SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934.

Date of Report (Date of Earliest Event Reported): February 27, 2007

THE GEO GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Florida	1-14260	65-0043078
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

621 NW 53rd Street, Suite 700, Boca Raton, Florida	33487
(Address of Principal Executive Offices)	(Zip Code)

(Registrant's Telephone Number, Including Area Code) (561) 893-0101

(Former Name or Former Address, if Changed since Last Report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Section 2 — Financial Information

Item 2.02 Results of Operations and Financial Condition.

On February 27, 2007, The GEO Group, Inc. (“GEO”) issued a press release (the “Press Release”) announcing its financial results for the quarter ended December 31, 2006, a copy of which is incorporated herein by reference and attached hereto as Exhibit 99.1. GEO also held a conference call on February 27, 2007 to discuss its financial results for the quarter, a transcript of which is incorporated herein by reference and attached hereto as Exhibit 99.2.

In the Press Release, GEO provided certain pro forma financial information for the quarter ended December 31, 2006 that was not calculated in accordance with Generally Accepted Accounting Principles (the “Non-GAAP Information”). Generally, for purposes of Regulation G under the Securities Exchange Act of 1934, Non-GAAP Information is any numerical measure of a company’s performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The Press Release presents the financial measure calculated and presented in accordance with GAAP which is most directly comparable to the Non-GAAP Information with a prominence equal to or greater than its presentation of the Non-GAAP Information. The Press Release also contains a reconciliation of the Non-GAAP Information to the financial measure calculated and presented in accordance with GAAP which is most directly comparable to the Non-GAAP Information.

The Press Release includes four non-GAAP measures, Pro Forma Income from Continuing Operations, Adjusted EBITDA, Adjusted EBITDAR and Adjusted Fee Cash Flow that are presented as supplemental disclosures. Pro Forma Income from Continuing Operations is defined as income from continuing operations excluding start-up expenses, deferred financing fees and the other items referenced in the Press Release. Adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization, excluding start-up expenses, deferred financing fees and the other items referenced in the Press Release. Adjusted EBITDAR is defined as Adjusted EBITDA before lease rental expense. In calculating these adjusted financial measures, GEO excludes certain expenses which it believes are unusual or non-recurring in nature, in order to facilitate an understanding of GEO’s operating performance. GEO’s management uses these adjusted financial measures in conjunction with GAAP financial measures to monitor and evaluate its operating performance and to facilitate internal and external comparisons of the historical operating performance of GEO and its business units. Adjusted Free Cash Flow is defined as net cash flows provided by operating activities less purchases of property and equipment. GEO’s management believes that the non-GAAP measure, Adjusted Free Cash Flow provides useful information to GEO’s management and investors regarding cash that GEO’s operating business generates before taking into account certain cash and non-cash items that are non-operational in nature.

GEO’s management believes that these adjusted financial measures are useful to investors to provide them with disclosures of GEO’s operating results on the same basis as that used by GEO’s management. Additionally, GEO’s management believes that these adjusted financial measures provide useful information to investors about the performance of GEO’s overall business because such financial measures eliminate the effects of unusual or non-recurring charges that are not directly attributable to GEO’s underlying operating performance. GEO’s management believes that because it has historically provided similar non-GAAP Financial Information in its earnings releases, continuing to do so provides consistency in its financial reporting and continuity to investors for comparability purposes.

The Non-GAAP Financial Information should be considered in addition to results that are prepared under current accounting standards but should not be considered a substitute for, or superior to, financial information prepared in accordance with GAAP. The Non-GAAP Financial Information may differ from similarly titled measures presented by other companies. The Non-GAAP Financial Information, as well as other information in the Press Release, should be read in conjunction with GEO's financial statements filed with the Securities and Exchange Commission.

The information in this Form 8-K is being furnished and shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information in this Form 8-K shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended.

Section 9 — Financial Statements and Exhibits

Item 9.01 Financial Statements and Exhibits.

(c) Exhibits

99.1 Press Release, dated February 27, 2007, announcing the financial results of The GEO Group, Inc. for the quarter ended December 31, 2006

99.2 Transcript of Conference Call discussing the financial results of The GEO Group, Inc. for the quarter ended December 31, 2006

SIGNATURES

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

THE GEO GROUP, INC.

March 5, 2007	By: /s/ John G. O'Rourke John G. O'Rourke Senior Vice President -- Finance and Chief Financial Officer (Principal Financial Officer and duly authorized signatory)

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated February 27, 2007, announcing the financial results of The GEO Group, Inc. for the quarter ended December 31, 2006
99.2	Transcript of Conference Call discussing the financial results of The GEO Group, Inc. for the quarter ended December 31, 2006

EXHIBIT 99.1

NEWS RELEASE

One Park Place, Suite 700 n 621 Northwest 53rd Street n Boca Raton, Florida 33487 n www.thegeogroupinc.com

CR-07-09

THE GEO GROUP REPORTS FOURTH QUARTER 2006 RESULTS AND INCREASES 2007 GUIDANCE BY $0.15 EPS

- **4Q Income from Continuing Operations Increased to $10.5 Million — $0.52 EPS**
- **4Q Pro-Forma Income from Continuing Operations Increased to $10.7 Million — $0.53 EPS**
- **4Q Revenue Increased to $247.4 Million from $164.9 Million**
- **Increases Pro Forma 2007 Guidance by $0.15 EPS**

Boca Raton, Fla. — February 27, 2007 — The GEO Group (NYSE: GEO) (“GEO”) today reported fourth quarter and full-year 2006 financial results. GEO reported fourth quarter 2006 Income from Continuing Operations of $10.5 million, or $0.52 per share, based on 20.2 million diluted weighted average shares outstanding, compared with a loss of $1.3 million, or $0.09 per share, based on 15.0 million diluted weighted average shares outstanding in the fourth quarter of 2005. GEO reported 2006 Income from Continuing Operations of $30.3 million, or $1.70 per share, based on 17.9 million diluted weighted average shares outstanding, compared with $5.9 million, or $0.39 per share, based on 15.0 million diluted weighted average shares outstanding for 2005.

