5 million. We recognized a gain on the sale of this transaction of approximately $1.6 million. The accompanying consolidated financial statements and notes reflect the operations of the hospital as a discontinued operation.

Our business was founded in 1984 as a division of The Wackenhut Corporation, or TWC, and was incorporated in the State of Florida in 1988. On May 8, 2002, TWC consummated a merger with a wholly-owned subsidiary of Group 4 Falck A/ S, referred to as Group 4 Falck. As a result of the merger, Group 4 Falck became the indirect beneficial owner of TWC's 12 million share majority interest in GEO. On July 9, 2003, we purchased all 12 million shares of our common stock from Group 4 Falck. On November 25, 2003, our corporate name was changed from "Wackenhut Corrections Corporation" to "The GEO Group, Inc".

As of January 1, 2006, we operated a total of 56 correctional, detention and mental health facilities and had over 48,370 beds under management or for which we had been awarded contracts. We maintained an average facility occupancy rate of 97.5% for the fiscal year ended January 1, 2006. For the fiscal year ended January 1, 2006, we had consolidated revenues of $612.9 million and consolidated operating income of $7.9 million.

Additional information regarding significant events affecting us during the fiscal year ended January 1, 2006 is set forth in Item 7 below under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview of Operations

We offer services that go beyond simply housing offenders in a safe and secure manner for our correctional and detention facilities. We offer a wide array of in-facility rehabilitative and educational programs. Inmates at most of our facilities can also receive basic education through academic programs designed to improve inmates' literacy levels and enhance the opportunity to acquire General Education Development certificates. Most of our managed facilities also offer vocational training for in-demand occupations to inmates who lack marketable job skills. In addition, most of our managed facilities offer life skills/transition planning programs that provide inmates job search training and employment skills, anger management skills, health education, financial responsibility training, parenting skills and other skills associated with becoming productive citizens. We also offer counseling, education and/or treatment to inmates with alcohol and drug abuse problems at most of the domestic facilities we manage.

Our mental health facilities residential services primarily involve the provision of acute mental health and related administrative services to mentally ill patients that have been placed under public sector supervision and care. At these mental health facilities, we employ psychiatrists, physicians, nurses, counselors, social workers and other trained personnel to deliver active psychiatric treatment which is designed to diagnose, treat and rehabilitate patients for community reintegration.

Quality of Operations

We operate each facility in accordance with our company-wide policies and procedures and with the standards and guidelines required under the relevant management contract. For many facilities, the standards and guidelines include those established by the American Correctional Association, or ACA. The ACA is an independent organization of corrections professionals, which establishes correctional facility standards and guidelines that are generally acknowledged as a benchmark by governmental agencies responsible for correctional facilities. Many of our contracts in the United States require us to seek and maintain ACA accreditation of the facility. We have sought and received ACA accreditation and re-accreditation for all such facilities. We achieved a median re-accreditation score of 98.4% in fiscal year 2005. Approximately 72% of our 2005 U.S. corrections revenue was derived from ACA accredited facilities. We have also achieved and maintained certification by the Joint Commission on Accreditation for Healthcare Organizations, or JCAHO, for both of our mental health facilities and two of our correctional facilities. We have been successful in achieving and maintaining accreditation under the National Commission on Correctional Health Care, or NCCHC, in a majority of the facilities that we currently operate. The NCCHC accreditation is a voluntary process which we have used to establish comprehensive health care policies and procedures to meet and adhere to the ACA standards. The NCCHC standards, in most cases, exceed ACA Health Care Standards.

Marketing and Business Proposals

Our primary potential customers are governmental agencies responsible for local, state and federal correctional facilities in the United States and governmental agencies responsible for correctional facilities in Australia, South Africa and the United Kingdom. Other primary customers include state agencies in the U.S. responsible for mental health facilities, and other foreign governmental agencies.

Governmental agencies responsible for correctional and detention facilities generally procure goods and services through requests for proposals. A typical request for proposal requires bidders to provide detailed information, including, but not limited to, descriptions of the following: the services to be provided by the bidder, its experience and qualifications, and the price at which the bidder is willing to provide the services (which services may include the renovation, improvement or expansion of an existing facility, or the planning, design and construction of a new facility).

If the project meets our profile for new projects, we then will submit a written response to the request for proposal. We estimate that we typically spend between $100,000 and $200,000 when responding to a request for proposal. We have engaged and intend in the future to engage independent consultants to assist

us in developing privatization opportunities and in responding to requests for proposals, monitoring the legislative and business climate, and maintaining relationships with existing customers.

Our state and local experience has been that a period of approximately 60 to 90 days is generally required from the issuance of a request for proposal to the submission of our response to the request for proposals; that between one and four months elapse between the submission of our response and the agency's award for a contract; and that between one and four months elapse between the award of a contract and the commencement of construction of the facility, in the case of a new facility, or the management of the facility, in the case of an existing facility. If the facility for which an award has been made must be constructed, our experience is that construction usually takes between nine and 24 months, depending on the size and complexity of the project; therefore, management of a newly constructed facility typically commences between 10 and 28 months after the governmental agency's award.

Our federal experience has been that a period of approximately 60 to 90 days is generally required from the issuance of a request for proposal to the submission of our response to the request for proposal; that between 12 and 18 months elapse between the submission of our response and the agency's award for a contract; and that between four and 18 weeks elapse between the award of a contract and the commencement of construction of the facility, in the case of a new facility, or the management of the facility in the case of an existing facility. If the facility for which an award has been made must be constructed, our experience is that construction usually takes between nine and 24 months, depending on the size and complexity of the project; therefore, management of a newly constructed facility typically commences between 10 and 28 months after the governmental agency's award.

Facility Design, Construction and Finance

We offer governmental agencies consultation and management services relating to the design and construction of new correctional and detention facilities and the redesign and renovation of older facilities. As of January 1, 2006, we had provided services for the design and construction of forty-three facilities and for the redesign and renovation of thirteen facilities.

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

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

We may also act as a source of financing or as a facilitator with respect to the financing of the construction of a facility. In these cases, the construction of such facilities may be financed through various methods including, but not limited to, the following:

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

If the project is financed using direct governmental appropriations, with proceeds of the sale of bonds or other obligations issued prior to the award of the project or by us directly, then financing is in place when the contract relating to the construction or renovation project is executed. If the project is financed using project-specific tax-exempt bonds or other obligations, the construction contract is generally subject

to the sale of such bonds or obligations. Generally, substantial expenditures for construction will not be made on such a project until the tax-exempt bonds or other obligations are sold; and, if such bonds or obligations are not sold, construction and therefore, management of the facility, may either be delayed until alternative financing is procured or the development of the project will be suspended or entirely cancelled. If the project is self-financed by us, then financing is generally in place prior to the commencement of construction.

Under our construction and design management contracts, we generally agree to be responsible for overall project development and completion. We typically act as the primary developer on construction contracts for facilities and subcontract with national general contractors. Where possible, we subcontract with construction companies that we have worked with previously. We make use of an in-house staff of architects and operational experts from various correctional disciplines (e.g. security, medical service, food service, inmate programs and facility maintenance) as part of the team that participates from conceptual design through final construction of the project. This staff coordinates all aspects of the development with subcontractors and provides site-specific services.

When designing a facility, our architects seek to utilize, with appropriate modifications, prototype designs we have used in developing prior projects. We believe that the use of these designs allows us to reduce cost overruns and construction delays and to reduce the number of correctional officers required to provide security at a facility, thus controlling costs both to construct and to manage the facility. Our facility designs also maintain security because they increase the area under direct surveillance by correctional officers and make use of additional electronic surveillance.

Competitive Strengths

Regional Operating Structure

We operate three regional U.S. offices and three international offices that provide administrative oversight and support to our correctional and detention facilities and allow us to maintain close relationships with our customers and suppliers. Each of our three regional U.S. offices is responsible for the facilities located within a defined geographic area. The regional offices perform regular internal audits of the facilities in order to ensure continued compliance with the underlying contracts, applicable accreditation standards, governmental regulations and our internal policies and procedures.

Long Term Relationships with High-Quality Government Customers

We have developed long term relationships with our government customers and have been successful at retaining our facility management contracts. We have provided correctional and detention management services to the United States Federal Government for 18 years, the State of California for 16 years, the State of Texas for 16 years, various Australian state government entities for 13 years and the State of Florida for 10 years. These customers accounted for approximately 60.4% of our consolidated revenues for the fiscal year ended January 1, 2006. Our strong operating track record has enabled us to achieve a high renewal rate for contracts. Our government customers typically satisfy their payment obligations to us through budgetary appropriations.

Full-Service Facility Developer

We believe that our ability to provide comprehensive facility development and design services enables us to retain existing customers seeking to update their facilities and to attract new customers by demonstrating the benefits of privatization. We have developed an expertise in the design, construction and financing of high quality correctional, detention and mental health facilities.

Experienced, Proven Senior Management Team

Our top three senior executives have over 48 years of combined industry experience, have worked together at our company for more than 13 years and have established a track record of growth and

profitability. Under their leadership, our annual consolidated revenues have grown from $40.0 million in 1991 to $612.9 million in 2005. Our Chief Executive Officer, George C. Zoley, is one of the pioneers of the industry, having developed and opened what we believe was one of the first privatized detention facilities in the U.S. in 1986. In addition to senior management, our operational and facility level management has significant operational experience and expertise.

Business Strategies

Provide High Quality, Essential Services at Lower Costs

Our objective is to provide federal, state and local governmental agencies with high quality, essential services at a lower cost than they themselves could achieve.

Maintain Disciplined Operating Approach

We manage our business on a contract by contract basis in order to maximize our operating margins. We typically refrain from pursuing contracts that we do not believe will yield attractive profit margins in relation to the associated operational risks. Generally, we do not engage in speculative development and do not build facilities without having a corresponding management contract award in place. In addition, we have elected not to enter certain international markets with a history of economic and political instability. We believe that our strategy of emphasizing lower risk, higher profit opportunities helps us to consistently deliver strong operational performance, lower our costs and increase our overall profitability.

Expand Into Complementary Government-Outsourced Services

We intend to capitalize on our long term relationships with governmental agencies to continue to grow our correctional, detention and mental health facilities management services and to become a preferred provider of complementary government-outsourced services. We believe that government outsourcing of currently internalized functions will increase largely as a result of the public sector’s desire to maintain quality service levels amid governmental budgetary constraints. Based on our expansion into the mental health residential treatment services sector, we believe that we are well positioned to continue to deliver higher quality services at lower costs in new areas of privatization.

Pursue International Growth Opportunities

As a global international provider of privatized correctional services, we are able to capitalize on opportunities to operate existing or new facilities on behalf of foreign governments. We currently have operations in Australia, South Africa and Canada. We intend to further penetrate the current markets we operate in and to expand into new international markets which we deem attractive. During the fourth quarter of 2004, we opened an office in the United Kingdom to vigorously pursue new business opportunities in England, Wales and Scotland. On March 6, 2006, we were awarded a contract to manage the operations of the 198 bed Campsfield House in Kidlington, United Kingdom. We expect to begin operations under this contract in the second quarter of 2006.

[Table of Contents](#)

Facilities

The following table summarizes certain information with respect to facilities that GEO (or a subsidiary or joint venture of GEO's) operated under a management contract or had an award to manage as of January 1, 2006:

Facility Name & Location	Design Capacity	Customer	Facility Type	Security Level	Commencement of Current Term	Duration	Renewal Option	Type of Ownership
Domestic Contracts								
Allen Correctional Center Kinder, LA	1,538	LA DPS&C	State Correctional Facility	Medium/ Maximum	September 2003	3 years	One, Two-year	Manage only
Arizona State Prison — Florence West Florence, AZ	750	ADOC	State DUI/RTC Correctional Facility	Minimum/ Medium	December 2002	10 years	Two, Five-year	Lease
Arizona State Prison — Florence Sex Offender Florence, AZ	1,000	ADOC	State Sex Offender Correctional Facility	Minimum/ Medium	N/A	10 years	Two, Five-year	Lease
Arizona State Prison — Phoenix West Phoenix, AZ	450	ADOC	State DUI/RTC Correctional Facility	Minimum/ Medium	July 2002	10 years	Two, Five-year	Lease
Aurora ICE Processing Center Aurora, CO	356	ICE	Federal Detention Facility	Minimum/ Medium	March 2003	1 year	Four, Six Month	Lease-CPV
Bill Clayton Detention Center Littlefield, TX	310	Littlefield, TX/ WDOC	Local/ State Correctional/ Detention Facility	Minimum/ Medium	January 2004	10 years	Two Five-year	Manage Only
Bridgeport Correctional Center Bridgeport, TX	520	TDCJ	State Correctional Facility	Minimum/ Medium	September 2005	3 year	Two, One-year	Manage only
Bronx Community Corrections Center Bronx, NY	130	BOP	Federal Halfway House	Minimum	April 2002	Two year	Three, One-year	Lease
Brooklyn Community Corrections Center Brooklyn, NY	174	BOP	Federal Halfway House	Minimum	February 2005	Two year	Three One-year	Lease
Broward Transition Center Deerfield Beach, FL	450	ICE/ Broward County	Federal & Local Detention Facility	Minimum	October 2003/ February 2003	1 year/ 1 year	Four, One-year/ Unlimited, One-Year	Lease-CPV
Central Texas Detention Facility San Antonio, TX(2)	643	Bexar County/ ICE & USMS	Local & Federal Detention Facility	All levels	January 2002	3 years	One, Two-year	Lease-County
Central Valley MCCF McFarland, CA	550	CDCR	State Correctional Facility	Medium	December 1997	10 years	N/A	Lease-CPV
Cleveland Correctional Center Cleveland, TX	520	TDCJ	State Correctional Facility	Minimum/ Medium	January 2004	3 year	Two, One-year	Manage only
Coke County JJC Bronte, TX	200	TYC	State Juvenile Correctional Facility	Medium/ Maximum	September 2004	2 year	N/A	Lease
Colorado Pre-Parole & Revocation Center Pueblo, CO	500	CDOC	State Correctional Facility	Medium	N/A	N/A	N/A	N/A
Desert View MCCF Adelanto, CA	568	CDCR	State Correctional Facility	Medium	December 1997	10 years	N/A	Lease-CPV
Dickens County Correctional Center Spur, TX	489	Dickens County/ ICE/Other Counties	Local & Federal Correctional Facility	All levels	August 2001	15 years	N/A	Manage only

[Table of Contents](#)

Facility Name & Location	Design Capacity	Customer	Facility Type	Security Level	Commencement of Current Term	Duration	Renewal Option	Type of Ownership
East Mississippi Correctional Facility Meridian, MS	1,000	MDOC	State Correctional Facility	Mental Health	April 2003	2 years	One, Two-year	Manage only
Fort Worth Community Corrections Facility Fort Worth, TX	225	TDCJ	State Halfway House	Minimum	September 2003	2 years	Two, Two year	Leased
Frio County Detention Center Pearsall, TX	391	Frio County/ Other Counties	Local Detention Facility	All levels	November 1997	12 years	One, Five year	Part Leased/ Part Owned
George W. Hill Correctional Facility Thornton, PA	1,851	Delaware County	Local Detention Facility	All levels	June 2003	3 years	Unlimited, Three-year	Manage only
Golden State MCCF McFarland, CA	550	CDCR	State Correctional Facility	Medium	December 1997	10 years	N/A	Lease-CPV
Graceville Correctional Facility Graceville, FL	1,500	DMS	State Correctional Facility	Medium/ Close	N/A	N/A	N/A	N/A
Grenada County Jail Grenada, MS	160	Grenada County/ MDOC	Local Detention Facility	All levels	August 2004	5 year	One, Two year	Manage Only
Guadalupe County Correctional Facility Santa Rosa, NM(3)	600	Guadalupe County/ NMCD	Local/ State Correctional Facility	Medium	September 1998	5 year	Five one-year extension beginning 2004	Own
Jefferson County Downtown Jail Beaumont, TX	500	Jefferson County/ ICE/USMS	Local & Federal Detention Facility	All levels	May 1998	Month to Month	N/A	Manage Only
Karnes Correctional Center Karnes City, TX(2)	579	Karnes County/ ICE & USMS	Local & Federal Detention Facility	All levels	January 1998	30 years	N/A	Lease-CPV
Lawrenceville Correctional Center Lawrenceville, VA	1,536	VDOC	State Correctional Facility	Medium	March 2003	5 year	Ten, One-year	Manage only
Lawton Correctional Facility Lawton, OK	1,918	ODOC	State Correctional Facility	Medium	July 2003	2 years	Four, One-year	Lease-CPV
Lea County Correctional Facility Hobbs, NM(3)	1,200	Lea County/NMCD	Local/State Correctional Facility	All levels	September 1998	5 years	Unlimited, 1-year	Lease-CPV
Lockhart Secure Work Program Facilities Lockhart, TX	1,000	TDCJ	State Correctional Facility	Minimum	January 2004	3 years	Two, One year	Manage only
Marshall County Correctional Holly Springs, MS	1,000	MDOC	State Correctional Facility	Medium	September 2004	2 years	Three, One-year	Manage only
McFarland CCF McFarland, CA	224	CDCR	State Correctional Facility	Minimum	January 2006	5 years	One, 5-year	Lease-CPV
Migrant Operations Center Guantanamo Bay NAS, Cuba	100	ICE	Federal Migrant Center	Minimum	November 2005	Four Month	Two One-month	Manage only
Moore Haven Correctional Facility Moore Haven, FL	750	DMS	State Correctional Facility	Medium	July 2005	2 years	Unlimited, Two-year	Manage only
New Castle Correctional Facility New Castle, IN	2,416	IDOC	State Correctional Facility	Medium	January 2006	4 years	Three Two-year	Manage only
Newton County Correctional Center Newton, TX	872	Newton County/ TDCJ/ ICE	State & Federal Correctional Facility	All levels	February 2002	5 years	Two Five-year	Manage Only

[Table of Contents](#)

Facility Name & Location	Design Capacity	Customer	Facility Type	Security Level	Commencement of Current Term	Duration	Renewal Option	Type of Ownership
North Texas ISF Fort Worth, TX	400	TDCJ	State Intermediate Sanction Facility	Minimum	March 2004	3 years	Four, One-year	Lease
Northwest Detention Center Tacoma, WA	890	ICE	Federal Detention Facility	Minimum/ Medium	April 2004	1 year	Four One-year	Own
Queens Private Correctional Facility Jamaica, NY	220	OFDT/ USMS	Federal Detention Facility	Minimum/ Medium	April 2002	1 year	Four, One-year	Lease-CPV
Reeves County Detention Complex Pecos, TX(2)	3,064	Reeves County/ ADOC	Federal & State Correctional Facility	All levels	November 2003	10 years	N/A	Manage only
Rivers Correctional Institution Winton, NC	1,200	BOP	Federal Correctional Facility	Low	March 2001	3 years	Seven, One-year	Own
Sanders Estes Unit Venus, TX	1,000	TDCJ	State Correctional Facility	Minimum/ Medium	January 2004	3 years	Two, One-year	Manage only
South Bay Correctional Facility South Bay, FL	1,862	DMS	State Correctional Facility	Medium/ Close	June 2003	2 years	Unlimited, Two-year	Manage only
South Texas Detention Complex Pearsall, TX	1,020	ICE	Federal Detention Facility	Minimum/ Medium	June 2005	1 year	Four, One-year	Lease
South Texas ISF Houston, TX	450	TDCJ	State Intermediate Sanction Facility	Minimum	March 2004	3 years	Two One-year	Manage Only
Taft Correctional Institution Taft, CA	2,048	BOP	Federal Correctional Facility	Low/ Minimum	August 2003	3 years	Seven, One-year	Manage only
Tri-County Justice & Detention Center Ullin, IL	226	Pulaski County/ ICE	Local & Federal Detention Facility	All levels	July 2004	6 years	Two, Five-year	Manage only
Val Verde Correctional Facility Del Rio, TX(2)	784	Val Verde County	Local & Federal Detention Facility	All levels	January 2001	20 years	Unlimited, Five-year	Own
Western Region Detention Facility at San Diego San Diego, CA	700	USMS	Federal Detention Facility	Maximum	January 2006	5 years	One, Five-year	Lease
International Contracts:								
Arthur Gorrie Correctional Centre Wacol, Australia	710	QLD DCS	Reception & Remand Centre	All levels	December 2002	5 years	One, Five-year	Manage only
Fulham Correctional Centre Victoria, Australia	845	VIC MOC	State Prison	Minimum/ Medium	September 2003	3 years	Four, Three-year	Manage only
Junee Correctional Centre Junee, Australia	750	NSW	State Prison	Minimum/ Medium	April 2001	5 years	One, Three-year	Manage only
Kutama-Sinthumule Correctional Centre Northern Province, Republic of South Africa	3,024	RSA DCS	National Prison	Maximum	July 1999	25 years	None	Manage only
Melbourne Custody Centre Melbourne, Australia	67	VIC CC	State Jail	All levels	March 2003	2 years	One, One-year	Manage only
New Brunswick Youth Centre Mirimachi, Canada(4)	N/A	PNB	Provincial Juvenile Facility	All levels	October 1997	25 years	One, Ten-year	Manage only
Pacific Shores Healthcare Victoria, Australia(5)	N/A	VIC CV	Health Care Services	N/A	December 2003	3 years	Four, Six-months	Manage only

Table of Contents

Facility Name & Location	Design Capacity	Customer	Facility Type	Security Level	Commencement of Current Term	Duration	Renewal Option	Type of Ownership
Mental Health Facilities								
Atlantic Shores Hospital Fort Lauderdale, FL(6)	72	N/A	Private Psychiatric Hospital	Mental Health	N/A	N/A	N/A	Own
South Florida State Hospital Pembroke Pines, FL	325	DCF	State Psychiatric Hospital	Mental Health	July 2003	5 years	Two, Five-year	Manage only
Fort Bayard Medical Center Ft. Bayard, NM	230		State Mental Health Hospital	Mental Health				Manage only
South Florida Evaluation and Treatment Center Miami, FL	200	DCF	State Forensic Hospital	Mental Health	July 2005	5 years	Two, Five-year	Manage only

Customer Legend:

Abbreviation	Customer
LA DPS&C	Louisiana Department of Public Safety & Corrections
ADOC	Arizona Department of Corrections
ICE	Bureau of Immigration & Customs Enforcement
WDOC	Wyoming Department of Corrections
TDCJ	Texas Department of Criminal Justice
CDCR	California Department of Corrections
CDOC	Colorado Department of Corrections
TYC	Texas Youth Commission
MDOC	Mississippi Department of Corrections (East Mississippi & Marshall County)
NMCD	New Mexico Corrections Department
VDOC	Virginia Department of Corrections
ODOC	Oklahoma Department of Corrections
DMS	Florida Department of Management Services
BOP	Federal Bureau of Prisons
USMS	United States Marshals Service
IDOC	Indiana Department of Corrections
QLD DCS	Department of Corrective Services of the State of Queensland
OFDT	Office of Federal Detention Trustees
VIC MOC	Minister of Corrections of the State of Victoria
NSW	Commissioner of Corrective Services for New South Wales
RSA DCS	Republic of South Africa Department of Correctional Services
VIC CC	The Chief Commissioner of the Victoria Police
PNB	Province of New Brunswick
VIC CV	The State of Victoria represented by Corrections Victoria
DCF	Florida Department of Children & Families

(1) GEO also leases a facility from CPV in Jena, LA that was not in use during fiscal year 2005. The Jena facility remains inactive. See Note 12 of the Financial Statements.

(2) GEO provides services at this facility through various Inter-Governmental Agreements, or IGAs, for the county, USMS, ICE, BOP, and other state jurisdictions.

(3) GEO has a five-year contract with four one-year options to operate this facility on behalf of the county. The county, in turn, has a one-year contract, subject to annual renewal, with the state to house state prisoners at the facility.

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

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

(6) GEO's subsidiary, Atlantic Shores Healthcare, Inc., sold this facility on January 1, 2006, for $11.5 million in cash.

The following table sets forth the number of contracts that have terms subject to renewal or re-bid in each of the next five years:

Year	Renewal	Re-bid
2006	3	4
2007	1	6
2008	3	3
2009	2	8
2010	3	2
Thereafter	7	10
	19	33

We undertake substantial efforts to renew our contracts upon their expiration but we can provide no assurance that we will in fact be able to do so. Previously, in connection with our contract renewals, either we or the contracting government agency have typically requested changes or adjustments to contractual terms. As a result, contract renewals may be made on terms that are more or less favorable to us than in prior contractual terms.

Our contracts typically allow a contracting governmental agency to terminate a contract with or without cause by giving us written notice ranging from 30 to 180 days. If government agencies were to use these provisions to terminate, or renegotiate the terms of their agreements with us, our financial condition and results of operations could be materially adversely affected.

In addition, in connection with our management of such facilities, we are required to comply with all applicable local, state and federal laws and related rules and regulations. Our contracts typically require us to maintain certain levels of coverage for general liability, workers' compensation, vehicle liability, and property loss or damage. See "Insurance" below. If we do not maintain the required categories and levels of coverage, the contracting governmental agency may be permitted to terminate the contract. In addition, we are required under our contracts to indemnify the contracting governmental agency for all claims and costs arising out of our management of facilities and, in some instances, we are required to maintain performance bonds relating to the construction, development and operation of facilities.

Competition

We compete primarily on the basis of the quality and range of services we offer; our experience domestically and internationally in the design, construction, and management of privatized correctional and detention facilities; our reputation; and our pricing. We compete directly with the public sector, where governmental agencies that are responsible for the operation of correctional, detention and mental health facilities are often seeking to retain projects that might otherwise be privatized. In the private sector, we compete with a number of companies, including, but not limited to: Corrections Corporation of America; Cornell Companies, Inc.; Management and Training Corporation; and Group 4 Falck Global Solutions Limited. Some of our competitors are larger and have more resources than we do. We also compete in some markets with small local companies that may have a better knowledge of the local conditions and may be better able to gain political and public acceptance.

Employees and Employee Training

At January 1, 2006, we had 8,463 full-time employees. Of such full-time employees, 171 were employed at our headquarters and regional offices and 8,292 were employed at facilities and international offices. We employ management, administrative and clerical, security, educational services, health services and general maintenance personnel at our various locations. Approximately 451 and 962 employees are covered by collective bargaining agreements in the United States and at international offices, respectively. Collective bargaining agreements covering 70% of employees at our international offices were renegotiated in 2005 for new two to three year terms. Two additional international collective bargaining agreements are outstanding and are currently being

finalized. We plan to seek renewal of these agreements on satisfactory terms. We believe that our relations with our employees are satisfactory.

Under the laws applicable to most of our operations, and internal company policies, our correctional officers are required to complete a minimum amount of training. We generally require at least 160 hours of pre-service training before an employee is allowed to work in a position that will bring the employee in contact with inmates in our domestic facilities, consistent with ACA standards and/or applicable state laws. In addition to a minimum of 160 hours of pre-service training, most states require 40 or 80 hours of on-the-job training. Florida law requires that correctional officers receive 520 hours of training. We believe that our training programs meet or exceed all applicable requirements.

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

At least 240 and 160 hours of training are required for our employees in Australia and South Africa, respectively, before such employees are allowed to work in positions that will bring them into contact with inmates. Our employees in Australia and South Africa receive a minimum of 40 hours of additional training each year.

Business Regulations and Legal Considerations

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

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

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

Insurance

The nature of our business exposes us to various types of third-party legal claims, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, 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 insurance coverage for these types of claims, except for claims relating to employment matters, for which we carry no insurance.

Claims for which we are insured arising from our U.S. operations that have an occurrence date of October 1, 2002 or earlier are handled by TWC and are fully insured up to an aggregate limit of between

$25.0 million and $50.0 million, depending on the nature of the claim. With respect to claims for which we are insured arising after October 1, 2002, we maintain a general liability policy for all U.S. operations with $52.0 million per occurrence and in the aggregate. On October 1, 2004, we increased our deductible on this general liability policy from $1.0 million to $3.0 million for each claim which occurs after October 1, 2004. We also maintain insurance to cover property and casualty risks, workers' compensation, medical malpractice and automobile liability. Our Australian subsidiary is required to carry tail insurance through 2011 related to a discontinued contract. We also carry various types of insurance with respect to our operations in South Africa and Australia. There can be no assurance that our insurance coverage will be adequate to cover claims to which we may be exposed.

International Operations

Our international operations for fiscal years 2005 and 2004 consisted of the operations of our wholly owned Australian subsidiaries, and of our consolidated joint venture in South Africa (South African Custodial Management Pty. Limited, or SACM). Through our wholly owned subsidiary, GEO Group Australia Pty. Limited, we currently manage five facilities in Australia. We operate one facility in South Africa through SACM. Our international operations for fiscal year 2003 consisted of the operations of our wholly owned Australian subsidiary only. See Item 7 for more information on SACM. Financial information about our operations in different geographic regions appears in "Item 8. Financial Statements — Note 17 Business Segment and Geographic Information."

Business Concentration

Except for the major customers noted in the following table, no single customer provided more than 10% of our consolidated revenues during fiscal years 2005, 2004 and 2003:

Customer	2005	2004	2003
Various agencies of the U.S. Federal Government	27%	27%	27%
Various agencies of the State of Texas	8%	9%	12%
Various agencies of the State of Florida	7%	12%	12%

Concentration of credit risk related to accounts receivable is reflective of the related revenues.

Securities and Exchange Commission

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

Item 1A. *Risk Factors*

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

Risks Related to Our High Level of Indebtedness

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

We have a significant amount of indebtedness. Our total consolidated long-term indebtedness as of January 1, 2006 was $225.1 million, excluding non recourse debt of $142.5 million. In addition, as of January 1, 2006, we had $43.7 million outstanding in letters of credit under the revolving loan portion of our Senior Credit Facility. As a result, as of that date, we would have had the ability to borrow an additional approximately $56.3 million under the revolving loan portion of our Senior Credit Facility, subject to our satisfying the relevant borrowing conditions under the Senior Credit Facility with respect to the incurrence of additional indebtedness.

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

- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our vulnerability to adverse economic and industry conditions;
- place us at a competitive disadvantage compared to competitors that may be less leveraged; and
- limit our ability to borrow additional funds or refinance existing indebtedness on favorable terms.

If we are unable to meet our debt service obligations, we may need to reduce capital expenditures, restructure or refinance our indebtedness, obtain additional equity financing or sell assets. We may be unable to restructure or refinance our indebtedness, obtain additional equity financing or sell assets on satisfactory terms or at all. In addition, our ability to incur additional indebtedness will be restricted by the terms of our Senior Credit Facility and the indenture governing our outstanding Notes.

Despite current indebtedness levels, we may still incur more indebtedness, which could further exacerbate the risks described above. Future indebtedness issued pursuant to our universal shelf registration statement could have rights superior to those of our existing or future indebtedness.

The terms of the indenture governing the Notes and our Senior Credit Facility restrict our ability to incur but do not prohibit us from incurring significant additional indebtedness in the future. In addition, we may refinance all or a portion of our indebtedness, including borrowings under our Senior Credit Facility, and incur more indebtedness as a result. If new indebtedness is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify. As of January 1, 2006, we would have had the ability to borrow an additional $56.3 million under the revolving loan portion of our Senior Credit Facility. Additionally, on January 28, 2004, our universal shelf registration statement on Form S-3 was declared effective by the SEC. The universal shelf registration statement provides for the offer and sale by us, from time to time, on a delayed basis of up to $200.0 million aggregate amount of certain of our securities, including our debt securities. Any indebtedness incurred pursuant to the universal shelf registration statement will be created through the issuance of these debt securities. Such debt securities may be issued in more than one series and some of those series may have characteristics that provide them with rights that are superior to those of other series of our debt securities that have already been created or that will be created in the future.

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

The indenture governing the Notes and our Senior Credit Facility impose significant operating and financial restrictions on us and certain of our subsidiaries, which we refer to as restricted subsidiaries. These restrictions limit our ability to, among other things, incur additional indebtedness, pay dividends and or distributions on our capital stock, repurchase, redeem or retire our capital stock, prepay subordinated indebtedness, make

investments, issue preferred stock of subsidiaries, make certain types of investments, guarantee other indebtedness, create liens on our assets, transfer and sell assets, create or permit restrictions on the ability of our restricted subsidiaries to make dividends or make other distributions to us, enter into sale/leaseback transactions, enter into transactions with affiliates, and merge or consolidate with another company or sell all or substantially all of our assets. These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities.

In addition, our Senior Credit Facility requires us to maintain specified financial ratios and satisfy certain financial covenants, including maintaining maximum senior and total leverage ratios, a minimum fixed charge coverage ratio, a minimum net worth and a limit on the amount of our annual capital expenditures. Some of these financial ratios become more restrictive over the life of the Senior Credit Facility. We may be required to take action to reduce our indebtedness or to act in a manner contrary to our business objectives to meet these ratios and satisfy these covenants. Our failure to comply with any of the covenants under our Senior Credit Facility and the indenture governing the Notes could cause an event of default under such documents and result in an acceleration of all of our outstanding indebtedness. If all of our outstanding indebtedness were to be accelerated, we likely would not be able to simultaneously satisfy all of our obligations under such indebtedness, which would materially adversely affect our financial condition and results of operations.

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

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

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

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

Our Senior Credit Facility bears interest at a variable rate. To the extent our exposure to increases in interest rates is not eliminated through interest rate protection agreements, such increases will adversely affect our cash flows. We do not currently have any interest rate protection agreements in place to protect against interest rate fluctuations related to the Senior Credit Facility. Our estimated total annual interest expense based on borrowings outstanding as of January 1, 2006 is approximately $25.1 million, $4.8 million of which is interest expense attributable to estimated borrowings of $74.8 million currently outstanding under the Senior Credit Facility inclusive of expected mandatory payments under the Senior Credit Facility. Based on estimated borrowings under the Senior Credit Facility, inclusive of expected mandatory payments, a one percent increase in the interest rate applicable to the Senior Credit Facility, will increase interest expense by $0.7 million.

In addition, effective September 18, 2003, we entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. The agreements, which have payment and expiration dates that coincide with the payment and expiration terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the six-month London Interbank Offered Rate plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As a result, for every one percent increase in the interest rate applicable to the swap agreements, our total annual interest expense will increase by $0.5 million.

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

We generate a substantial portion of our revenues from distributions on the equity interests we hold in our subsidiaries. Therefore, our ability to meet our payment obligations on our indebtedness is substantially dependent on the earnings of our subsidiaries and the payment of funds to us by our subsidiaries as dividends, loans, advances or other payments. Our subsidiaries are separate and distinct legal entities and are not obligated to make funds available for payment of our other indebtedness in the form of loans, distributions or otherwise. Our subsidiaries' ability to make any such loans, distributions or other payments to us will depend on their earnings, business results, the terms of their existing and any future indebtedness, tax considerations and legal or contractual restrictions to which they may be subject. If our subsidiaries do not make such payments to us, our ability to repay our indebtedness will be materially adversely affected. For the fiscal year ended January 1, 2006, our subsidiaries accounted for 24.1% of our consolidated revenues, and, as of January 1, 2006 our subsidiaries accounted for 21.4% of our consolidated total assets.

Risks Related to Our Business and Industry

We are subject to the termination or non-renewal of our government contracts, which could adversely affect our results of operations and liquidity, including our ability to secure new facility management contracts from other government customers.

Governmental agencies may terminate a facility contract at any time without cause or use the possibility of termination to negotiate a lower fee for per diem rates. They also generally have the right to renew facility contracts at their option. Notwithstanding any contractual renewal option, as of January 1, 2006, seven of our facility management contracts are scheduled to expire on or before December 31, 2006. These contracts represented 15.9% of our consolidated revenues for the year ended January 1, 2006. Some of these contracts may not be renewed by the corresponding governmental agency. See "Business — Facilities and Facility Management Contracts." In addition, governmental agencies may determine not to exercise renewal options with respect to any of our contracts in the future. In the event any of our management contracts are terminated or are not renewed on favorable terms or otherwise, we may not be able to obtain additional replacement contracts. The non-renewal or termination of any of our contracts with governmental agencies could materially adversely affect our financial condition, results of operations and liquidity, including our ability to secure new facility management contracts from other government customers.

We will continue to be responsible for certain real property payments even if our underlying facility management contracts terminate, which could adversely affect our profitability.

Eleven of our facilities are leased from CentraCore Properties Trust, an independent, publicly-traded REIT which we refer to as CPV. These leases have an initial ten-year term with varying renewal periods at our option, and a total average remaining initial term of 4.0 years. The facility management contracts underlying these leases generally have a term ranging from one to five years, however, they are terminable by the governmental entity at will. In the event that a facility management contract is terminated or expires and is not renewed prior to the expiration of the corresponding lease term for the facility, we will continue to be liable to CPV for the related lease payments. Our 2006 expected obligation for lease payments under the eleven CPV leases is approximately $25.8 million with $114.4 million remaining thereafter. Because these lease payments would not be offset by revenues from an active facility management contract, they could represent a material ongoing loss. If we are unable to find a replacement management contract or an alternative use for the facility, the loss could continue until the expiration of the lease term then in effect, which could adversely affect our profitability.

During 2000, our management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana was discontinued by the mutual agreement of the parties. Despite the discontinuation of the management contract, we remain responsible for payments on our underlying lease of the inactive facility with CPV through January 2010. During the third quarter 2005, we determined that the alternative uses being pursued were no longer probable and as a result we revised our estimated sublease income and recorded an operating charge of $4.3 million, representing the remaining obligation on the lease through the contractual term of January 2010,

for a total reserve of $8.6 million. However, we plan to continue our efforts to reactivate the facility. The Jena facility is the only lease with CPV for which we had no corresponding management contract to operate as of January 1, 2006.

In addition, we own four properties on which we operate correctional and detention facilities. Our purchase of these properties during 2002 was financed through borrowings under our former senior credit facility which have now been incorporated into our current Senior Credit Facility. If the underlying facility management contract for one or more of these properties terminates, we will continue to be responsible for servicing the indebtedness incurred to purchase those properties. For example, we will be required to continue servicing the indebtedness related to one of these properties, the Michigan Correctional Facility, even though our management contract to operate the facility was terminated in 2005.

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

Our growth is generally dependent upon our ability to obtain new contracts to develop and manage new correctional and detention facilities, because contracts to manage existing public facilities have not to date typically been offered to private operators. Public sector demand for new facilities may decrease and our potential for growth will depend on a number of factors we cannot control, including overall economic conditions, crime rates and sentencing patterns in jurisdictions in which we operate, governmental and public acceptance of the concept of privatization, and the number of facilities available for privatization.

The demand for our facilities and services could be adversely affected by the relaxation of criminal enforcement efforts, leniency in conviction and sentencing practices, or through the decriminalization of certain activities that are currently proscribed by criminal laws. For instance, any changes with respect to the decriminalization of drugs and controlled substances or a loosening of immigration laws could affect the number of persons arrested, convicted, sentenced and incarcerated, thereby potentially reducing demand for correctional facilities to house them. Similarly, reductions in crime rates could lead to reductions in arrests, convictions and sentences requiring incarceration at correctional facilities.

We may not be able to secure financing for new facilities, which could adversely affect our results of operations and future growth.

In certain cases, the development and construction of facilities by us is subject to obtaining construction financing. Such financing may be obtained through a variety of means, including without limitation, the sale of tax-exempt or taxable bonds or other obligations or direct governmental appropriations. The sale of tax-exempt or taxable bonds or other obligations may be adversely affected by changes in applicable tax laws or adverse changes in the market for tax-exempt or taxable bonds or other obligations.

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

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

We currently derive, and expect to continue to derive, a significant portion of our revenues from a limited number of governmental agencies. The loss of, or a significant decrease in, business could seriously harm our financial condition and results of operations. The loss of, or a significant decrease in, business from the Bureau

of Prisons, the Bureau of Immigration and Customs Enforcement, which we refer to as ICE, or the U.S. Marshals Service or various state agencies could seriously harm our financial condition and results of operations. The three federal governmental agencies with correctional and detention responsibilities, the Bureau of Prisons, ICE and the Marshals Service, accounted for approximately 26.8% of our total consolidated revenues for the fiscal year ended January 1, 2006, with the Bureau of Prisons accounting for approximately 11.5% of our total consolidated revenues for such period, the Marshals Service accounting for approximately 9.8% of our total consolidated revenues for such period, and ICE accounting for approximately 5.5% of our total consolidated revenues for such period. We expect to continue to depend upon these federal agencies and a relatively small group of other governmental customers for a significant percentage of our revenues.

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

While a substantial portion of our cost structure is generally fixed, a significant portion of our revenues are generated under facility management contracts which provide for per diem payments based upon daily occupancy. We are dependent upon the governmental agencies with which we have contracts to provide inmates for our managed facilities. We cannot control occupancy levels at our managed facilities. Under a per diem rate structure, a decrease in our occupancy rates could cause a decrease in revenues and profitability. When combined with relatively fixed costs for operating each facility, regardless of the occupancy level, a decrease in occupancy levels could have a material adverse effect on our profitability.

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

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

We are dependent on government appropriations, which may not be made on a timely basis or at all.

Our cash flow is subject to the receipt of sufficient funding of and timely payment by contracting governmental entities. If the contracting governmental agency does not receive sufficient appropriations to cover its contractual obligations, it may terminate our contract or delay or reduce payment to us. Any delays in payment, or the termination of a contract, could have a material adverse effect on our cash flow and financial condition, which may make it difficult to satisfy our payment obligations on our indebtedness, including the Notes and the Senior Credit Facility, in a timely manner. The Governor of the State of Michigan's veto in October 2005 of appropriations for our Michigan Correctional Facility in October 2005 is an example of this risk. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations "Commitments and Contingencies". In addition, as a result of, among other things, recent economic developments, federal, state and local governments have encountered, and may continue to encounter, unusual budgetary constraints. As a result, a number of state and local governments are under pressure to control additional spending or reduce current levels of spending. Accordingly, we may be requested in the future to reduce our existing per diem contract rates or forego prospective increases to those rates. In addition, it may become more difficult to renew our existing contracts on favorable terms or at all.

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

The management and operation of correctional and detention facilities by private entities has not achieved complete acceptance by either governments or the public. Some governmental agencies have limitations on their

ability to delegate their traditional management responsibilities for correctional and detention facilities to private companies and additional legislative changes or prohibitions could occur that further increase these limitations. In addition, the movement toward privatization of correctional and detention facilities has encountered resistance from groups, such as labor unions, that believe that correctional and detention facilities should only be operated by governmental agencies. Changes in dominant political parties could also result in significant changes to previously established views of privatization. Increased public resistance to the privatization of correctional and detention facilities in any of the markets in which we operate, as a result of these or other factors, could have a material adverse effect on our business, financial condition and results of operations.

Adverse publicity may negatively impact our ability to retain existing contracts and obtain new contracts. Our business is subject to public scrutiny.

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

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

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

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

The industry in which we operate is subject to extensive federal, state and local regulations, including educational, environmental, health care and safety regulations, which are administered by many regulatory authorities. Some of the regulations are unique to the corrections industry, and the combination of regulations affects all areas of our operations. Facility management contracts typically include reporting requirements, supervision and on-site monitoring by representatives of the contracting governmental agencies. Corrections officers and juvenile care workers are customarily required to meet certain training standards and, in some instances, facility personnel are required to be licensed and are subject to background investigations. Certain jurisdictions also require us to award subcontracts on a competitive basis or to subcontract with businesses owned by members of minority groups. We may not always successfully comply with these and other regulations to which we are subject and failure to comply can result in material penalties or the non-renewal or termination of facility management contracts. In addition, changes in existing regulations could require us to substantially modify the manner in which we conduct our business and, therefore, could have a material adverse effect on us.

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

Governmental agencies may investigate and audit our contracts and, if any improprieties are found, we may be required to refund amounts we have received, to forego anticipated revenues and we may be subject to penalties and sanctions, including prohibitions on our bidding in response to Requests for Proposals, or RFPs, from governmental agencies to manage correctional facilities. Governmental agencies we contract with have the

authority to audit and investigate our contracts with them. As part of that process, governmental agencies may review our performance of the contract, our pricing practices, our cost structure and our compliance with applicable laws, regulations and standards. For contracts that actually or effectively provide for certain reimbursement of expenses, if an agency determines that we have improperly allocated costs to a specific contract, we may not be reimbursed for those costs, and we could be required to refund the amount of any such costs that have been reimbursed. If a government audit asserts improper or illegal activities by us, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or disqualification from doing business with certain governmental entities. Any adverse determination could adversely impact our ability to bid in response to RFPs in one or more jurisdictions.

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

Our success in obtaining new awards and contracts sometimes depends, in part, upon our ability to locate land that can be leased or acquired, on economically favorable terms, by us or other entities working with us in conjunction with our proposal to construct and/or manage a facility. Some locations may be in or near populous areas and, therefore, may generate legal action or other forms of opposition from residents in areas surrounding a proposed site. When we select the intended project site, we attempt to conduct business in communities where local leaders and residents generally support the establishment of a privatized correctional or detention facility. Future efforts to find suitable host communities may not be successful. In many cases, the site selection is made by the contracting governmental entity. In such cases, site selection may be made for reasons related to political and/or economic development interests and may lead to the selection of sites that have less favorable environments.

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

The nature of our business exposes us to various types of third-party legal claims, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, 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 insurance coverage for these types of claims, except for claims relating to employment matters. However, the insurance we maintain to cover the various liabilities to which we are exposed may not be adequate. Any losses relating to matters for which we are either uninsured or for which we do not have adequate insurance could have a material adverse effect on our business, financial condition or results of operations. In addition, any losses relating to employment matters could have a material adverse effect on our business, financial condition or results of operations.

Claims for which we are insured arising from our U.S. operations that have an occurrence date of October 1, 2002 or earlier are handled by TWC and are fully insured up to an aggregate limit of between $25.0 million and $50.0 million, depending on the nature of the claim. With respect to claims for which we are insured arising after October 1, 2002, we maintain a general liability policy for all U.S. operations with $52.0 million per occurrence and in the aggregate. On October 1, 2004, we increased our deductible on this general liability policy from $1.0 million to $3.0 million for each claim which occurs after October 1, 2004. We also maintain insurance to cover property and casualty risks, workers’ compensation, medical malpractice and automobile liability. Our Australian subsidiary is required to carry tail insurance through 2011 related to a discontinued contract. We also carry various types of insurance with respect to our operations in South Africa and Australia. There can be no assurance that our insurance coverage will be adequate to cover claims to which we may be exposed.

Since our insurance policies generally have high deductible amounts (including a $3.0 million per claim deductible under our general liability policy), losses are recorded as reported and a provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. Our management uses judgments in assessing loss estimates that are based on actual claim amounts and loss development experience considering historical and industry experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

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

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

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

We face risks associated with our operations outside the U.S. These risks include, among others, political and economic instability, exchange rate fluctuations, taxes, duties and the laws or regulations in those foreign jurisdictions in which we operate. In the event that we experience any difficulties arising from our operations in foreign markets, our business, financial condition and results of operations may be materially adversely affected. For the fiscal year ended January 1, 2006, our international operations accounted for approximately 16.1% of our consolidated revenues.

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

We conduct substantially all of our operations in South Africa through joint ventures with third parties and may enter into additional joint ventures in the future. Our joint venture agreements generally provide that the joint venture partners will equally share voting control on all significant matters to come before the joint venture. Our joint venture partners may have interests that are different from ours which may result in conflicting views as to the conduct of the business of the joint venture. In the event that we have a disagreement with a joint venture partner as to the resolution of a particular issue to come before the joint venture, or as to the management or conduct of the business of the joint venture in general, we may not be able to resolve such disagreement in our favor and such disagreement could have a material adverse effect on our interest in the joint venture or the business of the joint venture in general.

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

We are dependent upon the continued service of each member of our senior management team, including George C. Zoley, our Chairman and Chief Executive Officer, Wayne H. Calabrese, our Vice Chairman and President, and John G. O'Rourke, our Chief Financial Officer. Under the terms of their retirement agreements, each of these executives are currently eligible to retire at any time from GEO and receive significant lump sum retirement payments. The unexpected loss of any of these individuals could materially adversely affect our business, financial condition or results of operations. We do not maintain key-man life insurance to protect against the loss of any of these individuals.

In addition, the services we provide are labor-intensive. When we are awarded a facility management contract or open a new facility, we must hire operating management, correctional officers and other personnel. The success of our business requires that we attract, develop and retain these personnel. Our inability to hire

sufficient qualified personnel on a timely basis or the loss of significant numbers of personnel at existing facilities could have a material effect on our business, financial condition or results of operations.

Our profitability may be materially adversely affected by inflation.

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

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

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

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

When we are engaged to perform construction and design services for a facility, we typically act as the primary contractor and subcontract with other companies who act as the general contractors. As primary contractor, we are subject to the various risks associated with construction (including, without limitation, shortages of labor and materials, work stoppages, labor disputes and weather interference) which could cause construction delays. In addition, we are subject to the risk that the general contractor will be unable to complete construction at the budgeted costs or be unable to fund any excess construction costs, even though we typically require general contractors to post construction bonds and insurance. Under such contracts, we are ultimately liable for all late delivery penalties and cost overruns.

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

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

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

We have an active acquisition program, the objective of which is identify suitable acquisition targets that will enhance our growth. The pursuit of acquisitions may pose certain risks to us. We may not be able to identify acquisition candidates that fit our criteria for growth and profitability. Even if we are able to identify such candidates, we may not be able to acquire them on terms satisfactory to us. We will incur expenses and dedicate attention and resources associated with the review of acquisition opportunities, whether or not we consummate such acquisitions. Additionally, even if we are able to acquire suitable targets on agreeable terms, we may not be able to successfully integrate their operations with ours. We may also assume liabilities in connection with acquisitions that we would otherwise not be exposed to.

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

None.

Item 2. ***Properties***

In April 2003, we relocated our corporate offices to Boca Raton, Florida, under a 10-year lease. In addition, we lease office space for our eastern regional office in Palm Beach Gardens, Florida; our central regional office in New Braunfels, Texas; and our western regional office in Carlsbad, California. We also lease office space in Sydney, Australia, through our overseas affiliates, in Sandton, South Africa, and in Theale, England to support our Australian, South African, and UK operations, respectively.

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

Item 3. ***Legal Proceedings***

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that our Australian subsidiary formerly operated. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government’s insurance provider and did not specify the amount of damages being sought. In May 2005, we received additional correspondence indicating that the insurance provider still intends to pursue the claim against our Australian subsidiary. Although the claim is in the initial stages and we are still in the process of fully evaluating its merits, we believe that we have defenses to the allegations underlying the claim and intend to vigorously defend our rights with respect to this matter. However, although the insurance provider has not quantified its damage claim and 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. We have accrued a reserve related to the claim 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.

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 4. ***Submission of Matters to a Vote of Security Holders***

No matters were submitted to a vote of our shareholders during the thirteen weeks ended January 1, 2006.

PART II

Item 5. ***Market for Registrant's Common Equity and Related Stockholder Matters***

Our common stock trades on the New York Stock Exchange under the symbol "GGI." The following table shows the high and low prices for our common stock, as reported by the New York Stock Exchange, for each of the four quarters of fiscal years 2005 and 2004. The prices shown have been rounded to the nearest $1/100. The approximate number of shareholders of record as of March 14, 2006, was 135.

	2005		2004	
Quarter	High	Low	High	Low
First	$ 32.20	$ 25.60	$ 24.23	$ 19.80
Second	28.73	23.03	24.62	18.70
Third	28.95	25.15	21.00	17.33
Fourth	25.60	20.72	26.58	19.56

We did not pay any cash dividends on our common stock for fiscal years 2005 and 2004. We intend to retain our earnings to finance the growth and development of our business and do not anticipate paying cash dividends on our capital stock in the foreseeable future. Future dividends, if any, will depend, on our future earnings, our capital requirements, our financial condition and on such other factors as our board of directors may consider relevant. In addition, the indenture governing our $150.0 million 8¹/₄% senior notes due in 2013, and our $150.0 million senior credit facility also place material restrictions on our ability to pay dividends. See "Item 7. Management's Discussion and Analysis, Cash Flow and Liquidity" and "Item 8. Financial Statements — Note 10-Debt" for further description of these restrictions.

We did not buy back any of our common stock during 2005. On July 9, 2003 we purchased all 12 million shares of our common stock beneficially owned by Group 4 Falck, our former 57% majority shareholder, for $132.0 million in cash.

Equity Compensation Plan Information

The following table sets forth information about our common stock that may be issued upon the exercise of options, warrants and rights under all of our equity compensation plans as of January 1, 2006, including our 1994 Stock Option Plan, our 1994 Second Stock Option Plan, our 1999 Stock Option Plan, and our Non-Employee Director Stock Option Plan. Our shareholders have approved all of these plans.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	1,406,657	$ 15.53	13,000
Equity compensation plans not approved by security holders	—	—	—
Total	1,406,657	$ 15.53	13,000

Table of Contents

Sales of Unregistered Securities

To facilitate the completion of the share purchase from Group 4 Falck, on July 9, 2003, we issued $150.0 million aggregate principal amount ten-year 8 1/4% senior notes, referred to as the Notes, in a private offering to qualified institutional buyers under Rule 144A of the Securities Act.

Subsequent to the private offering of the Notes, we filed an S-4 registration statement to register under the Securities Act of 1933 exchange notes, having substantially identical terms as the Notes, which we refer to as the Exchange Notes. The registration statement was declared effective by the SEC on November 10, 2003. We then completed an exchange offer pursuant to the registration statement, in which holders of the Notes exchanged the Notes for the Exchange Notes which are generally freely tradable, subject to certain exceptions. We did not sell any securities that were unregistered under the Securities Act of 1933 in 2004 or 2005.

Item 6. *Selected Financial Data*

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

Fiscal Year Ended:(1)	2005		2004		2003		2002		2001	
Results of Continuing Operations:										
Revenues	$ 612,900	100.0%	$ 593,994	100.0%	$ 549,238	100.0%	$ 501,982	100.0%	$ 490,115	100.0%
Operating income from continuing operations	7,938	1.3%	38,991	6.6%	29,500	5.4%	23,195	4.6%	19,729	4.0%
Income from continuing operations	$ 5,879	1.0%	$ 17,163	2.9%	$ 36,375	6.6%	$ 17,617	3.5%	$ 16,861	3.4%
Income from continuing operations per common share:										
Basic:	$ 0.61		$ 1.83		$ 2.33		$ 0.83		$ 0.80	
Diluted:	$ 0.59		$ 1.77		$ 2.30		$ 0.82		$ 0.79	
Weighted Average Shares Outstanding:										
Basic	9,580		9,384		15,618		21,148		21,028	
Diluted	10,010		9,738		15,829		21,364		21,261	
Financial Condition:										
Current assets	$ 229,292		$ 222,766		$ 191,811		$ 142,839		$ 141,003	
Current liabilities	136,519		117,478		118,704		79,360		74,441	
Total assets	639,511		480,326		505,341		405,378		242,565	
Long-term debt, including current portion (excluding non-recourse debt)	220,004		198,204		245,086		125,000		—	
Shareholders' equity	$ 108,594		$ 99,739		$ 77,325		$ 150,215		$ 128,752	
Operational Data:										
Contracts/awards	59		47		43		50		51	
Facilities in operation	56		41		38		50		49	
Design capacity of contracts	48,370		34,813		38,287		40,757		36,571	
Compensated resident days(2)	12,607,525		12,458,102		11,389,821		10,591,019		9,943,684	

(1) Our fiscal year ends on the Sunday closest to the calendar year end. The fiscal year ended January 2, 2005 contained 53 weeks. Discontinued Operations have not been included with Selected Financial Data. Information related to Discontinued Operations is listed in "Item 8. Financial Statements — Note 3 Discontinued Operations."

(2) Compensated resident days are calculated as follows: (a) for per diem rate facilities — the number of beds occupied by residents on a daily basis during the fiscal year; and (b) for fixed rate facilities — the design capacity of the facility multiplied by the number of days the facility was in operation during the fiscal year. Amounts exclude compensated resident days for United Kingdom for all of the above periods.

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

Introduction

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

CSC Acquisition

On November 4, 2005, we completed the acquisition of Correctional Services Corporation, or CSC, a Florida-based provider of privatized jail, community corrections and alternative sentencing services. The acquisition was completed through the merger of CSC into GEO Acquisition, Inc., a wholly owned subsidiary of GEO, referred to as the Merger. Under the terms of the Merger, we acquired 100% of the 10.2 million outstanding shares of CSC common stock for $6.00 per share, or approximately $62.1 million in cash. As a result of the Merger, we became responsible for supervising the operation of the 16 adult correctional and detention facilities, totaling 8,037 beds, formerly run by CSC. Immediately following the purchase of CSC, we sold Youth Services International, Inc., the former juvenile services division of CSC, for $3.75 million, $1.75 million of which was paid in cash and the remaining $2.0 million of which will be paid in the form of a promissory note accruing interest at a rate of 6% per annum. The financial information included in the discussion below for fiscal year 2005 reflects the operations of CSC from November 4, 2005 through January 1, 2006.

Recent Financings

On September 14, 2005, we amended our senior secured credit facility, referred to as the Senior Credit Facility, to consist of a $75 million, six-year term-loan bearing interest at London Interbank Offered Rate, or LIBOR plus 2.00%, and a $100 million, five-year revolving credit facility bearing interest at LIBOR plus 2.00%. We used the borrowings under the Senior Credit Facility to fund general corporate purposes and to finance the acquisition of CSC for approximately $62 million in cash plus transaction-related costs.

Discontinued Operations

Through our Australian subsidiary, we previously had a contract with the Department of Immigration, Multicultural and Indigenous Affairs, or DIMIA, for the management and operation of Australia's immigration centers. In 2003, the contract was not renewed, and effective February 29, 2004, we completed the transition of the contract and exited the management and operation of the DIMIA centers. The accompanying consolidated financial statements and notes reflect the operations of DIMIA as a discontinued operation in all periods presented.

In early 2005, the New Zealand Parliament repealed the law that permitted private prison operation resulting in the termination of our contract for the management and operation of the Auckland Central Remand Prison or Auckland. We have operated this facility since July 2000. We ceased operating the facility upon the expiration of the contract on July 13, 2005. The accompanying consolidated financial statements and notes reflect the operations of Auckland as a discontinued operation.

On January 1, 2006, the last day of our 2005 fiscal year, we completed the sale of a 72 bed private mental health hospital which we owned and operated since 1997 for approximately $11.5 million. We recognized a gain on the sale of this transaction of approximately $1.6 million. The accompanying consolidated financial statements and notes reflect the operations of the hospital and the related sale as a discontinued operation.

Share Purchase

On July 9, 2003 we purchased all 12 million shares of our common stock beneficially owned by Group 4 Falck, our former 57% majority shareholder, for $132.0 million in cash pursuant to the terms of a share purchase agreement, dated April 30, 2003, by and among us, Group 4 Falck, our former parent company, The Wackenhut Corporation, or TWC, and Tuhnekcaw, Inc., an indirect wholly-owned subsidiary of Group 4 Falck. In connection with the share purchase, we internalized several functions previously outsourced to TWC, including payroll processing, human resources management, tax and information systems.

Sale of Our Joint Venture Interest in Premier Custodial Group Limited

On July 2, 2003, we sold our one-half interest in Premier Custodial Group Limited, our former United Kingdom joint venture which we refer to as PCG, to Serco for approximately $80.7 million, on a pretax basis.

Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, “Consolidation of Variable Interest Entities,” which addressed consolidation by a business of variable interest entities in which it is the primary beneficiary. In December 2003, the FASB issued FIN No. 46R which replaced FIN No. 46. Our 50% owned South African joint venture in South African Custodial Services Pty. Limited, which we refer to as SACS, is a variable interest entity. We determined that we are not the primary beneficiary of SACS and as a result are not required to consolidate SACS under FIN 46R. We account for SACS as an equity affiliate. SACS was established in 2001, to design, finance and build the Kutama Sinthumule Correctional Center. Subsequently, SACS was awarded a 25 year contract to design, construct, manage and finance a facility in Louis Trichardt, South Africa. SACS, based on the terms of the contract with government, was able to obtain long term financing to build the prison. The financing is fully guaranteed by the government, except in the event of default, for which it provides an 80% guarantee. “See Item 7. Financial Condition — Guarantees” for a discussion of our guarantees related to SACS. Separately, SACS entered into a long term operating contract with South African Custodial Management (Pty) Limited, which we refer to as SACM, to provide security and other management services and with SACS’s joint venture partner to provide purchasing, programs and maintenance services upon completion of the construction phase, which concluded in February 2002. Our maximum exposure for loss under this contract is $24.1 million, which represents our initial investment and the guarantees discussed in Item 7. Management’s Discussion and Analysis of Financial Condition.

In February 2004, CSC was awarded a contract by the Department of Homeland Security, Immigration and Customs Enforcement, or ICE, to develop and operate a 1,020 bed detention complex in Frio County, Texas. South Texas Local Development Corporation, referred to as STLDC, a non profit corporation, was created and issued $49.5 million in taxable revenue bonds to finance the construction of the detention complex. Additionally, CSC provided a $5 million subordinated note to STLDC for initial development costs. We determined that we are the primary beneficiary of STLDC and consolidate the entity as a result. STLDC is the owner of the complex and entered into a development agreement with CSC to oversee the development of the complex. In addition, STLDC entered into an operating agreement providing CSC the sole and exclusive right to operate and manage the complex. The operating agreement and bond indenture require that the revenue from CSC’s 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 CSC to cover CSC’s operating expenses and management fee. CSC 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 CSC and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center.

Shelf Registration Statement

On January 28, 2004, our universal shelf registration statement on Form S-3 was declared effective by the Securities and Exchange Commission, which we refer to as the SEC. The universal shelf registration statement

provides for the offer and sale by us, from time to time, on a delayed basis, of up to $200.0 million aggregate amount of our common stock, preferred stock, debt securities, warrants, and/or depositary shares. These securities, which may be offered in one or more offerings and in any combination, will in each case be offered pursuant to a separate prospectus supplement issued at the time of the particular offering that will describe the specific types, amounts, prices and terms of the offered securities. Unless otherwise described in the applicable prospectus supplement relating to the offered securities, we anticipate using the net proceeds of each offering for general corporate purposes, including debt repayment, capital expenditures, acquisitions, business expansion, investments in subsidiaries or affiliates, and/or working capital.

Rights Agreement

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

Critical Accounting Policies

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

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

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

Revenue Recognition

We recognize revenue in accordance with Staff Accounting Bulletin, or SAB, No. 101, “Revenue Recognition in Financial Statements”, as amended by SAB No. 104, “Revenue Recognition”, and related interpretations. 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.

Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because we consider costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which 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 cost incurred. Revenue in excess of the costs attributable to unapproved change orders is not recognized until the change order is approved. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

We extend credit to the governmental agencies we contract with and other parties in the normal course of business as a result of billing and receiving payment for services thirty to sixty days in arrears. Further, we regularly review outstanding receivables, and provide estimated losses through an allowance for doubtful accounts. In evaluating the level of established loss reserves, we make judgments regarding our customers' ability to make required payments, economic events and other factors. As the financial condition of these parties change, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required. We also perform ongoing credit evaluations of our customers' financial condition and generally do not require collateral. We maintain reserves for potential credit losses, and such losses traditionally have been within our expectations.

Reserves for Insurance Losses

Claims for which we are insured arising from our U.S. operations that have an occurrence date of October 1, 2002 or earlier are handled by TWC and are fully insured up to an aggregate limit of between $25.0 million and $50.0 million, depending on the nature of the claim. With respect to claims for which we are insured arising after October 1, 2002, we maintain a general liability policy for all U.S. operations with $52.0 million per occurrence and in the aggregate. On October 1, 2004, we increased our deductible on this general liability policy from $1.0 million to $3.0 million for each claim which occurs after October 1, 2004. We also maintain insurance to cover property and casualty risks, workers' compensation, medical malpractice and automobile liability. Our Australian subsidiary is required to carry tail insurance through 2011 related to a discontinued contract. We also carry various types of insurance with respect to our operations in South Africa and Australia. There can be no assurance that our insurance coverage will be adequate to cover claims to which we may be exposed.

Since our insurance policies generally have high deductible amounts (including a $3.0 million per claim deductible under our general liability policy), losses are recorded as reported and a provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. Our management uses judgments in assessing loss estimates based on actuarial studies, which include actual claim amounts and loss development considering historical and industry experience. If actual losses related to insurance claims significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Income Taxes

We account for income taxes in accordance with Financial Accounting Standards, or FAS, No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to

the assets or liabilities from year to year. Valuation allowances are recorded related to deferred tax assets based on the “more likely than not” criteria of FAS No. 109.

In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, and estimates of future taxable income and available tax planning strategies. If tax regulations, operating results or the ability to implement tax-planning strategies vary, adjustments to the carrying value of deferred tax assets and liabilities may be required.

The provision for income taxes for the fiscal year 2005 reflects a benefit of $1.7 million in the second quarter of 2005 related to the American Jobs Creation Act of 2004, or the AJCA. A key provision of the AJCA creates a temporary incentive for U.S. corporations to repatriate undistributed income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. Additionally, 2005 reflects a benefit of $6.5 million in the fourth quarter related to a step up in basis for an asset in Australia.

Property and Equipment

As of January 1, 2006, we had approximately $282.2 million in long-lived 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 40 years. Equipment and furniture and fixtures are depreciated over 3 to 7 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing evaluations of the estimated useful lives of our property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repairs are expensed as incurred.

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 in accordance with FAS No. 144 “Accounting for the Impairment of Disposal of Long-Lived Assets”. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. 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. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed our long-lived assets and determined that there are no events requiring impairment loss recognition for the period ended January 1, 2006, other than the Michigan Facility charge. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations “Commitments and Contingencies.” 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 which might impair recovery of long-lived assets.

Idle Leased Facilities

We have entered into ten year non cancelable operating leases with CentraCore Properties Trust, or CPV, for eleven facilities with initial terms that expire at various times beginning in April 2008 and extending through 2016. In the event that our facility management contract for any of these leased facilities is terminated, we would remain responsible for payments to CPV on the underlying lease. We will account for idle periods under any such lease in accordance with FAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities.” Specifically, we will review our estimate for sublease income and record a charge for the difference between the net present value of the sublease income and the lease expense over the remaining term of the lease.

Results of Operations

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

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

As further discussed above, the discussion of our results of operations below excludes the results of our discontinued operations resulting from the termination of our management contract with DIMIA, Auckland, and Atlantic Shores Hospital for all periods presented.

For the purposes of the discussion below, "2005" means the 52 week fiscal year ended January 1, 2006, "2004" means the 53 week fiscal year ended January 2, 2005, and "2003" means the 52 week fiscal year ended December 28, 2003.

Overview

GEO had diluted earnings per share of $0.70, $1.73 and $2.53 in 2005, 2004, and 2003 respectively. For fiscal year 2005, the $0.70 amount included ($1.54) per diluted share for certain items, as detailed below, compared to the fiscal year 2004 $1.73 amount, which included ($0.03) per diluted share for certain items detailed below. The fiscal year 2003 $2.53 amount included $1.58 per diluted share for certain items detailed below. Weighted average common shares outstanding for fiscal year 2004 reflects a full year of the effect of our purchase of 12 million shares of our common stock in the third quarter 2003.

The following table sets forth certain items before tax which we consider relevant to the discussion below of our operating results for 2005, 2004 and 2003:

	Fiscal Year		
	2005	2004 (Dollars in thousands, except per share data)	2003
Certain Items (before income taxes)			
Michigan correctional facility write-off	$ (20,859)	$ —	$ —
Insurance reduction	1,300	4,150	—
Jena, Louisiana write-off	(4,255)	(3,000)	(5,000)
DIMIA insurance reserves	—	—	(3,600)
Write-off of acquisition costs	—	(1,306)	—
Gain on sale of UK joint venture	—	—	56,094
Write-off of deferred financing fees	(1,360)	(317)	(1,989)
Certain Items	$ (25,174)	$ (473)	$ 45,505
Amounts per diluted common share after-tax	$ (1.54)	$ (0.03)	$ 1.58

The following table delineates where the total of certain items above are classified in our Consolidated Statements of Income.

	Fiscal Year		
	2005	2004 (Dollars in thousands)	2003
Certain Items represented in the various lines of the Consolidated Statements of Income			
Operating Expenses	$ (23,814)	$ 1,150	$ (8,600)
General and Administrative Expenses	—	(1,306)	—
Write-off of deferred financing fees	(1,360)	(317)	(1,989)
Gain on Sale of UK joint venture	—	—	56,094
Certain Items	$ (25,174)	$ (473)	$ 45,505

2005 versus 2004

Revenues and Operating Expenses

	2005	% of Revenue	2004	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Revenue						
Correctional and Detention Facilities	$ 572,109	93.3%	$ 546,952	92.1%	$ 25,157	4.6%
Other	$ 40,791	6.7%	$ 47,042	7.9%	$ (6,251)	(13.3)%
Total	$ 612,900	100.0%	$ 593,994	100.0%	$ 18,906	3.2%

The increase in revenues in 2005 compared to 2004 is primarily attributable to five items: (i) Australian and South African revenues increased approximately $7.8 million, $2.6 million and $0.2 million of which was due to the strengthening of the Australian dollar and South African Rand, respectively, and $5.0 million of which was due to higher occupancy rates and contractual adjustments for inflation; (ii) the acquisition of CSC increased revenues $17.3 million; (iii) the McFarland facility was idle for all of 2004 and was re-opened in January 2005 resulting in an increase in revenues of approximately $3.1 million; (iv) domestic revenues also increased due to contractual adjustments for inflation, slightly higher occupancy rates and improved terms negotiated into a number of contracts. These increases offset a decrease in revenues due to the transition of the Queens contract from ICE to USMS, the closure of the Michigan Correctional Facility on October 14, 2005, the expiration of our operating contract for the Kyle Facility on August 31, 2005, and lower populations in our Val Verde, and San Diego Facilities; and (v) revenues decreased in 2005 because it contained 52 weeks compared to 2004, which contained 53 weeks.

The number of compensated resident days in domestic facilities increased to 10.7 million in 2005 from 10.5 million in 2004. Compensated resident days in Australian and South African facilities remained constant at 2.0 million during 2005 and 2004. 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 domestic, Australian and South African facilities combined was 97.5% of capacity in 2005 compared to 99.3% in 2004. The decrease in the average occupancy is due to an increase in the number of beds made available to us under our contracts and lower populations in our Val Verde and San Diego facilities.

	2005	% of Revenue	2004	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Operating Expenses						
Correctional and Detention Facilities	$ 499,924	81.6%	$ 449,310	75.7%	$ 50,614	11.3%
Other	$ 40,204	6.5%	$ 45,916	7.7%	$ (5,712)	(12.4)%
Total	$ 540,128	88.1%	$ 495,226	83.4%	$ 44,902	9.1%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. Operating expenses for fiscal year 2005 reflect an impairment charge of $20.9 million for the Michigan Correctional Facility. We own the 480-bed Michigan Correctional Facility and operated the facility from 1999 until October 2005 pursuant to a management contract with the Michigan Department of Corrections, or the MDOC. Separately, we leased the facility, as lessor, to the State, as lessee, under a lease with an initial term of 20 years followed by two 5-year options. On September 30, 2005, the Governor of the State of Michigan announced her decision to close the facility. As a result of the closure, our management contract with the MDOC was terminated. On October 3, 2005, the Michigan Department of Management & Budget provided a 60 day lease cancellation notice to us. See Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations “Commitments and Contingencies” for further discussion relating to our Michigan Correctional Facility. Additionally, 2005 operating expenses reflect an operating charge on the Jena lease of $4.3 million, representing the remaining obligation on the lease through the contractual term of January 2010.

Operating expenses in 2005 were favorably impacted by a $3.4 million reduction in our reserves for general liability, auto liability, and workers compensation insurance. This favorable reduction was largely offset by higher than anticipated U.S. employee health insurance costs of approximately $1.7 million, transition expenses of approximately $0.8 million associated with our Queens New York Facility, start-up expenses at certain domestic facilities of approximately $0.6 million and adjustments of approximately $0.4 million to insurance reserves in our Australian operations.

The $3.4 million reduction in insurance reserves was the result of revised actuarial projections related to loss estimates for the initial three years of our insurance program which was established on October 2, 2002. Prior to October 2, 2002, our insurance coverage was provided through an insurance program established by TWC, our former parent company. We experienced significant adverse claims development in general liability and workers' compensation in the late 1990's. Beginning in approximately 1999, we made significant operational changes and began to aggressively manage our risk in a proactive manner. These changes have resulted in improved claims experience and loss development, which we are realizing in our actuarial projections. As a result of improving loss trends, our independent actuary reduced its expected losses for claims arising since October 2, 2002. We adjusted our reserves in the third quarter of 2005 to reflect the actuary's improved expected loss projections. There can be no assurance that our improved claims experience and loss developments will continue. Similarly, 2004 operating expenses reflect a $4.2 million reduction in insurance reserves also attributable to improved actuarial loss projections.

During 2005, we experienced adverse development in our employee health program. Since we are self-insured for employee healthcare, this adverse development resulted in additional claims expense and increased reserve requirements. During the third quarter of 2005, we completed a review of our employee health program and made adjustments to the plan to reduce future costs. The revised plan was effective November 1, 2005. There can be no assurance that these modifications will improve our claims experience.

Operating expenses in 2004 reflect an additional provision for operating losses of approximately $3.0 million related to our inactive facility in Jena, Louisiana.

The remaining increase in operating expenses is consistent with and proportional to the increase in revenues discussed above as a result of the CSC acquisition, the start-up of new facilities and the expansion of existing facilities.

Other

Other primarily consists of revenues and related operating expenses associated with our mental health and construction businesses. The decrease in 2005 primarily relates to approximately $7.2 less construction revenue as compared to 2004. The construction revenue is related to our expansion of the South Bay Facility, one of the facilities that we manage. The expansion was completed at the end of the second quarter of 2005.

Other Unallocated Operating Expenses

General and Administrative Expenses

	2005	% of Revenue	2004	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
General and Administrative Expenses	$ 48,958	8.0%	$ 45,879	7.7%	$ 3,079	6.7%

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. The increase in expense reflects increased personnel and business development costs associated with the expansion of our mental health business. The increase also reflects costs associated with compliance with Sarbanes-Oxley requirements for management's assessment over internal controls, which resulted in an increase in professional fees in 2005 of $0.9 million. The remaining increase in general and administrative costs relates to other increases in professional fees, travel, expenses associated with our acquisition program and rent expense for our corporate offices.

Non Operating Expenses

Interest Income and Interest Expense

	2005	% of Revenue	2004	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Interest Income	$ 9,154	1.5%	$ 9,568	1.6%	$ (414)	(4.3)%
Interest Expense	$ 23,016	3.8%	$ 22,138	3.7%	$ 878	4.0%

The decrease in interest income is primarily due to lower average invested cash balances. Interest income for 2005 and 2004 reflects income from interest rate swap agreements entered into September 2003 for our domestic operations, which increased interest income. The interest rate swap agreements in the aggregate notional amounts of $50.0 million are hedges against the change in the fair value of a designated portion of the Notes due to changes in the underlying interest rates. The interest rate swap agreements have payment and expiration dates and call provisions that coincide with the terms of the Notes.

The increase in interest expense is primarily attributable to the refinancing of the term loan portion of our Senior Credit Facility.

Costs Associated with Debt Refinancing

Deferred financing fees of $1.4 million were written off in 2005 in connection with the refinancing of the term loan portion of the Senior Credit Facility. In 2004, $0.3 million was written off in 2004 in connection with the $43.0 million payment related to the term loan portion of the Senior Credit Facility.

Provision for Income Taxes

	2005	% of Revenue	2004	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Income Taxes	$ (11,826)	(1.9)%	$ 8,231	1.4%	$ (20,057)	(243.7)%

Income taxes for 2005 reflect a benefit as a result of the loss before income taxes which primarily resulted from the $20.9 million impairment charge for the Michigan Facility and the $4.3 million charge to record the remaining lease obligation for the Jena lease with CPV.

The income tax benefit for 2005 reflects a benefit of $6.5 million in the fourth quarter 2005 related to a step up in tax basis for an asset in Australia which resulted in a decreased deferred tax liability.

The income tax benefit for 2005 also reflects a benefit of $1.7 million in the second quarter 2005 related to the American Jobs Creation Act of 2004, or the AJCA. A key provision of the AJCA creates a temporary incentive for U.S. corporations to repatriate undistributed income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations.

Equity in Earnings of Affiliate

	2005	% of Revenue	2004	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Equity in Earnings of Affiliate	$ 2,079	0.3%	$ —	0.0%	$ 2,079	100.0%

Equity in earnings of affiliate in 2005 reflects a one time tax benefit of $2.1 million related to a change in South African tax law.

Table of Contents

Fiscal 2004 Compared with 2003

Revenues and Operating Expenses

	2004	% of Revenue	2003	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Revenue						
Correctional and Detention Facilities	$ 546,952	92.1%	$ 519,246	94.5%	$ 27,706	5.3%
Other	$ 47,042	7.9%	$ 29,992	5.5%	$ 17,050	56.8%
Total	$ 593,994	100.0%	$ 549,238	100.0%	$ 44,756	8.1%

The increase in revenues in 2004 compared to 2003 is primarily attributable to five items: (i) Australian and South African revenues increased approximately $17.7 million, $9.7 million and $2.2 million of which was due to the strengthening of the Australian dollar and South African Rand, respectively, and $5.8 million of which was due to higher occupancy rates and contractual adjustments for inflation; (ii) revenues derived from construction increased by $13.1 million in 2004 as compared to 2003 when construction revenue was insignificant. The construction revenue was related to our expansion of South Bay, one of the facilities that we manage, which was completed during the second quarter of 2005; (iii) the opening of new facilities, including Reeves and Sanders Estes, resulted in a $13.1 million increase in revenue. The increase in revenues also reflects $4.9 million of additional revenue in 2004 because the Lawrenceville Correctional Center, which opened in March 2003, was operational for the entire period; (iv) revenues increased in 2004 because it contained 53 weeks compared to 2003, which contained 52 weeks; and (v) domestic revenues also increased due to contractual adjustments for inflation, slightly higher occupancy rates and improved terms negotiated into a number of contracts. These increases were offset by $24.6 million of lost revenue due to the non renewal in January 2004 of the management contracts for the Willacy State Jail and John R. Lindsey State Jail, and the closure of the McFarland CCF State Correctional Facility on December 31, 2003. The McFarland facility was reactivated on January 1, 2005.

The number of compensated resident days in domestic facilities increased to 10.5 million in 2004 from 9.7 million in 2003. Compensated resident days in Australian and South African facilities during 2004 increased to 2.0 million from 1.7 million for the comparable periods in 2003 primarily due to higher population levels. 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 domestic, Australian and South African facilities combined was 99.3% of capacity in 2004 compared to 97.9% in 2003. The decrease in the average occupancy is primarily due to an increase in the number of beds made available to us under our contracts.

	2004	% of Revenue	2003	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Operating Expenses						
Correctional and Detention Facilities	$ 449,310	75.7%	$ 438,678	79.9%	$ 10,632	2.4%
Other	$ 45,916	7.7%	$ 28,340	5.1%	$ 17,576	62.0%
Total	$ 495,226	83.4%	$ 467,018	85.0%	$ 28,208	6.0%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. Fiscal 2004 operating expenses include a $4.2 million reduction in our general liability, auto liability and worker's compensation insurance reserves that was made in the third quarter 2004.

Operating expenses in 2004 also reflect an additional provision for operating losses of approximately $3.0 million related to our inactive facility in Jena, Louisiana.

Operating expenses in 2003 reflect a provision for operating losses of approximately $5.0 million related to the Jena facility, and approximately $3.0 million primarily attributable to liability insurance expenses, related to the transitioning of the DIMIA contract.

The remaining increase in operating expenses is consistent with and proportional to the increase in revenues discussed above as a result of the CSC acquisition, the start-up of new facilities and the expansion of existing facilities.

Other

Other primarily consists of revenues and related operating expenses associated with our mental health business and construction business. The increase in 2004 primarily relates to approximately $13.1 of construction revenue as compared to 2003, when construction revenue was insignificant. The construction revenue is related to our expansion of the South Bay Facility, one of the facilities that we manage. The expansion was completed during the second quarter of 2005.

Other Unallocated Operating Expenses

General and Administrative Expenses

	2004	% of Revenue	2003	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
General and Administrative Expenses	$ 45,879	7.7%	$ 39,379	7.2%	$ 6,500	16.5%

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. The increase also reflects costs associated with compliance with Sarbanes-Oxley requirements for management’s assessment over internal controls resulted in an increase in professional fees in 2004 of $1.0 million. Salary expense increased $5.0 million in 2004 as a result of increased incentive targets under our senior officer incentive plan and the internalization of functions and services previously outsourced to TWC. In addition, we were pursuing acquisition opportunities in 2004, and had capitalized direct and incremental costs related to potential acquisitions. During the fourth quarter of 2004, we determined that the related acquisitions were no longer probable, and wrote off the capitalized deferred acquisition costs of $1.3 million. Finally, the remaining increase in general and administrative costs relates to other increases in professional fees, travel and rent expense for our corporate offices. These increases were partially offset by reduced salary expense in 2004 as compared to 2003. In May 2004, we completed payments under employment agreements with certain key executives triggered by the change in control from the sale of TWC in May 2002, resulting in a $2.4 million reduction in salary expense in 2004.

Non Operating Expenses

Interest Income and Interest Expense

	2004	% of Revenue	2003	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Interest Income	$ 9,568	1.6%	$ 6,853	1.2%	$ 2,715	39.6%
Interest Expense	$ 22,138	3.7%	$ 17,896	3.3%	$ 4,242	23.7%

The increase in interest income is primarily due to higher average invested cash balances. The increase also reflects income from interest rate swap agreements entered into September 2003 for our domestic operations, which increased interest income. The interest rate swap agreements in the aggregate notional amounts of $50.0 million are hedges against the change in the fair value of a designated portion of the Notes due to changes in the underlying interest rates. The interest rate swap agreements have payment and expiration dates and call provisions that coincide with the terms of the Notes.

The increase in interest expense is primarily attributable to the Notes, which began accruing interest on July 9, 2003. This resulted in a full year of interest expense in 2004 as compared to approximately six months in

2003. On June 25, 2004, we made a payment of approximately $43.0 million on the term loan portion of our Senior Credit Facility, eliminating interest expense on the term loan for the remainder of 2004. Further, interest expense reflects higher average interest rates during 2004.

Costs Associated with Debt Refinancing

Deferred financing fees of $0.3 million were written off in 2004 in connection with the $43.0 million payment related to the term loan portion of the Senior Credit Facility on June 25, 2004. In 2003, the extinguishment of debt resulted in write-offs of deferred financing fees of $2.0 million.