Fourth quarter 2006 pro forma income from continuing operations increased 197% to $10.7 million, or $0.53 per share from $3.6 million, or $0.24 per share, in the fourth quarter of 2005. Pro forma income from continuing operations for 2006 increased 166% to $32.4 million, or $1.81 per share, from $12.2 million, or $0.81 per share, for 2005. Please see the section of this press release below entitled “Important Information on GEO’s Non-GAAP Financial Measures” for information on how GEO defines Pro Forma Income from Continuing Operations.

George C. Zoley, Chairman and Chief Executive Officer of GEO, said: “We are very pleased with our strong operational and financial performance during 2006. The primary factors driving our improved financial results are the successful acquisition and integration of Correctional Services Corporation in November 2005; stronger results at a number of our federal facilities due to improved contract terms and higher occupancy levels as a result of the U.S. Secure Border Initiative; and new contract wins by our three business units of U.S. Corrections, GEO Care, and International Services.

“We continue to have a strong organic growth pipeline with projects totaling more than 5,400 beds under development representing more than $94 million in expected annual operating revenues. These projects are expected to start between the first quarter of 2007 and the second quarter of 2008. In addition, our successful acquisition of CentraCore Properties Trust allows our company to regain control of 11 important facilities and has positioned us to pursue future potential growth opportunities through the expansion of existing facilities.”

Pro Forma Income from Continuing Operations excludes the items set forth in the table below, which presents a reconciliation of pro forma income from continuing operations to GAAP Income from Continuing Operations for the fourth quarter and year-end 2006.

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Table 1. Reconciliation of Pro Forma Income from Continuing Operations to GAAP Income from Continuing Operations

(In thousands except per share data)	13 Weeks Ended 31-Dec-06	13 Weeks Ended 1-Jan-06	52 Weeks Ended 31-Dec-06	52 Weeks Ended 1-Jan-06
Income from Continuing Operations	$ 10,537	$ (1,323)	$ 30,308	$ 5,879
2006				
Start-Up Expenses	926		2,045	
Deferred Financing Fees	—		803	
International Tax Benefit	(750)		(750)	
2005				
International Tax Benefit		(8,517)		(8,517)
Start-Up Expenses		592		592
Michigan Impairment Charge		12,630		12,630
Job Reclassification Expenses		242		242
U.S. Job Creation Tax Benefit		—		(1,704)
Queens Transition Costs		—		479
Deferred Financing Fees		—		752
Jena, Louisiana Write-Off		—		2,596
Insurance Adjustment		—		(789)
Pro Forma Income from Continuing Operations	$ 10,713	$ 3,624	$ 32,406	$ 12,160
Diluted Earnings Per Share				
Income from Continuing Operations	$ 0.52	$ (0.09)	$ 1.70	$ 0.39
2006				
Start-Up Expenses	0.05		0.11	
Deferred Financing Fees	—		0.04	
International Tax Benefit	(0.04)		(0.04)	
2005				
International Tax Benefit		(0.56)		(0.56)
Start-Up Expenses		0.03		0.03
Michigan Impairment Charge		0.85		0.85
Job Reclassification Expenses		0.01		0.01
U.S. Job Creation Tax Benefit		—		(0.11)
Queens Transition Costs		—		0.03
Deferred Financing Fees		—		0.05
Jena, Louisiana Write-Off		—		0.17
Insurance Adjustment		—		(0.05)
Diluted Pro Forma Earnings Per Share	$ 0.53	$ 0.24	$ 1.81	$ 0.81
Weighted Average Shares Outstanding	20,170	14,978	17,872	15,015

Revenue

GEO reported a 50% increase in fourth quarter 2006 revenue to $247.4 million from $164.9 million in the fourth quarter of 2005. Fourth quarter 2006 revenue includes $37 million in pass-through construction revenues. GEO reported a 40% increase in 2006 revenue to $860.9 million from $612.9 million in 2005. 2006 revenue includes $74 million in pass-through construction revenues. Exclusive of pass-through construction revenues, GEO reported fourth quarter 2006 operating revenues of $210.4 million and year-end 2006 operating revenues of $786.9 million. U.S. Corrections revenue for 2006 increased to $612.8 million from $473.3 million for 2005. International Services revenue for 2006 increased to $103.6 million from $98.8 million for 2005. GEO Care revenue for 2006 increased to $70.4 million from $32.6 million for 2005.

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Adjusted EBITDA and Adjusted EBITDAR

Fourth quarter 2006 Adjusted EBITDA increased 71% to $25.2 million from $14.7 million in the fourth quarter of 2005. Adjusted EBITDAR for the fourth quarter of 2006 increased 49% to $31.2 million from $20.9 million for the fourth quarter of 2005. Adjusted EBITDA for 2006 increased 86% to $91.2 million from $49.1 million for 2005. Adjusted EBITDAR for 2006 increased 54% to $116.9 million from $75.7 million for 2005. Please see the section of this press release below entitled "Important Information on GEO's Non-GAAP Financial Measures" for information on how GEO defines Adjusted EBITDA and Adjusted EBITDAR.

The following table presents a reconciliation from Adjusted EBITDA and Adjusted EBITDAR to GAAP Net Income for the fourth quarter and year-end 2006.