Sale of Joint Venture

Fiscal year 2003's results of operations includes the sale of the UK joint venture for $80.7 million which resulted in a gain of $56.1 million.

Provision for Income Taxes

	2004	% of Revenue	2003	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Income Taxes	$ 8,231	1.4%	$ 36,852	6.7%	$ (28,621)	(77.7)%

Provision for income taxes increased primarily due to the tax effect on the gain on sale of PCG in July 2003.

Financial Condition

Liquidity and Capital Resources

Current cash requirements consist of amounts needed for working capital, debt service, capital expenditures, supply purchases and investments in joint ventures. Our primary source of liquidity to meet these requirements is cash flow from operations and borrowings under the $100.0 million revolving portion of our Senior Credit Facility. As of January 1, 2006, we had $56.3 million available for borrowing under the revolving portion of the Senior Credit Facility.

We incurred substantial indebtedness in connection with the acquisition of CSC on November 4, 2005 and the share purchase in 2003. As of January 1, 2006, we had $225.1 million of consolidated debt outstanding, excluding $142.5 million of non-recourse debt. As of January 1, 2006, we also had outstanding eleven letters of guarantee totaling approximately $6.5 million under separate international credit facilities. Our significant debt service obligations could, under certain circumstances, have material consequences. See "Risk Factors — Risks Related to Our High Level of Indebtedness." However, our management believes that cash on hand, cash flows from operations and our Senior Credit Facility will be adequate to support currently planned business expansion and various obligations incurred in the operation of our business, both on a near and long-term basis.

In the future, our access to capital and ability to compete for future capital-intensive projects will be dependent upon, among other things, our ability to meet certain financial covenants in the indenture governing the Notes and in our Senior Credit Facility. A substantial decline in our financial performance could limit our access to capital and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations.

Our business requires us to make various capital expenditures from time to time, including expenditures related to the development of new correctional, detention and/or mental health facilities. In addition, some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. Generally, these initial expenditures are subsequently fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. However, we cannot assure you that any of these expenditures will, if made, be recovered. Based on current estimates of our capital needs, we anticipate that our capital expenditures will not exceed $10.0 million during the next 12 months. We plan to fund these capital expenditures from cash from operations or borrowings under the Senior Credit Facility.

We have entered into individual executive retirement agreements with our CEO and Chairman, President and Vice Chairman, and Chief Financial Officer. These agreements provide each executive with a lump sum payment upon retirement. Under the agreements, each executive may retire at any time after reaching the age of 55. Each of the executives reached the eligible retirement age of 55 in 2005. None of the executives have indicated their intent to retire as of this time. However, under the retirement agreements, retirement may be taken at any time at the individual executive's discretion. In the event that all three 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 revolving credit facility. 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

On September 14, 2005, we amended and restated our Senior Credit Facility, to consist of a $75 million, six-year term-loan initially bearing interest at LIBOR plus 2.00%, and a $100 million, five-year revolving credit facility initially bearing interest at LIBOR plus 2.00%. We used the borrowings under the Senior Credit Facility to fund general corporate purposes and to finance the acquisition of CSC, which closed on November 4, 2005 for approximately $62 million in cash plus deal-related costs. As of January 1, 2006, we had borrowings of $74.8 million outstanding under the term loan portion of the Senior Credit Facility, no amounts outstanding under the revolving portion of the Senior Credit Facility, and $43.7 million outstanding in letters of credit under the revolving portion of the Senior Credit Facility.

All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of our existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of our present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, including but not limited to (i) a first-priority pledge of all of the outstanding capital stock owned by us and each guarantor, and (ii) perfected first-priority security interests in all of our present and future tangible and intangible assets and the present and future tangible and intangible assets of each guarantor.

Indebtedness under the revolving portion of the Senior Credit Facility bears interest at our option at the base rate plus a spread varying from 0.50% to 1.25% (depending upon a leverage-based pricing grid set forth in the Senior Credit Facility), or at LIBOR plus a spread, varying from 1.50% to 2.25% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). As of January 1, 2006, there were no borrowings currently outstanding under the revolving portion of the Senior Credit Facility. However, new borrowings would bear interest at LIBOR plus 2.00% or at the base rate plus 1.00%. Letters of credit outstanding under the revolving portion of the Senior Credit Facility bear interest at 1.50% to 2.25% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). Available capacity under the revolving portion of the Senior Credit Facility bears interest at 0.38% to 0.5%. The term loan portion of the Senior Credit Facility bears interest at our option at either the base rate plus a spread of 0.75% to 1.00%, or at LIBOR plus a spread, varying from 1.75% to 2.00% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). Borrowings under the term loan portion of the Senior Credit Facility currently bear interest at LIBOR plus a spread of 2.00%. If an event of default occurs under the Senior Credit Facility, (i) all LIBOR rate loans bear interest at the rate which is 2.00% in excess of the rate then applicable to LIBOR rate loans until the end of the applicable interest period and thereafter at a rate which is 2.00% in excess of the rate then applicable to base rate loans, and (ii) all base rate loans bear interest at a rate which is 2.00% in excess of the rate then applicable to base rate loans.

The Senior Credit Facility contains financial covenants which require us to maintain the following ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period: a total leverage ratio equal to or less than 3.50 to 1.00 through December 30, 2006, which reduces thereafter in 0.50 increments to 3.00 to 1.00 for the period from December 31, 2006 through December 27, 2007 and thereafter; a senior secured leverage ratio equal to or less than 2.50 to 1.00; and a fixed charge coverage ratio equal to or less than 1.05 to 1.00 until December 30, 2006, and thereafter a ratio of 1.10 to 1.00. In addition, the Senior Credit Facility prohibits us from making capital expenditures greater than $19.0 million in the aggregate during any

fiscal year until 2009 and $24.0 million during each of the years 2010 and 2011, provided that to the extent that our capital expenditures during any fiscal year are less than the limit, such amount will be added to the maximum amount of capital expenditures that we can make in the following year.

The Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict our ability to, among other things (i) create, incur or assume any indebtedness, (ii) incur liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) sell our assets, (vi) make certain restricted payments, including declaring any cash dividends or redeem or repurchase capital stock, except as otherwise permitted, (vii) issue, sell or otherwise dispose of our capital stock, (viii) transact with affiliates, (ix) make changes to our accounting treatment, (x) amend or modify the terms of any subordinated indebtedness (including the Notes), (xi) enter into debt agreements that contain negative pledges on our assets or covenants more restrictive than contained in the Senior Credit Facility, (xii) alter the business we conduct, and (xiii) materially impair our lenders' security interests in the collateral for our loans. Events of default under the Senior Credit Facility include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our material breach of any representations or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross defaults to certain other indebtedness, (vi) unsatisfied final judgments over a threshold to be determined, (vii) material environmental claims which are asserted against us, and (viii) a change of control.

The covenants governing our Senior Credit Facility, including the covenants described above, impose significant operating and financial restrictions which may substantially restrict, and materially adversely affect, our ability to operate our business.

See "Risk Factors — Risks Related to Our High Level of Indebtedness — The covenants in the indenture governing the Notes and our Senior Credit Facility impose significant operating and financial restrictions which may adversely affect our ability to operate our business."

Senior 8 1/4% Notes

To facilitate the completion of the purchase of the 12 million shares from Group 4 Falck, we issued $150.0 million aggregate principal amount, ten-year, 8 1/4% senior unsecured notes, which we refer to as the Notes. The Notes are general, unsecured, senior obligations of ours. Interest is payable semi-annually on January 15 and July 15 at 8 1/4%. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between us and the Bank of New York, as trustee, referred to as the Indenture. Under the terms of the Indenture, at any time on or prior to July 15, 2006, we may redeem up to 35% of the Notes with the proceeds from equity offerings at 108.25% of the principal amount to be redeemed plus the payment of accrued and unpaid interest, and any applicable liquidated damages. Additionally, after July 15, 2008, we may redeem, at our option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the redemption occurs. The Indenture contains certain covenants that limit our ability to incur additional indebtedness, pay dividends or distributions on our common stock, repurchase our common stock, and prepay subordinated indebtedness. The Indenture also limits our ability to issue preferred stock, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets.

The covenants governing the Notes impose significant operating and financial restrictions which may substantially restrict and adversely affect our ability to operate our business. See "Risk Factors — Risks Related to Our High Level of Indebtedness — The covenants in the indenture governing the Notes and our Senior Credit Facility impose significant operating and financial restrictions which may adversely affect our ability to operate our business." We believe that we were in compliance with all of the covenants of the Indenture governing the Notes as of January 1, 2006.

Non-Recourse Debt

South Texas Detention Complex:

In February 2004, CSC was awarded a contract by ICE to develop and operate a 1,020 bed detention complex in Frio County Texas. STLDC was created and issued $49.5 million in taxable revenue bonds to finance the construction of the detention center. Additionally, CSC provided a $5 million subordinated note to STLDC for initial development. We determined that we are the primary beneficiary of STLDC and consolidate the entity as a result. STLDC is the owner of the complex and entered into a development agreement with CSC to oversee the development of the complex. In addition, STLDC entered into an operating agreement providing CSC the sole and exclusive right to operate and manage the complex. The operating agreement and bond indenture require the revenue from CSC's 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 CSC to cover CSC's operating expenses and management fee. CSC 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 CSC and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center.

Included in non-current restricted cash equivalents and investments is $12.2 million as of January 1, 2006 as funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

On June 30, 2003 CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington (the "Northwest Detention Center"), which CSC completed and opened for operation in April 2004. In connection with this financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a $57 million note payable to the Washington Economic Development Finance Authority ("WEDFA"), an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance to CSC of Tacoma LLC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to CSC and the loan from WEDFA to CSC of Tacoma, LLC is non-recourse to CSC. 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.

Included in non-current restricted cash equivalents and investments is $1.3 million as of January 1, 2006 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, which are non-recourse to us. We have consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $40.3 million and $44.7 million as of January 1, 2006 and January 2, 2005, respectively. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at January 1, 2006, was approximately $3.7 million. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria.

Guarantees

In connection with the creation of SACS, we entered into certain guarantees related to the financing, construction and operation of the prison. We guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or approximately $9.5 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 50% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 6.5 million South African Rand, or approximately $1.0 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 the revolving loan portion of our Senior Credit Facility.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or approximately $3.2 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 CAN$2.5 million, or approximately $2.1 million commencing in 2017. We have a liability of $0.6 million and $0.5 million related to this exposure as of January 1, 2006 and January 2, 2005, respectively. To secure this guarantee, we purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. We have recorded an asset and a liability equal to the current fair market value of those securities on our balance sheet. We do not currently operate or manage this facility

At January 1, 2006, we also had outstanding eleven letters of guarantee totaling approximately $6.5 million under separate international facilities. We do not have any off balance sheet arrangements.

Interest Rate Swaps

Effective September 18, 2003, we entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. We have designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. 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. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the six-month LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of January 1, 2006 and January 2, 2005, the fair value of the swaps totaled approximately $(1.1) million and $0.7 million, respectively, and is included in other non-current assets and other non-current liabilities in the accompanying balance sheets. There was no material ineffectiveness of our interest rate swaps for the years ended January 1, 2006 or January 2, 2005.

Our Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. We have determined the swap to be an effective cash flow hedge. Accordingly, we record the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap liability as of January 1, 2006 and January 2, 2005 was approximately $0.4 million and $2.5 million, respectively, and is recorded as a component of other liabilities in the accompanying consolidated financial statements. There was no material ineffectiveness of the interest rate swaps for the fiscal years presented. We do not expect to enter into any transactions during the next twelve

months which will result in the reclassification into earnings of gains or losses associated with this swap that are currently reported in accumulated other comprehensive loss.

Cash Flow

Cash and cash equivalents as of January 1, 2006 were $57.1 million, a decrease of $34.9 million from January 2, 2005.

Cash provided by operating activities of continuing operations in 2005, 2004 and 2003 was $31.8 million, $31.5 million, and $14.4 million, respectively. Cash provided by operating activities of continuing operations in 2005 was positively impacted by impairment charges of $20.9 million for our Michigan Correctional Facility and $4.3 million related to our Jena facility. Cash provided by operating activities of continuing operations in 2003 was positively impacted by an increase in accounts payable and accrued expenses and other liabilities. The increase in accounts payable and other accrued expenses is attributable to the increase in value of our Australian subsidiary's accounts payable and accrued expenses due to an increase in foreign exchange rates and an increase in reserves for self insurance. The increase in other liabilities reflects an increase in the liability for the fair market value of our Australian subsidiary's interest rate swap and an increase in certain pension obligations.

Cash provided by operating activities of continuing operations in 2005 was negatively impacted by an increase in accounts receivable. The increase in accounts receivable is attributable to the increase in value of our Australian subsidiary's accounts receivable due to an increase in foreign exchange rates, the addition of the Lawrenceville Correctional Facility and slightly higher monthly billings reflecting a general increase in facility occupancy levels.

Cash used in investing activities of continuing operations in 2005 was $104.9 million. Cash provided by investing activities in 2004 and 2003, was $42.1 million and $8.3 million, respectively. Cash used in investing activities in 2005 reflect the acquisition of CSC. In 2004, there was a decrease in the restricted cash balance of $52.0 million due to the payment of $43.0 million of the term loan portion of the Senior Credit Facility with the net proceeds of the sale of PCG. This payment satisfied the restriction on cash imposed by the terms of the Senior Credit Facility and the remainder was reclassified to cash. Cash provided by investing activities in 2003 reflects the gross proceeds from the sale of PCG offset by restricted cash and capital expenditures in the normal course of business.

Cash provided by financing activities in 2005 was $24.6 million. Cash used in financing activities in 2004 and 2003 was $47.1 million and $17.2 million, respectively. Cash provided by financing activities in 2005 reflect the payoff of $53.4 million and the refinancing of $75.0 million of the term loan portion of the Senior Credit Facility. Cash used in financing activities in 2004 reflect payments of $10.0 million on borrowings under the Revolving Credit Facility, $4.0 million in scheduled payments on the Term Loan Facility, and a one-time $43.0 million payment on the Term Loan Facility from the net proceeds from the sale of our interest in PCG. The $10.0 million proceeds from debt reflect borrowings under the Revolving Credit Facility in 2004.

Contractual Obligations and Off Balance Sheet Arrangements

The following is a table of certain of our contractual obligations, as of January 1, 2006, which requires us to make payments over the periods presented.

Contractual Obligations	Payments Due by Period — Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In thousands)		
Long-term debt obligations	$ 225,114	$ 1,051	$ 1,500	$ 19,125	$ 203,438
Capital lease obligations (includes imputed interest)	32,805	2,087	4,254	3,884	22,580
Operating lease obligations	206,879	37,233	69,730	33,306	66,610
Non-recourse debt	142,479	6,707	23,171	25,868	86,733
Estimated interest payments on debt(a)	176,146	24,937	48,371	46,103	56,735
Estimated payments on interest rate swaps(a)	(76)	(10)	(20)	(20)	(26)
Other long-term liabilities	12,749	11,047	112	248	1,342
Total	$ 796,096	$ 83,052	$ 147,118	$ 128,514	$ 437,412

(a) Due to the uncertainties of future LIBOR rates, the variable interest payments on our credit facility and swap agreements were calculated using LIBOR rates of 4.61% and 4.73% based on our bank rates as of February 24, 2006 and January 13, 2006, respectively.

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

Commitments and Contingencies

During 2000, our management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana, which is included in the correction and detention facilities segment, was discontinued by the mutual agreement of the parties. Despite the discontinuation of the management contract, we remain responsible for payments on our underlying lease of the inactive facility with CentraCore Properties Trust, ("CPV") through January 2010. During the Third Quarter 2005, we determined the alternative uses being pursued were no longer probable and as a result revised our estimated sublease income and recorded an operating charge of $4.3 million, representing the remaining obligation on the lease through the contractual term of January 2010 for a total reserve of $8.6 million. However, we plan to continue our efforts to reactivate the facility.

We own the 480-bed Michigan Correctional Facility in Baldwin, Michigan, referred to as the Michigan Facility. We operated the Michigan Facility from 1999 until October 2005 pursuant to a management contract with the Michigan Department of Corrections, or the MDOC. Separately, we leased the Michigan Facility, as lessor, to the State, as lessee, under a lease with an initial term of 20 years followed by two five-year options. On September 30, 2005, the Governor of the State of Michigan announced her decision to close the Michigan Facility. As a result of the closure of the Michigan Facility, our management contract with the MDOC to operate the Michigan Facility was terminated. On October 3, 2005, the Michigan Department of Management & Budget sent us a 60 day cancellation notice to terminate the lease for the Michigan Facility. Based in part on the language of certain provisions in the lease, we believe that the Governor does not have the authority to unilaterally terminate the Michigan Facility lease. As a result, in November 2005, we filed a lawsuit against the State to enforce our rights under the lease. On February 24, 2006, the Ingham County Circuit Court, the trial court with jurisdiction over the case, granted summary judgment in favor of the State and against us and the other plaintiffs, The Village of Baldwin and Webber Township. The trial court ruled that the State lawfully cancelled the lease when the Governor exercised her line item veto of the legislative appropriation for the funding of the lease. We are in the process of appealing the summary judgment entered by the trial court. We have reviewed the Michigan Facility for impairment in accordance with FAS 144, Accounting for the

Impairment or Disposal of Long-Lived Assets, and recorded an impairment charge in the fourth quarter of 2005 for $20.9 million.

We have entered into construction contracts with the Florida Department of Management Services, or DMS, to expand the Moorehaven Correctional Facility by 235 beds, which we operate for DMS, and build the 1,500 bed Graceville Correctional Facility, which we will operate for DMS upon final completion of the construction. Payment under these construction contracts is contingent on the receipt of proceeds from bonds being issued by the State of Florida to finance the projects. Subsequent to January 1, 2006, we may incur approximately $8.5 million in costs related to these projects prior to the financing being completed. These costs would be incurred in order to preserve construction prices and our development timeline. We expect the financing for these facilities to be completed by March 31, 2006. In the event the required financing is not completed, we will expense these costs during the first quarter of 2006 without an offsetting revenue source.

Inflation

We believe that inflation, in general, did not have a material effect on our results of operations during 2005, 2004 and 2003. While some of our contracts include provisions for inflationary indexing, inflation could have a substantial adverse effect on our results of operations in the future to the extent that wages and salaries, which represent our largest expense, increase at a faster rate than the per diem or fixed rates received by us for our management services.

Outlook

The following discussion of our future performance contains statements that are not historical statements and, therefore, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated or implied in the forward-looking statement. Please refer to “Item 1A. Risk Factors” in this Annual Report on Form 10-K, the “Forward-Looking Statements — Safe Harbor,” as well as the other disclosures contained in this Annual Report on Form 10-K, for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements.

Revenue

Domestically, we continue to be encouraged by the number of opportunities that have recently developed in the privatized corrections and detention industry. The need for additional bed space at the federal, state at local levels has been as strong as it has been at any time during the last decade, and we currently expect that trend to continue for the foreseeable future. Overcrowding at corrections facilities in various states and increased demand for bed space at federal prisons and detention facilities primarily resulting from government initiatives to improve immigration security are two of the factors that have contributed to the greater number of opportunities for privatization. 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 and contract non-renewals. In Michigan, the State recently cancelled our Baldwin Correctional Facility management contract based upon the Governor’s veto of funding for the project. Although we do not expect this termination to represent a trend, any future unexpected terminations of our existing management contracts could have a material adverse impact on our revenues. Additionally, several of our management contracts are up for renewal and/or re-bid in 2006. 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 2006 on favorable terms, or at all.

Internationally, in the United Kingdom, we recently won our first contract since re-establishing operations. We believe that additional opportunities will become available in that market and plan to actively bid on any opportunities that fit our target profile for profitability and operational risk. In South Africa, we anticipate that

the government will seek to outsource the development and operation of one or more correctional facilities in the near future. We expect to bid on any suitable opportunities.

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

Operating Expenses

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. In 2005, operating expenses totaled approximately 88.1% of our consolidated revenues. Our operating expenses as a percentage of revenue in 2006 will be impacted by several factors. First, we could experience continued savings under our general liability, auto liability and workers' compensation insurance program, although the amount of these potential savings cannot be predicted. These savings, which totaled $3.4 million in fiscal year 2005 and are now reflected in our current actuarial projections are a result of improved claims experience and loss development as compared to our results under our prior insurance program. Second, we may experience a reduction in employee healthcare costs following adjustments to our employee healthcare program in November 2005 intended to reduce costs relating to additional claims expense and increased reserve requirements. These potential reductions in operating expenses may be offset by increased start-up expenses relating to a number of new projects which we are developing, including our new Graceville prison and Moore Haven expansion project in Florida, our Clayton facility in New Mexico, our Lawton, Oklahoma prison expansion and our Florence West expansion project in Arizona. Overall, excluding start-up expenses, we anticipate that operating expenses as a percentage of our revenue will remain relatively flat, consistent with our historical performance.

With respect to our future lease expense, we intend to restructure our relationship with CPV, now known as CentraCore Properties Trust, from whom we lease eleven facilities. In 1998, the original need for our sponsorship and creation of CPV was to provide us with a means to source capital for the development of new correctional and detention facilities. This need was prompted by the fact that TWC, our former parent company at the time, would not allow us to issue stock or incur indebtedness in order to finance our growth.

Presently, as a fully independent public company, we believe that we have a number of avenues available to us to raise capital for the development of new facilities, including the equity markets, bank debt, corporate bonds and government sponsored bonds similar to those involved in several of our new facilities under development. All of these financial avenues currently provide a lower cost of capital than our present lease rates with CPV, which are approximately 12 percent at this time. Accordingly, we believe that we have a duty to our shareholders to seek the most cost-effective available sources of capital in order to best manage and grow the company. That duty has led us to make a number of decisions.

Our first decision is to not renew GEO's 15-year Right to Purchase Agreement with CPV when it expires in 2013, thus eliminating our obligation to provide CPV with the right to acquire future company-owned facilities that are covered by that agreement. Second, we do not anticipate developing any new projects using CPV financing. We expect that for the foreseeable future we will be able to achieve a lower cost of capital by accessing development capital through government-supported bond financing or other third party financing. Third, with regard to the Jena, Louisiana facility, unless we find a new client in the very near future allowing us to reactivate the facility on a profitable basis, we will not renew that lease, which is scheduled to expire in January 2010, and we will no longer be required to make the annual lease payment of approximately $2.1 million dollars after that date.

Fourth, with respect to the other ten facilities that we lease from CPV, seven of those leases expire in April 2008, referred to as the Expiring Leases. We have until late October 2007 to exercise our option, in our discretion, to renew each of the Expiring Leases for an additional five-year term. We are under no obligation to renew any or all of the Expiring Leases, and may renew some of the Expiring Leases without renewing others.

If we opt to renew any of the Expiring Leases, the Expiring Leases will be renewed on identical terms, except that the rental rate will be equal to the fair market rental value of the facility being renewed, as mutually agreed to by us and CPT or, in the absence of such an agreement, as determined through binding arbitration.

We have acquired property in close proximity to several of the properties leased from CPV and are researching available sites near the other CPV leased properties. These steps have put us in a position to conduct a comprehensive review of government-sponsored financing and third-party ownership alternatives that may be available to us with respect to the Expiring Leases. It is possible that we may elect to not exercise our exclusive option to renew certain of the Expiring Leases upon their expiration in favor of the construction and development through government-sponsored bonds or other third party financing of new replacement facilities in close proximity to the facilities covered by the Expiring Leases. In such cases, with our customers' approval, we would transition our contracted inmate population to the new facilities prior to the expiration of the Expiring Leases in April 2008.

We believe that these decisions with respect to our relationship with CPV will best serve our shareholders' interests and allow us to better manage and grow our company by accessing the lowest cost of capital available to us.

General and Administrative Expenses

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. We have recently incurred increasing general and administrative costs including increased costs associated with increases in business development costs, professional fees and travel costs, primarily relating to our mental health residential treatment services business. We expect this trend to continue as we pursue additional business development opportunities in all of our business lines and build the corporate infrastructure necessary to support our mental health residential treatment services business. We also plan to continue expending resources on the evaluation of potential acquisition targets.

Forward-Looking Statements — Safe Harbor

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

- our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;
- the instability of foreign exchange rates, exposing us to currency risks in Australia and South Africa, or other countries in which we may choose to conduct our business;
- our ability to reactivate the Michigan Correctional Facility;
- an increase in unreimbursed labor rates;
- our ability to expand and diversify our correctional and mental health residential treatment services;

- our ability to win management contracts for which we have submitted proposals and to retain existing management contracts;
- our ability to raise new project development capital given the often short-term nature of the customers' commitment to use newly developed facilities;
- our ability to reactivate our Jena, Louisiana facility, or to sublease or coordinate the sale of the facility with the owner of the property, CentraCore Properties Trust, or CPV;
- our ability to accurately project the size and growth of the domestic and international privatized corrections industry;
- our ability to grow our mental health residential treatment services industry;
- our ability to estimate the government's level of dependency on privatized correctional services;
- our ability to develop long-term earnings visibility;
- our ability to obtain future financing at competitive rates;
- our exposure to rising general insurance costs;
- our exposure to claims for which we are uninsured;
- our exposure to rising inmate medical costs;
- our ability to maintain occupancy rates at our facilities;
- our ability to manage costs and expenses relating to ongoing litigation arising from our operations;
- our ability to accurately estimate on an annual basis, loss reserves related to general liability, workers compensation and automobile liability claims;
- our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisition on satisfactory terms;
- the ability of our government customers to secure budgetary appropriations to fund their payment obligations to us; and
- other factors contained in our filings with the Securities and Exchange Commission, or the SEC, including, but not limited to, those detailed in this annual report on Form 10-K, our Form 10-Qs and our Form 8-Ks filed with the SEC.

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

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

Interest Rate Risk

We are exposed to market risks related to changes in interest rates with respect to our Senior Credit Facility. Monthly payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the term loan portion of our Senior Credit Facility of $74.8 million as of January 1, 2006, for every one percent increase in the interest rate applicable to the Senior Credit Facility, our total annual interest expense would increase by $0.7 million.

Effective September 18, 2003, we entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. We have designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. 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. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the

Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the six-month LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. For every one percent increase in the interest rate applicable to the $50.0 million swap agreements on the Notes described above, our total annual interest expense would increase by $0.5 million.

We have entered into certain interest rate swap arrangements for hedging purposes, fixing the interest rate on our Australian non-recourse debt to 9.7%. The difference between the floating rate and the swap rate on these instruments is recognized in interest expense within the respective entity. Because the interest rates with respect to these instruments are fixed, a hypothetical 100 basis point change in the current interest rate would not have a material impact on our financial condition or results of operations.

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

Foreign Currency Exchange Rate Risk

We are exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar and the Australian dollar and the South African Rand currency exchange rates. Based upon our foreign currency exchange rate exposure as of January 1, 2006 with respect to our international operations, every 10 percent change in historical currency rates would have approximately a $2.2 million effect on our financial position and approximately a $1.8 million impact on our results of operations over the next fiscal year.

Item 8. ***Financial Statements and Supplementary Data***

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of
The GEO Group, Inc.:

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

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

The consolidated financial statements have been audited by Ernst & Young LLP, independent registered certified public accountants, whose appointment was ratified by our shareholders. Their report expresses a professional opinion as to whether management's consolidated financial statements considered in their entirety present fairly, in conformity with accounting principles generally accepted in the United States, the Company's financial position and results of operations. Their audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board. As part of this audit, Ernst & Young LLP considered the Company's system of internal controls to the degree they deemed necessary to determine the nature, timing, and extent of their audit tests which support their opinion on the consolidated financial statements.

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

George C. Zoley
Chairman and Chief Executive Officer

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

John G. O'Rourke
Senior Vice President of Finance
and Chief Financial Officer

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedure may deteriorate. Management has assessed the effectiveness of the Company's internal control over financial reporting as of January 1, 2006. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission in *Internal Control — Integrated Framework.*

On November 4, 2005, the Company completed the acquisition of Correctional Services Corporation ("CSC"), as discussed elsewhere in this report. For 2005, CSC represented 2.8% of the Company's consolidated revenue and, as of January 1, 2006, CSC represented 34.7% of the Company's total consolidated assets. In making management's assessment of the effectiveness of its internal control over financial reporting, management has excluded CSC from its report on internal control over financial reporting as management did not have sufficient time to make an assessment of CSC's internal controls using the COSO criteria in accordance with Section 404 of the Sarbanes-Oxley Act.

The Company evaluated, with the participation of its Chief Executive Officer and Chief Financial Officer, its internal control over financial reporting as of January 1, 2006, based on the COSO *Internal Control — Integrated Framework.* Based on this evaluation, the Company's management concluded that as of January 1, 2006, its internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of January 1, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which appears on page 51.

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of The GEO Group, Inc. as of January 1, 2006 and January 2, 2005, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended January 1, 2006. Our audits also included the financial statement schedule listed in the index at item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The GEO Group, Inc. at January 1, 2006 and January 2, 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 1, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of The GEO Group, Inc.'s internal control over financial reporting as of January 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Fort Lauderdale, Florida
March 14, 2006

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, that The GEO Group, Inc. maintained effective internal control over financial reporting as of January 1, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The GEO Group, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that The GEO Group, Inc. maintained effective internal control over financial reporting as of January 1, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, The GEO Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of January 1, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of The GEO Group, Inc. as of January 1, 2006 and January 2, 2005, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended January 1, 2006, of The GEO Group, Inc. and our report dated March 14, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Fort Lauderdale, Florida
March 14, 2006

Table of Contents

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME
Fiscal Years Ended January 1, 2006, January 2, 2005, and December 28, 2003

	2005	2004	2003
		(In thousands, except per share data)	
Revenues	$ 612,900	$ 593,994	$ 549,238
Operating Expenses	540,128	495,226	467,018
Depreciation and Amortization	15,876	13,898	13,341
General and Administrative Expenses	48,958	45,879	39,379
Operating Income	7,938	38,991	29,500
Interest Income	9,154	9,568	6,853
Interest Expense	(23,016)	(22,138)	(17,896)
Write-off of Deferred Financing Fees from Extinguishment of Debt	(1,360)	(317)	(1,989)
Gain on Sale of UK Joint Venture	—	—	56,094
Income (loss) Before Income Taxes, Minority Interest, Equity in Earnings of Affiliates, and Discontinued Operations	(7,284)	26,104	72,562
Provision (benefit) for Income Taxes	(11,826)	8,231	36,852
Minority Interest	(742)	(710)	(645)
***Equity in Earnings of Affiliates,* (net of income tax provision (benefit) of $(2,016), $0, and $634)**	2,079	—	1,310
Income from Continuing Operations	5,879	17,163	36,375
Income (loss) from discontinued operations, (net of tax (benefit) provision of $895, $(181), and $1,544)	1,127	(348)	3,644
Net Income	$ 7,006	$ 16,815	$ 40,019
Weighted Average Common Shares Outstanding:			
Basic	9,580	9,384	15,618
Diluted	10,010	9,738	15,829
Earnings (loss) per Common Share:			
Basic:			
Income from continuing operations	$ 0.61	$ 1.83	$ 2.33
Income (loss) from discontinued operations	0.12	(0.04)	0.23
Net income per share-basic	$ 0.73	$ 1.79	$ 2.56
Diluted:			
Income from continuing operations	$ 0.59	$ 1.77	$ 2.30
Income (loss) from discontinued operations	0.11	(0.04)	0.23
Net income per share-diluted	$ 0.70	$ 1.73	$ 2.53

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

THE GEO GROUP, INC.

CONSOLIDATED BALANCE SHEETS
January 1, 2006 and January 2, 2005

	2005	2004
	(In thousands, except per share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 57,094	$ 92,005
Restricted cash	8,882	—
Short-term investments	—	10,000
Accounts receivable, less allowance for doubtful accounts of $224 and $907	127,612	90,386
Deferred income tax asset	19,755	12,891
Other current assets	15,826	12,083
Current assets of discontinued operations	123	5,401
Total current assets	229,292	222,766
Restricted Cash	17,484	3,908
Property and Equipment, Net	282,236	190,865
Assets Held for Sale	5,000	—
Direct Finance Lease Receivable	38,492	42,953
Goodwill and Other Intangible Assets, Net	52,127	615
Other Non Current Assets	14,880	13,282
Other Assets of Discontinued Operations	—	5,937
	$ 639,511	$ 480,326
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 27,762	$ 21,039
Accrued payroll and related taxes	26,985	24,595
Accrued expenses	70,177	53,104
Current portion of deferred revenue	1,894	1,844
Current portion of capital lease obligations, long-term debt and non-recourse debt	8,441	13,736
Current liabilities of discontinued operations	1,260	3,160
Total current liabilities	136,519	117,478
Deferred Revenue	3,267	4,320
Deferred Tax Liability	2,085	8,466
Minority Interest	1,840	1,194
Other Non Current Liabilities	19,601	19,978
Capital Lease Obligations	17,072	—
Long-Term Debt	219,254	186,198
Non-Recourse Debt	131,279	42,953
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value, 30,000,000 shares authorized, 21,691,143 and 21,507,391 issued and 9,691,143 and 9,507,391 outstanding	97	95
Additional paid-in capital	70,784	67,005
Retained earnings	171,666	164,660
Accumulated other comprehensive loss	(2,073)	(141)
Treasury stock 12,000,000 shares	(131,880)	(131,880)
Total shareholders' equity	108,594	99,739
	$ 639,511	$ 480,326

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

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Fiscal Years Ended January 1, 2006, January 2, 2005, and December 28, 2003

	2005	2004	2003
		(In thousands)	
Cash Flow from Operating Activities:			
Income from continuing operations	$ 5,879	$ 17,163	$ 36,375
Adjustments to reconcile income from continuing operations to net cash provided by operating activities			
Impairment charge	20,859	—	—
Idle facility charge	4,255	3,000	5,000
Depreciation and amortization	15,876	13,898	13,341
Amortization of debt issuance costs	449	303	607
Deferred tax liability (benefit)	(10,614)	3,433	230
Provision for doubtful accounts	—	229	170
Major maintenance reserve	290	465	296
Equity in earnings of affiliates, net of tax	(2,079)	—	(1,310)
Minority interests in earnings of consolidated entity	742	710	645
Other non-cash charges	—	141	—
Tax benefit related to employee stock options	731	773	330
Gain on sale of UK joint venture	—	—	(56,094)
Write-off of deferred financing fees from extinguishment of debt	1,360	317	1,989
Changes in assets and liabilities, net of acquisition			
Accounts receivable	(7,238)	(6,688)	(12,517)
Other current assets	(3,235)	(1,283)	2,455
Other assets	(564)	1,442	(2,365)
Accounts payable and accrued expenses	4,918	(12,558)	24,341
Accrued payroll and related taxes	(996)	6,699	(3,005)
Deferred revenue	(1,003)	(1,844)	(1,891)
Other liabilities	1,763	5,282	5,787
Net cash provided by operating activities of continuing operations	31,393	31,482	14,384
Net cash provided by operating activities of discontinued operations	3,420	14,024	4,300
Net cash provided by operating activities	34,813	45,506	18,684
Cash Flow from Investing Activities:			
Acquisitions, net of cash acquired	(79,290)	—	—
Investments in and advances to affiliates	—	—	193
Proceeds from sale of assets	707	315	—
Proceeds from the sale of UK joint venture	—	—	80,678
Proceeds from sales of short-term investments	39,000	56,835	2,000
Purchases of short-term investments	(29,000)	(56,835)	(12,000)
Change in restricted cash	(4,406)	52,000	(55,794)
Capital expenditures	(31,465)	(10,235)	(6,791)
Net cash provided by (used in) investing activities of continuing operations	(104,454)	42,080	8,286
Net cash provided by investing activities of discontinued operations	11,500	—	—
Net cash provided by (used in) investing activities	(92,954)	42,080	8,286
Cash Flow from Financing Activities:			
Proceeds from long-term debt and non-recourse debt	75,000	10,000	272,130
Debt issuance costs including original issue discount	—	—	(11,857)
Payments on long-term debt	(53,398)	(58,704)	(146,250)
Proceeds from the exercise of stock options	2,999	1,589	776
Purchase of common stock	—	—	(132,000)
Net cash provided by (used in) financing activities	24,601	(47,115)	(17,201)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(1,371)	1,575	5,734
Net Increase (Decrease) in Cash and Cash Equivalents	(34,911)	42,046	15,503
Cash and Cash Equivalents, beginning of period	92,005	49,959	34,456
Cash and Cash Equivalents, end of period	$ 57,094	$ 92,005	$ 49,959
Supplemental Disclosures:			
Cash paid (received) during the year for:			
Income taxes	$ (636)	$ 8,906	$ 32,517
Interest	$ 21,181	$ 20,158	$ 5,920
Non-cash investing and financing activities			
Fair value of assets acquired, net of cash acquired	$ 223,934	$ —	$ —
Total liabilities assumed	144,644	—	—
	$ 79,290	$ —	$ —
Sale of assets in exchange for note receivable	$ 2,000	—	—

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

THE GEO GROUP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

Fiscal Years Ended January 2, 2006, January 1, 2005, and December 28, 2003

(In thousands)

	Common Stock					Treasury Stock		
	Number of Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Number of Shares	Amount	Total Shareholders' Equity
Balance, December 29, 2002	21,246	$ 212	$ 63,500	$ 107,826	$ (21,323)	—	$ —	$ 150,215
Proceeds from stock options exercised	87	1	775	—	—	—	—	776
Purchase of common stock	(12,000)	(120)	—	—	—	(12,000)	(131,880)	(132,000)
Tax benefit related to employee stock options	—	—	330	—	—	—	—	330
Comprehensive income:								
Net income	—	—	—	40,019	—	—	—	—
Change in foreign currency translation, net of income tax expense of $3,876	—	—	—	—	6,062	—	—	—
Minimum pension liability adjustment, net of income tax benefit of $116	—	—	—	—	(263)	—	—	—
Unrealized loss on derivative instruments, net of income tax benefit of $476	—	—	—	—	(1,112)	—	—	—
Reclassification adjustment for losses on UK interest rate swaps included in net income related to the sale of the UK joint venture	—	—	—	—	13,298	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	58,004
Balance, December 28, 2003	9,333	93	64,605	147,845	$ (3,338)	(12,000)	(131,880)	77,325
Proceeds from stock options exercised	174	2	1,589	—	—	—	—	1,591
Tax benefit related to employee stock options	—	—	773	—	—	—	—	773
Acceleration of vesting on employee stock options	—	—	38	—	—	—	—	38
Comprehensive income:								
Net income	—	—	—	16,815	—	—	—	—
Change in foreign currency translation, net of income tax expense of $384	—	—	—	—	600	—	—	—
Minimum pension liability adjustment, net of income tax expense of $480	—	—	—	—	661	—	—	—
Unrealized gain on derivative instruments, net of income tax expense of $815	—	—	—	—	1,936	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	20,012
Balance, January 2, 2005	9,507	95	67,005	164,660	$ (141)	(12,000)	(131,880)	99,739
Proceeds from stock options exercised	184	2	2,997	—	—	—	—	2,999
Tax benefit related to employee stock options	—	—	731	—	—	—	—	731
Acceleration of vesting on employee stock options	—	—	51	—	—	—	—	51
Comprehensive income:								
Net income	—	—	—	7,006	—	—	—	—
Change in foreign currency translation, net of income tax benefit of $2,158	—	—	—	—	(3,375)	—	—	—
Minimum pension liability adjustment, net of income tax expense of $8	—	—	—	—	12	—	—	—
Unrealized gain on derivative instruments, net of income tax expense of $625	—	—	—	—	1,431	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	5,074
Balance, January 1, 2006	9,691	$ 97	$ 70,784	$ 171,666	$ (2,073)	(12,000)	$ (131,880)	$ 108,594

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

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fiscal Years Ended January 1, 2006, January 2, 2005, and December 28, 2003

1. Summary of Business Operations and Significant Accounting Policies

The GEO Group, Inc., a Florida corporation, and subsidiaries (the "Company") is a leading developer and manager of privatized correctional, detention and mental health residential treatment services facilities located in the United States, Australia and South Africa. Until July 9, 2003, the Company was a majority owned subsidiary of The Wackenhut Corporation, ("TWC"). TWC previously owned 12 million shares of the Company's common stock.

On November 4, 2005, the Company completed the acquisition of Correctional Services Corporation (CSC), a Florida-based provider of privatized jail, community corrections and alternative sentencing services. Management of the Company believes the acquisition is an excellent strategic fit, will have positive impact on earnings and broaden our existing client base. The acquisition was completed through the merger (the "Merger") of CSC into GEO Acquisition, Inc., a wholly owned subsidiary of the Company. Under the terms of the Merger, the Company acquired for cash, 100% of the 10.2 million outstanding shares of CSC common stock for $6.00 per share or approximately $62.1 million. As a result of the Merger, GEO will become responsible for supervising the operation of the sixteen adult correctional and detention facilities, totaling 8,037 beds, formerly run by CSC. Immediately following the purchase of CSC, the Company sold Youth Services International, Inc., the former juvenile services division of CSC, for $3.75 million, $1.75 million of which was paid in cash and the remaining $2.0 million of which was paid in the form of a promissory note accruing interest at a rate of 6% per annum. Principal and interest are due quarterly. The annual maturities are $0.6 million in 2006, $0.7 million in 2007, and $0.7 million in 2008.