Table 2. Reconciliation from Adjusted EBITDA and Adjusted EBITDAR to GAAP Net Income

(In thousands)	13 Weeks Ended 31-Dec-06	13 Weeks Ended 1-Jan-06	52 Weeks Ended 31-Dec-06	52 Weeks Ended 1-Jan-06
Net Income	$ 10,515	$ (807)	$ 30,031	$ 7,006
Discontinued Operations	22	(516)	277	(1,127)
Interest Expense, Net	3,355	4,641	17,544	13,862
Income Tax Provision	5,363	(13,707)	16,505	(11,826)
Depreciation and Amortization	4,467	4,949	22,235	15,876
EBITDA	$ 23,722	$ (5,440)	$ 86,592	$ 23,791
Adjustments, Pre-tax				
2006				
Start-Up Expenses	1,494		3,298	
Deferred Financing Fees	—		1,295	
2005				
International Tax Benefit		(2,057)		(2,057)
Start-Up Expenses		977		977
Michigan Impairment Charge		20,859		20,859
Job Reclassification Expenses		400		400
Queens Transition Costs		—		798
Deferred Financing Fees		—		1,360
Jena, Louisiana Write-Off		—		4,255
Insurance Adjustment		—		(1,300)
Adjusted EBITDA	$ 25,216	$ 14,739	$ 91,185	$ 49,083
Lease Rental Expense	5,960	6,123	25,700	26,611
Adjusted EBITDAR	$ 31,176	$ 20,862	$ 116,885	$ 75,694

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Adjusted Free Cash Flow

Adjusted Free Cash Flow for the fourth quarter of 2006 increased 106% to $9.9 million from $4.8 million for the fourth quarter of 2005. Adjusted Free Cash Flow for 2006 increased 136% to $47.9 million from $20.3 million for 2005. Please see the section of this press release below entitled “Important Information on GEO’s Non-GAAP Financial Measures” for information on how GEO defines Adjusted Free Cash Flow.

The following table presents a reconciliation from Adjusted Free Cash Flow to GAAP Income from Continuing Operations for the fourth quarter and year-end 2006.

Table 3. Reconciliation of Adjusted Free Cash Flow to GAAP Income from Continuing Operations

(In thousands)	13 Weeks Ended 31-Dec-06	13 Weeks Ended 1-Jan-06	52 Weeks Ended 31-Dec-06	52 Weeks Ended 1-Jan-06
Income from Continuing Operations	$ 10,537	$ (1,323)	$ 30,308	$ 5,879
Depreciation and Amortization	4,467	4,949	22,235	15,876
Income Tax Provision	5,363	(13,707)	16,505	(11,826)
Income Taxes Paid	(2,199)	3,068	(11,336)	(632)
Stock Based Compensation Included in G&A	424	—	1,341	—
Maintenance Capital Expenditures	(8,049)	(7,979)	(10,665)	(13,564)
Equity in Earnings of Affiliates, Net of Income Tax	(538)	(2,280)	(1,576)	(2,079)
Minority Interest	(80)	(202)	(125)	(742)
Write-off of Deferred Financing Fees	—	—	1,295	1,360
Start-Up Expenses	—	977	—	977
Michigan Impairment Charge	—	20,859	—	20,859
Job Reclassification Expenses	—	400	—	400
Queens Transition Costs	—	—	—	798
Jena, Louisiana Write-Off	—	—	—	4,255
Insurance Adjustment	—	—	—	(1,300)
Adjusted Free Cash Flow	$ 9,925	$ 4,762	$ 47,982	$ 20,261

Important Information on GEO’s Non-GAAP Financial Measures

Pro Forma Income from Continuing Operations, Adjusted EBITDA, Adjusted EBITDAR, and Adjusted Free Cash Flow are non-GAAP financial measures. Pro Forma Income from Continuing Operations is defined as Income from Continuing Operations excluding Start-Up Expenses, Deferred Financing Fees, and the other items set forth in Table 1 above. Adjusted EBITDA is defined as EBITDA excluding Start-Up Expenses, Deferred Financing Fees, and the other items set forth in Table 2 above. Adjusted EBITDAR is defined as Adjusted EBITDA including Lease Rental Expense. Adjusted Free Cash Flow is defined as Income from Continuing Operations after giving effect to the items set forth in Table 3 above. A reconciliation of these non-GAAP measures to the most directly comparable GAAP measurements of these items is included in Tables 1, 2, and 3 respectively set forth above in this press release. GEO believes that these financial measures are important operating measures that supplement discussion and analysis of GEO’s financial results derived in accordance with GAAP. These non-GAAP financial measures should be read in conjunction with GEO’s consolidated financial statements and related notes included in GEO’s filings with the Securities and Exchange Commission.

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2007 Financial Guidance

GEO is increasing its 2007 earnings guidance to a pro forma range of $1.90 to $2.05 per share, exclusive of $0.12 per share in after-tax start-up expenses associated with facility openings. GEO expects 2007 operating revenues to be in the range of $890 million to $910 million exclusive of pass-through construction revenues.

GEO expects first quarter 2007 earnings to be in a pro forma range of $0.37 to $0.39 per share, exclusive of $0.06 per share in after-tax start-up expenses. GEO expects first quarter 2007 operating revenues to be in the range of $215 million to $220 million exclusive of pass-through construction revenues.

GEO expects second quarter 2007 earnings to be in a pro forma range of $0.47 to $0.51 per share, exclusive of $0.01 per share in after-tax start-up expenses. GEO expects second quarter 2007 operating revenues to be in the range of $221 million to $226 million exclusive of pass-through construction revenues.

GEO expects third quarter 2007 earnings to be in a pro forma range of $0.50 to $0.54 per share, exclusive of $0.05 per share in after-tax start-up expenses. GEO expects third quarter 2007 operating revenues to be in the range of $224 million to $229 million exclusive of pass-through construction revenues.