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

Fiscal Year

The Company's fiscal year ends on the Sunday closest to the calendar year end. Fiscal year 2004 included 53 weeks. Fiscal years 2005 and 2003 each included 52 weeks. The Company reports the results of its South African equity affiliate, South African Custodial Services Pty. Limited, ("SACS"), and its consolidated South African entity, South African Custodial Management Pty. Limited ("SACM") on a calendar year end, due to the availability of information.

Basis of Presentation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While the Company believes that such estimates are fair when considered in conjunction with the consolidated financial statements taken as a whole, the actual amounts of such estimates, when

known, will vary from these estimates. If actual results significantly differ from the Company's estimates, the Company's financial condition and results of operations could be materially impacted.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, accounts payable and accrued expenses approximate their fair value due to the short maturity of these items. The carrying value of the Company's long-term debt related to its Senior Credit Facility (See Note 10) and non-recourse debt approximates fair value based on the variable interest rates on the debt. For the Company's 8 1/4% Senior Unsecured Notes, the stated value and fair value based on quoted market rates was $150.0 million and $147.4 million, respectively, at January 1, 2006. For the Company's non-recourse debt related to CSC, the stated value and fair value based on quoted market rates was $102.2 million and $98.4 million, respectively, at January 1, 2006.

Cash and Cash Equivalents

Cash and cash equivalents include all interest-bearing deposits or investments with original maturities of three months or less.

Short Term Investments

Short-term investments consist of auction rate securities classified as available-for-sale, which are stated at estimated fair value. These investments are on deposit with a major financial institution. Unrealized gains and losses, net of tax, are computed on the first-in first-out basis and are reported as a separate component of accumulated other comprehensive income (loss) in shareholders' equity until realized. There were no unrealized gains or losses at January 1, 2006 and January 2, 2005. The Company had no short-term investments at January 1, 2006.

Accounts Receivable

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

Inventories

Food and supplies inventories are carried at the lower of cost or market, on a first-in first-out basis and are included in "other current assets" in the accompanying consolidated balance sheets. Uniform inventories are carried at amortized cost and are amortized over a period of eighteen months. The current portion of unamortized uniforms is included in "other current assets." The long-term portion is included in "other non current assets" in the accompanying consolidated balance sheets.

Restricted Cash

The Company had $8.9 million in current restricted cash and cash equivalents and $17.5 million in long-term restricted cash equivalents and investments. The balances in those accounts are attributable

primarily to amounts held in escrow or in trust in connection with the 1,020-bed South Texas Detention Complex in Frio County, Texas and the 890-bed Northwest Detention Center in Tacoma, Washington.

Additionally, the Company's wholly owned Australian subsidiary financed a facility's development and subsequent expansion in 2003 with long-term debt obligations, which are non-recourse to the Company. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million. The term of the non-recourse debt is through 2017.

Costs of Acquisition Opportunities

Internal costs associated with a business combination are expensed as incurred. Direct and incremental costs related to successful negotiations where we are the acquiring company are capitalized as part of the cost of the acquisition. As of January 1, 2006 the Company had no capitalized costs. During 2004, the Company wrote off approximately $1.3 million of costs. Costs associated with unsuccessful negotiations are expensed when it is probable that the acquisition will not occur.

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 40 years. Equipment and furniture and fixtures are depreciated over 3 to 7 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. The Company performs ongoing evaluations of the estimated useful lives of the property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repairs are expensed as incurred. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. No interest cost was capitalized in 2005 or 2004.

Assets Held Under Capital Leases

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

Long-Lived Assets

The Company reviews long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. 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. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed the Company's long-lived assets and determined that there are no events requiring impairment loss recognition, other than the Michigan Facility charge. See Note 12. 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 which might impair recovery of long-lived assets.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill and Other Intangible Assets

The Company's goodwill at January 1, 2006 consisted of $35.3 million related to the November 4, 2005 acquisition of CSC (See Note 2: Acquisition) and $0.6 million related to its Australian subsidiary and at January 2, 2005 consisted of $0.6 million associated with its Australian subsidiary. Goodwill related to CSC and Australia is included in the correction and detention facility segment. With the adoption of Financial Accounting Standard ("FAS") No. 142, the Company's goodwill is no longer amortized, but is subject to an annual impairment test related to the goodwill associated with the Australian subsidiary. There was no impairment of goodwill as a result of adopting FAS No. 142, "Goodwill and Other Intangible Assets" or as a result of the annual impairment test completed during the fourth quarter of 2005 and 2004 related to goodwill associated with its Australian subsidiary. The annual impairment test for the goodwill related to the acquisition of CSC will be on the first day of the fourth quarter.

Acquired intangible assets are separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the intangible asset can be sold, transferred, licensed, rented or exchanged, regardless of the Company's intent to do so. The Company's intangible assets were recorded in connection with the acquisition of CSC and have finite lives ranging from 4-20 years and are amortized using a straight-line method. The Company reviews finite-lived intangible assets for impairment whenever an event occurs or circumstances change which indicate that the carrying amount of such assets may not be fully recoverable. See Note 8.

Idle Facilities

The Company has entered into ten year non cancelable operating leases with CentraCore Properties Trust, or CPV, a Maryland real estate investment trust for eleven facilities with initial terms that expire at various times beginning in April 2008 and extending through 2016. In the event that the Company's facility management contract for one of these leased facilities is terminated, the Company would remain responsible for payments to CPV on the underlying lease. The Company will account for idle periods under any such lease in accordance with FAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." Specifically, the Company reviews its estimate for sublease income and records a charge for the difference between the net present value of the sublease income and the lease expense over the remaining term of the lease.

Variable Interest Entities

In January 2003, the Financial Accounting Standards Board ("FASB") issued Financial Interpretation FIN No. 46, "Consolidation of Variable Interest Entities," which addressed consolidation by a business of variable interest entities in which it is the primary beneficiary. In December 2003, the FASB issued FIN No. 46R which replaced FIN No. 46. Our 50% owned South African joint venture in South African Custodial Services Pty. Limited, which the Company refers to as SACS, is a variable interest entity. The Company determined that it is not the primary beneficiary of SACS and as a result it is not required to consolidate SACS under FIN 46R. The Company accounts for SACS as an equity affiliate. SACS was established in 2001, to design, finance and build the Kutama Sinthumule Correctional Center. Subsequently, SACS was awarded a 25 year contract to design, construct, manage and finance a facility in Louis Trichardt, South Africa. SACS, based on the terms of the contract with government, was able to obtain long term financing to build the prison. The financing is fully guaranteed by the government, except in the event of default, for which it provides an 80% guarantee. Separately, SACS entered into a long term operating contract with South African Custodial Management (Pty) Limited ("SACM") to provide security and other management services and with SACS' joint venture partner to provide purchasing, programs and maintenance services upon completion of the construction phase, which concluded in

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

February 2002. The Company's maximum exposure for loss under this contract is $24.1 million, which represents the Company's initial investment and the guarantees discussed in Note 10.

In February 2004, CSC was awarded a contract by the Department of Homeland Security, Bureau of Immigration and Customs Enforcement ("ICE") to develop and operate a 1,020 bed detention center in Frio County Texas. South Texas Local Development Corporation ("STLDC") was created and issued $49.5 million in taxable revenue bonds to finance the construction of the detention complex. Additionally, CSC provided a $5 million subordinated note to STLDC for initial development. The Company determined that it is the primary beneficiary of STLDC and consolidates the entity as a result. STLDC is the owner of the complex and entered into a development agreement with CSC to oversee the development of the complex. In addition, STLDC entered into an operating agreement providing CSC the sole and exclusive right to operate and manage the complex. The operating agreement and bond indenture require the revenue from CSC's 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 CSC to cover CSC's operating expenses and management fee. CSC 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 CSC and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the complex.

Deferred Revenue

Deferred revenue primarily represents the unamortized net gain on the development of properties and on the sale and leaseback of properties by the Company. The Company leases these properties back from CPV under operating leases. Deferred revenue is being amortized over the lives of the leases and is recognized in income as a reduction of rental expenses.

Revenue Recognition

In accordance with Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as amended by SAB No. 104, "Revenue Recognition", and related interpretations, 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.

Project development and design revenues are recognized as earned on a percentage of completion basis measured by the percentage of costs incurred to date as compared to estimated total cost for each contract. This method is used because we consider costs incurred to date to be the best available measure of progress on these contracts. Provisions for estimated losses on uncompleted contracts and changes to cost estimates are made in the period in which we determine that such losses and changes are probable. Typically, the Company enters into fixed price contracts and does not perform additional work unless approved change orders are in place. Costs attributable to unapproved change orders are expensed in the period in which the costs are incurred if the Company believes that it is not probable that the costs will be recovered through a change in the contract price. If the Company believes that it is probable that the costs will be recovered through a change in 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. Contract costs include all direct material and labor costs and those indirect costs related to contract performance. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements, may

result in revisions to estimated costs and income, and are recognized in the period in which the revisions are determined.

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

Income Taxes

The Company accounts for income taxes in accordance with FAS No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax bases of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. Valuation allowances are recorded related to deferred tax assets based on the "more likely than not" criteria of FAS No. 109.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. In the computation of diluted earnings per share, the weighted-average number of common shares outstanding is adjusted for the dilutive effect of shares issuable upon exercise of stock options calculated using the treasury stock method.

Direct Finance Leases

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

Reserves for Insurance Losses

Claims for which the Company is insured arising from its U.S. operations that have an occurrence date of October 1, 2002 or earlier are handled by TWC and are fully insured up to an aggregate limit of between $25.0 million and $50.0 million, depending on the nature of the claim. With respect to claims for which the Company is insured arising after October 1, 2002, the Company maintains a general liability policy for all U.S. operations with $52.0 million per occurrence and in the aggregate. On October 1, 2004 the Company increased its deductible on this general liability policy from $1.0 million to $3.0 million for each claim which occurs after October 1, 2004. The Company also maintains insurance in amounts the Company's management deems adequate to cover property and casualty risks, workers' compensation, medical malpractice and automobile liability. The Company's Australian subsidiary is required to carry tail insurance through 2011 related to a discontinued contract. In addition, the Company carries various types of insurance with respect to its operations in South Africa and Australia.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Since the Company's insurance policies generally have high deductible amounts (including a $3.0 million per claim deductible under our general liability policy), losses are recorded as reported and a provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. The Company's management uses judgments in assessing loss estimates based on actuarial studies, which include actual claim amounts and loss development considering historical and industry experience. If actual losses related to insurance claims significantly differ from our estimates, the Company's financial condition and results of operations could be materially impacted.

Debt Issuance Costs

Debt issuance costs totaling $7.0 million and $5.9 million at January 1, 2006, and January 2, 2005, respectively, are included in other non current assets in the consolidated balance sheets and are amortized into interest expense using the effective interest method, over the term of the related debt.

Comprehensive Income

The Company's comprehensive income is comprised of net income, foreign currency translation adjustments, unrealized gain (loss) on derivative instruments, minimum pension liability adjustment, and a reclassification adjustment for losses on UK interest rate swaps related to the sale of the UK joint venture in the Consolidated Statements of Shareholders' Equity and Comprehensive Income.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, trade accounts receivable, short-term investments, direct finance lease receivable, long-term debt and financial instruments used in hedging activities. The Company's cash management and investment policies restrict investments to low-risk, highly liquid securities, and the Company performs periodic evaluations of the credit standing of the financial institutions with which it deals. As of January 1, 2006, and January 2, 2005, the Company had no significant concentrations of credit risk except as disclosed in Note 17.

Foreign Currency Translation

The Company's foreign operations use their local currencies as their functional currencies. Assets and liabilities of the operations are translated at the exchange rates in effect on the balance sheet date and shareholders' equity is translated at historical rates. Income statement items are translated at the average exchange rates for the year. The impact of foreign currency fluctuation is included in shareholders' equity as a component of accumulated other comprehensive (loss) income and totaled $(0.9) million at January 1, 2006 and $2.5 million as of January 2, 2005.

Financial Instruments

In accordance with FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations and amendments, the Company records derivatives as either assets or liabilities on the balance sheet and measures those instruments at fair value. For derivatives that are designed as and qualify as effective cash flow hedges, the portion of gain or loss on the derivative instrument effective at offsetting changes in the hedged item is reported as a component of accumulated other comprehensive income and reclassified into earnings when the hedged transaction affects earnings. Total accumulated other comprehensive loss related to these cash flow hedges was $0.3 million and $1.7 million as of January 1, 2006 and January 2, 2005, respectively. For derivative instruments that are designated as and qualify as effective fair value hedges, the gain or loss on the derivative instrument as

well as the offsetting gain or loss on the hedged item attributable to the hedged risk is recognized in current earnings as interest income (expense) during the period of the change in fair values.

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

Accounting for Stock-Based Compensation

The Company applies Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” in accounting for stock-based employee compensation arrangements whereby compensation cost related to stock options is generally not recognized in determining net income. Had compensation cost for the Company’s stock option plans been determined pursuant to Statement of Financial Accounting Standards No. 123, “Accounting for Stock Based Compensation,” the Company’s net income and earnings per share would have decreased accordingly. Using the Black-Scholes option pricing model for all options granted, the Company’s pro forma net income, pro forma earnings per share and pro forma weighted average fair value of options granted, with related assumptions, are as follows for the years ended January 1, 2006, January 2, 2005 and December 28, 2003 (in thousands, except per share data):(1)

Pro Forma Disclosures	2005	2004	2003
		(In thousands, except per share data)	
Net income	$ 7,006	$ 16,815	$ 40,019
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(397)	(765)	(935)
Pro forma net income	$ 6,609	$ 16,050	$ 39,084
Basic earnings per share			
As reported	$ 0.73	$ 1.79	$ 2.56
Pro forma	$ 0.69	$ 1.71	$ 2.50
Diluted earnings per share			
As reported	$ 0.70	$ 1.73	$ 2.53
Pro forma	$ 0.66	$ 1.65	$ 2.47
Risk free interest rates	3.96%	3.25%	1.73%-2.92%
Expected lives	3-7 years	3-7 years	3-7 years
Expected volatility	39%	40%	49%
Expected dividend	—	—	—

In December 2004, the FASB issued FAS 123R, “Share-Based Payment,” a revision of FAS 123. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) regarding its interpretation of

(1) See Note 15 for more information regarding the Company’s stock option plans.

FAS 123R. The standard requires companies to expense the grant-date fair value of stock options and other equity-based compensation issued to employees. In accordance with the revised statement and related guidance, the Company will begin to recognize the expense attributable to stock options granted or vested subsequent to January 1, 2006 using the modified prospective method in the first quarter of 2006. The Company will continue using the Black-Scholes valuation model and straight-line amortization of compensation expense over the requisite service period of the grant. The Company expects compensation expense during 2006 related to stock based awards consistent with the pro forma disclosures under FAS 123 above for the year ended January 1, 2006.

Recent Accounting Pronouncements

In May 2005, FASB issued FAS No. 154, “Accounting for Changes and Error Corrections”. FAS No. 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle. It also requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. The statement was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of FAS No. 154 did not have a material effect on the Company’s consolidated financial position or results of operations.

In March 2005, the Financial Accounting Standards Board issued Interpretation No. 47 (“FIN 47”), Accounting for Conditional Asset Retirement Obligations. FIN 47 clarifies that an entity must record a liability for a “conditional” asset retirement obligation if the fair value of the obligation can be reasonably estimated. The provision was effective no later than the end of fiscal years ending after December 15, 2005. The application of FIN 47 did not have a material effect on the Company’s financial position, results of operations, and cash flows.

2. Acquisition

Under the purchase method of accounting, the purchase price for CSC was allocated to CSC’s net tangible and intangible assets based on their estimated fair values as of the date of the completion of the acquisition. The aggregate consideration for this transaction was approximately $79.3 million, comprised of approximately $62.1 million in cash to acquire 100% of the 10.2 million shares of outstanding common stock, approximately $7.0 million in payments of CSC debt and direct transactions costs of approximately $10.2 million. Independent valuation specialists have been engaged to perform valuations to assist in the determination of the fair values of a significant portion of CSC’s net assets. Immediately following the purchase of CSC, the Company sold Youth Services International, Inc., the former juvenile services division of CSC, for $3.75 million, $1.75 million of which was paid in cash and the remaining $2.0 million of which was paid in the form of a promissory note accruing interest at a rate of 6% per annum. Principal and interest are due quarterly. The annual maturities are $0.6 million in 2006, $0.7 million in 2007, and $0.7 million in 2008. The purchase price allocations related to property and equipment, other assets, capital lease obligations and certain tax elections are still tentative as the Company has not received information from our independent valuation specialists. This information is expected to be received in the first quarter of 2006. The purchase price allocation excludes the assets of Youth Services International, Inc.

Table of Contents

The preliminary allocation of the purchase price is summarized below (in thousands):

	Purchase Price Allocation	Asset Life
Current Assets	$ 44,391	
Property and Equipment	110,150	Various
Intangible assets	16,520	4-20 years
Goodwill	35,317	Indefinite
Other non-current assets	17,566	
Total Assets acquired	223,934	
Current liabilities	23,565	
Other non-current liabilities	6,052	
Debt and capital lease obligations	115,027	
Total liabilities assumed	144,644	
Net assets acquired, including direct transaction costs	$ 79,290	

None of the goodwill recorded in relation to this acquisition is deductible for tax purposes. Identifiable intangible assets purchased in the acquisition and their weighted average lives are as follows (in thousands):

	Description	Asset Life
Facility management contracts	$ 15,050	7-20 years
Covenants not to compete	1,470	4 years
Total	$ 16,520	

The fair values used in determining the purchase price allocation for the intangible assets were based on independent appraisal.

The $35.3 million of goodwill related to the acquisition was assigned to the Correctional and Detention Facilities segment. See Note 17 for segment information.

The results of operations of CSC are included in the Company's results of operations beginning after November 4, 2005. CSC is part of the Company's Correctional and Detention Facilities reportable segment. The following unaudited pro forma information combines the consolidated results of operations of the Company and CSC as if the acquisitions had occurred at the beginning of fiscal year 2004 and excludes the operations of Youth Services International, Inc. (in thousands, except per share data):

	2005	2004
Revenues	$ 692,545	$ 670,563
Income from continuing operations	5,719	21,662
Net income	4,402	9,571
Net income per share — basic	$ 0.46	$ 1.02
Net income per share — diluted	$ 0.44	$ 0.98

3. Discontinued Operations

The Company formerly had, through its Australian subsidiary, a contract with the Department of Immigration, Multicultural and Indigenous Affairs ("DIMIA") for the management and operation of Australia's immigration centers. In 2003, the contract was not renewed, and effective February 29, 2004, the Company completed the transition of the contract and exited the management and operation of the DIMIA centers. In accordance with the provisions related to discontinued operations specified within FAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the accompanying consolidated financial statements and notes reflect the operations of DIMIA as a discontinued operation in all periods presented.

In New Zealand, the New Zealand Parliament in early 2005 repealed the law that permitted private prison operation resulting in the termination of the Company's contract for the management and operation of the Auckland Central Remand Prison ("Auckland"). The Company has operated this facility since July 2000. The Company ceased operating the facility upon the expiration of the contract on July 13, 2005. The accompanying consolidated financial statements and notes reflect the operations of Auckland as a discontinued operation.

On January 1, 2006, the Company completed the sale of Atlantic Shores Hospital, a 72 bed private mental health hospital which the Company owned and operated since 1997 for approximately $11.5 million. The Company recognized a gain on the sale of this transaction of approximately $1.6 million or $1.0 million net of tax. Pre-tax profit related to the 72 bed private mental health hospital was $0.1 million, $(0.2) million and $0.2 million in 2005, 2004 and 2003 respectively. The accompanying consolidated financial statements and notes reflect the operations of the hospital and the related sale as a discontinued operation.

The following are the revenues related to DIMIA, Auckland and Atlantic Shores Hospital for the periods presented (in thousands):

	2005	2004	2003
		(In thousands)	
Revenues — DIMIA	$ 20	$ 6,040	$ 62,673
Revenues — Auckland	7,256	12,940	10,492
Revenues — Atlantic Shores	8,602	7,614	7,711

4. Property and Equipment

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

	Useful Life (Years)	2005	2004
		(In thousands)	
Land	—	$ 6,195	$ 2,699
Buildings and improvements	2 to 40	258,008	168,855
Leasehold improvements	1 to 15	45,356	40,126
Equipment	3 to 7	32,541	23,106
Furniture and fixtures	3 to 7	9,309	3,432
		$ 351,409	$ 238,218
Less accumulated depreciation and amortization		(69,173)	(47,353)
		$ 282,236	$ 190,865

Table of Contents

At January 1, 2006, the Company had $17.3 million of assets recorded under capital leases including $16.6 million related to buildings and improvements, $0.6 million related to equipment and $0.1 million related to leasehold improvements with accumulated amortization of $0.1 million. There were no assets under capital leases at January 2, 2005.

5. Assets Held for Sale

In conjunction with the acquisition of CSC, the Company acquired a building and assets associated with a program that had been discontinued by CSC in October 2003. These assets meet the criteria to be classified as held for sale per the guidance of FAS No. 144 and have been recorded at their net realizable value at November 4, 2005. No depreciation has been recorded related to these assets in accordance with FAS No. 144.

6. Investment in Direct Finance Leases

The Company's investment in direct finance leases relates to the financing and management of one Australian facility. The Company's wholly-owned Australian subsidiary financed the facility's development with long-term debt obligations, which are non-recourse to the Company. The Company's financial statements reflect the consolidated Australian's subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $40.3 million and $44.7 as of January 1, 2006 and January 2, 2005, respectively.

The future minimum rentals to be received are as follows:

Fiscal Year	Annual Repayment (In thousands)
2006	$ 5,630
2007	5,660
2008	5,705
2009	5,744
2010	5,792
Thereafter	39,433
Total minimum obligation	$ 67,964
Less unearned interest income	(27,670)
Less current portion of direct finance lease	(1,802)
Investment in direct finance lease	$ 38,492

7. Derivative Financial Instruments

Effective September 18, 2003, the Company entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. The Company has designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. 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. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while the Company makes a variable interest rate payment to the same counterparties equal to the six-month London Interbank Offered Rate, ("LIBOR") plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of January 1, 2006 and January 2, 2005

the fair value of the swaps totaled approximately $(1.1) million and $0.7 million and is included in other non-current assets or liabilities and as an adjustment to the carrying value of the Notes in the accompanying balance sheets. There was no material ineffectiveness of the Company's interest rate swaps for the fiscal year ended January 1, 2006.

The Company's Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. The Company has determined the swap to be an effective cash flow hedge. Accordingly, the Company records the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap liability as of January 1, 2006 and January 2, 2005 was approximately $0.4 million and $2.5 million, respectively, and is recorded as a component of other liabilities in the accompanying consolidated financial statements. There was no material ineffectiveness of the Company's interest rate swaps for the fiscal years presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings of losses associated with this swap currently reported in accumulated other comprehensive loss.

The Company's former 50% owned joint venture operating in the United Kingdom was a party to several interest rate swaps to fix the interest rate on its variable rate credit facility. The Company previously determined the swaps to be effective cash flow hedges and upon the initial adoption of FAS No. 133 on January 1, 2001, the Company recognized a $12.1 million reduction of shareholders' equity. In fiscal 2003, in connection with the sale of the 50% owned joint venture in the UK, the Company reclassified the remaining balance of approximately $13.3 million from accumulated other comprehensive loss into earnings as a reduction of the gain on sale of the UK joint venture.

8. Goodwill and Other Intangible Assets, Net

As of January 1, 2006 and January 2, 2005, the Company had $35.9 million and $0.6 million of goodwill, respectively.

Intangible assets, net consisted of the following (in thousands):

	Useful Life in Years	2005
Facility Management Contracts	7-20	$ 15,050
Covenants not to compete	4	1,470
		$ 16,520
Less Accumulated Amortization		(289)
		$ 16,231

Amortization expense was $0.3 million for the fiscal year ended 2005. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. Estimated amortization expense for fiscal 2006 through fiscal 2010 and thereafter are as follows:

Fiscal Year	Expense Amortization (In thousands)
2006	$ 1,754
2007	1,754
2008	1,754
2009	1,693
2010	1,387
Thereafter	7,889
	$ 16,231

9. Accrued Expenses

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

	2005	2004
Accrued interest	$ 7,193	$ 5,476
Accrued bonus	4,369	5,608
Accrued insurance	25,923	15,686
Accrued taxes	882	1,522
Jena idle facility lease reserve	8,257	5,847
Other	23,553	18,965
Total	$ 70,177	$ 53,104

10. Debt

Debt consisted of the following (dollars in thousands):

	2005	2004
Capital Lease Obligations	$ 17,755	$ —
Senior Credit Facility:		
Term loan	$ 74,813	$ 51,521
Senior 8¼% Notes:		
Notes Due in 2013	$ 150,000	$ 150,000
Discount on Notes	(3,735)	(4,063)
Swap on Notes	(1,074)	746
Total Senior 8¼% Notes	$ 145,191	$ 146,683
Non Recourse Debt:		
Non recourse debt	$ 142,479	$ 44,683
Discount on bonds	(4,493)	—
Total non recourse debt	137,986	44,683
Other debt	301	—
Total debt	$ 376,046	$ 242,887
Current portion of capital lease obligations, long-term debt and non-recourse debt	(8,441)	(13,736)
Capital lease obligations	(17,072)	—
Non recourse debt	(131,279)	(42,953)
Long term debt	$ 219,254	$ 186,198

The Senior Credit Facility

On September 14, 2005, the Company amended its senior secured credit facility (the “Senior Credit Facility”), to consist of a $75 million, six-year term-loan bearing interest at London Interbank Offered Rate, (“LIBOR”) plus 2.00%, and a $100 million, five-year revolving credit facility bearing interest at LIBOR plus 2.00%. The Company used the borrowings under the Senior Credit Facility to fund general corporate purposes and to finance the acquisition of Correctional Services Corporation (“CSC”) for approximately $62 million plus transaction-related costs. The acquisition of CSC closed in the fourth quarter of 2005. As of January 1, 2006, the Company had borrowings of $74.8 million outstanding under the term loan portion of the Senior Credit Facility, no amounts outstanding under the revolving portion of the Senior Credit Facility, and $43.7 million outstanding in letters of credit under the revolving portion of the Senior Credit Facility. As of January 1, 2006 the Company had $56.3 million available for borrowings under the revolving portion of the Senior Credit Facility.

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, including but not limited to (i) a first-priority pledge of all of the outstanding capital stock owned by the Company and each guarantor, and (ii) perfected first-priority security interests in all of the Company’s present and future tangible and intangible assets and the present and future tangible and intangible assets of each guarantor.

Indebtedness under the Revolving Credit Facility bears interest at the Company's option at the base rate plus a spread varying from 0.50% to 1.25% (depending upon a leverage-based pricing grid set forth in the Senior Credit Facility), or at LIBOR plus a spread, varying from 1.50% to 2.25% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). As of January 1, 2006, there were no borrowings outstanding under the Revolving Credit Facility. However, new borrowings would bear interest at LIBOR plus 2.00% or at the base rate plus 1.00%. Letters of credit outstanding under the revolving portion of the Senior Credit Facility bear interest at 1.50% to 2.25% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). Available capacity under the revolving portion of the Senior Credit Facility bears interest at 0.38% to 0.5%. The Term Loan Facility bears interest at the Company's option at the base rate plus a spread of 0.75% to 1.00%, or at LIBOR plus a spread, varying from 1.75% to 2.00% (depending upon a leverage-based pricing grid, as defined in the Senior Credit Facility). Borrowings under the Term Loan Facility currently bear interest at LIBOR plus a spread of 2.00%. If an event of default occurs under the Senior Credit Facility, (i) all LIBOR rate loans bear interest at the rate which is 2.00% in excess of the rate then applicable to LIBOR rate loans until the end of the applicable interest period and thereafter at a rate which is 2.00% in excess of the rate then applicable to base rate loans, and (ii) all base rate loans bear interest at a rate which is 2.00% in excess of the rate then applicable to base rate loans.

The Senior Credit Facility contains financial covenants which require the Company to maintain the following ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period: a total leverage ratio equal to or less than 3.50 to 1.00 through December 30, 2006, which reduces thereafter in 0.50 increments to 3.00 to 1.00 for the period from December 31, 2006 through December 27, 2007 and thereafter; a senior secured leverage ratio equal to or less than 2.50 to 1.00; and a fixed charge coverage ratio equal to or less than 1.05 to 1.00 until December 30, 2006, and thereafter a ratio of 1.10 to 1.00. In addition, the Senior Credit Facility prohibits the Company from making capital expenditures greater than $19.0 million in the aggregate during any fiscal year until 2009 and $24.0 million during each of the years 2010 and 2011, provided that to the extent that the Company's capital expenditures during any fiscal year are less than the limit, such amount will be added to the maximum amount of capital expenditures that the Company can make in the following year.

The Senior Credit Facility contains certain customary representations and warranties, and certain customary covenants that restrict the Company's ability to, among other things (i) create, incur or assume any indebtedness, (ii) incur liens, (iii) make loans and investments, (iv) engage in mergers, acquisitions and asset sales, (v) sell our assets, (vi) make certain restricted payments, including declaring any cash dividends or redeem or repurchase capital stock, except as otherwise permitted, (vii) issue, sell or otherwise dispose of the Company's capital stock, (viii) transact with affiliates, (ix) make changes to the Company's accounting treatment, (x) amend or modify the terms of any subordinated indebtedness (including the Notes), (xi) enter into debt agreements that contain negative pledges on the Company's assets or covenants more restrictive than contained in the Senior Credit Facility, (xii) alter the business the Company conducts, and (xiii) materially impair the Company's lenders' security interests in the collateral for the Company's loans. The covenants in the Senior Credit Facility can substantially restrict the Company's business operations.

Events of default under the Senior Credit Facility include, but are not limited to, (i) the Company's failure to pay principal or interest when due, (ii) the Company's material breach of any representations or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a threshold to be determined, (vii) material environmental claims which are asserted against the Company, and (viii) a change of control.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Senior 8¹/₄% Notes

To facilitate the completion of the purchase of the 12 million shares from Group 4 Falck, the Company amended the Senior Credit Facility and issued $150.0 million aggregate principal amount, ten-year, 8¹/₄% senior unsecured notes, ("the Notes"), in a private placement pursuant to Rule 144A of the Securities Act of 1933, as amended. The Notes are general, unsecured, senior obligations. Interest is payable semi-annually on January 15 and July 15 at 8¹/₄%. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between the Company and the Bank of New York, as trustee, referred to as the Indenture. Under the terms of the Indenture, at any time on or prior to July 15, 2006, the Company may redeem up to 35% of the Notes with the proceeds from equity offerings at 108.25% of the principal amount to be redeemed plus the payment of accrued and unpaid interest, and any applicable liquidated damages. Additionally, after July 15, 2008, the Company may redeem, at the Company's option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the redemption occurs. The Indenture contains covenants that limit the Company's ability to incur additional indebtedness, pay dividends or distributions on its common stock, repurchase its common stock, and prepay subordinated indebtedness. The Indenture also limits the Company's ability to issue preferred stock, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets. On June 25, 2004, as required by the terms of the Indenture governing the Notes, the Company used $43.0 million of the net proceeds from the sale of PCG to permanently reduce the Senior Credit Facility, and wrote off approximately $0.3 million in deferred financing costs related to this payment.

The Company is in compliance with all of the covenants of the Indenture governing the notes as of January 1, 2006.

Non-Recourse Debt

South Texas Detention Complex:

In February 2004, CSC was awarded a contract by the Department of Homeland Security, Bureau of Immigration and Customs Enforcement ("ICE") to develop and operate a 1,020 bed detention complex in Frio County Texas. South Texas Local Development Corporation ("STLDC") was created and issued $49.5 million in taxable revenue bonds to finance the construction of the detention center. Additionally, CSC provided a $5 million subordinated note to STLDC for initial development. The Company determined that it is the primary beneficiary of STLDC and consolidate the entity as a result. STLDC is the owner of the complex and entered into a development agreement with CSC to oversee the development of the complex. In addition, STLDC entered into an operating agreement providing CSC the sole and exclusive right to operate and manage the complex. The operating agreement and bond indenture require the revenue from CSC's 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 CSC to cover CSC's operating expenses and management fee. The bonds have a ten year term and are non-recourse to CSC and STLDC. CSC 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 are fully insured and the sole source of payment for the bonds is the operating revenues of the center.

Included in non-current restricted cash equivalents and investments is $12.2 million as of January 1, 2006 as funds held in trust with respect to the STLDC for debt service and other reserves.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Northwest Detention Center

On June 30, 2003 CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington (the "Northwest Detention Center"), which CSC completed and opened for operation in April 2004. In connection with this financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a $57 million note payable to the Washington Economic Development Finance Authority ("WEDFA"), an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance to CSC of Tacoma LLC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to CSC and the loan from WEDFA to CSC of Tacoma, LLC is non-recourse to CSC. 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.

Included in non-current restricted cash equivalents and investments is $1.3 million as of January 1, 2006 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, which are non-recourse to us. We have consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $40.3 million and $44.7 million as of January 1, 2006 and January 2, 2005, respectively. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at January 1, 2006, was approximately $3.7 million. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria.

As of January 1, 2006, the Notes are reflected net of the original issuer's discount of approximately $3.7 million which is being amortized over the ten year term of the Notes using the effective interest method.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Debt repayment schedules under capital lease obligations, long term debt and non-recourse debt are as follows:

Fiscal Year	Capital Leases	Long Term Debt	Non Recourse	Total Annual Repayment
				(In thousands)
2006	$ 2,087	$ 1,051	$ 6,707	$ 9,845
2007	2,135	750	11,272	14,157
2008	2,119	750	11,899	14,768
2009	1,975	750	12,606	15,331
2010	1,909	18,375	13,262	33,546
Thereafter	22,580	203,438	86,733	312,751
	$ 32,805	$ 225,114	$ 142,479	$ 400,398
Original issuer's discount	—	(3,735)	(4,493)	(8,228)
Current portion	(683)	(1,051)	(6,707)	(8,441)
Interest imputed on Capital Leases	(15,050)	—	—	(15,050)
Swap	—	(1,074)	—	(1,074)
Non current portion	$ 17,072	$ 219,254	$ 131,279	$ 367,605

At January 1, 2006 the Company also had outstanding eleven letters of guarantee totaling approximately $6.5 million under separate international facilities.

Guarantees

In connection with the creation of SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. The Company guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or approximately $9.5 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 50% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 6.5 million South African Rand, or approximately $1.0 million as security for the Company's 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 Revolving Credit Facility.

The Company has agreed to provide a loan of up to 20.0 million South African Rand, or approximately $3.2 million (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 anticipate that such funding will ever be required by SACS. 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 circumstance, 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, the Company guaranteed certain potential tax obligations of a special purpose entity. The potential estimated exposure of these obligations is CAN$2.5 million, or approximately $2.1 million commencing in 2017. To secure this guarantee, the Company purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its balance sheet.

The Company's wholly-owned Australian subsidiary financed the development of a facility and subsequent expansion in 2003, with long-term debt obligations, which are non-recourse to the Company and total $40.3 million and $44.7 million at January 1, 2006 and January 2, 2005, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million, which, at January 1, 2006, was approximately $3.7 million. This amount is included in restricted cash and the annual maturities of the future debt obligation is included in non recourse debt. The debt amortization schedule requires annual repayments of $1.8 million in 2006, $2.0 million in 2007, $2.3 million in 2008, $2.5 million in 2009, $2.8 million in 2010 and $28.9 million thereafter. CSC non-recourse requires annual repayments of $4.9 million in 2006, $9.3 million in 2007, $9.7 million in 2008, $10.1 million in 2009, $10.3 million in 2010 and $57.9 million thereafter.

11. Transactions with CentraCore Properties Trust ("CPV")

During fiscal 1998, 1999 and 2000, CPV acquired 11 correctional and detention facilities operated by the Company. There have been no purchase and sale transactions between the Company and CPV since 2000.

Simultaneous with the purchases, the Company entered into ten-year operating leases of these facilities from CPV. As the lease agreements are subject to contractual lease increases, the Company records operating lease expense for these leases on a straight-line basis over the term of the leases. Additionally, the lease contains three five-year renewal options based on fair market rental rates. The deferred unamortized net gain related to sales of the facilities to CPV at January 1, 2006, which is included in "Deferred Revenue" in the accompanying consolidated balance sheets is $5.2 million with $1.9 million short-term and $3.3 million long-term. The gain is being amortized over the ten-year lease terms. The Company recorded net rental expense related to the CPV leases of $21.6 million, $21.0 million and $20.0 million in 2005, 2004 and 2003, respectively, excluding the Jena rental expense (See Note 12).

The future minimum lease commitments under the leases for these eleven facilities are as follows:

Fiscal Year	Annual Rental (In thousands)
2006	$ 25,750
2007	27,292
2008	20,022
2009	10,617
2010	8,203
Thereafter	48,267
	$ 140,151

The Company operates the 1,918-bed Lawton Correctional Facility in Lawton Oklahoma and leases the facility under a ten year non-cancelable operating lease from CentraCore Properties Trust (CPV). The

Company completed the construction of a 300-bed expansion to the original 1,618 bed facility in 1999 and capitalized the expansion as a leasehold improvement. On May 27, 2005 the Company entered into an amended lease agreement with CPV which includes the purchase by CPV of the 300 bed expansion for $3.5 million and an additional 600-bed expansion for $23.0 million. The Company recognized a $1.0 million gain on the sale of the existing 300-bed expansion which is being deferred and amortized over the new lease term. The Company accounts for the construction of the new 600-bed expansion in accordance with EITF 97-10 "The Effect of Lessee Involvement in Asset Construction" and capitalized the construction costs through the completion of construction. On January 1, 2006, the Company had capitalized $8.9 million of construction costs. The Company expects the construction of the new 600-bed expansion to be completed sometime during the third quarter 2006, after which time a new ten year non-cancelable operating lease with CPV for the entire Lawton Correctional Facility will become effective.

In February 2005, the Company appointed a new board member who previously served on CPV's board of directors. Subsequently on February 8, 2006, the director resigned from the Company's board of directors.

12. Commitments and Contingencies

During 2000, the Company's management contract at the 276-bed Jena Juvenile Justice Center in Jena, Louisiana, which is included in the correction and detention facilities segment, was discontinued by the mutual agreement of the parties. Despite the discontinuation of the management contract, the Company remains responsible for payments on the Company's underlying lease of the inactive facility with CPV through January 2010. During the third quarter of 2005, the Company determined the alternative uses being pursued were no longer probable and as a result revised its estimated sublease income and recorded an operating charge of $4.3 million, representing the remaining obligation on the lease through the contractual term of January 2010 for a total reserve of $8.6 million. This $4.3 million charge is included in the caption "Operating Expenses" in the Consolidated Statement of Income for the fiscal year ended January 1, 2006. However, the Company will continue its effort to reactivate the facility.

The Company owns the 480-bed Michigan Correctional Facility in Baldwin, Michigan, referred to as the Michigan Facility. The Company operated the Michigan Facility from 1999 until October 2005 pursuant to a management contract with the Michigan Department of Corrections, or the MDOC. Separately, the Company leased the Michigan Facility, as lessor, to the State, as lessee, under a lease with an initial term of 20 years followed by two five-year options. On September 30, 2005, the Governor of the State of Michigan announced her decision to close the Michigan Facility. As a result of the closure of the Michigan Facility, the Company's management contract with the MDOC to operate the Michigan Facility was terminated. On October 3, 2005, the Michigan Department of Management & Budget sent the Company a 60 day cancellation notice to terminate the lease for the Michigan Facility. Based in part on the language of certain provisions in the lease, the Company believes that the Governor does not have the authority to unilaterally terminate the Michigan Facility lease. As a result, in November 2005, the Company filed a lawsuit against the State to enforce the Company's rights under the lease. On February 24, 2006, the Ingham County Circuit Court, the trial court with jurisdiction over the case, granted summary judgment in favor of the State and against the Company and the other plaintiffs, The Village of Baldwin and Webber Township. The trial court ruled that the State lawfully cancelled the lease when the Governor exercised her line item veto of the legislative appropriation for the funding of the lease. The Company is in the process of appealing the summary judgment entered by the trial court. The Company has reviewed the Michigan Facility for impairment in accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and recorded an impairment charge in the fourth quarter of 2005 for $20.9 million based on an independent appraisal of fair market value.

The Company has entered into construction contracts with the Florida Department of Management Services ("DMS") to expand the Moorehaven Correctional Facility by 235 beds, which the Company operates for DMS, and build the 1,500 bed Graceville Correctional Facility, which the Company will operate for DMS upon final completion of the construction. Payment under these construction contracts is contingent on the receipt of proceeds from bonds being issued by the state of Florida to finance the projects. Subsequent to January 1, 2006, the Company incurred approximately $8.5 million in costs related to these projects prior to the financing being completed. We expect the financing to be completed by March 31, 2006. In the event the required financing is not completed, the Company will expense these costs during the first quarter of 2006 without an offsetting revenue source.

Operating Leases

The Company leases correctional facilities, office space, computers and vehicles under non-cancelable operating leases expiring between 2005 and 2013. The future minimum commitments under these leases exclusive of lease commitments related to CPV, are as follows:

Fiscal Year	Annual Rental (In thousands)
2006	$ 11,483
2007	11,353
2008	11,063
2009	8,583
2010	5,903
Thereafter	18,343
	$ 66,728

Rent expense was approximately $24.9 million, $14.4 million, and $12.5 million for fiscal 2005, 2004, and 2003 respectively.