GEO expects fourth quarter 2007 earnings to be in a pro forma range of $0.56 to $0.61 per share. GEO expects fourth quarter 2007 operating revenues to be in the range of $230 million to $235 million exclusive of pass-through construction revenues.

GEO's 2007 financial guidance does not include any potential contracts for the utilization of GEO's available bed capacity at the Northlake Correctional Facility in Baldwin, Michigan or the LaSalle Correctional Facility in Jena, Louisiana. The upper end of GEO's 2007 earnings guidance includes a modest contribution from increased utilization of the New Castle Correctional Facility in New Castle, Indiana.

2007 Operating Revenue Guidance *(In Millions)* *(Exclusive of Pass-Through Construction Revenue)*	**1Q 2007**	**2Q 2007**	**3Q 2007**	**4Q 2007**	**FY 2007**
Previously Issued Guidance					$880 - $905
Revised Guidance (February 27, 2007)	$215 - $220	$221 - $226	$224 - $229	$230 - $235	$890 - $910

2007 Earnings Per Share	**1Q 2007**	**2Q 2007**	**3Q 2007**	**4Q 2007**	**FY 2007**
Previously Issued GAAP Guidance					$1.65 - $1.80
After-Tax Start-Up Expenses					$0.10
Previously Issued Pro Forma Guidance					$1.75 - $1.90
Revised GAAP Guidance (February 27, 2007)	$0.31 - $0.33	$0.46 - $0.50	$0.45 - $0.49	$0.56 - $0.61	$1.78 - $1.93
After-Tax Start-Up Expenses	$0.06	$0.01	$0.05	—	$0.12
Revised Pro Forma Guidance (February 27, 2007)	$0.37- $0.39	$0.47 - $0.51	$0.50 - $0.54	$0.56 - $0.61	$1.90 - $2.05
Diluted Weighted Average Shares Outstanding *(In Millions)*	20.2	20.2	20.2	20.2	20.2

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Conference Call Information

GEO has scheduled a conference call and simultaneous webcast at 3:00 PM (Eastern Time) today to discuss GEO's fourth quarter 2006 financial results as well as GEO's progress and outlook. The call-in number for the U.S. is 1-800-299-0148 and the international call-in number is 1-617-801-9711. The participant pass-code for the conference call is 94502562. In addition, a live audio webcast of the conference call may be accessed on the Conference Calls/Webcasts section of GEO's investor relations home page at www.thegeogroupinc.com. A replay of the audio webcast will be available on the website for one year. A telephonic replay of the conference call will be available until March 27, 2007 at 1-888-286-8010 (U.S.) and 1-617-801-6888 (International). The pass-code for the telephonic replay is 28385790. GEO will discuss Non-GAAP ("Pro Forma") basis information on the conference call. A reconciliation from Non-GAAP ("Pro Forma") basis information to GAAP basis results may be found on the Conference Calls/Webcasts section of GEO's investor relations home page at www.thegeogroupinc.com.

About The GEO Group, Inc.

The GEO Group, Inc. ("GEO") is a world leader in the delivery of correctional, detention, and residential treatment services to federal, state, and local government agencies around the globe. GEO offers a turnkey approach that includes design, construction, financing, and operations. GEO represents government clients in the United States, Australia, South Africa, Canada, and the United Kingdom. GEO's worldwide operations include 64 correctional and residential treatment facilities with a total design capacity of approximately 55,000 beds.

Safe-Harbor Statement

This press release contains forward-looking statements regarding future events and future performance of GEO that involve risks and uncertainties that could materially affect actual results, including statements regarding estimated earnings, revenues and costs and our ability to maintain growth and strengthen contract relationships. Factors that could cause actual results to vary from current expectations and forward-looking statements contained in this press release include, but are not limited to: (1) GEO's ability to meet its financial guidance for 2007 given the various risks to which its business is exposed; (2) GEO's ability to successfully pursue further growth and continue to enhance shareholder value; (3) GEO's ability to access the capital markets in the future on satisfactory terms or at all; (4) risks associated with GEO's ability to control operating costs associated with contract start-ups; (5) GEO's ability to timely open facilities as planned, profitably manage such facilities and successfully integrate such facilities into GEO's operations without substantial costs; (6) GEO's ability to win management contracts for which it has submitted proposals and to retain existing management contracts; (7) GEO's ability to obtain future financing on acceptable terms; (8) GEO's ability to sustain company-wide occupancy rates at its facilities; and (9) other factors contained in GEO's Securities and Exchange Commission filings, including the forms 10-K, 10-Q and 8-K reports.

Fourth quarter and year-end financial tables to follow:

NEWS RELEASE

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRTEEN AND FIFTY-TWO WEEKS ENDED
DECEMBER 31, 2006 AND JANUARY 1, 2006
(In thousands, except per share data)
(UNAUDITED)

	Thirteen Weeks Ended		Fifty-two Weeks Ended	
	December 31, 2006	January 1, 2006	December 31, 2006	January 1, 2006
Revenues	$ 247,404	$ 164,874	$ 860,882	$ 612,900
Operating expenses	210,246	159,227	718,178	540,128
Depreciation and amortization	4,467	4,949	22,235	15,876
General and administrative expenses	13,894	13,165	56,268	48,958
Operating income	18,797	(12,467)	64,201	7,938
Interest income	2,881	2,281	10,687	9,154
Interest expense	(6,236)	(6,922)	(28,231)	(23,016)
Write off of deferred financing fees from extinguishment of debt	—	—	(1,295)	(1,360)
Income before income taxes, minority interest, equity in earnings of affiliate and discontinued operations	15,442	(17,108)	45,362	(7,284)
Provision for income taxes	5,363	(13,707)	16,505	(11,826)
Minority interest	(80)	(202)	(125)	(742)
Equity in earnings (loss) of affiliate	538	2,280	1,576	2,079
Income from continuing operations	10,537	(1,323)	30,308	5,879
Income (loss) from discontinued operations	(22)	516	(277)	1,127
Net income	$ 10,515	$ (807)	$ 30,031	$ 7,006
Weighted-average common shares outstanding:				
Basic	19,405	14,493	17,221	14,370
Diluted	20,170	14,978	17,872	15,015
Income per common share:				
Basic:				
Income from continuing operations	$ 0.54	$ (0.09)	$ 1.76	$ 0.41
Income (loss) from discontinued operations	0.00	0.03	(0.02)	0.08
Net income per share-basic	$ 0.54	$ (0.06)	$ 1.74	$ 0.49
Diluted:				
Income from continuing operations	$ 0.52	$ (0.09)	$ 1.70	$ 0.39
Income (loss) from discontinued operations	0.00	0.04	(0.02)	0.08
Net income per share-diluted	$ 0.52	$ (0.05)	$ 1.68	$ 0.47

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The GEO Group, Inc. — Operating Data

	13 Weeks Ended December 31, 2006	13 Weeks Ended January 1, 2006	52 Weeks Ended December 31, 2006	52 Weeks Ended January 1, 2006
*Revenue-producing beds	48,873	43,187	48,873	43,187
*Compensated man-days	4,154,112	3,161,501	15,788,208	12,607,525
*Average occupancy[1]	98.5%	99.0%	97.4%	97.5%

*Includes South Africa

[1] Does not include GEO's idle facilities.

THE GEO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2006 and January 1, 2006

	2006	2005
	(In thousands, except per share data)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 111,520	$ 57,094
Restricted cash	13,953	8,882
Accounts receivable, less allowance for doubtful accounts of $926 and $224	162,867	127,612
Deferred income tax asset	19,492	19,755
Other current assets	14,922	15,826
Current assets of discontinued operations	—	123
Total current assets	322,754	229,292
Restricted Cash	19,698	17,484
Property and Equipment, Net	287,374	282,236
Assets Held for Sale	1,610	5,000
Direct Finance Lease Receivable	47,367	38,492
Deferred Income Tax Assets	4,941	—
Goodwill and Other Intangible Assets, Net	41,554	52,127
Other Non Current Assets	18,155	14,880
	$ 743,453	$ 639,511
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 48,890	$ 27,762
Accrued payroll and related taxes	31,320	26,985
Accrued expenses	77,675	70,177
Current portion of deferred revenue	1,830	1,894
Current portion of capital lease obligations, long-term debt and non-recourse debt	12,685	8,441
Current liabilities of discontinued operations	1,303	1,260
Total current liabilities	173,703	136,519
Deferred Revenue	1,755	3,267
Deferred Tax Liability	—	2,085
Minority Interest	1,297	1,840
Other Non Current Liabilities	24,816	19,601
Capital Lease Obligations	16,621	17,072
Long-Term Debt	144,971	219,254
Non-Recourse Debt	131,680	131,279
Total shareholders' equity	248,610	108,594
	$ 743,453	$ 639,511

- End -

CORPORATE PARTICIPANTS

Pablo Paez
The GEO Group — Director of Corporate Relations

George Zoley
The GEO Group — Chairman and CEO

Jerry O'Rourke
The GEO Group — CFO, SVP Financing and Treasurer

CONFERENCE CALL PARTICIPANTS

Jeffrey Kessler
Lehman Brothers — Analyst

Patrick Swindel
Avondale Partners — Analyst

Andrew Ken
Perry Capital — Analyst

Bill Gillcrest
Hartford Investment Management — Analyst

Todd Van Fleet
First Analysis — Analyst

Eduardo Abush
The GEO Group — Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter 2006 GEO Group earnings conference call. Good day ladies and gentlemen, and welcome to the fourth quarter 2006 GEO group conference call. My name is Danielle, and I will be your coordinator for today. At this time, all participants are in a listen-only mode. And we will conduct a question and answer session towards the end of this conference. [OPERATOR INSTRUCTIONS]. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over your host for today's call. Mr. Please proceed.

Pablo Paez - *The GEO Group — Director of Corporate Relations*

Thank you, operator. Good afternoon, everyone and thank you for joining us today for our discussion of the GEO Group's fourth quarter and year-end 2006 earnings results. With us today is George Zoley, Chairman and Chief Executive Officer, Wayne Calabrese, Vice Chairman President, and Chief Operating Officer, Jerry O'Rourke, Chief Financial Officer, David Watson Treasurer and Vice President of Finance, and Brian Evans Vice President of Accounting and Chief Accounting Officer. This afternoon, we will discuss our fourth quarter performance, current business development activities, and conclude the call with a question and answer session. This conference call is also being web cast live on our website at www.theGEOgroupinc..com. The replay of the audio webcast will be available on the website for one year. A telephone replay will also be available through March 27th at 1-888-286-8010.

The pass code for the telephone replay is 28385790. During the call we will a reconciliation discuss non-GAAP basis information. The reconciliation from non-GAAP basis information to GAAP basis results may be found on the conference call section of our investor relations web page. Before I turn the call over to George Zoley, please let me remind you that much of the information that we will discuss today, including the answers we give in response to your questions may include forward-looking statements regarding our beliefs and current expectations with respect to various matters. These forward-looking statements are intended to fall within the Safe Harbor provisions of the securities laws. Our actual results may differ materially from those in the forward-looking statements as a result of various factors contained in our securities and exchange commission filings, including the forms 10-K , 10-Q and 8-K reports. With that please allow me to turn this call over to George Zoley.