Litigation, Claims and Assessments

The Company was defending a wage and hour class action lawsuit (Salas et al v. WCC) filed on December 26, 2001 in California state court by ten current and former employees. In January 2005, this lawsuit was settled by a satisfaction of judgment and a release of all claims executed by the plaintiffs which was filed with the Superior Court of California in Kern County. As part of the settlement, the Company made a cash payment of approximately $3.1 million and is required to provide certain non-cash considerations to current California employees who were included in the lawsuit. The non-cash considerations include a designated number of paid days off according to longevity of employment, modifications to the Company's human resources department, and changes in certain operational procedures at the Company's correctional facilities in California. The settlement encompasses all current and former employees in California through the approval date of the settlement and constitutes a full and final settlement of all actual and potential wage and hour claims against the Company in California for the period preceding July 29, 2004.

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2002 and 2001 at several detention facilities that the Company's Australian subsidiary formerly operated pursuant to its discontinued operation. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In May 2005, the Company received additional correspondence indicating that the insurance provider still intends to pursue the claim against our

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Australian subsidiary. Although the claim is in the initial stages and the Company is still in the process of fully evaluating its merits, the Company believes that it has defenses to the allegations underlying the claim and intends to vigorously defend the Company's rights with respect to this matter. While the the insurance provider has not quantified its damage claim and the outcome of this matter discussed above cannot be predicted with certainty, based on information known to date, and management's preliminary review of the claim, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on the Company's financial condition, results of operations and cash flows. The Company is uninsured for any damages or costs that it may incur as a result of this claim, including the expenses of defending the claim. The Company has accrued a reserve related to this claim based on its estimate of the most probable loss based on the facts and circumstances known to date, and the advice of its legal counsel.

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 our customers and other third parties, contractual claims and claims for personal injury or other damages resulting from contact with the Company's facilities, programs, personnel or prisoners, including damages arising from a prisoner's escape or from a disturbance or riot at a facility. Except as otherwise disclosed above, the Company does not expect the outcome of any pending claims or legal proceedings to have a material adverse effect on its financial condition, results of operations or cash flows.

Collective Bargaining Agreements

The Company had approximately twenty percent of its workforce covered by collective bargaining agreements at January 1, 2006. Collective bargaining agreements with nine percent of employees are set to expire in less than one year.

13. Share Purchase

On July 9, 2003, the Company purchased all 12 million shares of the Company's common stock beneficially owned by Group 4 Falck, the Company's former 57% majority shareholder, for $132.0 million in cash.

In April 1994, the Company's Board of Directors authorized 10,000,000 shares of "blank check" preferred stock. The Board of Directors is authorized to determine the rights and privileges of any future issuance of preferred stock such as voting and dividend rights, liquidation privileges, redemption rights and conversion privileges.

14. Earnings Per Share

The table below shows the amounts used in computing earnings per share ("EPS") in accordance with FAS No. 128 and the effects on income and the weighted average number of shares of potential dilutive common stock.

Fiscal Year	2005	2004	2003
		(In thousands, except per share data)	
Net income	$ 7,006	$ 16,815	$ 40,019
Basic earnings per share:			
Weighted average shares outstanding	9,580	9,384	15,618
Per share amount	$ 0.73	$ 1.79	$ 2.56
Diluted earnings per share:			
Weighted average shares outstanding	9,580	9,384	15,618
Effect of dilutive securities:			
Employee and director stock options	430	354	211
Weighted average shares assuming dilution	10,010	9,738	15,829
Per share amount	$ 0.70	$ 1.73	$ 2.53

For fiscal 2005, options to purchase 16,000 shares of the Company's common stock with exercise prices ranging from $26.88 to $32.20 per share and expiration dates between 2006 and 2014 were outstanding at January 1, 2006, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

For fiscal 2004, options to purchase 362,447 shares of the Company's common stock with exercise prices ranging from $21.50 to $26.88 per share and expiration dates between 2006 and 2014 were outstanding at January 2, 2005, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

For fiscal 2003, options to purchase 735,600 shares of the Company's common stock with exercise prices ranging from $15.40 to $29.56 per share and expiration dates between 2006 and 2012 were outstanding at December 28, 2003, but were not included in the computation of diluted EPS because their effect would be anti-dilutive.

15. Stock Options

The Company has four stock option plans: The Wackenhut Corrections Corporation 1994 Stock Option Plan (First Plan), the Wackenhut Corrections Corporation 1994 Stock Option Plan (Second Plan), the 1995 Non-Employee Director Stock Option Plan (Third Plan) and the Wackenhut Corrections Corporation 1999 Stock Option Plan (Fourth Plan). The Wackenhut Corrections Corporation 1994 Stock Option Plan (First Plan) has expired and has no outstanding stock options.

Under the Second Plan and Fourth Plan, the Company may grant options to key employees for up to 1,500,000 and 1,150,000 shares of common stock, respectively. Under the terms of these plans, the exercise price per share and vesting period is determined at the sole discretion of the Board of Directors. All options that have been granted under these plans are exercisable at the fair market value of the common stock at the date of the grant. Generally, the options vest and become exercisable ratably over a four-year period, beginning immediately on the date of the grant. However, the Board of Directors has

exercised its discretion and has granted options that vest 100% immediately. All options under the Second Plan and Fourth Plan expire no later than ten years after the date of the grant.

Under the Third Plan, the Company may grant up to 110,000 shares of common stock to non-employee directors of the Company. Under the terms of this plan, options are granted at the fair market value of the common stock at the date of the grant, become exercisable immediately, and expire ten years after the date of the grant.

A summary of the status of the Company's stock option plans is presented below.

	2005		2004		2003	
Fiscal Year	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price
Outstanding at beginning of year	1,591,509	$ 15.49	1,614,374	$ 14.21	1,410,306	$ 14.26
Granted	13,500	32.20	160,374	22.00	305,000	12.67
Exercised	183,752	16.32	174,839	9.10	86,932	8.93
Forfeited/ Cancelled	14,600	16.70	8,400	22.93	14,000	17.36
Options outstanding at end of year	1,406,657	15.53	1,591,509	15.49	1,614,374	14.21
Options exercisable at end of year	1,260,492	$ 15.32	1,381,692	$ 15.26	1,443,032	$ 14.39

The following table summarizes information about the stock options outstanding at January 1, 2006:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable	Wtd. Avg. Exercise Price
$7.88 - $7.88	2,000	4.3	$ 7.88	2,000	$ 7.88
$8.44 - $8.44	184,500	4.1	8.44	184,500	8.44
$9.30 - $9.30	172,500	5.1	9.30	172,500	9.30
$9.51 - $12.51	80,091	7.1	9.61	56,807	9.65
$14.00 - $14.00	184,182	7.3	14.00	134,732	14.00
$14.69 - $14.69	15,000	3.7	14.69	15,000	14.69
$15.40 - $15.40	264,000	6.1	15.40	264,000	15.40
$15.90 - $18.63	176,137	4.3	18.43	160,753	18.44
$20.25 - $22.93	159,000	3.7	22.30	120,600	22.10
$23.00 - $32.20	169,247	4.4	25.09	149,600	25.32
	1,406,657	5.2	$ 15.53	1,260,492	$ 15.32

The Company had 13,000 options available to be granted at January 1, 2006 under the aforementioned stock plans.

16. Retirement and Deferred Compensation Plans

The Company has two noncontributory defined benefit pension plans covering certain of the Company's executives. Retirement benefits are based on years of service, employees' average compensation for the last five years prior to retirement and social security benefits. Currently, the plans are not funded. The Company purchased and is the beneficiary of life insurance policies for certain participants enrolled in the plans.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In 2001, the Company established non-qualified deferred compensation agreements with three 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.

The following table summarizes key information related to these pension plans and retirement agreements which includes information as required by FAS 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". 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 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.

In accordance with FAS 132, the Company has also disclosed contributions and payment of benefits related to the plans. There were no assets in the plan at January 1, 2006 or January 2, 2005. All changes as a result of the adjustments to the accumulated benefit obligation are included below and shown net of tax in the Consolidated Statement of Shareholders' Equity and Comprehensive Income. There were no significant transactions between the employer or related parties and the plan during the period.

	2005	2004
Change in Projected Benefit Obligation		
Projected Benefit Obligation, Beginning of Year	$ 14,423	$ 13,408
Service Cost	437	313
Interest Cost	542	836
Plan Amendments	—	—
Actuarial Gain (Loss)	332	(102)
Benefits Paid	(32)	(32)
Projected Benefit Obligation, End of Year	$ 15,702	$ 14,423
Change in Plan Assets		
Plan Assets at Fair Value, Beginning of Year	$ —	$ —
Company Contributions	32	32
Benefits Paid	(32)	(32)
Plan Assets at Fair Value, End of Year	$ —	$ —
Reconciliation of Prepaid (Accrued) and Total Amount Recognized		
Funded Status of the Plan	$ (15,702)	$ (14,423)
Unrecognized Prior Service Cost	204	1,141
Unrecognized Net Loss	2,930	2,719
Accrued Pension Cost	$ (12,568)	$ (10,563)
Accrued Benefit Liability	(12,568)	(11,748)
Intangible Asset	—	1,141
Accumulated Other Comprehensive Income	—	44
Total Recognized	$ (12,568)	$ (10,563)

	Fiscal 2005	Fiscal 2004
Components of Net Periodic Benefit Cost		
Service Cost	$ 437	$ 314
Interest Cost	542	836
Amortization of:		
Unrecognized Prior Service Cost	936	1,078
Unrecognized Net Loss	121	404
Net Periodic Pension Cost	$ 2,036	$ 2,632
Weighted Average Assumptions for Expense		
Discount Rate	5.50%	5.75%
Expected Return on Plan Assets	N/A	N/A
Rate of Compensation Increase	5.50%	5.50%

The accumulated benefit obligation for all defined benefit plans was $12.6 million and $11.7 million at January 1, 2006 and January 2, 2005, respectively. The accrued benefit liability for the three plans at January 1, 2006 are as follows, $1.7 million for the executive retirement plan, $0.8 million for the officer retirement plan and $10.1 million for the three key executives' plans.

The Company has established a deferred compensation agreement for non-employee directors, which allow eligible directors to defer their compensation in either the form of cash or stock. Participants may elect lump sum or monthly payments to be made at least one year after the deferral is made or at the time the participant ceases to be a director. The Company recognized total compensation expense under this plan of $(0.1) million, $0.1 and $0.1 million for 2005, 2004, and 2003, respectively. Payouts under the plan were $0.0 and $0.1 million in 2005 and 2004 respectively. The liability for the deferred compensation was $0.5 million and $0.5 million at year-end 2005 and 2004, respectively, and is included in "Accrued expenses" in the accompanying consolidated balance sheets.

The Company also has a non-qualified deferred compensation plan for employees who are ineligible to participate in its qualified 401(k) plan. Eligible employees may defer a fixed percentage of their salary, which earns interest at a rate equal to the prime rate less 0.75%. The Company matches employee contributions up to $400 each year based on the employee's years of service. Payments will be made at retirement age of 65 or at termination of employment. The Company recognized expense of $0.1 million, $0.1 million and $0.1 million in 2005, 2004, and 2003, respectively. The liability for this plan at year-end 2005 and 2004 was $2.3 million and $2.1 million, respectively, and is included in accrued expense in the accompanying consolidated balance sheets.

The Company expects to make the following benefit payments based on eligible retirement dates:

Fiscal Year	Pension Benefits (In thousands)
2006	$ 11,047
2007	53
2008	59
2009	118
2010	130
2011-2015	1,342
	$ 12,749

17. Business Segment and Geographic Information

Operating and Reporting Segment

The Company operates in one industry segment encompassing the development and management of privatized government institutions located in the United States, Australia, South Africa and the United Kingdom. The segment information presented in the prior periods has been reclassified to conform to the current presentation.

Fiscal Year	2005	2004	2003
		(In thousands)	
Revenues:			
Correction and detention facilities	$ 572,109	$ 546,952	$ 519,246
Other	40,791	47,042	29,992
Total revenues	$ 612,900	$ 593,994	$ 549,238
Depreciation and amortization:			
Correction and detention facilities	$ 15,617	$ 13,672	$ 13,237
Other	259	226	104
Total depreciation and amortization	$ 15,876	$ 13,898	$ 13,341
Operating Income:			
Correction and detention facilities	$ 7,646	$ 38,092	$ 27,952
Other	292	899	1,548
Total operating income	$ 7,938	$ 38,991	$ 29,500
Segment assets:			
Correction and detention facilities	$ 525,625	$ 343,505	
Other	10,671	18,017	
Total segment assets	$ 536,296	$ 361,522	

Fiscal 2005 segment operating expenses include net non cash charges of $23.8 million consisting of a $20.9 million impairment charge for the Michigan Correctional Facility and a $4.3 million charge for the remaining obligation for the inactive Jena Facility offset by a $1.3 million reduction in insurance reserves.

Fiscal 2004 segment operating expenses includes a net non cash credit of $1.2 million, consisting of a $4.2 million reduction in our general liability, auto liability and worker’s compensation insurance reserves offset by an additional provision for operating losses of approximately $3.0 million related to our inactive facility in Jena, Louisiana. Fiscal 2003 operating expenses include net non cash charges of $8.6 million in 2003, consisting of a provision for operating losses of approximately $5.0 million related to the Jena facility, and approximately $3.6 million primarily attributable to liability insurance expenses, related to the transitioning of the DIMIA contract in Australia.

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Pre-Tax Income Reconciliation

Year Ended	2005	2004	2003
		(In thousands)	
Total operating income from segment	$ 7,646	$ 38,092	$ 27,952
Unallocated amounts:			
Net Interest Expense	(13,862)	(12,570)	(11,043)
Gain on sale of UK Joint Venture	—	—	56,094
Costs related to early extinguishment of debt	(1,360)	(317)	(1,989)
Other	292	899	1,548
Income (loss) before income taxes, equity in earnings of affiliates, Discontinued operations and Minority interest	$ (7,284)	$ 26,104	$ 72,562

Asset Reconciliation

	2005	2004
Total segment assets	$ 525,625	$ 343,505
Cash	57,094	92,005
Short term investments	—	10,000
Deferred income tax-current	19,755	12,891
Restricted cash	26,366	3,908
Other	10,671	18,017
Total Assets	$ 639,511	$ 480,326

Geographic Information

The Company's international operation are conducted through the Company's wholly owned Australian subsidiaries, and one of the Company's joint ventures in South Africa, SACM. Through the Company's wholly owned subsidiary, GEO Group Australia Pty. Limited, the Company currently manages five correctional facilities, including one police custody center. Through the Company's joint venture SACM, the Company currently manages one facility.

Fiscal Year	2005	2004	2003
		(In thousands)	
Revenues:			
U.S. operations	$ 514,071	$ 502,989	$ 475,043
Australia operations	83,335	75,947	61,571
South African operations	15,494	15,058	12,624
Total revenues	$ 612,900	$ 593,994	$ 549,238
Long-lived assets:			
U.S. operations	$ 275,415	$ 183,655	
Australia operations	6,243	6,916	
South African operations	578	294	
Total long-lived assets	$ 282,236	$ 190,865	

Table of Contents

Sources of Revenue

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

Fiscal Year	2005	2004	2003
		(In thousands)	
Revenues:			
Correction and detention facilities	$ 572,109	$ 546,952	$ 519,246
Mental health	32,616	31,704	29,911
Construction	8,175	15,338	81
Total revenues	$ 612,900	$ 593,994	$ 549,238

Equity in Earnings of Affiliates

Equity in earnings of affiliates for 2005 and 2004 include one of our joint ventures in South Africa, SACS. Equity in earnings of affiliates for 2003 represent the operations of the Company's 50% owned joint ventures in the United Kingdom (Premier Custodial Group Limited) and SACS. These entities and their subsidiaries are accounted for under the equity method.

The Company sold its interest in Premier Custodial Group Limited on July 2, 2003 for approximately $80.7 million and recognized a gain of approximately $56.0 million. Total equity in the undistributed earnings for Premier Custodial Group Limited, before income taxes, for fiscal 2003, and 2002 was $3.0 million, and $10.2 million, respectively.

The following table summarizes certain financial information pertaining to this joint venture for the period from December 30, 2002 through the date of sale of the UK joint venture on July 2, 2003 and for the fiscal year ended December 29, 2002 (in thousands):

	2003
Statement of Operations Data	
Revenues	$ 104,080
Operating loss	$ (2,981)
Net income	$ 3,486

A summary of financial data for SACS is as follows:

Fiscal Year	2005	2004	2003
		(In thousands)	
Statement of Operations Data			
Revenues	$ 33,179	$ 31,175	$ 24,801
Operating income	11,969	11,118	7,528
Net (loss) income	2,866	—	(817)
Balance Sheet Data			
Current assets	13,212	14,250	8,154
Noncurrent assets	68,149	74,648	61,342
Current liabilities	4,187	5,094	2,896
Non current liabilities	73,645	83,474	69,749
Shareholders' equity (deficit)	3,529	330	(3,150)

SACS commenced operation in fiscal 2002. Total equity in undistributed loss for SACS before income taxes, for fiscal 2005, 2004 and 2003 was $0.9 million, $(0.1) million, and $(0.4) million, respectively.

Business Concentration

Except for the major customers noted in the following table, no single customer provided more than 10% of the Company's consolidated revenues during fiscal 2005, 2004 and 2003:

Customer	2005	2004	2003
Various agencies of the U.S. Federal Government	27%	27%	27%
Various agencies of the State of Texas	8%	9%	12%
Various agencies of the State of Florida	7%	12%	12%

Concentration of credit risk related to accounts receivable is reflective of the related revenues.

18. Income Taxes

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

	2005	2004	2003
		(In thousands)	
Income (loss) before income taxes, minority interest, equity earnings in affiliates, and discontinued operations			
United States	$ (20,395)	$ 9,627	$ 61,064
Foreign	13,111	16,477	11,498
	(7,284)	26,104	72,562
Discontinued operations:			
Income (loss) from operation of discontinued business	2,022	(529)	5,188
Total	$ (5,262)	$ 25,575	$ 77,750

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	2005	2004	2003
		(In thousands)	
Federal income taxes:			
Current	$ (4,146)	$ (72)	$ 29,182
Deferred	(4,151)	2,050	1,790
	(8,297)	1,978	30,972
State income taxes:			
Current	(714)	643	2,332
Deferred	(756)	469	226
	(1,470)	1,112	2,558
Foreign:			
Current	(3,304)	4,226	5,108
Deferred	1,245	915	(1,786)
	(2,059)	5,141	3,322
Total U.S. and foreign	(11,826)	8,231	36,852
Discontinued operations:			
Income from operations of discontinued business	895	(181)	1,544
Total	$ (10,931)	$ 8,050	$ 38,396

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

	2005	2004	2003
		(In thousands)	
Continuing operations:			
Provisions using statutory federal income tax rate	$ (2,549)	$ 9,136	$ 25,396
State income taxes, net of federal tax benefit	(907)	723	1,650
Australia consolidation benefit	(6,460)	—	—
Basis difference PCG stock	—	(3,351)	8,639
Section 965 benefit	(1,704)	(197)	—
Non-performance based compensation	—	1,417	—
Other, net	(206)	503	1,167
Total continuing operations	(11,826)	8,231	36,852
Discontinued operations:			
Taxes from operations of discontinued business	895	(181)	1,544
Provision (benefit) for income taxes	$ (10,931)	$ 8,050	$ 38,396

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of the net current deferred income tax asset at fiscal year end are as follows:

	2005	2004
	(In thousands)	
Revenue not yet taxed	$ (260)	$ —
Deferred revenue	574	—
Uniforms	(158)	(207)
Deferred loan costs	945	—
Other, net	6	—
Allowance for doubtful accounts	211	426
Accrued vacation	4,753	2,644
Accrued liabilities	13,684	10,028
Total	$ 19,755	$ 12,891

The components of the net non-current deferred income tax liability at fiscal year end are as follows:

	2005	2004
	(In thousands)	
Capital losses	$ 5,945	$ —
Depreciation	(2,241)	(9,808)
Deferred loan costs	2,568	—
Deferred revenue	1,841	2,886
Bond Discount	(1,746)	—
Net operating losses	3,499	1,587
Tax credits	815	—
Intangible assets	(6,013)	—
Accrued liabilities	762	—
Deferred compensation	6,031	5,231
Residual U.S. tax liability on unrepatriated foreign earnings	(4,754)	(4,611)
Foreign deferred tax assets	—	(2,277)
Other, net	261	113
Valuation allowance	(9,053)	(1,587)
Total liability	$ (2,085)	$ (8,466)

In accordance with SFAS No. 109, Accounting for Income Taxes, deferred income taxes should be reduced by a valuation allowance if it is not more likely than not that some portion or all of the deferred tax assets will be realized. On a periodic basis, management evaluates and determines the amount of the valuation allowance required and adjusts such valuation allowance accordingly. At fiscal year end 2005, the Company has recorded a valuation allowance of approximately $9.1 million. The valuation allowance includes $6.9 million reported as part of purchase accounting relating to deferred tax assets for capital losses, federal and state net operating losses and charitable contribution carryforwards from the CSC acquisition. A full valuation allowance was provided against capital losses and a partial valuation allowance was provided against net operating losses and charitable contribution carryovers from the acquisition. The remaining valuation allowance of $2.2 million relates to deferred tax assets for foreign net operating losses and state tax credits unrelated to the CSC acquisition.

At fiscal year end 2005, the Company had $15.1 million of capital loss and $4.2 million of net operating loss carryforwards from the CSC acquisition. The capital loss carryforwards begin to expire in 2007 and the net operating loss carryforwards begin to expire in 2020. The utilization of these capital and net operating loss carryforwards are subject to annual usage limitations pursuant to Internal Revenue Code Section 382.

Also at fiscal year end the Company had $6.1 million of foreign operating losses which carry forward indefinitely and state tax credits which begin to expire in 2006. The Company has recorded a full valuation allowance against these deferred tax assets.

As a result of tax legislation in Australia, the Company realized an income tax benefit of $6.5 million in the fourth quarter 2005. The benefit is due to an elective tax step-up that in effect reestablishes tax basis that had previously been depreciated on an accelerated methodology. The permanent tax step-up was exempt from taxation and results in a decrease in the same amount in the deferred tax liability associated with the depreciable asset. Equity in earnings of affiliate in 2005 reflects a one time tax benefit of $2.1 million related to a change in South African tax law applicable to companies in a qualified Public Private Partnership (“PPP”) with the South African Government. Beginning in 2005 Government revenues earned under the PPP are exempt from South African taxation. Additionally, prior year temporary differences that gave rise to deferred tax liabilities of the affiliate are exempt from tax in the future. Consequently, the affiliate eliminated these deferred tax liabilities which contributed to the one time tax benefit.

On October 22, 2004, the President of the United States signed into law the American Jobs Creation Act of 2004 (“AJCA”). A key provision of the AJCA creates a temporary incentive for U.S. corporations to repatriate undistributed income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. In December 2004, the Company repatriated approximately $17.3 million in incentive dividends and recognized an income tax benefit of $1.7 million and $0.2 million in 2005 and 2004, respectively.

During 2004, the Company adjusted its tax provision to reflect an adjustment to its treatment of certain executive compensation. During the fiscal years ended 2003 and 2002, along with the period ending June 27, 2004, the Company calculated its tax provision as if its executive bonus plan met the Internal Revenue Service code section 162(m) requirements for deductibility. During 2004, the Company discovered that the plan did not meet certain specific requirements of section 162(m). The Company recognized $1.4 million of additional tax provision under section 162(m) for 2004, including $0.6 million to correct its tax provision for the fiscal years ended 2003 and 2002.

The 2004 income tax expense includes a benefit from the realization of approximately $3.4 million of foreign tax credits related to the gain on sale of PCG in July 2003. This benefit was realized in 2004 as a result of the Company completing its analysis of its earnings and profits in PCG and determining the amount of available foreign tax credits which could be applied against the gain from the sale.

The exercise of non-qualified stock options which have been granted under the Company’s stock option plans give rise to compensation which is includable in the taxable income of the applicable employees and deducted by the Company for federal and state income tax purposes. Such compensation results from increases in the fair market value of the Company’s common stock subsequent to the date of grant. In accordance with APB No. 25, such compensation is not recognized as an expense for financial accounting purposes and related tax benefits are credited directly to additional paid-in-capital.

In the ordinary course of global business, there are transactions for which the ultimate tax outcome is uncertain, thus judgment is required in determining the worldwide provision for income taxes. The company provides for income taxes on transactions based on its estimate of the probable liability. The Company adjusts its provision as appropriate for changes that impact its underlying judgments. Changes

that impact provision estimates include such items as jurisdictional interpretations on tax filing positions based on the result of tax audits and general tax authority rulings.

19. Related Party Transactions with The Wackenhut Corporation

Related party transactions occurred in the past in the normal course of business between the Company and TWC. Such transactions included the purchase of goods and services and corporate costs for management support, office space, insurance and interest expense. No related party transactions occurred during fiscal years 2005 and 2004.

The Company incurred the following expenses related to transactions with TWC in 2003 (in thousands):

Fiscal Year		
General and administrative expenses	$	1,750
Rent		501
	$	2,251

General and administrative expenses represented charges for management and support services. TWC previously provided various general and administrative services to the Company under a services agreement, including payroll services, human resources support, tax services and information technology support services through December 31, 2002. Beginning January 1, 2003, the only service provided was for information technology support through year-end 2003. The Company began handling information technology support services internally effective January 1, 2004, and no longer relies on TWC for any services. All of the services formerly provided by TWC to the Company were pursuant to negotiated annual rates with TWC based upon the level of service to be provided under the services agreement. The Company believes that such rates were on terms no less favorable than the Company could obtain from unaffiliated third parties.

The Company also leased office space from TWC for its corporate headquarters under a non-cancelable operating lease that expired February 11, 2011. This lease was terminated effective July 19, 2003 as a result of the share purchase agreement.

20. Selected Quarterly Financial Data (Unaudited)

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

	First Quarter		Second Quarter	
2005				
Revenues	$	148,255	$	152,623
Operating income	$	7,373	$	7,588
Income from continuing operations	$	2,391	$	4,301
Income from discontinued operations, net of tax	$	505	$	173
Basic earnings per share				
Income from continuing operations	$	0.25	$	0.45
Income from discontinued operations	$	0.05	$	0.02
Net income per share	$	0.30	$	0.47

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	First Quarter	Second Quarter
Diluted earnings per share		
Income from continuing operations	$ 0.24	$ 0.43
Income from discontinued operations	$ 0.05	$ 0.02
Net income per share	$ 0.29	$ 0.45

	Third Quarter	Fourth Quarter(b)
Revenues	$ 147,148	$ 164,874
Operating income (loss)	$ 5,444	$ (12,467)
Income (loss) from continuing operations	$ 510(a)	$ (1,323)(c)
Income (loss) from discontinued operations, net of tax	$ (67)	$ 516
Basic earnings per share		
Income (loss) from continuing operations	$ 0.06	$ (0.13)
Income (loss) from discontinued operations	$ (0.01)	$ 0.05
Net income (loss) per share	$ 0.05	$ (0.08)
Diluted earnings per share		
Income (loss) from continuing operations	$ 0.05	$ (0.13)
Income (loss) from discontinued operations	$ (0.01)	$ 0.05
Net income (loss) per share	$ 0.04	$ (0.08)

	First Quarter	Second Quarter
2004		
Revenues	$ 140,837	$ 145,062
Operating income	$ 7,373	$ 9,992
Income from continuing operations	$ 1,899	$ 3,657
Income (loss) from discontinued operations, net of tax	$ 395	$ (25)
Basic earnings per share		
Income from continuing operations	$ 0.21	$ 0.39
Income from discontinued operations	$ 0.04	$ 0.00
Net income per share	$ 0.25	$ 0.39
Diluted earnings per share		
Income from continuing operations	$ 0.20	$ 0.37
Income from discontinued operations	$ 0.04	$ 0.00
Net income per share	$ 0.24	$ 0.37

	Third Quarter	Fourth Quarter(e)
Revenues	$ 146,501	$ 161,594
Operating income	$ 13,785	$ 7,841
Income from continuing operations	$ 5,681(d)	$ 5,926(f)
Loss from discontinued operations, net of tax	$ (46)	$ (697)
Basic earnings per share		
Income from continuing operations	$ 0.61	$ 0.62

THE GEO GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	Third Quarter	Fourth Quarter(e)
Loss from discontinued operations	$ (0.01)	$ (0.07)
Net income per share	$ 0.60	$ 0.55
Diluted earnings per share		
Income from continuing operations	$ 0.59	$ 0.60
Loss from discontinued operations	$ (0.01)	$ (0.07)
Net income per share	$ 0.58	$ 0.53

(a) Includes a $4.3 million write-off for our Jena, Louisiana facility and a charge of approximately $1.4 million related to the write-off of deferred financing fees from the extinguishment of debt.

(b) Includes operations of CSC from November 4, 2005 through January 1, 2006.

(c) Includes a $20.9 million impairment charge for Michigan facility, a $6.5 million tax benefit in Australia and $2.0 million tax benefit in South Africa related to changes in law.

(d) Includes a $4.2 million pre-tax reduction in our general liability, auto liability and worker’s compensation insurance reserves.

(e) Includes 14 weeks of operations.

(f) Includes a $3.0 million write-off for our Jena, Louisiana facility.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures

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

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

Internal Control Over Financial Reporting

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

See "Item 8. — Financial Statements and Supplemental Data — Management's Report on Internal Control over Financial Reporting" for management's report on the effectiveness of our internal control over financial reporting as of January 1, 2006.

(b) Attestation Report of the Registered Public Accounting Firm

See "Item 8. — Financial Statements and Supplemental Data — Report of Independent Registered Certified Public Accountants" for the report of our independent registered public accounting firm on the effectiveness of our internal control over financial reporting as of January 1, 2006.

(c) Changes in Internal Control over Financial Reporting

Our management is responsible for reporting any changes in our internal control over financial reporting (as such terms is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. During fiscal year 2005, we made changes to our internal controls designed to address the material weaknesses in our internal control over financial reporting identified in our Form 10-K/ A for the year end January 2, 2005, filed on August 17, 2005. Due to these changes, all of the material weaknesses have been remediated. Other than these changes, management believes that there have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

None.

PART III

Items 10, 11, 12, 13 and 14

The information required by Items 10, 11, 12 (except for the information required by Item 201(d) of Regulation S-K which is included in Part II, Item 5 of this report), 13 and 14 of Form 10-K will be contained in, and is incorporated by reference from, the proxy statement for our 2006 annual meeting of shareholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.

PART IV

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

(a) (1) *Financial Statements.*

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

Reports of Independent Registered Certified Public Accountants — Page 50

Consolidated Balance Sheets — January 1, 2006 and January 2, 2005 — Page 54

Consolidated Statements of Income — Fiscal years ended January 1, 2006, January 2, 2005 and December 28, 2003 — Page 53

Consolidated Statements of Cash Flows — Fiscal years ended January 1, 2006, January 2, 2005 and December 28, 2003 — Page 55

Consolidated Statements of Shareholders' Equity and Comprehensive Income — Fiscal years ended January 1, 2006, January 2, 2005 and December 28, 2003 — Page 56

Notes to Consolidated Financial Statements — Pages 57 through 89

(2) *Financial Statement Schedules.*

Schedule II — Valuation and Qualifying Accounts — Page 94

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

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

Exhibit Number		Description
3.1	—	Amended and Restated Articles of Incorporation of the Company, dated May 16, 1994 (incorporated herein by reference to Exhibit 3.1 to the Company's registration statement on Form S-1, filed on May 24, 1994)
3.2	—	Bylaws of the Company (incorporated herein by reference to Exhibit 3.2 to the Company's registration statement on Form S-1, filed on May 24, 1994)
4.1	—	Indenture, dated July 9, 2003, by and between the Company and The Bank of New York, as Trustee, relating to 8 1/4% Senior Notes Due 2013 (incorporated herein by reference to Exhibit 4.1 to the Company's report on Form 8-K, filed on July 29, 2003)

Exhibit Number		Description
4.2	—	Registration Rights Agreement, dated July 9, 2003, by and among the Company Corporation and BNP Paribas Securities Corp., Lehman Brothers Inc., First Analysis Securities Corporation, SouthTrust Securities, Inc. and Comerica Securities, Inc. (incorporated herein by reference to Exhibit 4.2 to the Company's report on Form 8-K, filed on July 29, 2003)
4.3	—	Rights Agreement, dated as of October 9, 2003, between the Company and EquiServe Trust Company, N.A., as the Rights Agent (incorporated herein by reference to Exhibit 4.3 to the Company's report on Form 8-K, filed on July 29, 2003)
10.1	—	Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to the Company's registration statement on Form S-1, filed on May 24, 1994)†
10.2	—	1994 Stock Option Plan (incorporated herein by reference to Exhibit 10.2 to the Company's registration statement on Form S-1, filed on May 24, 1994)†
10.3	—	Form of Indemnification Agreement between the Company and its Officers and Directors (incorporated herein by reference to Exhibit 10.3 to the Company's registration statement on Form S-1, filed on May 24, 1994)†
10.4	—	Senior Officer Retirement Plan (incorporated herein by reference to Exhibit 10.4 to the Company's registration statement on Form S-1/ A, filed on December 22, 1995)†
10.5	—	Amendment to the Company's Senior Officer Retirement Plan (incorporated herein by reference to Exhibit 10.5 to the Company's report on Form 10-K, filed on March 23, 2005)†
10.6	—	Director Deferral Plan (incorporated herein by reference to Exhibit 10.5 to the Company's registration statement on Form S-1/ A, filed on December 22, 1995)†
10.7	—	Senior Officer Incentive Plan (incorporated herein by reference to Exhibit 10.6 to the Company's registration statement on Form S-1/ A, filed on December 22, 1995)†
10.8	—	Form of Master Agreement to Lease between the Company and CPT Operating Partnership L.P. (incorporated herein by reference to Exhibit 10.2 to the Company's registration statement on Form S-11/ A, filed on March 20, 1998)
10.9	—	Form of Lease Agreement between CPT Operating Partnership L.P. and the Company (incorporated herein by reference to Exhibit 10.3 to the Company's registration statement on Form S-11/ A, filed on March 20, 1998)
10.10	—	Form of Right to Purchase Agreement between the Company and CPT Operating Partnership L.P. (incorporated herein by reference to Exhibit 10.4 to the Company's registration statement on Form S-11/ A, filed on March 20, 1998)
10.11	—	Form of Option Agreement between the Company and CPT Operating Partnership L.P (incorporated herein by reference to Exhibit 10.5 to the Company's registration statement on Form S-11/ A, filed on March 20, 1998)
10.12	—	1999 Stock Option Plan (incorporated herein by reference to Exhibit 10.12 to the Company's report on Form 10-K, filed on March 30, 2000)†
10.13	—	Amended and Restated Employment Agreement, dated November 4, 2004, between the Company and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 10-Q, filed on November 4, 2004)†
10.14	—	Amended and Restated Employment Agreement, dated November 4, 2004, between the Company and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.2 to the Company's report on Form 10-Q, filed on November 5, 2004)†
10.15	—	Executive Employment Agreement, dated March 7, 2002, between the Company and John G. O'Rourke (incorporated herein by reference to Exhibit 10.17 to the Company's report on Form 10-Q, filed on May 15, 2002)†
10.16	—	Executive Retirement Agreement, dated March 7, 2002, between the Company and Dr. George C. Zoley (incorporated herein by reference to Exhibit 10.18 to the Company's report on Form 10-Q, filed on May 15, 2002)†

Exhibit Number		Description
10.17	—	Executive Retirement Agreement, dated March 7, 2002, between the Company and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.19 to the Company's report on Form 10-Q, filed on May 15, 2002)†
10.18	—	Executive Retirement Agreement, dated March 7, 2002, between the Company and John G. O'Rourke (incorporated herein by reference to Exhibit 10.20 to the Company's report on Form 10-Q, filed on May 15, 2002)†
10.19	—	Amended Executive Retirement Agreement, dated January 17, 2003, by and between the Company and George C. Zoley (incorporated herein by reference to Exhibit 10.18 to the Company's report on Form 10-K, filed on March 20, 2003)†
10.20	—	Amended Executive Retirement Agreement, dated January 17, 2003, by and between the Company and Wayne H. Calabrese (incorporated herein by reference to Exhibit 10.19 to the Company's report on Form 10-K, filed on March 20, 2003)†
10.21	—	Amended Executive Retirement Agreement, dated January 17, 2003, by and between the Company and John G. O'Rourke (incorporated herein by reference to Exhibit 10.20 to the Company's report on Form 10-K, filed on March 20, 2003)†
10.22	—	Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and John J. Bulfin (incorporated herein by reference to Exhibit 10.22 to the Company's report on Form 10-K, filed on March 23, 2005)*†
10.23	—	Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and Jorge A. Dominicis (incorporated herein by reference to Exhibit 10.23 to the Company's report on Form 10-K, filed on March 23, 2005)*†
10.24	—	Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and John M. Hurley (incorporated herein by reference to Exhibit 10.24 to the Company's report on Form 10-K, filed on March 23, 2005)*†
10.25	—	Senior Officer Employment Agreement, dated March 23, 2005, by and between the Company and Donald H. Keens (incorporated herein by reference to Exhibit 10.25 to the Company's report on Form 10-K, filed on March 23, 2005)*†
10.26	—	Office Lease, dated September 12, 2002, by and between the Company and Canpro Investments Ltd. (incorporated herein by reference to Exhibit 10.22 to the Company's report on Form 10-K, filed on March 20, 2003)
10.27	—	Second Amended and Restated Credit Agreement, dated as of September 14, 2005, by and among The GEO Group, Inc., as Borrower, BNP Paribas, as Administrative Agent and Lead Arranger, Bank of America, N.A., as Syndication Agent, and the lenders who are, or may from time to time become, a party thereto (incorporated herein by reference to Exhibit 10.1 to the Company's report on Form 10-K, filed on September 21, 2005)
10.28	—	Asset Purchase Agreement, December 9, 2005, by and between GEO Care, Inc., a Florida corporation and Atlantic Shores Hospital, LLC*
21.1	—	Subsidiaries of the Company*
23.1	—	Consent of Ernst & Young LLP, independent registered certified public accountants*
31.1	—	Rule 13a-14(a) Certification in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	—	Rule 13a-14(a) Certification in accordance with Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	—	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	—	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

* Filed herewith.

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE GEO GROUP, INC.

/s/ JOHN G. O'ROURKE

John G. O'Rourke
Senior Vice President of Finance &
Chief Financial Officer

Date: March 17, 2006

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

Signature	Title	Date
/s/ George C. Zoley George C. Zoley	Chairman of the Board & Chief Executive Officer (principal executive officer)	March 17, 2006
/s/ John G. O'Rourke John G. O'Rourke	Senior Vice President of Finance & Chief Financial Officer (principal financial officer)	March 17, 2006
/s/ Brian R. Evans Brian R. Evans	Chief Accounting Officer & Controller (principal accounting officer)	March 17, 2006
/s/ Wayne H. Calabrese Wayne H. Calabrese	Vice Chairman of the Board, President & Director	March 17, 2006
/s/ Norman A. Carlson Norman A. Carlson	Director	March 17, 2006
/s/ Anne N. Foreman Anne N. Foreman	Director	March 17, 2006
/s/ John M. Palms John M. Palms	Director	March 17, 2006
/s/ Richard H. Glanton Richard H. Glanton	Director	March 17, 2006
/s/ John M. Perzel John M. Perzel	Director	March 17, 2006

THE GEO GROUP, INC.

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
For the Fiscal Years Ended January 1, 2006, January 2, 2005, and December 28, 2003

Description	Balance at Beginning of Period	Charged to Cost and Expenses	Charged to Other Accounts	Deductions, Actual Charge-Offs	Balance at End of Period
			(In thousands)		
YEAR ENDED JANUARY 1, 2006:					
Allowance for doubtful accounts	$ 907	$ —	$ —	$ (683)	$ 224
YEAR ENDED JANUARY 2, 2005:					
Allowance for doubtful accounts	$ 954	$ 229	$ —	$ (276)	$ 907
YEAR ENDED December 28, 2003:					
Allowance for doubtful accounts	$ 948	$ 170	$ —	$ (164)	$ 954
YEAR ENDED JANUARY 1, 2006:					
Asset Replacement Reserve	$ 614	$ 290	$ —	$ (181)	$ 723
YEAR ENDED JANUARY 2, 2005:					
Asset Replacement Reserve	$ 417	$ 465	$ —	$ (268)	$ 614
YEAR ENDED December 28, 2003:					
Asset Replacement Reserve	$ 418	$ 296	$ —	$ (297)	$ 417

EXHIBIT 10.28

ASSET PURCHASE AGREEMENT

by

and

between

GEO CARE, INC.