George Zoley - ***The GEO Group — Chairman and CEO***

Thank you, Pablo. Good afternoon to everyone and thank you for joining us today as I provide an overview of the financial results for the fourth quarter of 2006. When I conclude my prepared remarks, I'll open up the call to a question and answer session. We are very pleased with our fourth quarter performance, which we believe validates the continuing success of our company's diversified growth platform. More specifically, the reasons for the strong performance are as follows. First, the successful integration of correctional services acquisition. Next, several federal detention facilities, which enjoyed improved contract terms and higher occupancy levels as a result of new contracts under the U.S. secure border initiative. And finally, several new contract wins by our three business units. U.S. corrections, GEO Care and international services. It is the strongest fourth quarter we've ever experienced. And we believe it indicates a trend toward a decrease in our financial exposure to year-end occupancy, fluxuations of past years. Our fourth quarter pro forma earnings increased 197% to $10.7 million or $0.53 a share from$3.6 million or $0.24 per share for the same period in 2005. For the full year, our pro forma earnings increased 166% to $32.4 million or $1.81 per share from $12.2 million or $0.81 per share for 2005. Our pro forma earnings excludes start-up expenses, deferred financing fees as well as several other items listed in the reconciliation tables in our press release. On a GAAP basis, our fourth quarter 2006 income from continuing operations grew to $10.5 million or $0.52 per share based on 20.2 million shares from a loss of $1.3 million or $0.09 per share based on 15 million shares during the same period in 2005. For the full year GAAP income from continuing operations increased to $30.3 million or $1.70 per share from $5.9 million or $0.39 per share for 2005.

Our revenue during the fourth quarter increased 50% to $247.4 million from $164.9 million for the same period in 2005. Quarterly revenues reflect approximately $37 million in pass through construction revenues. Revenue for the full year increased 40% to $860.9 million from $612.9 million for 2005. Full year revenues include $74 million in construction revenues. Our top line growth during 2006 has been driven by the three primary factors I mentioned at the beginning of the call. The successful acquisition of CSC, strong performance from our federal facilities, and new contract wins by our three business units. Our average correctional per diem rate for the fourth quarter was $50.49 compared to $48.11 for the same period in 2005. Our company wide paid level of occupancy was approximately 99% excluding our idle facilities in Jena, Louisiana and Baldwin, Michigan. For the full year our adjusted EBITDA increased 86% to $91.2 million from $49.1 million for 2005. Adjusted EBITDAR for 2006 increased 54% to 116.9 million from $75.7 million in 2005. We expect our adjusted EBITDA to be approximately between $125-135 million in 2007. Our adjusted free cash flow during 2006 increased 136% to $47.9 million from $20.3 million a year ago. And we expect to generate between $55 and $60 million in adjusted free cash flow in 2007. Our cash at the end of the year was approximately $112 million, excluding approximately $34 million of restricted cash. And our balance sheet reflects approximately $150 million in senior unsecured notes and nonrecourse debt of approximately $132 million. This concludes my overview of financial performance during the fourth quarter. I would now like to discuss our acquisition of CentraCore Properties Trust or CPT.

On January 24th of 2007, we closed on our acquisition of CPT for $32 per share for a total acquisition cost of $427 million, including the refinancing of approximately $40 million of CPT debt. We financed the acquisition of CPT with $365 million in new term loan borrowings at LIBOR plus 1.5% and approximately $62 million in cash. Our amended senior credit facility now consists of a seven-year term loan and a $150 million five-year revolving credit facility. With this transaction, we acquired ownership of 13 facilities with 8,671 beds. 11 of these facilities with 7,545 beds were previously leased to GEO. In addition to these 11 GEO managed facilities, we now own the 400 bed Mesa Verde correctional facility which is leased to Cornell Companies and the 726 bed, Delaney Hall facility, which is leased to Community Educational Centers and being expanded by 286 beds. Assuming a replacement construction cost of $50,000 per bed, these important assets have an intrustic value of more than $439. We are very pleased with the successful closing of this important acquisition, which now allows us to regain control of these important assets and move forward on increasing their value. In California, three of the facilities we've purchased from CPT totaling just under 1900 beds, which are currently under contract with the state of California are due for renegotiation during 2007. We are conducting a comprehensive analysis of the expansion capabilities of these facilities, as well as a company wide review of our existing facilities to determine all of our expansion capabilities. In moving forward, we will consider expansions or new built projects ahead of a signed contract depending on the circumstances and the demand in certain locations as we have done in Oklahoma for the 600 bed expansion of our Lawton, Oklahoma facility and in Texas with a 576-bed expansion of our Val Verde facility.

Moving to our updated financial guidance, due to our improved outlook, we have increased our 2007 earnings guidance to a pro forma range of $1.90 to $2.05 per share, exclusive of $0.12 per share in start-up expenses. We expect operating revenues to be in the range of $890 million to $910 million exclusive of pass through construction revenues. For the first quarter, we expect earnings to be in the pro forma range of $0.37 to $0.39 per share, exclusive of $0.06 per share in start-up expenses and revenues to be in the range of $215 to $220 million exclusive of construction revenues. We expect second quarter earnings to be in the pro forma range of $0.47 to $0.51 per share, exclusive of $0.01 per share in

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start-up expenses in second quarter revenues to be in the range of $221 to $ 226 million, exclusive of construction revenues. We expect third quarter earnings to be in the pro forma range of $0.50 to $0.54 a share exclusive of $0.05 per share in start-up expenses and third quarter revenues to be in the range of $224 to $229 million, exclusive of construction revenues. Finally, for the fourth quarter, we expect earnings to be in the pro forma range of $0.56 to $0.61 per share and revenues to be in the range of $230 to 235 million exclusive of construction revenues. Our guidance does not include any potential contracts for the utilization of our available capacity to our Baldwin, Michigan facility or at our Jena, Louisiana facility, as well as any potential new contract wins by GEO Care or international services, all of which would be accretive to our earnings. Our guidance at the upper end assumes only a modest contribution from increased utilization from the New Castle Correctional Facility in Indiana. The state of Indiana is currently in discussions with another correctional agency for the utilization of the available beds at this facility. And we believe those discussions will soon result in a signed contract.