AND

ATLANTIC SHORES HOSPITAL, LLC

Dated as of December 9, 2005

TABLE OF CONTENTS

1. DEFINITIONS	1
1.1 Definitions.	1
1.2 Interpretation.	6
2. SALE OF ASSETS AND CERTAIN RELATED MATTERS	7
2.1 Sale and Transfer of the Assets.	7
2.2 Excluded Assets.	7
2.3 Title to Property.	8
2.4 Disclaimer of Warranties.	8
3. FINANCIAL ARRANGEMENTS	9
3.1 Purchase Price.	9
3.2 Assumed Liabilities.	9
3.3 Excluded Liabilities.	9
3.4 Collection Procedure for Government Patient Receivables.	11
3.5 Allocation of Purchase Price.	11
3.6 Prorations and Utilities.	11
3.7 Tax Proration.	11
3.8 Interest.	12
4. CLOSING	12
4.1 Closing.	12
4.2 Action of Seller at Closing.	12
4.3 Action of Buyer at Closing.	13
4.4 Additional Acts.	14
5. REPRESENTATIONS AND WARRANTIES OF SELLER	14
5.1 Capacity of Seller.	14
5.2 Powers; Consents; Absence of Conflicts With Other Agreements, Etc.	14
5.3 Binding Agreement.	14
5.4 Organizational Structure.	15
5.5 Financial Statements; Internal Controls.	15
5.6 Assumed Contracts; No Defaults.	15
5.7 Real Property.	16
5.8 Title.	16
5.9 Defects in Property; Utilities and Easements.	17
5.10 Zoning.	17
5.11 Intellectual Property.	17
5.12 Insurance.	17
5.13 Litigation or Proceedings.	18
5.14 Governmental Authorizations; Compliance.	18
5.15 Regulatory Compliance; Improper Payments.	18
5.16 HIPAA Matters.	19
5.17 Compliance Program.	20
5.18 Medicare Participation; Accreditation; No Medicaid Participation.	21
5.19 Third-Party Payor Cost Reports.	21
5.20 Reimbursement.	22
5.21 Medical Staff Matters.	22
5.22 Statutory Funds.	22
5.23 Controlled Substances.	23
5.24 Reserved.	23

5.25 Tax Liabilities.	23
5.26 ERISA Compliance.	23
5.27 Employees and Employee Relations.	25
5.28 Environmental Matters.	25
5.29 Medical Waste.	26
5.30 Brokers.	26
5.31 Absence of Certain Changes.	26
5.32 Accounts Receivable.	27
6. REPRESENTATIONS AND WARRANTIES OF BUYER	27
6.1 Capacity.	27
6.2 Powers; Consents; Absence of Conflicts With Other Agreements, Etc.	27
6.3 Binding Agreement.	27
6.4 Litigation.	27
6.5 Brokers.	28
6.6 Availability of Funds.	28
7. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER	28
7.1 Seller’s Deliverables.	28
7.2 Compliance with Agreement.	28
7.3 Representations and Warranties.	28
7.5 Action/Proceeding.	28
7.6 Confirmations.	28
7.8 Absence of Certain Changes.	28
7.9 Releases.	28
7.10 Closing Documents.	29
8. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER	29
8.1 Buyer’ s Deliverables.	29
8.2 Compliance with Agreement.	29
8.3 Action/Proceeding.	29
8.4 Representations and Warranties.	29
8.5 Purchase Price/Closing Documents.	29
9. ADDITIONAL AGREEMENTS AND COVENANTS	29
9.1 Post-Closing Access to Information.	29
9.2 Employee Matters.	29
9.3 Seller’s Benefit Plans.	30
9.4 Notices and Consents.	30
9.5 Notice of Developments and Consents.	31
9.6 Affirmative Covenants of Seller.	31
9.7 Negative Covenants of Seller.	31
9.8 Noncompete Agreement.	32
9.9 No-Shop Agreement.	33
9.10 Cost Reports.	33
9.11 Misdirected Payments.	33
9.12 Use of Controlled Substance Permit.	34
10. INDEMNIFICATION	34
10.1 Indemnification by Seller and GEO.	34
10.2 Indemnification by Buyer and PSI.	34
10.3 Survival/Indemnity Period.	35
10.4 Limitations.	35
10.5 Notice and Procedure.	36
10.6 Right of Set-Off.	37
10.7 Disregarding Materiality Exceptions.	37

10.8 Consequential Damages. 37

11. TERMINATION 37
11.1 Termination Events. 37
11.2 Effect of Termination. 38
11.3 Remedies in the Event of Termination. 38

12. GENERAL 38
12.1 Notice. 38
12.2 Confidentiality; Public Announcement. 39
12.3 Cost of Transaction. 39
12.4 Consents, Approvals and Discretion. 40
12.5 Choice of Law; Waiver of Jury Trial. 40
12.6 Benefit/Assignment. 40
12.7 Waiver of Breach. 40
12.8 Severability. 40
12.9 Entire Agreement/Amendment. 40
12.10 Further Assurances. 41
12.11 No Third Party Beneficiaries. 41
12.12 Gender and Number. 41
12.13 Divisions and Headings. 41
12.14 No Inferences. 41

ASSET PURCHASE AGREEMENT

THIS ASSET PURCHASE AGREEMENT ("Agreement") is made and entered into as of December 9, 2005, by and among GEO Care, Inc., a Florida corporation ("Seller"), and Atlantic Shores Hospital, LLC, a Delaware limited liability company ("Buyer"). Psychiatric Solutions, Inc. ("PSI") and The GEO Group, Inc. ("GEO") are also parties to this Agreement for the purpose of being subject to the indemnity obligations set forth in Article 10.

W I T N E S S E T H:

WHEREAS, Seller owns and operates Atlantic Shores Hospital, a psychiatric inpatient facility (the "Facility" and together with Seller's business and operations conducted solely at the Facility and not elsewhere, the "Business"), located at 4545 North Federal Highway, Fort Lauderdale, FL 33308; and

WHEREAS, Buyer desires to acquire substantially all of the assets of Seller associated with the Business, and Seller desires to sell such assets to Buyer, all as more fully set forth below.

NOW, THEREFORE, for and in consideration of the premises, and the agreements, covenants, representations and warranties hereinafter set forth, and other good and valuable consideration, the receipt and adequacy all of which are forever acknowledged and confessed, the parties hereto hereby agree as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions. Capitalized terms used in this Agreement shall have the following meanings:

"Affiliate" means as to the Person in question, any Person that directly or indirectly controls, is controlled by, or is under common control with, the Person in question and any successors or assigns of such Persons; and the term "control" means possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person whether through ownership of voting securities, by contract or otherwise ; provided that, with respect to Seller, "Affiliate" shall not include officers or directors of Seller.

"Agency Settlements" means rights to settlements and retroactive adjustments, if any, arising under the terms of the Medicare program or the TRICARE program and against any third party payor programs which settle upon a basis other than an individual claim basis.

"Agreement" has the meaning set forth in the Preamble.

"Assets" has the meaning set forth in Section 2.1.

"Assignment and Assumption Agreement" has the meaning set forth in Section 4.2.

"Assumed Contracts" has the meaning set forth in Section 2.1.

"Assumed Liabilities" has the meaning set forth in Section 3.2.

"Balance Sheet Date" has the meaning set forth in Section 5.5.

"Benefit Plans" means all "employee benefit plans," as defined in Section 3(3) of ERISA, all benefit plans as defined in Section 6039D of the Code, and all other bonus, incentive compensation, deferred compensation, profit sharing, severance, supplemental unemployment, layoff, salary continuation, retirement, pension, health, life insurance, disability, group insurance, vacation, holiday, sick leave, equity-based, fringe benefit or welfare and other employee benefit plans (whether oral or written, qualified or non-qualified) and employment agreements and any trust, escrow or other funding arrangement related thereto relating to the Facility and the Business.

"Bill of Sale" has the meaning set forth in Section 4.2.

"Business" has the meaning set forth in the Recitals.

"Business Associate Agreements" has the meaning set forth in Section 5.16 (f).

"Buyer" has the meaning set forth in the Preamble.

"Buyer Indemnified Parties" has the meaning set forth in Section 10.1.

"Claims" has the meaning set forth in Section 10.5.

"Closing" has the meaning set forth in Section 4.1.

"Closing Date" has the meaning set forth in Section 4.1.

"CMS" means the Centers for Medicare and Medicaid Services.

"COBRA" means Title I, Part 6, of ERISA.

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"Competing Business" has the meaning set forth in Section 9.8(a).

"Confidential Information" has the meaning set forth in Section 12.2.

"Cost Reports" has the meaning set forth in Section 5.19.

"Covered Entities" has the meaning set forth in Section 5.16(a).

"Effective Time" has the meaning set forth in Section 4.1.

"Employment Agreement" has the meaning set forth in Section 4.2.

"Encumbrances" means mortgages, liens, restrictions, agreements, claims, easements, encroachments, rights of way, building use, exceptions, variances, reservations, pledges, security interests, conditional sales agreements, rights of first refusal, options, obligations, restrictions, liabilities, charges or limitations of any nature.

"Environmental Claim" means any claim, action, cause of action, investigation or notice (in each case in writing or, if not in writing, to the knowledge of Seller) by any person alleging potential liability (including potential liability for investigatory costs, cleanup costs,

governmental response costs, natural resources damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from the presence, or release or threat of release into the environment, of any Materials of Environmental Concern at any location, whether or not owned or operated by Seller.

"Environmental Laws" means, as they exist on the date hereof, all applicable United States federal, state, and local laws, regulations, codes and ordinances relating to pollution or protection of human health (as relating to the environment or the workplace) and the environment (including ambient air, surface water, ground water, land surface or sub-surface strata), including laws and regulations relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the use, treatment, storage, disposal, transport or handling of Materials of Environmental Concern, including, but not limited to Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 U.S.C. § 9601 et seq., Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. § 6901 et seq., Toxic Substances Control Act ("TSCA"), 15 U.S.C. § 2601 et seq., Occupational Safety and Health Act ("OSHA"), 29 U.S.C. § 651 et seq., the Clean Air Act, 42 U.S.C. § 7401 et seq., the Clean Water Act, 33 U.S.C. § 1251 et seq., each as may have been amended or supplemented, and any applicable environmental transfer statutes or laws.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder.

"ERISA Affiliate" means (A) any related company or trade or business that is required to be aggregated with Seller under Code Sections 414(b), (c), (m) or (o); (B) any other company, entity or trade or business that has adopted or has ever participated in any Benefit Plan; and (C) any predecessor or successor company or trade or business of Seller.

"Excluded Assets" has the meaning set forth in Section 2.2.

"Excluded Contracts" means those contracts, agreements, leases and commitments to which Seller or its Affiliates are a party that (i) are insurance contracts, (ii) relate to Seller's Benefit Plans, (iii) primarily relate to facilities, businesses and operations of Seller other than the Facility and Business (including, without limitation, group purchasing agreements), (iv) evidence intercompany transactions between or among Seller and its Affiliates or their respective directors, officers and employees, (v) are employment or severance agreements, or (vi) are listed on **Schedule 1.1(vi)** hereto.

"Excluded Liabilities" has the meaning set forth in Section 3.3.

"Facility" has the meaning set forth in the Recitals.

"Federal Healthcare Programs" means the Medicare and TRICARE programs.

"Federal Privacy Regulations" means the regulations contained in 45 C.F.R. Parts 160 and 164, as amended.

"Federal Transaction Regulations" means the regulations contained in 45 C.F.R. Parts 160 and 162, as amended.

"Financial Statements" has the meaning set forth in Section 4.6(a).

"GAAP" means generally accepted accounting principals.

"GAAP Exceptions" means unaudited financial statements not prepared in accordance with GAAP to the extent that such financial statements (a) are subject to cost report and other year-end audit

adjustments, (b) do not contain footnotes, (c) were prepared without physical inventories, (d) are not restated for subsequent events, (e) may not contain a statement of construction in process, and (f) as set forth on **Schedule 1.1(f)** attached hereto.

"GEO" has the meaning set forth in the Preamble.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any governmental authority, bureau, agency, department, board, commission or instrumentality of the United States, any State of the United States or any political subdivision thereof, any contractor contracted by such governmental or quasi-governmental entity to carry out a portion of its functions, and any tribunal or arbitrator(s) of competent jurisdiction.

"Governmental Authorization" means any approval, certificate of authority, certificate of need, accreditation, license, registration, permit, franchise, right, or other authorization issued, granted, given or otherwise made available by or under the authority of any Governmental Authority or pursuant to any law.

"HIPAA" means the Health Insurance Portability and Accountability Act of 1996, as codified at 42 U.S.C. Sections 1320d through d-8.

"Indemnitee" has the meaning set forth in Section 10.5.

"Indemnitor" has the meaning set forth in Section 10.5.

"Purchase Price" has the meaning set forth in Section 3.1.

"Intellectual Property Assets" means all intellectual property rights (common law, statutory or otherwise), including patents (including all reissues, divisions, continuations and extensions), trademarks, service marks, trade names, copyrights, and registrations and applications for any and all of the foregoing, internet domain names, formulae, algorithms, designs, inventions, methodologies, specifications, know-how, trade secrets, computer software programs and code (both object and source), development tools and proprietary information, technologies and processes, and all documentation and media describing or relating to the above, in any format, whether hard copy or machine-readable only, but specifically excludes the name GEO Care, all abbreviations and variations thereof and service marks, symbols and logos and any other intellectual property related thereto.

"Interest Commencement Date" has the meaning set forth in Section 3.8.

"JCAHO" means the Joint Commission on Accreditation of Healthcare Organizations.

"Losses" has the meaning set forth in Section 10.1.

"Material Adverse Effect" means any event, occurrence, fact, condition, change or effect that (i) is, or is reasonably likely in the future to be, individually or in the aggregate, materially adverse to the business, operations, results of operations, condition (financial or otherwise), properties, rights, obligations or assets of the Facility or the Business or (ii) materially impairs or delays, or is reasonably likely to materially impair or delay, the ability of Seller to consummate the transactions contemplated by this Agreement or to perform its obligations under this Agreement.

"Materials of Environmental Concern" means chemicals, pollutants, contaminants, hazardous materials, hazardous substances and hazardous wastes, medical waste, toxic substances, petroleum and

petroleum products and by-products, asbestos-containing materials, PCBs, and any other chemicals, pollutants, substances or wastes, in each case regulated under any Environmental Law.

"Medical Waste" includes, but is not limited to, (a) pathological waste, (b) blood, (c) sharps, (d) wastes from surgery or autopsy, (e) dialysis waste, including contaminated disposable equipment and supplies, (f) cultures and stocks of infectious agents and associated biological agents, (g) contaminated animals, (h) isolation wastes, (i) contaminated equipment, (j) laboratory waste and (k) various other biological waste and discarded materials contaminated with or exposed to blood, excretion, or secretions from human beings or animals. "Medical Waste" also includes any substance, pollutant, material, or contaminant listed or regulated under the Medical Waste Tracking Act of 1988, 42 U.S.C. § 6992, et seq. ("MWTA"), and applicable state law.

"Medical Waste Law" means the following, including regulations promulgated and orders issued thereunder, all as may be amended from time to time: the MWTA, the U.S. Public Vessel Medical Waste Anti-Dumping Act of 1988, 33 USCA § 2501 et seq., the Marine Protection, Research, and Sanctuaries Act of 1972, 33 USCA § 1401 et seq., The Occupational Safety and Health Act, 29 USCA § 651 et seq., the United States Department of Health and Human Services, National Institute for Occupations Self-Safety and Health Infectious Waste Disposal Guidelines, Publication No. 88-119, and any other federal, state, regional, county, municipal, or other local laws, regulations, and ordinances insofar as they purport to regulate Medical Waste, or impose requirements relating to Medical Waste.

"Permitted Encumbrances" has the meaning set forth in Section 5.8.

"Person" means any individual, corporation, company, body corporate, association, partnership, limited liability company, firm, joint venture, trust or Governmental Authority

"Prohibited Activities" has the meaning set forth in Section 9.8(a).

"Provider Agreements" has the meaning set forth in Section 5.18.

"Provider Numbers" has the meaning set forth in Section 5.18.

"PSI" has the meaning set forth in the Preamble.

"Purchase Price" has the meaning set forth in Section 3.1.

"Real Estate Laws" means all applicable zoning and other land use and similar laws, codes, ordinances, rules, regulations and orders, including the Americans With Disabilities Act (other than Environmental Laws).

"Real Property" means all of the real property described in **Schedule 5.7(a)(i)** hereto, including easements appurtenant benefiting Seller or the Facility, together with all buildings, improvements and fixtures thereon, all easements and other appurtenances and rights thereto and together with any rights or interests of Seller in any adjacent streets, rights of way or drainage areas serving the Facility.

"Real Property Deed" has the meaning set forth in Section 4.2.

"Restricted Territory" means the Miami-Dade and Broward Counties in the State of Florida.

"Seller" has the meaning set forth in the Preamble.

"Seller Indemnified Parties" has the meaning set forth in Section 10.2.

"Seller Intellectual Property Assets" means the Intellectual Property Assets used or owned by Seller and its Affiliates in connection with the Facility and the Business as currently conducted, but excluding the name "GEO Care," all abbreviations and variations thereof and service marks, symbols and logos and any other intellectual property related thereto.

"Tax Allocation" has the meaning set forth in Section 3.5.

"Taxes" means all applicable taxes, charges, duties, fees, levies or other assessments, including income, excise, property, sales, use, gross receipts, recording, insurance, value added, profits, license, withholding, payroll, employment, net worth, capital gains, transfer, stamp, social security, environmental, occupation and franchise taxes, imposed by any Governmental Authority, and including any interest, penalties and additions attributable thereto.

"Tax Returns" means any federal, state, local and foreign returns, reports, information returns, declarations, statements and other documents relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Third Party Intellectual Property Assets" has the meaning set forth in Section 5.11(b).

"WARN Act" means the Worker Adjustment and Retraining Notification Act, as amended, and the regulations promulgated thereunder.

"Workforce" has the meaning set forth in Section 5.16(c).

1.2 Interpretation. In this Agreement, unless the context otherwise requires:

(a) References to this Agreement are references to this Asset Purchase Agreement and to the Schedules and Exhibits hereto;

(b) References to Articles and Sections are references to articles and sections of this Agreement;

(c) References to any party to this Agreement shall include references to its respective successors and permitted assigns;

(d) References to a judgment shall include references to any order, writ, injunction, decree, determination or award of any court or tribunal;

(e) The terms "hereof," "herein," "hereby," and any derivative or similar words will refer to this entire Agreement;

(f) References to any document (including this Agreement) are references to that document as amended, consolidated, supplemented, novated or replaced by the parties from time to time;

(g) References to any law are references to that law as of the date hereof and the Closing Date, and all rules and regulations promulgated thereunder;

(h) The word "including" shall mean including, without limitation;

(i) References to the "knowledge" of Seller and similar variations thereof, shall mean matters, events and occurrences that are known or should reasonably have been known, as of the relevant date, by Jeff Byrd, Susan Francis or Scott Segal, given the respective capacities in which such persons are employed at the Facility as of the date hereof; and

(j) References to time are references to Eastern Standard or Daylight Time (as in effect on the applicable day) unless otherwise specified herein.

2. SALE OF ASSETS AND CERTAIN RELATED MATTERS

2.1 Sale and Transfer of the Assets. Subject to the terms and conditions of this Agreement, Seller agrees to sell, transfer, assign, convey and deliver to Buyer and Buyer agrees to purchase and acquire at Closing all assets, tangible and intangible, real, personal or mixed, other than the Excluded Assets, owned or leased by Seller or any Affiliate of Seller and used in the operations of the Business, including, without limitation, the following items (collectively, the "Assets"): (i) fee simple title to the Real Property and buildings described in **Schedule 5.7(a)(i)** hereto, together with all improvements and fixtures located thereon or therein; (ii) all equipment, whether movable or attached to the Real Property, vehicles, furniture and furnishings; (iii) all supplies and inventory; (iv) prepaid expenses that are transferable to and useable by Buyer; (v) accounts receivable and the right to receive, consistent with Section 3.4, an amount equal to the Government Patient Receivables; (vi) subject to applicable law, all current financial, patient, medical staff and personnel records; (vii) all right, title and interest of Seller in, to or under all commitments, contracts, leases, purchase orders and agreements outstanding that relate primarily to the Facility and the Business or that otherwise relate primarily to the Assets (other than the Excluded Contracts) (collectively, the "Assumed Contracts"); (viii) to the extent assignable, all Governmental Authorizations, Medicare provider numbers and permits held by Seller relating to the ownership, development and operations of the Business; (ix) all claims, causes of action and judgments relating to the Assets arising from acts, omissions, facts or circumstances occurring at or after the Effective Time; (x) Seller's goodwill in respect of the Business; (xi) rights to any Agency Settlements arising at or after the Effective Time; and (xii) Seller's right to use the name "Atlantic Shores Hospital" and all variations thereof, all patents, patent applications, trade names, trademarks, service marks, trade secrets, copyrights and other intellectual property owned by Seller, and all of Seller's rights to use all patents, patent applications, trade names, trademarks, service marks, trade secrets, copyrights and other intellectual property of other Persons.

2.2 Excluded Assets. Notwithstanding anything herein to the contrary, the following assets that are associated with Seller's operations of the Business are not intended by the parties to be a part of the Assets and shall be excluded from such purchase and the definition of the Assets (collectively, the "Excluded Assets"): (i) rights to Agency Settlements arising prior to the Effective Time, (ii) any and all cash and cash equivalents owned or held by Seller (including certificates of deposit and checking and money market accounts); (iii) Seller's records, books, minute books, tax records, and any records that by law Seller is required to retain in its possession and all books and records relating to the Excluded Assets and the Excluded Liabilities; (iv) all assets, rights and funds in connection with any Benefit Plan described in Section 5.26(a); (v) all of Seller's insurance proceeds arising in connection with the Business prior to the Closing; (vi) except as provided in Section 3.4, the Government Patient Receivables; (vii) other assets of the Seller not specifically used in connection with or operation of the Facility or Business (including all assets used in connection with Seller's other healthcare operations and business not relating to the Facility and Business); (viii) the Excluded Contracts; (ix) any reserves or prepaid expenses to the extent related to Excluded Assets and Excluded Liabilities and, with respect to the

prepaid expenses, to the extent not transferable to and useable by Buyer; (x) all rights of Seller under or pursuant to this Agreement; (xi) all intercompany receivables of Seller with any of its Affiliates; (xii) computer software, programs and hardware, data processing system manuals and licensed software materials owned or leased by or licensed to The GEO Group, Inc., as more particularly described in **Schedule 2.2**; (xiii) any asset which would revert to the employer upon the termination of any Seller Benefit Plan, including assets representing a surplus or overfunding of any Seller Benefit Plan; (xiv) the name GEO Care, all abbreviations and variations thereof and service marks, symbols and logos and any other intellectual property related thereto, together with any names, symbols or abbreviations used by Seller for operations other than the Facility; (xv) the portions of inventory, prepaids and other Assets disposed of, expended or canceled, as the case may be, by Seller after the date hereof and prior to the Effective Time in the ordinary course of business; (xvi) assets owned and provided by vendors of services or goods to the Facility; (xvii) all claims, rights, interests and proceeds with respect to federal, state or local tax refunds (including but not limited to property tax) resulting from periods ending on or before the Effective Time, and the right to pursue appeals of same; (xviii) all claims, causes of action and judgments in favor of Seller arising from acts, omissions, facts or circumstances occurring prior to the Effective Time, whether or not relating to the Assets; and (xix) those assets set forth on **Schedule 2.2**.

2.3 Title to Property. In connection with the sale of the Real Property hereunder, Buyer shall obtain a title commitment, at Buyer's expense, from a title insurance company selected by Buyer, disclosing all matters of record which relate to the title to the Real Property and the requirements for both closing the purchase and issuing a standard owner's ATLA coverage title policy. Buyer shall also obtain, at Buyer's expense, an ALTA survey of the Real Property. Buyer shall notify Seller and the title company's agent in writing within 10 days of receipt of the title commitment and survey of any unacceptable conditions of title that do not conform to Seller's representations in Sections 5.7 and 5.8 below ("Title Defect"). Seller shall have the right, at its sole option, within 20 days following receipt of such notice in which to (i) attempt to cure any such Title Defect or make arrangements satisfactory to the Title Company for the cure (including affirmative insurance over) or removal of record of any such Title Defect, or (ii) elect not to cure such Title Defects. If any such Title Defect is not cured or otherwise provided for as required in this Section prior to the expiration of Seller's 20-day cure period, Buyer may elect within 10 days thereafter by written notice to Seller to either: (i) terminate this Agreement, in which event the parties shall have no further obligation or liability to each other under this Agreement or (ii) accept the Real Property as is with the Title Defect(s). Title Defects which are so accepted will be deemed to be Permitted Encumbrances hereunder. If Buyer fails to timely notify Seller within said 10-day period of Buyer's election pursuant to this Section, Buyer will be deemed to have elected accept with Real Property with the Title Defect(s).

2.4 Disclaimer of Warranties. . Except as otherwise set forth in Article 5 hereof, the Assets transferred to Buyer will be sold by Seller and purchased by Buyer in their physical condition on the Closing Date, "WHERE IS, AS IS," and WITH NO WARRANTY OF HABITABILITY OR FITNESS FOR HABITATION, with respect to the Real Property, land, buildings and improvements, and WITH NO WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE, with respect to the physical condition of all other Assets, any and all of which warranties (both express and implied) Seller hereby disclaims. All of the Assets shall be further subject to normal wear and tear on the land, buildings, improvements and equipment and normal and customary use of the inventory and supplies in the ordinary course of business up to the Closing.

3. FINANCIAL ARRANGEMENTS

3.1 Purchase Price. Subject to the terms and conditions hereof, in reliance upon the representations, warranties, covenants and agreements of Seller herein set forth and as consideration for the sale and purchase of the Assets as herein contemplated, Buyer shall pay to Seller a purchase price (the "Purchase Price") equal to $11,500,000. The Purchase Price shall be paid to Seller at Closing by check dated the date of the Effective Time (or upon the consent of Seller and Buyer, by wire transfer of immediately available funds) in the amount of $11,500,000, and if the Purchase Price is paid by check, such check shall be dated no later than the date of the Effective Time and shall be accompanied by a letter of credit (in a form reasonably acceptable to Buyer and Seller) that may be drawn on Bank of America in the event such check is returned for insufficient funds. Seller shall pay Buyer immediately on demand, as a reimbursement for all costs, fees and expenses incurred as a result of preparing and providing the letter of credit, an amount equal to the greater of $25,000 or the actual documented costs, fees, and expenses incurred by Buyer in connection with the preparation and provision of the letter of credit (but in an aggregate amount not to exceed $40,000).

3.2 Assumed Liabilities. As of the Effective Time, Buyer shall assume and agree to pay, perform and discharge (i) obligations under the Assumed Contracts arising out of and relating to the period after the Effective Time and all other liabilities and other obligations relating to the Facility or the Business (including, without limitation, the ownership and/or operation thereof) arising out of and relating to the period after the Effective Time; (ii) liabilities for Seller's accounts payable and other current liabilities; (iii) employee payroll accrual of the Seller in respect of the Business, together with associated payroll taxes and contributions; (iv) accrued vacation and sick days of the Employees (as defined in Section 5.27(b) hereof) of Seller in respect of the Business who commence employment with Buyer, together with associated payroll taxes and contributions; and (v) any Taxes resulting from the ownership and/or operation of the Business and the Assets after the Effective Time, including, but not limited to, any post-Effective Time portion of any taxable periods beginning before but ending after the Effective Time (collectively, the "Assumed Liabilities"). Notwithstanding anything above to the contrary, Buyer shall not be liable for (x) uncured defaults in performance of the Assumed Liabilities for periods prior to the Effective Time and (y) unpaid amounts in respect of the Assumed Liabilities that are past due as of the Effective Time in accordance with the terms of the obligation and not accrued on the books of Seller.

3.3 Excluded Liabilities. Except as expressly provided to the contrary in this Agreement (including, but not limited to, Section 3.2 above), under no circumstance shall Buyer be obligated to pay or assume, and none of the Assets shall be or become liable for or subject to, any liability of Seller or its Affiliates, including the following, whether fixed or contingent, recorded or unrecorded, known or unknown, and whether or not set forth on the Schedules hereto (collectively, the "Excluded Liabilities"):

(a) any obligation or liability accruing, arising out of, or relating to acts or omissions of any Person in connection with the Assets or the operation of the Business prior to the Effective Time;

(b) any obligation or liability accruing, arising out of, or relating to any act or omission by Seller, any of its Affiliates, or any of their respective medical staff, employees, agents, vendors or representatives before or after the Effective Time (it being understood that any act or omission by the medical staff, employees, agents, vendors and representatives of the Facility and Business as of and after the Effective Time will not be the responsibility of Seller and its Affiliates);

(c) any obligation or liability accruing, arising out of, or relating to any breach of any Assumed Contract by Seller or any of its Affiliates prior to the Effective Time;

(d) any obligation or liability accruing, arising out of, or relating to any Excluded Contract;

(e) any long-term indebtedness (including the current portion thereof);

(f) any indebtedness for borrowed money, including indebtedness owed to a bank or other similar financial institution;

(g) any intercompany or related-party indebtedness;

(h) any liability or obligation for severance with respect to employees of Seller or its Affiliates;

(i) any obligation or liability accruing, arising out of, or relating to any federal, state or local investigations, claims or actions with respect to acts or omissions (or suspected or alleged acts or omissions) of Seller, any of its Affiliates or any of their respective employees, medical staff, agents, vendors prior to the Effective Time;

(j) any civil or criminal obligation or liability accruing, arising out of, or relating to any acts or omissions of Seller, any of its Affiliates or any of their respective directors, officers, employees and agents claimed to violate any laws;

(k) **Reserved.**

(l) any liabilities or obligations of Seller or any of its Affiliates of every kind and nature, known and unknown, arising under the terms of the Medicare, TRICARE or any other third-party payor programs or health insurers, in respect of, arising out of or as a result of (i) periods prior to and up to the Effective Time, or (ii) the consummation of the transactions contemplated hereby, including claims for overpayments or other excessive reimbursement or non-covered services or any penalties or sanctions relating thereto; and (iii) any liability of Seller under, arising prior to or relating to any period prior to the Effective Time from any risk pools and other risk sharing agreements established in connection with any managed care contract assumed by Buyer hereunder;

(m) any Taxes resulting from the ownership and/or operation of the Business and the Assets prior to the Effective Time, including, but not limited to, any pre-Effective Time portion of any taxable periods beginning before but ending after the Effective Time;

(n) (i) except to the extent such liabilities are expressly assumed by Buyer in accordance with Section 3.2, any liability with respect to Seller's employees relating to periods prior to the Effective Time, including liability for (A) any compensation, Benefit Plan (as defined in Section 5.25(a)) benefits, pension, profit sharing, deferred compensation, or any other employee health and welfare benefit plans, paid time off, liability for any EEOC claim, wage and hour claim, unemployment compensation claim or workers' compensation claim or personnel policy, including those relating to any termination of employment, and all employee wages and benefits, or (B) any payroll taxes; or (ii) any liability arising under the WARN Act with respect to a "covered employment loss" (as defined in the Warn Act) occurring prior to the Effective Time;

(o) except as expressly provided to the contrary in this Agreement, liabilities for expenses incurred by Seller incidental to the preparation of this Agreement, the preparation or delivery of materials or information requested by Buyer, or the consummation of the transactions contemplated hereby, including all broker, counsel and accounting fees or any account payable which is attributable to

legal and accounting fees and similar costs incurred by Seller which are directly related to the sale of any of the Assets;

(p) liabilities arising from or in connection with (i) any order of any Governmental Authority, (ii) the violation of any law, (iii) the violation of any Medicare or TRICARE program integrity or compliance agreement, each of the foregoing involving Seller or relating to or arising in connection with the use, operation, ownership or possession of the Assets prior to the Effective Time;

(q) liabilities attributable to any of the Excluded Assets; and

(r) except as expressly provided to the contrary in this Agreement, any other liability, fixed or contingent, known or unknown, relating to or arising out of the ownership, operation or use of the Business or the Assets prior to the Effective Time.

3.4 Collection Procedure for Government Patient Receivables. Seller hereby appoints Buyer, and Buyer agrees to act, as Seller's collection agent with respect to the Government Patient Receivables. In connection therewith, on or before the Effective Time Buyer shall establish a "lock box" standing in Seller's name and under Seller's control at a financial institution selected by Seller and reasonably acceptable to Buyer. After the Effective Time, Buyer shall deposit all cash, checks, drafts or other similar items of payment with respect to all of the Government Patient Receivables in such lock box. On or before the Effective Time, Seller shall take commercially reasonable action to cause Governmental Patient Receivables to be deposited directly into such lock box. Seller shall have the exclusive authority to withdraw funds from such lock box. Seller hereby assigns all amounts deposited by Buyer, as collection agent, into the lock box to Buyer in satisfaction of Seller's obligation pursuant to Section 2.1(v) hereof to transfer to Buyer an amount equal to the value of Seller's Government Patient Receivables. "Government Patient Receivables" means accounts receivable existing at the Effective Time arising from the rendering of services and the provision of medicines, drugs and supplies to patients and customers of the Business relating to Medicare, TRICARE and other third-party patient claims of Seller due from beneficiaries or governmental third-party payors.

3.5 Allocation of Purchase Price. The Purchase Price for the Facility will be allocated among the Purchased Assets in the manner required by Section 1060 of the Code. In making such allocation, the fair market values will be agreed to by Buyer and Seller prior to the Effective Time and will be listed on **Schedule 3.5** to be attached hereto prior to or at Closing. If the parties are unable to resolve any material differences with regard to the allocation of the Purchase Price among the Assets, then the real property (inclusive of buildings and improvements) will be valued at the assessed value (as reflected in the records of the Broward County Property Appraiser's Office) plus 15% (or the net book value of such real property, if greater) and the remainder of the Purchase Price shall be allocated among the balance of the Assets. If the parties agree on the Purchase Price allocation, then to the extent required, all tax returns or other tax information they may file or cause to be filed with any Governmental Entity shall be prepared and filed consistently with such allocation.

3.6 Prorations and Utilities. To the extent not otherwise prorated pursuant to this Agreement, Buyer and Seller shall prorate as of the Effective Time, any and all current real estate and personal property lease payments, charges against the real estate, power and utility charges and all other income and expenses that are normally prorated upon the sale of a going concern.

3.7 Tax Proration. Buyer and Seller shall prorate as of the Effective Time any amounts with respect to (i) ad valorem and non-ad valorem taxes on the Assets and (ii) personal property taxes and real property taxes on the Assets. Payments for ad valorem and non-ad valorem, personal property and

real property taxes shall initially be determined based on the previous year's taxes with respect to such property, after application of all discounts, if any.

3.8 Interest. Unless otherwise provided herein to the contrary, any payment required to be made by any party pursuant to this Agreement, if not paid before five business days after the date such payment is required to be made hereunder (the "Interest Commencement Date"), shall include interest from the Interest Commencement Date to the day such payment is made, computed at a rate equal to the prime rate as published in *The Wall Street Journal* plus two percent. All requests for payment pursuant to this Section 3.8 shall be accompanied by a certificate of an officer of the party entitled to receive such payment setting forth the amount of the payment due pursuant to this Agreement (without regard to any amounts payable through operation of this Section 3.8) and the applicable Interest Commencement Date.

4. CLOSING

4.1 Closing. As soon as practicable following the satisfaction or waiver by the appropriate party of all the conditions precedent to Closing specified in Articles 7 and 8 hereof, the consummation of the sale and purchase of the Assets and the other transactions contemplated by and described in this Agreement ("Closing") shall take place at 10:00 a.m. Eastern Daylight Time on the date on which all conditions precedent and other matters required to be completed as of the Closing Date have been completed or on such other date, time and place as the Parties shall mutually agree (the "Closing Date"); provided, however, that subject to Section 11.1(c) hereof, the Closing shall be effective as of 12:00 noon on January 1, 2006 (the "Effective Time") unless the Closing shall not occur on January 1, 2006, in which case the Effective Time shall be 12:01 a.m. on the day following the Closing Date.

4.2 Action of Seller at Closing. At Closing and unless otherwise waived in writing by Buyer, Seller shall deliver to Buyer the following:

(a) a special warranty deed, fully executed by Seller, transferring good title to the Real Property, the form of which is attached hereto as Exhibit 4.2(b) (the "Real Property Deed");

(b) a Bill of Sale and Assignment (the "Bill of Sale"), fully executed by Seller, transferring to Buyer good title to all tangible and intangible assets comprising the Assets (other than the Real Property), the form of which is attached hereto as Exhibit 4.2(c);

(c) an Assignment and Assumption Agreement (the "Assignment and Assumption Agreement"), fully executed by Seller, pursuant to which Seller assigns and Buyer assumes all right, title and interest of Seller in, to and under the Assumed Contracts, the form of which is attached hereto as Exhibit 4.2(d);

(d) a copy of resolutions duly adopted by the board of directors, board of trustees or other authorized governing body of Seller authorizing and approving the transactions contemplated hereby, Seller's performance of the transactions contemplated hereby and the execution, delivery and performance of this Agreement and the documents described herein to which Seller is a party, certified as true and of full force as of Closing by an appropriate officer of Seller;

(e) the signature and incumbency of the officers of Seller authorized to execute and deliver this Agreement and the other agreements and documents that Seller is required to deliver on or before the Closing Date pursuant to this Agreement, certified as true and accurate as of Closing by an appropriate officer of Seller;

(f) a certificate of an officer of Seller certifying that each covenant and agreement of Seller to be performed prior to or as of Closing pursuant to this Agreement has been performed in all material respects and that each of the representations and warranties of Seller set forth herein is true and correct in all material respects as of the Closing Date;

(g) a certificate of existence and good standing (or its functional equivalent) of Seller from the Florida Secretary of State and any foreign qualifications of Seller, dated the most recent practical date prior to Closing; and

(h) Seller shall supply an "owner's affidavit" reasonably acceptable to the title company to cause the Schedule B-II "preprinted" exceptions (except for matters shown on the survey) to be deleted from the final title policy, together with such other certificates or matters as the title company shall reasonably require to satisfy Seller's requirement to issue a valid Owner's Title Policy, insuring Buyer's interest in the Real Property in an amount equal to the value allocable to the same, and any endorsements to the policy reasonably requested by and available in the State of Florida**.**

4.3 Action of Buyer at Closing. At Closing and unless otherwise waived in writing by Seller, Buyer shall deliver to Seller the following:

(a) the Purchase Price;

(b) the Bill of Sale and Assignment, fully executed by Buyer, pursuant to which Buyer will take assignment and assume title to the Assets;

(c) the Assignment and Assumption Agreement, fully executed by Buyer, pursuant to which Buyer shall assume the Assumed Liabilities and the Assumed Contracts;

(d) a copy of resolutions duly adopted by the board of directors of Buyer authorizing and approving the transactions contemplated hereby, Buyer's performance of the transactions contemplated hereby and the execution, delivery and performance of this Agreement and the documents described herein to which it is a party, certified as true and of full force as of Closing by an appropriate officer of Buyer;

(e) the signature and incumbency of the officers of Buyer authorized to execute and deliver this Agreement and the other agreements and documents that Buyer is required to deliver on or before the Closing Date pursuant to this Agreement, certified as true and accurate as of Closing by an appropriate officer of Buyer;

(f) a certificate of an authorized officer of Buyer certifying that each covenant and agreement of Buyer to be performed prior to or as of Closing pursuant to this Agreement has been performed in all material respects and that each of the representations and warranties of Buyer set forth herein is true and correct in all material respects as of the Closing Date;

(g) a certificate of existence and good standing of Buyer from the Delaware Secretary of State, dated the most recent practical date prior to Closing; and

(h) a certificate of authority and active status of Buyer from the Florida Secretary of State, dated the most recent practical date prior to Closing.

4.4 Additional Acts. From time to time after Closing, Seller shall execute and deliver such other instruments of conveyance and transfer, and take such other actions as Buyer may reasonably request, to convey and transfer more effectively full right, title and interest to, to vest in, and to place Buyer in legal and actual possession of any and all of the Assets as contemplated by and in accordance with the terms of this Agreement, and (b) Buyer shall execute and deliver such other instruments and take such other actions as Seller may reasonably request to effectuate the transactions contemplated by this Agreement.

5. REPRESENTATIONS AND WARRANTIES OF SELLER

As of the date hereof, Seller represents and warrants to Buyer the following:

5.1 Capacity of Seller. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Florida. Seller is duly qualified or licensed to transact business and is in good standing in all jurisdictions in which it conducts business except where he failure to be so qualified or licensed would not have a material adverse effect on the Facility or the Business . Seller has the requisite power and authority to enter into this Agreement, perform its obligations hereunder and to conduct its businesses as now being conducted. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Seller.

5.2 Powers; Consents; Absence of Conflicts With Other Agreements, Etc. The execution, delivery and performance of this Agreement and all other agreements referenced in or ancillary hereto by Seller, and the consummation of the transactions contemplated herein by Seller:

(a) are within Seller’s powers and are not in contravention of the terms of any of its governing documents or any amendments thereto;

(b) except as set forth on **Schedule 5.2(b)**, will neither constitute a violation of or a default under, or conflict with, any term or provision of any contract, commitment, indenture, lease or other agreement, or any other restriction of any kind to which Seller is a party or by which Seller is bound, nor permit the acceleration of the maturity of the Assumed Liabilities, or the creation of any lien, charge or encumbrance affecting any Assets;

(c) except as set forth on **Schedule 5.2(c)**, do not require Seller to obtain any approval or consent of, or give notice to or make any filing with, any Governmental Authority bearing on the validity of this Agreement that is required by law or the regulations of any such Governmental Authority;

(d) will not violate any statute, law, rule or regulation of any Governmental Authority to which Seller or the Assets may be subject; and

(e) will not violate any judgment of any court or Governmental Authority to which Seller or the Assets may be subject.

5.3 Binding Agreement. This Agreement and all agreements contemplated by this Agreement to which Seller is or shall become a party are and will constitute the valid and legally binding obligation of Seller and will be enforceable against Seller in accordance with the respective terms hereof or thereof, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditor rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

5.4 Organizational Structure. The GEO Group, Inc., a Florida corporation, owns 100% of the issued and outstanding capital stock of Seller. There are no outstanding securities, options, warrants, calls, rights or agreements to which Seller is a party obligating it to issue, deliver, sell or cause to be issued, delivered or sold capital stock or other voting securities. There are no outstanding contractual obligations of Seller to repurchase, redeem or otherwise acquire any shares of capital stock of Seller.

5.5 Financial Statements; Internal Controls.

(a) **Schedule 5.5** hereto contains copies of the following financial statements of Seller in respect of the Business (the "Financial Statements"): (i) audited balance sheets dated as of December 28, 2003 and January 2, 2005 and the unaudited balance sheet as of October 2, 2005 (the "Balance Sheet Date"); and (ii) audited income statements for the fiscal years ended January 1, 2004 and January 1, 2005 and the unaudited income statement for the period ended October 2, 2005. Such Financial Statements have been prepared in accordance with GAAP, applied on a consistent basis throughout the periods indicated; provided, however, that unaudited Financial Statements are subject to the GAAP Exceptions. Such balance sheets present fairly in all material respects the financial condition of Seller in respect of the Business as of the dates indicated thereon, and such income statements present fairly in all material respects the results of Seller's operations in respect of the Business for the periods indicated thereon.

(b) With the exception of the liabilities set forth on the Financial Statements, the liabilities set forth on **Schedule 5.5**, and the liabilities incurred in the ordinary course of the business of Seller since the Balance Sheet Date**,** Seller does not have any liabilities with respect to the Business of any nature, whether absolute, accrued, contingent or otherwise or whether due or to become due. There is no prepaid or deferred revenue associated with or in connection with the Business.

(c) Seller maintains disclosure controls and procedures designed to ensure that material information relating to the Business is made known to Seller's Chief Executive Officer and Chief Financial Officer. Seller maintains internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

5.6 Assumed Contracts; No Defaults. Attached hereto as **Schedule 5.6** is a list of the Material Assumed Contracts. Seller has made available to Buyer copies of the Material Assumed Contracts. The foregoing notwithstanding, the availability to Buyer of the Business' managed care contracts containing rates shall be delayed until such time as the respective counsel for Seller and Buyer mutually determine in order to comply with applicable federal antitrust considerations. There is not, under any of the Material Assumed Contracts, any existing default, event of default or other event which, with or without due notice or lapse of time or both, would constitute a default or event of default on the part of Seller, except such defaults, events of default and other events as to which requisite waivers or consents have been obtained. All of the Material Assumed Contracts are valid and binding obligations of the parties thereto, are in full force and effect and are enforceable against the parties thereto in accordance with their terms, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditor rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies. "Material Assumed Contract" means any Assumed Contract that (a) obligates Seller to pay an amount of Twenty-Five Thousand dollars ($25,000) or more in any twelve month period or obligates Seller to pay an aggregate amount of Fifty Thousand Dollars ($50,000) or more, (b) has an unexpired term as of the Balance Sheet Date in excess of six (6) months that is not terminable upon sixty (60) days or less notice by Seller at any time during the term, without penalty, (c) contains a covenant not to compete or otherwise significantly restricts business activities, (d) limits the ability of Seller to conduct its business,

including as to manner or place, (e) contains a right of first refusal, (f) constitutes a collective bargaining agreement, (g) represents a contract upon which the business of the Hospital is substantially dependent or a contract which is otherwise material to the business of the Hospital, (h) represents a contract with a physician or any other referral source, or to the knowledge of Seller, an immediate family member of a physician (as that term is defined in 42 C.F.R. § 411.351) or any other referral source, including any contract with a pharmacy or any other supplier of medical products to patients of the Facility, (k) to the knowledge of Seller, represents a contract with an entity in which a referring physician or any other referral source (as that term is defined in 42 U.S.C. § 1395m(h)(7)) or a referring physician's immediate family member has an ownership or investment interest, or (l) represents a third party payor, managed care or preferred provider organization contract.

5.7 Real Property.

(a) Seller owns good and marketable title in fee simple to the Real Property, which is described in **Schedule 5.7(a)(i)** hereto (which Schedule includes a legal description of all of the Real Property). The Real Property constitutes all of the owned real property used by Seller in the operation of the Business. There are no leases by Seller as landlord to third parties relating to the Business. A list and general description of the use of all real property leased by Seller as lessee from any third parties under any oral or written lease or license (each, a "Lease"), together with the relevant address, term, rental rate, area leased and whether such leased property is subject to Seller's option to renew is contained on **Schedule 5.7 (a)(ii)** hereto (the "Leased Real Property" and, together with the Real Property, the "Real Estate"). Seller has a good and valid leasehold interest in all of the Leased Real Property. There are no agreements or amendments, oral or written, pertaining to the Leased Real Property other than as set forth in the Leases referenced on **Schedule 5.7(a)(ii)**. The Real Estate constitutes all of the real property used by Seller in the operation of the Facility.

(b) The Real Property is in compliance with all Real Estate Laws, and Seller has not received any written notice of violation from any Governmental Authority of any Real Estate Law on the use or occupancy of the Real Property. Seller has all easements, servitudes, and rights-of-way necessary for access to the Real Property. All utilities serving the Real Property are adequate, in Seller's reasonable opinion, to operate the Business in the manner it is currently operating. Except as may be indicated on the survey prepared by Robert M. Jones of MACTEC Engineering and Consulting, dated December 5, 2005, no improvements encroach onto adjacent property, (ii) violate setback, building or side lines or (iii) encroach onto any easements or servitudes located on the Real Property. No portion of the Real Property is located within a flood plain or constitutes an area classified as a protected wetland. Seller has received no written notice of any action to alter the zoning or zoning classification or to condemn, requisition or otherwise take all or any portion of the Real Property.

5.8 Title. Except for the Permitted Encumbrances, there exist no Encumbrances affecting the Real Property, and Seller is in actual possession of the Real Property. At Closing, Seller will convey to Buyer good and valid marketable title to the Real Property and good and valid title to the personal property, tangible and intangible, constituting the remainder of the Assets, free and clear of any Encumbrance except (i) current taxes and assessments not yet due and payable or being contested in good faith, (ii) any applicable Assumed Liabilities, (iii) utility easements providing service to the Real Property, (iv) access easements and rights of way providing vehicular and pedestrian access to the Real Property, (v) such other easements and rights of way as are common to the lots in the vicinity and do not impair or diminish the value or use of the Facility as currently used, and (vi) other matters, Encumbrances and defects approved by Buyer in writing, if any, or as deemed accepted by Buyer pursuant to Section 2.3 hereof (the foregoing items (i) through (vi) being referred to herein as the "Permitted Encumbrances"). Except for the Excluded Assets, the Assets constitute in all material respects all tangible and intangible assets necessary for the operation of Seller's Business in accordance with past practice.

5.9 Defects in Property; Utilities and Easements. There are no defects to the knowledge of Seller in the condition of the Real Property or the Assets that will impair the condition of the Assets or the operation of the Business as operated by Seller on the date hereof. There is no material defect in the Real Property, the structural elements thereof, the mechanical systems (including without limitation all heating, ventilating, air conditioning, plumbing, electrical, elevator, security, utility and sprinkler systems) therein, or the parking and loading areas other than ordinary wear and tear, and all such systems are adequate for their present uses. To Seller's knowledge, all Assets are in a condition adequate for their current uses, ordinary wear and tear excepted. There are no material defects or deficiencies in any necessary utility services and easements for such services including, without limitation, electrical, gas, water, sewer and telephone.

5.10 Zoning. The present use of the Real Property is permitted, and it is a conforming structure under applicable zoning and building laws and ordinances. There are no pending or, to Seller's knowledge, threatened requests, applications or proceedings to alter or restrict the zoning or other use restrictions applicable to the Business.

5.11 Intellectual Property.

(a) Seller owns, is licensed or otherwise possesses legally enforceable rights to use in the manner and to the extent currently being used by Seller all the Seller Intellectual Property Assets, without (i) infringing or violating the valid and enforceable rights of others, (ii) constituting a breach of any agreement, obligation, promise or commitment by which Seller and its Affiliates may be bound or (iii) violating any laws in any applicable jurisdiction.

(b) No actions or proceedings (i) have been made or are currently pending or, to Seller's knowledge, threatened by any person with respect to the Seller Intellectual Property Assets, including any actions or proceedings challenging the right of Seller to use, possess, transfer, convey or otherwise dispose of any Seller Intellectual Property Assets, or (ii) have been made or are currently pending or, to Seller's knowledge, threatened by any person with respect to the Intellectual Property Assets of any third party (the "Third Party Intellectual Property Assets") to the extent arising out of any use, possession, transfer, reproduction, conveyance, distribution or other disposition of, or of products or methods covered by or otherwise relating to, such Third Party Intellectual Property Assets by or through Seller.

(c) To the knowledge of Seller, there is no unauthorized use, infringement, misappropriation or other violation of any of Seller's Intellectual Property Assets by any third party, including any employee, former employee, independent contractor or consultant of Seller or any of its subsidiaries.

(d) The Seller Intellectual Property Assets include all intellectual property rights and interests necessary to conduct the Business of Seller as it is currently conducted, and assuming any contractually required consents are obtained, such rights will not be adversely affected by Seller or any other person claiming under or through Seller or otherwise in connection with or arising from the execution and delivery of this Agreement or the consummation of any of the transactions contemplated hereby, except where such adverse affect would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Seller.

5.12 Insurance. Seller maintains in full force and effect, with no premium arrearages, insurance policies bearing the numbers, for the terms, with the companies, in the amounts and providing the coverage set forth in **Schedule 5.12**. Seller has not been refused any insurance with respect to the Assets or the operations of the Business by any insurance carrier to which it has applied for any such

insurance or with which it has carried insurance during the last three years. True and correct copies of all such policies, and all endorsements thereto, have been delivered to Buyer.

5.13 **Litigation or Proceedings**. Seller has delivered to Buyer an accurate list and summary description of all pending litigation or proceedings with respect to the Business and the Assets to which Seller is a party. Except to the extent set forth on **Schedule 5.13**, there are no claims, actions, suits, proceedings or investigations pending or, to Seller's knowledge, threatened against or affecting Seller with respect to the Business, at law or in equity, before or by any Governmental Authority wherever located and, to the knowledge of Seller, no basis for any such action exists.

5.14 **Governmental Authorizations; Compliance**. Seller possesses all Governmental Authorizations that are required for the current conduct of the Business and the use of the Facility. Seller is in compliance in all material respects with all requirements of federal, state and local law, all applicable terms and requirements of each Governmental Authorization, and all requirements of all Governmental Authorities having jurisdiction over the Seller, the conduct of the Business, the use of its properties and assets and all premises occupied by it at the Facility. Seller has not received any notice, not heretofore complied with, from any Governmental Authority having jurisdiction over its properties or activities, or any insurance or inspection body, that its operations, facilities, equipment, or business procedures or practices at the Facility fail to comply with any applicable law, ordinance, regulation, building or zoning law, or requirement of any Governmental Authority. Attached hereto as **Schedule 5.14** is a correct and complete list of all Governmental Authorizations. Except as disclosed in **Schedule 5.14**, Seller validly holds all such Governmental Authorizations, each such Governmental Authorization is valid, binding, in good standing and in full force and effect, and Seller is not in default (or with the giving of notice or lapse of time or both, would be in default) under any such Governmental Authorization.

5.15 **Regulatory Compliance; Improper Payments**.

(a) Except as set forth in **Schedule 5.15** hereto, Seller has not received any written notice from any Governmental Authority, whether federal, state or local, that any of the Business' operations are not in compliance in all material respects with all applicable laws and regulations. Seller has timely filed all reports, data and other information required to be filed under applicable laws and regulations. Seller and the Business have been and are in compliance in all material respects with all laws and regulations required to carry on the Business as currently conducted.

(b) Except to the extent permitted by applicable law, neither Seller, nor to Seller's knowledge, any director, officer or employee of Seller, nor any agent acting on behalf of or for the benefit of any of the foregoing, has directly or indirectly: (i) offered, paid or received any remuneration, in cash or in kind, to, or made any financial arrangements, with any past, present or potential customers, past or present suppliers, patients, medical staff members, contractors or third-party payors of Seller in exchange for business or payments from such persons; (ii) given or agreed to give, received or agreed to receive, or is aware that there has been made or that there is any agreement to make, any gift or gratuitous payment of any kind, nature or description (whether in money, property or services) to any customer or potential customer, supplier or potential supplier, contractor, third-party payor or any other person in exchange for business or payments; (iii) made or agreed to make, or is aware that there has been made or that there is any agreement to make, any contribution, payment or gift of funds or property to, or for the private use of, any governmental official, employee or agent where either the contribution, payment or gift or the purpose of such contribution, payment or gift is or was illegal under any law or regulation of the United States or under the laws of any Governmental Authority having jurisdiction over such payment, contribution or gift; (iv) established or maintained any unrecorded fund or asset for any improper purpose or made any misleading, false, or artificial entries on any of its books or records for any reason; (v) made, or agreed to make, or is aware that there has been made or that there is any agreement to make, any

improper payment to any person; (vi) made any payment for or agreed to make any payment for any goods, services, or property in excess of fair market value; or (vii) committed a violation of any law or regulation, specifically including, but not limited to, Medicare and Medicaid fraud and abuse provisions of the Social Security Act, including any activity which is prohibited under (i) the Federal Anti-Kickback Statute (42 U.S.C. § 1320a-7b et seq.); (ii) the physician self-referral provisions of the Stark Law (42 U.S.C. § 1395nn) or the regulations thereunder; (iii) the False Claims Act (31 U.S.C. § 3729); (iv) the Civil Monetary Penalties Law (42 U.S.C. §§ 1320a-7a); (v) Mail and Wire Fraud (18 U.S.C. §§ 1341-1343); (vi) False Statements Relating to Health Care Matters (18 U.S.C. § 1035); and (vii) Health Care Fraud (18 U.S.C. § 1347) or regulations related to any of the above (or related state and local fraud and abuse statutes or regulations).

(c) Except as permitted by applicable law or regulation, neither Seller nor to Seller's knowledge any of its directors, officers or employees is a party to any contract, lease agreement or other arrangement (including but not limited to any joint venture or consulting agreement) related to Seller, the Business or the Assets with any physician, physical or occupation therapist, health care facility, hospital, nursing facility, home health agency or other person who is in a position to make or influence referrals to or otherwise generate business for Seller with respect to any of the Business or the Assets, to provide services, lease space, lease equipment or engage in any other venture or activity.

(d) Except as set forth in **Schedule 5.15**, no Affiliate of Seller directly or indirectly with respect to the Facility and Business: (i) provides any services to Seller, or is a lessor, lessee or supplier to Seller; (ii) has any cause of action or other claim whatsoever against or owes any amount to, or is owed any amount by, Seller or the Business, except for claims and amounts owed in the ordinary course of business, such as for expense advances or unreimbursed expenses, accrued vacation pay and accrued benefits under Benefit Plans; (iii) has any interest in or owns property or rights used in the operation of the Business; (iv) is a party to any contract, lease or other agreement, arrangement, understanding or commitment relating to the Assets or the operation of the Business (other than compensation and/or employee benefits payable in the ordinary course of business); or (v) received from or furnished to Seller any goods or services without adequate consideration.

(e) **Schedule 5.15(e)** lists all financial relationships (whether or not memorialized in writing) that Seller has had with any individual known by Seller to be a physician or an immediate family member of a physician since August 1, 1999, in connection with the Business. For purposes of this Section 5.16(e), the term "financial relationship" has the meaning set forth in 42 U.S.C. §1395nn and the regulations promulgated thereunder.

5.16 HIPAA Matters.

(a) Each business, entity or component of any entity owned or controlled by Seller that is a health plan, healthcare clearinghouse or healthcare provider, as such terms are defined in the Federal Privacy Regulations (collectively, the "Covered Entities") is in compliance with and has not violated the administrative simplification section of HIPAA, the Federal Privacy Regulations, the Federal Transaction Regulations or applicable state privacy laws.

(b) To the extent a Covered Entity directly or indirectly conducts a Transaction (as defined in the Federal Transaction Regulations) using Electronic Media (as defined in the Federal Transaction Regulations) with another covered entity, such Transactions use and will use the standards mandated by the Federal Transaction Standards (as defined in the Federal Transaction Regulations).

(c) A complete and accurate list of all Covered Entities and each Organized Health Care Arrangement (as defined in the Federal Privacy Regulations) in which a Covered Entity participates is attached hereto as **Schedule 5.16(A)**. Complete and accurate copies of each Covered Entity's policies relating to the privacy of its patients' Protected Health Information (as defined in the Federal Privacy Regulations) are attached hereto as **Schedule 5.16(B)**. Each such policy relating to the privacy of patient's Protected Health Information complies with the Federal Privacy Regulations and applicable state privacy laws. Each Covered Entity has provided its patients with a privacy notice that contains all of the requirements of 45 C.F.R. Section 164.520(b) at the times required by 45 C.F.R. Section 164.520(c) and has documented compliance with the foregoing requirements. An accurate copy of each Covered Entity's privacy notice and any policy relating thereto, or the most recent draft thereof, has been furnished to Buyer. Each Covered Entity and its employees, volunteers, trainees, and other persons whose conduct, in the performance of work for a Covered Entity, is under the direct control of such entity (collectively, the "Workforce") has only Used (as defined in the Federal Privacy Regulations) or Disclosed (as defined in the Federal Privacy Regulations) Protected Health Information in accordance with its privacy notices, the Covered Entity's privacy policies relating to Protected Health Information and the Federal Privacy Regulations.

(d) To the extent either Seller or any Covered Entity maintains Group Health Plans (as defined in Federal Privacy Regulations) for its employees and the dependents thereof, the Group Health Plan (i) has implemented policies to establish the permitted and required Uses and Disclosures of Protected Health Information to the plan sponsor, provided that such policies are not inconsistent with the Federal Privacy Regulations; (ii) has received certification from the plan sponsor that the Group Health Plan documents have been amended to incorporate the provisions set forth in 45 C.F.R. Sections 164.504(f)(2)(ii) and (f)(iii); (iii) provided its employees and their dependents covered by such Group Health Plan the applicable notices regarding the amendments of such Group Health Plan; and (iv) has provided Buyer with the telephone number of, and the name of a contact person at, each such Group Health Plan.

(e) Each Covered Entity has provided its patients the right to inspect, obtain a copy of, amend, receive an accounting of the disclosures, request an alternative means of disclosure and alternative locations for disclosure of Protected Health Information in accordance with the Federal Privacy Regulations. To the extent that a Covered Entity has agreed to additional restrictions on the use or disclosure of Protected Health Information requested by a patient, the Covered Entity has complied with such requests.

(f) Complete and accurate copies of all agreements (collectively, "Business Associate Agreements") between a Covered Entity and a Business Associate (as defined in the Federal Privacy Regulations), together with a complete and accurate summary of the terms and conditions of any oral arrangements with Business Associates, have been made available to Buyer. Neither Seller nor any Covered Entity is aware of any breach by a Business Associate of any Business Associate Agreement or any violation by a Business Associate of HIPAA, the Federal Transaction Regulations, the Federal Privacy Regulations, or the Federal Security Regulations.

(g) To Seller's knowledge, no patient has filed a HIPAA related complaint with Seller, the Business or any Governmental Authority.

5.17 Compliance Program. Seller has provided to Buyer a copy of its current compliance program materials. Except as set forth on **Schedule 5.17**, Seller (a) is not a party to a Corporate Integrity Agreement with the Office of Inspector General of the Department of Health and Human Services, (b) has no reporting obligations pursuant to any settlement agreement entered into with any Governmental Authority, (c) has not been the subject of any government payor program investigation conducted by any

federal or state enforcement agency, (d) **[to the knowledge of Seller,]**has not been a defendant in any qui tam/False Claims Act or similar litigation, (e) has not been served with or received any search warrant, subpoena, civil investigative demand, contact letter, or telephone or personal contact by or from any federal or state enforcement agency (except in connection with medical services provided to third-parties who may be defendants or the subject of investigation into conduct unrelated to the operation of the Business or any other health care businesses conducted by Seller), and (f) has not received any written complaints or complaints through their telephonic hotlines from employees, independent contractors, vendors, physicians, or any other person that would indicate that Seller has in the past violated, or is currently in violation of, any law or regulation. Buyer has been provided with a description of each audit and investigation conducted by Seller pursuant to its compliance program with respect to the Business during the last three years. For purposes of this Agreement, the term "compliance program" refers to provider programs of the type described in the Compliance Program Guidance published by the Office of Inspector General of the Department of Health and Human Services.

5.18 Medicare Participation; Accreditation; No Medicaid Participation. (a) The Business is certified for participation in the Federal Healthcare Programs and Seller has a provider agreement with each such Federal Healthcare Program (the "Provider Agreements"). The Business is in compliance with the conditions of participation of the Federal Healthcare Programs and with the terms, conditions and provisions of the Provider Agreements. The Provider Agreements are each in full force and effect, and Seller has no knowledge of any fact or circumstance that would cause any such Provider Agreement not to remain in force or be renewed on and after Closing. Attached hereto as **Schedule 5.18** is a complete list of all Medicare provider numbers (the "Provider Numbers") in the name of Seller, the Business or as otherwise specified, which Seller is currently using in its operations (excluding any Medicare provider numbers for facilities that were sold or closed by Seller prior to the date of this Agreement). The Provider Numbers are active with CMS. The Business is duly accredited, with all Type I recommendations removed, by JCAHO for the three (3) year period set forth on **Schedule 5.18**. Copies of the two most recent accreditation survey reports from JCAHO pertaining to the Business have been made available to Buyer. Except as set forth in **Schedule 5.18**, since the date of its most recent JCAHO survey, Seller or the Business has not made any changes in policy or operations that it believes would cause the Business to be denied participation in the Federal Healthcare Programs. To Seller's knowledge, there is no proceeding, investigation or survey pending or threatened, involving any of the Federal Healthcare Programs or any other third-party payor programs, with respect to the Business, and Seller has no reason to believe that any such investigations or surveys are pending, threatened, or imminent.

(b) The Business and the Seller do not currently participate and have not in the past participated in the Medicaid program. Neither the Business nor the Seller is a party to a provider agreement with the Medicaid program. Neither the Business nor the Seller owes any funds or has any outstanding obligation to the Medicaid program, nor does the Medicaid program owe funds or have any outstanding obligation to Business or Seller.

5.19 Third-Party Payor Cost Reports. Seller duly filed all required cost reports for all the fiscal years through and including the fiscal year ended January 2, 2005 (the "Cost Reports"). Except as set forth on **Schedule 5.19** and except for immaterial adjustments to the Cost Reports, all of the Cost Reports filed by Seller accurately reflect the information required to be included thereon and do not claim, and Seller has not received reimbursement in any amount in excess of, the amounts allowed by applicable law or any applicable agreement. **Schedule 5.19** attached hereto accurately indicates which Cost Reports have not been audited and finally settled and a brief description of any and all notices of program reimbursement, proposed or pending audit adjustments, disallowances, and any and all other unresolved claims or disputes in respect of the Cost Reports.

5.20 Reimbursement. Except as set forth on **Schedule 5.20**, all billing practices of Seller with respect to all third-party payors of the Business, including the Federal Healthcare Programs and private insurance companies, have been in compliance with all applicable laws, regulations and policies of such third-party payors, private insurance companies and the Federal Healthcare Programs. To Seller's knowledge, all claims, returns, invoices and other forms made by the Business to the Federal Healthcare Programs or any other third-party payor are true, complete, correct and accurate in all material respects. No deficiency in any such claims, returns or other filings relating to the Business, including claims for overpayments, setoff or recoupments, or deficiencies for late filings, has been asserted or, to the knowledge of Seller, threatened by any Governmental Authority or any other third-party payor and, to the knowledge of Seller, there is no basis for any such claims or deficiencies. Seller or the Business has not within the prior five years been subject to any audit relating to fraudulent Medicare procedures or practices. Seller or the Business has not billed or received any payment or reimbursement in excess of amounts allowed by law. There is no proceeding, investigation (except for medical reviews or claim reviews in the ordinary course of business), pending or threatened against Seller or the Business, involving any of the Federal Healthcare Programs, or any other third-party payor programs. Attached as **Schedule 5.20** are copies of all written reports, surveys, deficiency notices, complaints, plans of correction, inquiries or notices of investigation received by Seller or the Business within the past two years from any intermediary or other payor, Governmental Authority or accrediting body. Seller or the Business is not currently under focused medical review or the subject of any probe edits by the CMS or the Business's Medicare fiscal intermediary and, to the knowledge of Seller, no such actions have been threatened by CMS or the Business's Medicare fiscal intermediary.

5.21 Medical Staff Matters. **Schedule 5.21** includes true, correct, and complete copies of the bylaws and rules and regulations of the medical staff of the Business. With regard to the medical staff of the Business and except as set forth on **Schedule 5.21** hereto, there are no pending or, to Seller's knowledge, threatened disputes with applicants, staff members or health professional Affiliates and all appeal periods in respect of any medical staff member or applicant against whom an adverse action has been taken have expired. Seller has delivered to Buyer a written disclosure containing a brief general description of all adverse actions taken in the six months prior to the date hereof against medical staff members or applicants which could result in claims or actions against Seller. **Schedule 5.21** includes a list of the members of the Business' medical staff. Except as listed on **Schedule 5.21**, to Seller's knowledge, there are no claims, actions, suits, proceedings or investigations pending or threatened against or affecting any member of the medical staff at law or in equity, or before or by any Governmental Authority wherever located. Except as listed on **Schedule 5.21**, no member of the Business's medical staff has resigned or had his or her privileges revoked or suspended during the past year. Except as set forth on **Schedule 5.21**, (i) no employee or independent contractor of Seller (whether an individual or entity), or any member of Business's medical staff has been excluded from participating in any federal health care program (as defined in 42 U.S.C. § 1320a-7b(f)) during the last five years, nor is any such exclusion threatened or pending and (ii) none of the officers, directors, agents or managing employees (as such term is defined in 42 U.S.C. § 1320a-5(b)) of Seller, has been excluded from Medicare or any federal health care program (as defined in 42 U.S.C. § 1320a-7b(f)) or been subject to sanction pursuant to 42 U.S.C. § 1320a-7a or 1320a-8 or been convicted of a crime described at 42 U.S.C. § 1320a-7b, nor is any such exclusion, sanction or conviction threatened or pending. Neither Seller has been excluded from participating in any federal health care program (as defined in 42 U.S.C. § 1320a-7b(f)), nor is any such exclusion threatened or pending. Seller has not been convicted of a criminal offense related to the provision of health care services.

5.22 Statutory Funds. None of the Assets are subject to any liability to which Buyer may become obligated in respect of amounts received by Seller for the purchase or improvements of the Assets or any part thereof under restricted or conditioned grants or donations, including monies received under the Public Health Service Act (42 U.S.C. § 291 et seq.).

5.23 Controlled Substances. To Seller's knowledge, none of Seller's employees, or persons who provide professional services under agreements with Seller at the Facility or with respect to the Business, has engaged in any activities which are prohibited under the federal Controlled Substances Act (21 U.S.C. § 801 et seq.) or the regulations promulgated pursuant to such statute or any related state or local statutes or regulations concerning the dispensing and sale of controlled substances.

5.24 Reserved.

5.25 Tax Liabilities.

(a) Seller has duly filed or caused to be filed, or shall duly file or cause to be filed, in a timely manner (taking into account all extensions of due dates) with the appropriate Governmental Authorities all Tax Returns (including information returns) which are required to be filed on or before the Closing Date by or on behalf of Seller with respect to the Assets or the Business. All such Tax Returns are correct and complete in all material respects. All Taxes due and payable prior to the date hereof (or, as of the Closing Date, due and payable prior to the Closing Date) relating to the Assets or the Business for periods ending on or before the Closing Date, whether or not shown on any Tax Return filed or due prior to the Closing Date, have been paid in full, and all Taxes relating to the Assets or the Business for periods ending on or before the Closing Date, whether or not shown on Seller's Tax Returns filed after the Closing Date for a period that begins before the Closing Date, will be paid in full within the time permitted under the Code or applicable laws. There are no liens on any of the Assets with respect to Taxes, other than liens, if any, for Taxes not yet due and payable.

(b) (i) No deficiencies for Taxes with respect to the Business, Facility or the Assets have been claimed, proposed or assessed in writing by any Governmental Authority which, if not paid on a timely basis, would result on or after the Closing Date, in a lien for Taxes on any of the Assets, (ii) there are no pending or threatened audits, suits, proceedings, actions, investigations or claims for or relating to any liability in respect of Taxes with respect to the Business, Facility or the Assets for which Buyer could become liable, the adverse determination of which could result, on or after the Closing Date, in a lien for Taxes on any of the Assets, and (iii) there are no matters under discussion by Seller with any Governmental Authorities with respect to Taxes that may result in an additional amount of Taxes for which Buyer may have any liability or which may attach to the Assets.

(c) Seller has not made any payments, is not obligated to make any payments and is not a party to any agreement that under certain circumstances could obligate it to make any payments with respect to the Business that will not be deductible under Section 280G of the Code. Seller has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, or other third party in connection with the Business, and all Forms W-2 and 1099 required with respect thereto have been properly completed and timely filed.

5.26 ERISA Compliance.

(a) Seller has provided Buyer a complete and correct list of all Benefit Plans affecting the Employees.

(b) Neither Seller nor any ERISA Affiliate has been liable at any time for (i) contributions to a plan that is or has been at any time subject to Section 412 of the Code, Section 302 of

ERISA and/or Title IV of ERISA or (ii) any multi-employer plan (as defined in Section 3(37) of ERISA) or any multiple employer welfare arrangement (as defined in Section 3(40) of ERISA).

(c) Seller has heretofore made available to Buyer, with respect to each of the Benefit Plans, true, accurate and complete copies of the following documents as applicable: (i) the Benefit Plan document and all amendments, and (ii) all personnel, payroll and employment manuals and policies.

(d) There have been no prohibited transactions, breaches of fiduciary duty or other breaches or violations of any law applicable to the Benefit Plans and related funding arrangements that could subject Buyer to any liability. Except as disclosed in **Schedule 5.26**, each Benefit Plan intended to be qualified under Section 401(a) of the Code has a current favorable determination letter (or, in the case of a standardized form or paired plan, a favorable opinion or notification letter), and no event has occurred which could cause any Benefit Plan to become disqualified for purposes of Section 401(a) of the Code. Each Benefit Plan is fully funded and has been operated in material compliance with applicable law, including Section 401(a) of the Code and ERISA, as applicable, and in accordance with its terms.

(e) All required reports, tax returns, documents and plan descriptions of the Benefit Plans have been timely filed with the Internal Revenue Service and the U.S. Department of Labor and/or, as appropriate, provided to participants in the Benefit Plans.

(f) There are no pending claims, lawsuits or actions relating to any Benefit Plan (other than ordinary course claims for benefits) and, to the knowledge of Seller, none are threatened.

(g) The consummation of the transactions contemplated by this Agreement will not accelerate the time of vesting or payment, or increase the amount, of compensation to any employee, or former employee of the Business. No Benefit Plans or other contracts or arrangements provide for payments that would be triggered by the consummation of the transactions contemplated by this Agreement that would subject any current or former employee of the Business to excise tax under Section 4999 of the Code.

(h) No Benefit Plans provide for, and no written or oral agreements have been entered into promising or guaranteeing the continuation of medical, dental, vision, life or disability insurance coverage for any current or former employee of the Business or their beneficiaries for any period of time beyond the earlier of (i) termination of employment or (ii) the end of the current plan year (except to the extent of coverage required under COBRA).

(i) All contributions to the Benefit Plans, including salary deferrals, which have been required to be made in accordance with the terms of the Benefit Plans and applicable law have been duly and timely made. Further, as of the Closing Date, Seller will have paid in full all liabilities or accrued on their books the appropriate outstanding liability with respect to each employee or former employee of the Business in each Benefit Plan in accordance with GAAP.

(j) Seller and its ERISA Affiliates have complied in all respects with the continuation coverage provisions of COBRA with respect to all current employees and former employees. Seller has made available to the Buyer a list of all current and former employees of the Business who are eligible for and/or have elected continuation coverage under COBRA.

(k) To Seller’s knowledge, no lien, security interests or other encumbrances exist with respect to any of the assets of the Business, which were imposed pursuant to the terms of the Code or ERISA.

(l) To the extent that Seller maintains a Group Health Plan (as defined in the Federal Privacy Regulations) for its employees and the dependents thereof, each such Group Health Plan (i) has implemented policies to establish the permitted and required Uses and Disclosures of Protected Health Information to the plan sponsor, provided that such policies are not inconsistent with the Federal Privacy Regulations; (ii) has received certification from the plan sponsor that the Group Health Plan documents have been amended to incorporate the provisions set forth in 45 C.F.R. Sections 164.504(f)(2)(ii) and (f)(iii); and (iii) provided its employees and their dependents covered by such Group Health Plan the applicable notices regarding the amendments of such Group Health Plan.

5.27 Employees and Employee Relations.

(a) Except as set forth on **Schedule 5.27(a)**, as of the date hereof, (i) there is no pending or, to Seller's knowledge, threatened employee strike, work stoppage or labor dispute, (ii) to Seller's knowledge, no union representation question exists respecting any employees of Seller, no demand has been made for recognition by a labor organization by or with respect to any employees of Seller, no union organizing activities by or with respect to any employees of Seller are taking place, and none of the employees of Seller are represented by any labor union or organization, (iii) no collective bargaining agreement exists or is currently being negotiated by Seller, (iv) there is no unfair practice claim against Seller before the National Labor Relations Board, or any strike, dispute, slowdown, or stoppage pending or, to Seller's knowledge, threatened against or involving the Business and none has occurred and (v) there are no pending or, to Seller's knowledge, threatened complaints or charges before any Governmental Authority regarding employment discrimination, safety or other employment-related charges or complaints, wage and hour claims, unemployment compensation claims, workers' compensation claims or the like.

(b) **Schedule 5.27(b)** contains a list of all of the employees of Seller (the "Employees") at the Business, their current salary or wage rates, bonus and other compensation, benefit arrangements and period of service, department and a job title or other summary of the responsibilities of such Employees. **Schedule 5.27(b)** also indicates whether such Employees are part-time, full-time or on a leave of absence and the type of leave. Seller and each Benefit Plan have properly classified individuals providing services to Seller as independent contractors or Employees, as the case may be. The foregoing notwithstanding, the delivery of **Schedule 5.27(b)** to Buyer shall be delayed until such time as the respective counsel for Seller and Buyer mutually determine in order to comply with applicable federal antitrust considerations.

5.28 Environmental Matters.(a) Except as disclosed on **Schedule 5.28**, the Real Property and Business are and at all times during Seller's ownership have been in material compliance with the Environmental Laws, which compliance includes but is not limited to the possession by Seller of all permits and governmental authorizations required under applicable Environmental Laws, and compliance with the terms and conditions thereof.

(b) Except as disclosed on **Schedule 5.28**, Seller has not treated, stored, managed, disposed of, transported, handled, released, or used any Material of Environmental Concern except in the ordinary course of its business and in compliance with all Environmental Laws; and, to the knowledge of Seller, no third party has treated, stored, managed, disposed of, transported, handled, released, or used any Material of Environmental Concern at the Real Property.

(c) Except as disclosed on **Schedule 5.28**, there are no Environmental Claims pending or, to the knowledge of Seller, threatened against Seller, and to the knowledge of Seller, no circumstances exist which could reasonably be expected to lead to the assertion of an Environmental Claim against Seller.

(d) **Schedule 5.28** lists any off-site locations or haulers where Seller has stored or disposed or with whom Seller has arranged for the disposal of Materials of Environmental Concern, and Seller has not been notified in writing that it is a potentially responsible party at any such location under any Environmental Laws.

(e) Except as disclosed on **Schedule 5.28**, Seller has not assumed or undertaken or otherwise become subject to any liability or corrective, investigatory or remedial obligation of any other person relating to any Environmental Law.

(f) Except as disclosed on **Schedule 5.28**, (i) there are no underground storage tanks located on the Real Property, and any tanks identified on **Schedule 5.28** have passed tightness testing when and as required by applicable law; (ii) there is no friable asbestos (as defined under Environmental Laws) contained in or forming part of any building, building component, structure or office space owned, leased or operated by Seller, and (iv) there are no polychlorinated biphenyls ("PCBs") or PCB-containing items contained in or forming part of any building, building component, structure or office space owned, leased or operated by Seller.

5.29 Medical Waste. Except as disclosed on **Schedule 5.29**, the operations and properties of Seller are and at all times have been in compliance with the Medical Waste Laws.

5.30 Brokers. Seller has not engaged any broker, investment banker, financial advisor or other similar person entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Seller.

5.31 Absence of Certain Changes. Between the Balance Sheet Date and the date hereof, except as set forth on **Schedule 5.31**, there has not been any transaction or occurrence in which Seller or any of its Affiliates, in connection with the Facility, has:

(a) suffered any Material Adverse Effect or any material damage, destruction or loss with respect to the Facility (other than minor damage caused by Hurricane Katrina or Hurricane Wilma, which will be repaired at Seller's expense);

(b) sold, transferred or otherwise disposed of any of the Assets except in the ordinary course of business;

(c) granted or incurred any obligation for any increase in the compensation of any employee who is employed at the Facility (including any increase pursuant to any bonus, pension, profit-sharing, retirement, or other plan or commitment) except in the ordinary course of business;

(d) made any change in any method of accounting or accounting principle, practice, or policy;

(e) failed to pay accounts payable and other obligations of Seller or the Business when they become due and payable in Seller's ordinary course of business consistent with past practice; or

(g) agreed, so as to legally bind Buyer or affect the Assets, whether in writing or otherwise, to take any of the actions set forth in this Section 5.31 and not otherwise permitted by this Agreement.

5.32 Accounts Receivable. The accounts receivable that are reflected on the balance sheet as of the Balance Sheet Date and all accounts receivable of the Business arising thereafter and prior to the Closing Date arose and will arise from bona fide transactions in the ordinary course of business in arm's length transactions and are carried at values, net of reserves, determined (in each case) in accordance with GAAP, consistently applied in accordance with past practice; provided, however that this Section 5.32 shall not be construed as a guaranty of collection of such accounts receivable.

6. REPRESENTATIONS AND WARRANTIES OF BUYER

As of the date hereof, except as disclosed in the Schedules, Buyer represents and warrants to Seller as follows:

6.1 Capacity. Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. Buyer has the requisite corporate power and authority to enter into this Agreement, perform its obligations hereunder and to conduct its businesses as now being conducted. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Buyer.

6.2 Powers; Consents; Absence of Conflicts With Other Agreements, Etc. The execution, delivery and performance of this Agreement and all other agreements referenced in or ancillary hereto by Buyer and the consummation of the transactions contemplated herein by Buyer:

(a) are within Buyer's corporate powers and are not in contravention of law or of the terms of its Certificate of Incorporation, Bylaws or any amendments thereto;

(c) will neither conflict with nor result in a breach or contravention of, or the creation of any lien under any indenture, agreement, lease, instrument or understanding to which Buyer is a party or by which Buyer is bound;

(b) except as set forth on **Schedule 6.2**, do not require any approval or consent of, notice to or filing with, any Governmental Authority bearing on the validity of this Agreement that is required by law or the regulations of any such Governmental Authority;

(d) will not violate any statute, law, rule or regulation of any Governmental Authority to which Buyer may be subject and which would affect Buyer's ability to consummate the transaction described herein; and

(e) will not violate any judgment of any court or Governmental Authority to which Buyer may be subject and which would affect Buyer's ability to consummate the transaction described herein.

6.3 Binding Agreement. This Agreement and the other agreements contemplated by this Agreement to which Buyer is a party are and will constitute the valid and legally binding obligation of Buyer, and are and will be enforceable against it in accordance with the respective terms hereof or thereof, except (i) as limited by applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditor rights generally and (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

6.4 Litigation. There is no claim, action, suit, proceeding or investigation pending or, to the knowledge of Buyer, threatened against or affecting Buyer that has or would reasonably be expected to

have a material adverse effect on Buyer's ability to perform this Agreement or any aspect of the transactions contemplated hereby.

6.5 Brokers. Buyer has not engaged any broker, investment banker, financial advisor or other similar person entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Buyer.

6.6 Availability of Funds. Buyer has the ability to obtain funds in cash in amounts equal to the Purchase Price by means of credit facilities or otherwise and will at the Closing have immediately available funds in cash to satisfy the payment of the Purchase Price in accordance with Section 3.1.

7. CONDITIONS PRECEDENT TO OBLIGATIONS OF BUYER

The obligations of Buyer hereunder are subject to the satisfaction, fulfillment or performance on or prior to the Closing Date of the following conditions unless waived in writing by Buyer:

7.1 Seller's Deliverables. Seller shall have delivered to Buyer the agreements, documents and other items described in Section 4.2(a)-(h), the due execution of each of which shall be reasonably satisfactory to Buyer.

7.2 Compliance with Agreement. Each and all of the terms, covenants, agreements and conditions of this Agreement to be complied with or performed by Seller on or before the Closing Date pursuant to the terms hereof shall have been duly complied with and performed in all material respects.

7.3 Representations and Warranties. Each of the representations and warranties by Seller set forth in Article 5 hereof shall be true and correct in all material respects on the Closing Date.