We've provided operating revenue guidance in line with the market estimates, excluding any pass through construction revenues, which carry no operating margins and are a result of projects under development. We remained very optimistic about the current trends in our industry. We believe our available beds, which we are marketing to a number of clients and the strong business development pipeline for each of our three business units represent additional potential opportunities to bolster our financial performance even further. Now I'd like to give you an update on our recent contract activations and our projects currently under development. In December we opened a new 1,000 bed central Arizona correctional facility in Florence, which has a ten-year contract, in which we'll generate approximately $22 million in annual operating revenues. Additionally, we currently have 11 projects with over 5,400 beds under development. These projects are expected to generate $94 million in combined annual operating revenues when opened between the first quarter of 2007 and the second quarter of 2008. We believe that this is the largest and most diversified organic growth pipeline in our industry. These projects include our Reeves County Detention Complex where Reeves County and GEO have activated two contracts under the BOP's CAR 5 contract, we have added 483 beds at Reeves Unit III. And under the BOP's CAR 6 contract, we will expand Reeves Units I and II by 320 beds with an expected completion date in the fourth quarter of the year. With these two expansions, the Reeves County Detention Complex will have a new contract capacity of 3,763 beds. We will only report our mention of contract fee and reimbursement payments for management staff in miscellaneous expenses as contract revenues since these two BOP contracts are directly with Reeves County.

Further more, our northwest detention center, which expanded by 200 beds without any new construction will generate $2 million in additional annual operating revenues. Our Broward transition center with extension of 150 beds without any construction, will generate $2 million in annual additional operating revenues. The 235-bed bond finance expansion of our Moore Haven Correctional Facility in Florida, which will generate $3 million in additional analyzed operating revenues when it opens in the second quarter of the year. A new 1500 bed bond financing prison in Graceville, Florida will generate $21 million in analyzed operating revenues when completed in the third quarter of the year. The 576 bed expansion of our company-owned Val Verde facility using free cash flow, which is expected to generate $11 million in additional operating revenues when completed in the third quarter of 2007. The 625 bed bond finance northeast New Mexico facility, which will house New Mexico prisoners between the state and Clayton who in turn contracts with GEO and which will generate $11 million in annual operating revenues when completed in the first quarter of 2008. A new 1100 bed bond finance facility in Montgomery, Texas, which we will manage under a contract with the county, which we expect will be used by other state or federal agencies when completed in the second quarter of 2008, we expect this facility to generate $14 million in annual operated revenues. The 100-bed south Florida valuation annex, which is expected to generate $10 million in additive revenues in 2007. And the 175-bed Treasure Coast Forensic Treatment Center, which will open on April 1, and will generate $20 million analyzed operating revenues. With these two new contracts, GEO Care now has over $100 million in contracts revenues with the state of Florida alone. Just based on its existing contracts, we expect GEO Care to have a revenue run rate of $130 million in 2008.

This year, GEO Care will represent more than 10% of our revenue base and we expect their revenue share will continue to increase rapidly over the next three to five years as they continue to grow their business base. GEO Care's long-term contracts of ten to 20 years combined with our federal contracts, which are increasingly becoming longer term agreements with improved contract terms currently represent over 40% of our total revenues, which we believe is an important distinguishing attribute of our company. With regard to our available capacity, we currently have approximately 2200 empty beds available at three facilities. In Indiana, a 2400 bed Newcastle Correctional Facility, which currently houses just under 1100 inmates for the state of Indiana, has available capacity for approximately 1260 beds. The state of Indiana has been in discussions with another correctional agency regarding the use of those beds and we expect those discussions will soon result in a signed contract. In addition to the available beds in Indiana, we have at least 900 beds available at two idle facilities. In Jena, Louisiana we have our LaSalle Detention Facility can house 400 inmates and have sufficient land to expand the facility by several hundred additional beds. In Baldwin, Michigan, our North Lake Correctional Facility can house 500 inmates and also has substantial acreage to expand by several hundred beds. As I've previously said, we've been in discussions with state and federal agencies regarding the potential use of both of these facilities. Moving forward to our pending proposals. For more than three years, we've been competing in a procurement issued by the Office of the Federal Detention Trustee for a 1500-bed detention facility in Loredo, Texas for use by the U.S.Marshall Service. I am very pleased to report that this morning we received an executed conditional acceptance of final offer from the OFDT under this procurement.

Although this is not a contract award, the OFDT has conditionally accepted GEO's proposal subject to the of the completion of environmental review, the OFDT and USMC are scheduled to release the final environmental impact statement March 9th with public comment period ending April 9th, subject to the successful completion of the process, we believe an official contract will be awarded for GEO for an initial five-year term with three five-year renewal options. Given the Loredo project will be for 1500 beds, it would be among our largest contracts. In Arizona, the state has issued two RFPs, one for the provision of up to 5,700 out of state beds and another for 3,000 instate beds. We have submitted proposals in response to both RFPs and expect contract awards to be made in the near term. Additionally we have a number of pending rebids which include the 120-bed Bronx Community Re-Entry Center being rebid by the BOP expected in the first or second quarter of this year. The 2,048 bed Taft Correctional Institution in California also being rebid by the BOP with a contract award expected in the second half of 2007. The 750 bed Moore Haven Facility in Florida with a contract expected in the second quarter of the year. As I mentioned earlier, we're expanding this facility by 235 beds. In addition to these pending proposals, we expect to compete for a number of additional projects both domestically and internationally over the remainder of this year. In the U.S., we expect to compete for a new 1,000 bed detention facility to be located in Las Vegas, Texas — Nevada, for use jointly by the U.S. Marshall Service. We expect the solicitation to be issued in May with an expected award in second quarter of 2008. I'd like to address a recent report published by the two charitable trusts that provides a forecast of prison population growth at the state and federal levels in the U.S. between 2007 and 2011. The report concludes that state and federal prison populations will grow by more than 192,000 inmates in the next five years, representing a 13% increase. The report points out that this projected growth rate over the next five years of approximately 38,400 more inmates per year is higher than the growth rate over the past three years. The report further estimates that the U.S. may need as much as $27.5 billion over the next five years to accommodate projected prison expansions and operations with as much as $15 billion in additional funds needed for operations alone.