7.4 Action/Proceeding. No action or proceeding before a court or any other Governmental Authority shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated, and no Governmental Authority shall have taken any other action or made any request of Buyer or Seller as a result of which Buyer reasonably and in good faith deems it inadvisable to proceed with the transactions hereunder.

7.5 Confirmations. Buyer shall have received (a) confirmation in the form of a certificate from a duly authorized officer of Seller that the Facility's certification for reimbursement by Medicare is in full force and effect on the date thereof, (b) confirmation in the form of a license from ACHA that the Facility will be, immediately after the Effective Time, licensed by the State of Florida as a 72-bed Class 3 Hospital and confirmation in the form of a Class II Institutional Pharmacy License from the Florida Department of Health, and (c) consents substantially in the form of **Exhibit 7.5** to the assignment of the Material Assumed Contracts marked with an asterisk on **Schedule 5.6** from the counterparties thereto.

7.6 Absence of Certain Changes. There shall be no material adverse change in the business, operations, financial condition, accounting treatments, methods or policies for the recording of expenses and allowances related to bad debts, policy adjustments, charity discounts, or Medicare or TRICARE accounts receivable, or personnel of Seller with respect to the Business from the date hereof to the Closing Date.

7.8 Releases. All Encumbrances currently encumbering the Assets, other than Permitted Encumbrances, shall have been duly released by the secured parties and other lien holders, and UCC-3

releases or termination statements and other lien discharging documents shall have been properly recorded or the recording thereof shall have been duly arranged.

7.9 Closing Documents. Seller shall have executed and delivered to Buyer all other documents, agreements and certificates required to be executed or delivered by each of them pursuant to any term or provision of this Agreement.

8. CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER

The obligations of Seller hereunder are, at the option of Seller, subject to the satisfaction, on or prior to the Closing Date, of the following conditions unless waived in writing by Seller:

8.1 Buyer's Deliverables. Buyer shall have delivered to Seller the agreements, documents and other items described in Section 4.3(a)-(h), the due execution of each of which shall be reasonably satisfactory to Seller.

8.2 Compliance with Agreement. Each and all of the terms, covenants, agreements and conditions of this Agreement to be complied with or performed by Buyer on or before the Closing Date pursuant to the terms hereof shall have been duly complied with and performed in all material respects.

8.3 Action/Proceeding. No action or proceeding before a court or any other Governmental Authority shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated, and no Governmental Authority shall have taken any other action or made any request of Buyer or Seller as a result of which Seller reasonably and in good faith deems it inadvisable to proceed with the transactions hereunder.

8.4 Representations and Warranties. Buyer's representations and warranties set forth in Article 6 hereof shall be true and correct in all material respects on the Closing Date.

8.5 Purchase Price/Closing Documents. Buyer shall have tendered the Purchase Price to Seller and shall have executed and delivered to Seller all other documents, agreements and certificates required to be executed or delivered by Buyer pursuant to any term or provision of this Agreement.

9. ADDITIONAL AGREEMENTS AND COVENANTS

9.1 Post-Closing Access to Information. For a period of five years after Closing, the parties will make available to one another upon written request such documents and information as may be available relating to the Assets, the Business, the Facility, the Assumed Contracts and the Assumed Liabilities for periods prior and subsequent to Closing to the extent reasonably necessary to facilitate concluding the transactions herein contemplated, audits, compliance with governmental requirements and regulations and the prosecution or defense of claims.

9.2 Employee Matters.

(a) Prior to Closing, Buyer shall offer employment as of the Effective Time to substantially all active employees of Seller listed on **Schedule 5.27(b)** at wages no less favorable than those currently enjoyed by such employees and at benefit levels equivalent to those provided to similarly-situated employees of Buyer and shall not terminate 50 or more of those employees who accept such offers until at least 90 days after the Effective Time; subject, however, to the pre-employment screening requirements of Buyer. Buyer shall provide such hired employees with the same customary employee benefits as Buyer provides its existing employees. The terms of all such hired employees' employment

with Buyer shall (i) be in accordance with Buyer's usual and customary practices for its own employees and (ii) include recognition of the existing seniority of all such Employees for employee benefits purposes. Buyer shall not be required to hire any member of senior management of the Facility. No obligations of Seller to or with respect to any of its employees, including, but not limited to, obligations under employment contracts, Benefit Plans, collective bargaining agreements, and applicable laws (including, except as provided in Section 3.2 of this Agreement, liability for payroll Taxes and other proper deductions and withholdings) are being assumed by Buyer, and except as may be specifically required by applicable law, Buyer shall not be obligated to continue any employment relationship with any employee for any specific period of time.

(b) Buyer shall be solely responsible for, and shall indemnify and hold Seller harmless from, any and all liability arising directly or indirectly under the WARN Act, as a result of the transactions contemplated by this Agreement. Seller acknowledges and agrees that Buyer does not assume or agree to discharge any liability under COBRA with respect to any current or former employees of Seller. Seller agrees that it will not take any voluntary action, including the termination of its Benefit Plans, the effect of which would be, or might reasonably be expected to be, the imposition upon Buyer of COBRA liability for current or former employees of Seller not hired by Buyer. Additionally, Seller shall retain any and all liabilities under Section 4980B of the Code and Sections 601 through 608 of ERISA with respect to all current and former employees of the Business. Seller shall indemnify, defend, and hold harmless Buyer from and against any and all liabilities, damages, costs, and expenses with respect to any liability assessed upon or incurred by Buyer that is the responsibility of Seller under this Section 9.2.

9.3 Seller's Benefit Plans. Notwithstanding anything herein to the contrary, as of the Effective Time and at its expense or the expense of the applicable Benefit Plan, Seller hereby covenants and agrees to, with respect to all employees of Seller listed on **Schedule 5.27(b)**, (i) terminate the active participation of such employees from all Benefit Plans that are intended to be qualified under Section 401(a) of the Code; (ii) to the extent permitted by applicable law, take such actions as are necessary, or cause applicable employee retirement plans to take such actions as are necessary, to accelerate the vesting of all such employees under such plans to become effective on or before the Effective Time and permit appropriate distributions to such employees. As of the Effective Time, Seller and the Benefit Plans shall remain responsible for benefits under the Benefit Plans, and Buyer shall not become responsible for maintaining the Benefit Plans.

9.4 Notices and Consents. Seller and Buyer shall cooperate and use their respective commercially reasonable efforts to give or make the appropriate notices to or filings with any applicable Governmental Authority required for the consummation of the transactions herein contemplated and for the Facility, as owned by Buyer, to be appropriately licensed as a Class 3 Hospital and certified for Medicare participation. Seller and Buyer shall use their commercially reasonable efforts and cooperate to obtain any required third-party consents; provided, however, that neither Seller nor Buyer shall have any liability for any failure to obtain any required third party consents. Except as otherwise expressly provided herein, with respect to any third party consents required in connection with the assignment of the Assumed Contracts that are not obtained prior to the Closing, Buyer and Seller agree that, following the Closing, notwithstanding the failure to obtain any such consents, all benefits derived from such Assumed Contracts and all liabilities arising out of such Assumed Contracts, in each case following the Closing, shall inure to and be the responsibility of Buyer. Buyer shall give any required notices to, make any required filings with, and use its commercially reasonable efforts to obtain the required Governmental Authorizations; provided, however, that Seller shall not have any liability for any failure to obtain any required Governmental Authorizations. Seller will endeavor to reasonably assure that the information to be provided by the Seller and the Facility to Buyer for inclusion in Buyer's CMS 855 application, including the attachments and exhibits thereto, will be true and correct in all material respects and will not omit any material fact or statement. Each party shall use reasonable commercial efforts to promptly

advise the other party of the status and progress of such party in obtaining any consents or approvals of third parties or Governmental Authorities which are conditions to the consummation of the transactions contemplated by this Agreement.

9.5 Notice of Developments and Consents. Each party hereto shall give prompt written notice to the other party of any material adverse development that, were it to have been known at or before the date of this Agreement, would constitute a breach of any of its own representations or warranties in Article 5 or Article 6. No disclosure by any party under this Section 9.5 shall be deemed to amend or to supplement the Schedules to this Agreement or to prevent or cure any misrepresentation, breach of warranty, breach of covenant, or any failure to satisfy a closing condition.

9.6 Affirmative Covenants of Seller. From the date hereof to the Closing Date, except as expressly permitted or required by this Agreement or as otherwise consented to by Buyer in writing, Seller will:

(a) carry on the Business in, and only in, the ordinary course of business consistent with past practice, and use all commercially reasonable efforts to preserve intact the Business, maintain its properties in all material respects in the same operating condition and repair as they exist as of the date of this Agreement, keep available the services of its present officers and significant employees and preserve its relationship with customers, suppliers and others having business dealings with it, such that there shall be no Material Adverse Effect after the date of this Agreement;

(b) pay accounts payable and other obligations of Seller or the Business when they become due and payable in Seller's ordinary course of business consistent with past practice;

(c) perform in all material respects all of its obligations under all Contracts and other agreements and instruments relating to or affecting the Business or the Assets, and comply in all material respects with all laws, rules and regulations affecting the Business or the Assets as necessary so as not to cause Seller to be in breach of its representations and warranties under this Agreement;

(d) keep in force all license, permits and approvals necessary to the operation of the business as now conducted and consistent with past practice; and

(e) maintain in effect adequate casualty, public liability, professional malpractice and workers' compensation insurance coverage.

9.7 Negative Covenants of Seller. From the date hereof to the Closing Date, except as expressly permitted or required by this Agreement or as otherwise consented to by Buyer in writing, Seller will not:

(a) except as may relate to trade payables of Seller or the Business incurred in the ordinary course of business and the renewal of any malpractice insurance coverage of Seller, enter into, renew, amend, breach or terminate any contract or agreement to which it is a party other than in the ordinary course of business and consistent with past practices;

(b) impose or suffer the imposition on any Asset of any lien or permit any such lien to exist, other than Permitted Encumbrances;

(c) sell or dispose of any Assets, whether real or personal, tangible or intangible, except in the ordinary course of business and consistent with past practices;

(d) engage in any transaction other than in the ordinary course of business and consistent with past practices;

(e) other than in the ordinary course of business consistent with past practices, grant (or commit to grant) any increase in the compensation (including incentive or bonus compensation) of any employee or service provider of Seller or institute, adopt or amend (or commit to institute, adopt or amend) any compensation or Benefit Plan, policy, program or arrangement or collective bargaining agreement applicable to any such employee or service provider; and

(f) intentionally not take any action or omit to take any action, which action or omission would result in a breach of any of the representations and warranties set forth in Article 5 of this Agreement.

9.8 Noncompete Agreement.

(a) In consideration for the benefits Seller and its Affiliates will receive in connection with the transactions contemplated herein, which benefits Seller hereby acknowledges, and as further consideration for, and as a condition to, the transactions contemplated hereby, and in order that Buyer and its Affiliates shall receive and be able to maintain the benefit of the goodwill, trade secrets and confidential information which Seller enjoys and has enjoyed in connection with its operation of the Business, and recognizing that the covenants contained herein are not severable from such goodwill and are granted to Buyer in order to protect the same, and in order to otherwise protect the legitimate business interests of Buyer, Seller covenants and agrees that for a period commencing as of the Closing Date and continuing thereafter for a period of three years, Seller will not anywhere within the Restricted Territory, directly or indirectly (i) operate, develop or own any interest (other than the ownership of less than 5% of the equity securities of a publicly traded company) in any business which has activities relating to ownership of, the management or operation of, or consultation regarding a behavioral health hospital, residential treatment center, therapeutic group home, or other facility providing behavioral health inpatient, outpatient or residential treatment services or other services that in any event involve behavioral health or chemical and drug dependency-related consulting and healthcare services (a "Competing Business"); (ii) consult with any business which owns, manages or operates a Competing Business; (iii) interfere with, solicit, disrupt or attempt to disrupt any past, present or prospective relationship, contractual or otherwise, between Buyer or its Affiliates, on one hand, and any patient, supplier or employee of Buyer or its Affiliates (except as otherwise provided by applicable law), on the other hand; or (iv) solicit any past, present or prospective employee (including all officers and managers, all regional managers and all general managers) of Buyer or its Affiliates to leave his or her employment with Buyer or its Affiliates ((i)-(iv) above being collectively the "Prohibited Activities"), such Restricted Territory and Prohibited Activities substantially covering the geography and activities that comprise the market in which the Business conducts its operations and affairs. Notwithstanding the foregoing or anything else in this Agreement to the contrary, nothing in this Agreement shall prevent or prohibit Seller from owning, leasing, developing, managing, operating, consulting with, providing services to or otherwise directly or indirectly engaging in the Competing Businesses or in the Prohibited Activities within the Restricted Territory during said three-year period, on behalf of, or under a contract, subcontract, lease or other arrangement with (1) a Governmental Authority, except CMS for acute in-patient psychiatric services at a private free-standing psychiatric facility, or (2) any other entity who is either engaged on behalf of a Governmental Authority or has contracted or subcontracted with a party whereby the engagement is ultimately derived from a Governmental Authority (including, without limitation, Seller's facilities at South Florida State Hospital and South Florida Evaluation Treatment Center).

(b) Seller hereby acknowledges that its agreement not to engage in the activities prohibited herein for the period of time provided herein are manifestly reasonable upon their face and that they are reasonable as to time and no greater than is required for the reasonable protection of Buyer in light of the substantial harm that Buyer will suffer should Seller breach any of the provisions of this Section 9.8. Seller further agrees that the nature, kind and character of the activities prohibited herein are reasonably necessary to protect the interests of Buyer.

(c) If a judicial determination is made that any of the provisions of this Section 9.8 constitute an unreasonable or otherwise unenforceable restriction against Seller, the provisions of this Section 9.8 shall be rendered void only to the extent that such judicial determination finds such provisions to be unreasonable or otherwise unenforceable. Any judicial authority construing this Section 9.8 shall be empowered to sever any portion of the Restricted Territory or Prohibited Activities from the coverage of this agreement and to apply the provisions of this Section 9.8 to the remaining portion of the territory or the remaining activities not so severed by such judicial authority.

(d) Seller agrees that any violation of this Section 9.8 by Seller will result in irreparable injury to Buyer, that a remedy at law for any breach or threatened breach of the covenants contained herein will be inadequate and that in the event of any such breach, Buyer, in addition to any other remedies or damages available to Buyer at law or in equity, shall be entitled to temporary injunctive relief before trial from any court of competent jurisdiction as a matter of course and to permanent injunctive relief without the necessity of proving actual damages or securing or posting any bond. In the event of any breach of this Section 9.8 by Seller and in addition to an injunction, Buyer shall also be entitled to recover the amount of fees and other compensation earned by Seller as a result of any such breach, plus any other damages a court of competent jurisdiction may find appropriate. The time period set forth in this Section 9.8 shall be tolled and suspended for a period of time equal to the aggregate quantity of time during which Seller violates such prohibitions in any respect.

9.9 No-Shop Agreement. In consideration of the mutual covenants set forth herein and Buyer’s willingness to pursue this transaction, neither Seller nor any of Seller’s officers, directors or Affiliates shall, except as expressly contemplated herein, directly or indirectly, without Buyer’s prior written consent, initiate or hold discussions with, or provide any information to, any corporation, partnership, Person or other entity (other than Buyer) concerning a purchase, affiliation, joint venture or lease of all or a material part of or an investment in the Facility or Business, directly or indirectly, whether by sale of capital stock, merger, consolidation, sale of assets, lease, affiliation, joint venture or other transaction. Seller will within 2 days notify Buyer by telephone and thereafter confirm in writing if any such discussions or negotiations are sought to be initiated with, or any such proposal or possible proposal is received by Seller or its officers, directors, advisors or Affiliates and shall indicate in reasonable detail the identity of the person and the terms and conditions of such proposal, inquiry or contact. In the event Seller or its officers, directors or Affiliates receives an unsolicited offer relating to a type of transaction described above, Seller shall promptly inform the person making such unsolicited offer of the existence of this provision, and Seller shall decline to entertain such offer.

9.10 Cost Reports. Seller, at its expense, shall prepare and timely file all termination and other cost reports required or permitted by law to filed under the Medicare or other third party payor programs for all periods ending at or prior to the Effective Time, or as a result of the consummation of the transaction described herein.

9.11 Misdirected Payments. Seller and Buyer covenant and agree to remit, with reasonable promptness, to the other any payments received, which payments are on or in respect of accounts or notes receivable owned by, or otherwise payable to, the other. In addition, and without limitation, in the event of a determination by any Governmental Authority or third party payor that payments to Seller or the Facility

resulted in an overpayment or other determination that funds previously paid by any program or plan to Seller or the Facility must be repaid, Seller shall be responsible for repayment of said monies (or defense of such actions) if such overpayment or other repayment determination was for services rendered prior to the Closing and Buyer shall be responsible for such repayment of said monies (or defense of such actions) if such overpayment or other repayment determination was for services rendered after the Closing. In the event that, following the Closing, Buyer suffers any offsets against reimbursement against any third party payor or reimbursement programs due to Buyer, relating to amounts owed under any such programs by Seller or the Facility, Seller shall immediately upon written demand from Buyer pay to Buyer the amounts so billed or offset. These obligations shall be in addition to any other remedies available herein.

9.12 Use of Controlled Substance Permit. To the extent permitted by applicable law, the Buyer shall have the right, for a period not to exceed one hundred and twenty (120) days following the Closing, to operate under the licenses and registrations of Seller and the Facility relating to controlled substances ("Controlled Substances Licenses"), until the Seller is able to obtain its own Controlled Substances Licenses. In furtherance thereof, Seller and the Facility shall execute and deliver to Buyer at or prior to Closing limited powers of attorney to facilitate such use. Seller does not, and shall not, make any representation regarding the lawfulness or validity of any such limited power of attorney, and Buyer shall indemnify and hold Seller harmless from and against Buyer's use of any such limited power of attorney or use of Seller's Controlled Substances Licenses.

10. INDEMNIFICATION

10.1 Indemnification by Seller and GEO. Subject to and to the extent provided in this Article 10, Seller and GEO shall indemnify and hold harmless Buyer and its officers, directors, stockholders, employees, agents and Affiliates (the "Buyer Indemnified Parties") from and against any and all damages, claims, losses, costs, liabilities, expenses or obligations (including, without limitation, reasonable attorneys' fees and associated expenses) (collectively, "Losses") incurred or suffered by any of the Buyer Indemnified Parties as a result of, arising from or relating to:

(a) any breach of, misrepresentation associated with or failure to perform fully any covenant, representation, warranty or agreement made in this Agreement on the part of Seller;

(b) the Business and/or the Facility (including, but not limited to, the ownership and operation thereof), prior to the Effective Time (including, but not limited to, the Excluded Liabilities, but excluding the Assumed Liabilities);

(c) the acts or omissions of Seller and its officers, directors, Affiliates, employees, agents or independent contractors occurring prior to the Effective Time;

(d) any fraud, willful misconduct or criminal acts of Seller (including any Affiliate, officer, employee or agent thereof); and

(e) any and all liabilities or obligations of any nature whatsoever of or relating to claims for (i) Taxes of Seller, or (ii) Taxes assessed against Buyer, the Business or the Assets that arise out of or are related to Seller's operation or conduct of the Business prior to and including the Closing Date.

10.2 Indemnification by Buyer and PSI. Subject to and to the extent provided in this Article 10, Buyer and PSI shall indemnify and hold harmless Seller and its respective officers, directors, shareholders, employees, agents and Affiliates (the "Seller Indemnified Parties") from and against any Losses incurred or suffered by any of the Seller Indemnified Parties as a result of or arising from:

(a) any breach of, misrepresentation associated with or failure to perform fully any covenant, representation, warranty or agreement made in this Agreement on the part of Buyer;

(b) any fraud, willful misconduct or criminal act of Buyer (including any Affiliate, officer, employee or agent thereof);

(c) Taxes (i) assessed against Seller, the Business or the Assets that arise out of or are related to Buyer's operation or conduct of the Business from and after the Closing Date, or (ii) incurred in connection with the sale of the Assets and the consummation of the transactions contemplated by this Agreement and which are assessed by a Governmental Authority against Seller or an Affiliate of Seller, but which under the terms of this Agreement are the responsibility of Buyer;

(d) the acts or omissions of Buyer and its officers, directors, Affiliates, employees, agents or independent contractors occurring after the Effective Time;

(e) the Business and/or the Facility (including, but not limited to, the ownership and operation thereof) on or after the Effective Time (including, but not limited to, the Assumed Liabilities, but excluding the Excluded Liabilities); and

(f) the failure of any third party to consent to the assignment of any Assumed Contract.

10.3 Survival/Indemnity Period. Except for the representations and warranties of Seller set forth in 5.15, 5.16, 5.19, 5.20, 5.23, 5.25, 5.26, 5.28 and 5.29 hereof (which shall survive for the applicable statute of limitations) and except for the representations and warranties of Seller set forth in 5.7(a), 5.8 (which shall survive for four years after the Effective Time), the representations and warranties of Seller set forth herein shall survive Closing for a period of 18 months after the Closing Date and any claim by Buyer against Seller in respect of such representations and warranties must be brought, if at all, during such 18 month period. The representations and warranties of Buyer set forth herein shall survive Closing for a period of 18 months after the Closing Date and any claim by Seller in respect of such representations and warranties must be brought, if at all, during such 18 month period.

10.4 Limitations. Notwithstanding Sections 10.1 and 10.2 hereof, the rights of the parties to be indemnified and held harmless under this Agreement shall be limited as follows: (a) No claim for indemnity by a Buyer Indemnified Party pursuant to Section 10.1(a) hereof shall be made unless and until, and only to the extent that, the aggregate dollar amount of all such claims shall have exceeded $110,000, and after such amount has been exceeded the Buyer Indemnified Party shall be indemnified for all such Losses back to the first dollar; (b) No claim for indemnity by a Seller Indemnified Party pursuant to Section 10.2(a) hereof shall be made unless and until the aggregate dollar amount of all such claims shall have exceeded $110,000, and after such amount has been exceeded the Seller Indemnified Party shall be indemnified for all such Losses back to the first dollar; (c) The maximum aggregate liability of any party for indemnification claims made pursuant to Section 10.1(a) or Section 10.2(a) hereof shall be limited to the Purchase Price. No claim pursuant to Section 10.1(a) and Section 10.2(a) may be asserted under this Agreement unless either (i) the party making the claim gives the party against whom the claim is to be made notice of such claim before the end of the applicable survival period or (ii) the party against whom the claim would be made has actual knowledge of the facts which are the basis of the claim. The liability of a party with respect to any claim pursuant to Section 10.1 or Section 10.2 hereof shall be offset dollar for dollar by (i) any insurance proceeds received by the Indemnitee after the Effective Time in respect of the Losses involved, and (ii) any other recovery made by the Indemnitee from any third party on account of the Losses involved. Buyer agrees that before any indemnity obligations can be sought

against Seller or GEO for a breach of the representations and warranties set forth in Section 5.7(a) or Section 5.8 of this Agreement Buyer must make a claim under its title insurance policy and only pursue Seller or GEO for damages in excess of the amounts recovered under such title insurance policy. Nothwithstanding the foregoing sentence, the survival period for indemnity for a breach of Section 5.7(a) or Section 5.8 shall be tolled while Buyer pursues claims under its title insurance policy.

10.5 Notice and Procedure.

(a) Any person seeking indemnity under any provision of this Agreement (the "Indemnitee") shall promptly notify the party from whom indemnity is sought (the "Indemnitor") as to (i) the nature of any claims, damages, losses or liabilities asserted by or against the Indemnitee for which the Indemnitee intends to seek indemnity hereunder ("Claims") and (ii) the commencement of any suit or proceeding brought to enforce any Claims. The Indemnitor shall assume the defense of any such suit or other proceeding and the Indemnitee shall cooperate fully, at the Indemnitor's sole cost and expense, and shall be entitled reasonably to consult with the Indemnitor with respect to such defense; provided however, that if the defendants in any such action include both the Indemnitor and the Indemnitee and the Indemnitee reasonably shall have concluded that there may be a conflict between the positions of the Indemnitor and the Indemnitee in conducting the defense of any such action or that there may be legal defenses available to it that are different from or additional to those available to the Indemnitor, the Indemnitee shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such Indemnitee, in which case the reasonable fees and expenses of such counsel shall be at the expense of the Indemnitor.

(b) The Indemnitee, at the sole cost and expense of the Indemnitor, shall assist and cooperate with the Indemnitor in the conduct of litigation, the making of settlements and the enforcement of any right of contribution to which the Indemnitee may be entitled from any person or entity in connection with the subject matter of any litigation subject to indemnification hereunder. In addition, the Indemnitee shall, upon request by the Indemnitor or counsel selected by the Indemnitor and at the sole cost and expense of the Indemnitor, attend hearings and trials, assist in the securing and giving of evidence, assist in obtaining the presence or cooperation of witnesses, make available its own personnel, and effect settlements; and shall do whatever else is reasonably necessary and appropriate in connection with such litigation. The Indemnitee shall not make any demand upon the Indemnitor or counsel for the Indemnitor in connection with any litigation subject to indemnification hereunder, except a general demand for indemnification as provided hereunder. The Indemnitee shall not, except at its own cost, voluntarily make any payment, assume any obligation, incur any expense, or settle or compromise any claim without the express approval of the Indemnitor. Notwithstanding the foregoing, the Indemnitee shall have the right to join in the defense of any litigation or claim at such Indemnitee's own cost and expense, and, if the Indemnitee agrees in writing to be bound by and promptly to pay the full amount of any final judgment from which no further appeal may be taken and if the Indemnitor is reasonably assured of the Indemnitee's ability to satisfy such agreement, then, at the option of the Indemnitee, such Indemnitee may take over the defense of such litigation or claim.

(c) If the Indemnitee shall fail to notify promptly the Indemnitor as to (i) the nature of any Claims or (ii) the commencement of any suit or proceeding brought to enforce any Claims, or if the Indemnitee shall fail to perform its obligations as the Indemnitee hereunder or to cooperate fully with the Indemnitor in the Indemnitor's defense of any suit or proceeding, then the indemnity with respect to the subject matter of such Claim shall continue, but shall be limited to the damages that would have nonetheless resulted absent the Indemnitee's failure to notify the Indemnitor in the time required above

after taking into account such actions as could have been taken by the Indemnitor had it received timely notice from the Indemnitee.

10.6 Right of Set-Off. Upon the agreement of the parties or a final nonappealable decision of a court of competent jurisdiction, any amounts owed among the parties arising from obligations of indemnity pursuant to this Article 10 may be set-off against amounts otherwise owed from one party to the other.

10.7 Disregarding Materiality Exceptions. For purposes of the calculating the amount of Losses to which an Indemnitee is entitled under this Article 10 (but not for purposes of determining whether a representation or warranty has been breached), the terms "material," "materiality," "Material Adverse Effect" and other qualifiers, modifiers or limitations (including monetary values and qualifiers as to "knowledge") shall be disregarded.

10.8 Remedies. Except as provided in Section 11.3, the indemnification rights provided in Article X shall be the sole and exclusive remedy of the parties hereto arising out of or relating to this Agreement, and the transactions contemplated hereby; provided, however, that the foregoing shall not prohibit either party from seeking specific performance with respect to its rights under this Agreement.

10.9 No Consequential Damages. In no event shall any party hereto be liable hereunder for any special, incidental, punitive, exemplary or consequential damages (including, but not limited to, any claim by Buyer based upon a multiple of earnings with respect to any unaudited financial statements or information provided by Seller).

11. TERMINATION

11.1 Termination Events. This Agreement may be terminated at any time prior to Closing upon prior written notice given by (or on behalf of) the party electing to terminate this Agreement to the other party:

(a) by mutual agreement of the Buyer and the Seller (expressed in writing);

(b) by either Buyer or Seller if any permanent injunction, court order or other order, decree or ruling of any court or other Governmental Authority of competent jurisdiction or new law or change to existing law permanently restraining, enjoining or otherwise preventing the consummation of the transactions contemplated hereby shall have been issued and become final and non-appealable;

(c) by either the Buyer or the Seller if the Closing shall not have occurred by January 1, 2006; provided, however, that the right to terminate this Agreement under this Section 11.1(c) shall not be available to (i) any party whose breach of its representations and warranties in this Agreement or whose failure to perform any of its covenants and agreements under this Agreement shall have been a contributing cause of, or resulted in, the failure of the Closing to occur on or before such date, or (ii) any party whose failure to fulfill any material obligation under this Agreement or whose failure to use all good faith efforts to promptly cause the satisfaction of the conditions under Article 7 or Article 8, as applicable, has been the cause of, or resulted in, the failure of the Closing to occur by such date; provided, further, if the Closing shall not have occurred by January 1, 2006 solely as a result of the parties' failure to obtain or receive the items set forth on **Schedule 11.1(c)**, this Agreement shall not be terminable pursuant to this Section 11.1 until February 28, 2006;

(d) by Buyer, if a Material Adverse Effect shall have occurred since the Balance Sheet Date.

(e) by the Buyer upon a breach in any material respect of any covenant or agreement on the part of the Seller set forth in this Agreement, or if any representation or warranty of the Seller shall have been materially breached or shall have been or become materially untrue, in any such case that the conditions set forth in Article 7 would be incapable of being satisfied by January 1, 2006 (or any later date as such date may be otherwise extended by mutual agreement of the parties);

(f) by Buyer pursuant to Section 2.3; or

(g) by the Seller upon a breach in any material respect of any covenant or agreement on the part of the Buyer set forth in this Agreement, or if any representation or warranty of the Buyer shall have been materially breached or shall have been or become materially untrue in any such case such that the conditions set forth in Article 8 would be incapable of being satisfied by January 1, 2006 (or any later date as such date may be otherwise extended by mutual agreement of the parties).

11.2 Effect of Termination. In the event of termination of this Agreement pursuant to Section 11.1, all obligations of the parties hereto shall terminate other than the obligations of a party set forth in Section 11.3 and 12.2 hereof. Termination of this Agreement by a party shall not preclude the terminating party from seeking remedies related to the breach of a representation, warranty or covenant contained in this Agreement.

11.3 Remedies in the Event of Termination. If this Agreement is terminated by Buyer or Seller pursuant to Section 11.1(e) or Section 11.1(g), respectively, the terminating party shall have the right, in its sole discretion, to elect to either (i) collect a termination fee in the amount of $1,000,000 from the breaching party payable by wire transfer within two (2) business days after the date of such termination, or (ii) in the event the terminating party does not pursue the remedy in clause (i), subject to Section 10.9, pursue any available remedy at law or in equity against the breaching party.

12. GENERAL

12.1 Notice. Any notice, demand or communication required, permitted, or desired to be given hereunder shall be deemed effectively given when personally delivered, when received by telegraphic or other electronic means (including telecopy and telex) or overnight courier, or five (5) days after being deposited in the United States mail, with postage prepaid thereon, certified or registered mail, return receipt requested, addressed as follows:

Seller:	GEO CARE, INC. One Park Place, Suite 700 621 Northwest 53rd Street Boca Raton, Florida 33487 Attention: John J. Bulfin, Esq
With a copy to:	Akerman Senterfitt One Southeast Third Avenue Suite 2800 Miami, Florida 33131 Attention: Jose Gordo, Esq Fax: (305) 374-5095

Buyer:	Atlantic Shores Hospital, LLC c/o Psychiatric Solutions, Inc. 840 Crescent Centre Drive, Suite 460 Franklin, Tennessee 37067 Attn: Christopher L. Howard, Esq.
With a copy to:	Waller Lansden Dortch & Davis, PLLC 511 Union Street, Suite 2700 Post Office Box 198966 Nashville, Tennessee 37219 Attn: E. Brent Hill, Esq. Fax No.: (615) 244-6804

or to such other address, and to the attention of such other person or officer as any party may designate in writing.

12.2 Confidentiality; Public Announcement.

(a) It is understood by the parties hereto that the information, documents and instruments delivered to Seller by Buyer or any Affiliate of Buyer or their agents and the information, documents and instruments delivered to Buyer or any Affiliate of Buyer or their agents including, without limitation, this Agreement and all documents delivered hereunder, are of a confidential and proprietary nature ("Confidential Information"). Each of the parties hereto agrees that prior to and subsequent to Closing it will maintain the confidentiality of all such Confidential Information delivered to it by each of the other parties hereto or their agents in connection with the negotiation of this Agreement or in compliance with the terms, conditions and covenants hereof and only disclose such Confidential Information, documents and instruments to its duly authorized officers, directors, representatives and agents unless (i) compelled to disclose by judicial or administrative process (including without limitation in connection with obtaining the necessary approvals of this Agreement and the transactions contemplated hereby) or by other requirements of law or (ii) disclosed in an action or proceeding brought by a party hereto in pursuit of its rights or in the exercise of its remedies hereunder; provided, however, that the parties hereto shall not disclose any Confidential Information not required to be disclosed as part of such permitted disclosure. Each of the parties hereto recognizes that any breach of this Section would result in irreparable harm to the other parties to this Agreement and their Affiliates and that therefore either Buyer or Seller shall be entitled to an injunction to prohibit any such breach or anticipated breach, without the necessity of posting a bond, cash or otherwise, in addition to all of their other legal and equitable remedies.

(b) Prior to the Closing Date, either party may issue a press release or other public announcement concerning this Agreement or the transactions contemplated by this Agreement without the prior approval of the other party, provided, however, that the parties shall give each other a reasonable opportunity to review such communications prior to their dissemination. Notwithstanding the foregoing, either party may issue a press release or other public announcement concerning the transactions contemplated by this Agreement to the extent required by law, or to comply with accounting or other disclosure obligations.

12.3 Cost of Transaction. Except as otherwise provided herein: (i) Buyer shall pay all costs and premiums associated with the title policy described in Section 2.3 hereof, (ii) Buyer shall pay the fees, expenses and disbursements of Buyer and its agents, representatives, accountants and counsel incurred in connection with Buyer's due diligence investigations and the subject matter hereof and any

amendments hereto, (iii) Buyer shall be responsible for paying all transfer, documentary, sales, use, stamp, registration and other such Taxes, and all conveyance fees, recording charges and other fees and charges (including any penalties and interest) incurred in connection with the sale of the Assets and the consummation of the transactions contemplated by this Agreement, (iv) Seller shall pay the costs of the Real Property survey, and (v) Seller pay the fees, expenses and disbursements of Seller and its agents, representatives, accountants and counsel incurred in connection with the subject matter hereof and any amendments hereto.

12.4 **Consents, Approvals and Discretion**. Except as herein expressly provided to the contrary, whenever this Agreement requires any consent or approval to be given by either party or either party must or may exercise discretion, the parties agree that such consent or approval shall not be unreasonably withheld or delayed and such discretion shall be reasonably exercised.

12.5 **Choice of Law; Waiver of Jury Trial**. The parties agree that this Agreement shall be governed by and interpreted, construed and enforced in accordance with the laws of the State of Florida, excluding any conflict-of-laws rule or principle that might refer the governance or the interpretation, construction or enforcement of this Agreement to the laws of another jurisdiction. **BUYER AND SELLER HEREBY WAIVE THE RIGHT TO A TRIAL BY JURY, FROM WHATEVER SOURCE ARISING, IN CONNECTION WITH ANY PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.**

12.6 **Benefit/Assignment**. Subject to provisions herein to the contrary, this Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective legal representatives, successors and assigns and no others; provided, however, that no party may assign this Agreement without the prior written consent of the other party, which consent shall not be unreasonably withheld. The foregoing notwithstanding, Buyer may, without the prior written consent of Seller, assign its rights and delegate its duties hereunder to any entity that is controlled by Buyer; provided, however, that Buyer shall not be relieved from any liability or obligation hereunder as a result of such assignment.

12.7 **Waiver of Breach**. The waiver by either party of a breach or violation of any provision of this Agreement shall not operate as, or be construed to constitute, a waiver of any subsequent breach of the same or another provision hereof.

12.8 **Severability**. If any provision of this Agreement is held to be illegal, invalid or unenforceable under any present or future law, and if the rights or obligations of Buyer or Seller under this Agreement will not be materially and adversely affected thereby, (a) such provision will be fully severable; (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof; (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom; and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this agreement a legal, valid and enforceable provision as similar in terms (including duration, area or amount) to such illegal, invalid or unenforceable provision as may be possible.

12.9 **Entire Agreement/Amendment**. This Agreement supersedes all previous agreements, contracts and understandings and constitutes the entire agreement of whatsoever kind or nature existing between or among the parties in respect of the within subject matter and no party shall be entitled to benefits other than those specified herein. As among the parties, no oral statements or prior written material not specifically incorporated herein shall be of any force and effect. Each party hereto acknowledges that in entering into and executing this Agreement, such party relied solely upon the representations, warranties and agreements contained in this Agreement and no others. All prior

representations, warranties or agreements, whether written or oral, not expressly incorporated herein are hereby superseded and no amendments, modifications or changes in or to this Agreement shall be effective unless and until made in writing and signed by all parties hereto. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

12.10 Further Assurances. To the extent not already provided herein, on and after the Closing Date, Buyer and Seller will take all appropriate action and execute all documents, instruments or conveyances of any kind which may be reasonably necessary or advisable to carry out any of the provisions hereof, including putting Buyer in possession and operation control of the Business and the Assets or to convey title to the Assets to Buyer.

12.11 No Third Party Beneficiaries. The terms and provisions of this Agreement are intended solely for the benefit of the parties hereto and their respective successors or permitted assigns, and this Agreement does not, and shall not be construed to, confer third-party beneficiary rights upon any other Person.

12.12 Gender and Number. Whenever the context of this Agreement requires, the gender of all words herein shall include the masculine, feminine and neuter, and the number of all words herein shall include the singular and plural.

12.13 Divisions and Headings. The division of this Agreement into sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

12.14 No Inferences. Inasmuch as this Agreement is the result of negotiations between sophisticated parties of equal bargaining power represented by counsel, no inference in favor of, or against, either party shall be drawn from the fact that any portion of this Agreement has been drafted by or on behalf of such party.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in multiple originals by their authorized officers, all as of the date and year first above written.

SELLER:

GEO CARE, INC.

By: /s/
Its:

BUYER:

ATLANTIC SHORES HOSPITAL, LLC

By: /s/
Its:

Each of GEO and PSI hereby execute this Agreement for the purpose of becoming subject to the covenants, agreements and obligations set forth in Article 10 to this Agreement:

THE GEO GROUP, INC.

By: /s/
Its:

PSYCHIATRIC SOLUTIONS, INC.

By: /s/
Its:

EXHIBIT 21.1

SUBSIDIARIES OF THE GEO GROUP, INC.

WCC Financial, Inc.
WCC/FL/01, Inc.
WCC/FL/02, Inc.
GEO Care, Inc.
WCC Development, Inc.
GEO Design Services, Inc.
GEO International Holdings, Inc.
GEO RE Holdings, LLC
The GEO Group Australasia Pty Limited
Australasian Correctional Investments Limited
Australasian Correction Services Pty Limited
GEO Australasia Pty Limited
The GEO Group Australia Pty Limited
Pacific Rim Employment Pty Limited
Premier Employment Services Limited
Strategic Healthcare Solutions Pty Limited
The GEO Group UK Limited
South African Custodial Holdings, Ltd.
South African Custodial Management (Pty) Limited
GEO NZ Limited
Wackenhut Corrections Corporation N.V.
Miramichi Youth Centre Management, Inc.
Canadian Correctional Management, Inc.
Premier Custodial Development Limited
Wackenhut Corrections Puerto Rico, Inc.
Correctional Services Corporation
FF&E, Inc.
CSC Management De Puerto Rico, Inc.
CSC of Tacoma, LLC

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement (Form S-4 No. 333-107709) of The GEO Group, Inc. in the related Prospectus, the Registration Statement (Form S-3 No. 333-111003) and in the related Prospectus, the Registration Statement (Form S-8 No. 333-79817) pertaining to the 1999 Stock Option Plan, the Registration Statement (Form S-8 No. 333-17265) pertaining to the Employees' 401 (k) and Retirement Plan, the Registration Statement (Form S-8 No. 333-09977) pertaining to the Wackenhut Corrections Corporation Stock Option Plan, and the Registration Statement (Form S-8 No. 333-09981) pertaining to the Nonemployee Director Stock Option Plan of Wackenhut Corrections Corporation of our reports dated March 14, 2006, with respect to the consolidated financial statements and schedule of The GEO Group, Inc., The GEO Group, Inc.'s management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of The GEO Group, Inc. included in this Annual Report (Form 10-K) for the year ended January 1, 2006.

/s/ Ernst & Young LLP

Fort Lauderdale, Florida
March 14, 2006

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George C. Zoley, certify that:

1. I have reviewed this annual report on Form 10-K of The GEO Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/George C. Zoley

George C. Zoley
Chief Executive Officer

Date: March 17, 2006

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John G. O'Rourke, certify that:

1. I have reviewed this annual report on Form 10-K of The GEO Group, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

/s/John G. O'Rourke

John G. O'Rourke
Chief Financial Officer

Date: March 17, 2006

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of The GEO Group, Inc. (the "Company") for the fiscal year ended January 1, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, I George C. Zoley, Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

/s/George C. Zoley

George C. Zoley
Chief Executive Officer

Date: March 17, 2006

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of The GEO Group, Inc. (the "Company") for the fiscal year ended January 1, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, I John G. O'Rourke, Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

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

/s/John G. O'Rourke

John G. O'Rourke
Chief Financial Officer

Date: March 17, 2006