The states of Texas, California, Arizona, Florida along with the federal prison system are projected to represent approximately 45% of the projected prison population growth in the U.S. over the next five years. These statistics do not include projected growth in local jails throughout the United States. We continue to believe that our industry is facing very favorable trends with the majority of states along with all three federal agencies facing increased bed demands and seeking viable public and private partnerships to meet those needs. We believe we are well-positioned to capitalize on these favorable trends as the second largest private operator in the U.S. and the largest private operator in a number of individual states like California, Florida, and New Mexico, among others. Internationally, the Scottish Prison Service is expected to publish a competitive tender for the development operation of a new 700-bed prison in Lomas, Scotland. The United Kingdom, the Home Secretary stated there would be a near term need for 1000 new beds through public private partnerships. We continue to monitor the UK market and believe that we are well positioned with our GEO subsidiaries to take advantage of those future opportunities. In South Africa, you may recall, that the government was conducting a feasibility study on the potential development of new 3,000 bed prisons. A draft report has now been presented to the government on the development of five new 3,000-bed prisons at a budgeted construction cost of $720 million or $100 million per prison. The draft report recommends the design development financing of these new prisons through public private partnership initiatives. We are monitoring theses developments in South Africa closely. Once again believe that we are we well-positioned to capitalize new growth opportunity in that market.

With regard to mental health and residential treatment opportunities, we are very excited about GEO Care's prospects. They are off to a great start this year with two new contracts in Florida totaling more than $30 million in annual revenues. We expect GEO Care to compete for several new projects during 2007. In closing, I would like to make a few remarks regarding our outlook for 2007. We're extremely pleased with the strong financial performance of all three of our business units during 2006. We believe 2007 is shaping up to be a very successful year, as well. Our acquisition of Correctional Services Corporation continues to be very successful on an operational financial basis with several of the former CSC facilities posting increased occupancy levels and strong financial results. Our acquisition of CentraCore Properties Trust now gives us greater flexibility to expand our existing facilities and pursue future growth opportunities. We have what we believe is the largest organic pipeline in our industry with 11 projects under development totaling over 5,400 beds and $94 million in annual revenues when completed. We have approximately 2,200 beds immediately available at three facilities in Indiana, Michigan, Louisiana with expansion potential at the Louisiana, Michigan facilities. That concludes my presentation, and I would now like to open the call to any questions.

QUESTION AND ANSWER

Operator

Thank you, sir. [OPERATOR INSTRUCTIONS] Your first question is from Jeffrey Kessler with Lehman Brothers. Please proceed.

Jeffrey Kessler - ***Lehman Brothers — Analyst***

Hi, guys. Couple of quick questions on your guidance. With respect to the EBITDA guidance of 125-135 million, that stayed relatively unchanged relative to your EPS guidance that you increased by $0.15. Can you comment a bit on that? Was that a range that you predetermined before? Is there more up side to that in line with what the EPS has been raised to?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

This is Jerry O'Rourke. In taking a look at where we were with the EBITDA, I think it's pretty much parallel with the performance we're expecting. And we believe it's consistent with the EPS guidance that we've given out.

Jeffrey Kessler - ***Lehman Brothers — Analyst***

Okay. And in the guidance that you've provided for '07, how much of the California contracts are roughly baked into these?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

There is nothing in the California contracts.

Jeffrey Kessler - ***Lehman Brothers — Analyst***

All right. With respect to the EBITDA, one quick question is, after the CBT acquisition, of that 125-135 million, how much of that — what percent of that do you guys estimate comes from your own facilities?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Approximately 75%.

Jeffrey Kessler - ***Lehman Brothers — Analyst***

All right. Good. And I guess one final question is on the quarter. The as well as the SG&A numbers relative to the last two-three quarters in this year came in below expectations. Can you provide a little more color on that and how we should see those numbers trending out into '07?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

I think if you take a look at the G&A trending over the past 4 quarters, you can see that we're at about $14 million a quarter plus or minus approximately $100,000. We think that from a perspective standpoint, the 14 million quarterly figure is very good and we've been, obviously, concentrating on that to drive the percentage of G&A down. We're sitting now under 7%. And that's a real benchmark. Relative to the D&A issue, a modest reclassification took place that had no impact on the operating income line on that D&A change.

Jeffrey Kessler - ***Lehman Brothers — Analyst***

All right. That's good for now, thanks, guys.

Operator

Your next question will come from the line of Patrick Swindel with Avondale Partners. Please proceed.

Patrick Swindel - ***Avondale Partners — Analyst***

Good afternoon. First question, and the announcement of the U.S. Marshall service indication this morning they conditionally had accepted your bid. Outside of an environmental approval, what needs to occur for that award to be finalized and in terms of timing, if you were to have that finalized say in the second quarter, when would — when should we expect it to come online and how do you plan to finance the facility?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Well, there's nothing for us to do. I think it's just a matter of waiting the allotted time for public comment regarding environmental issues. If we expect that to occur in the next 30 days, there is a 16-18 month construction period. So we're really looking at late next year '08 or early first quarter '09 for it to come online.

Patrick Swindel - ***Avondale Partners — Analyst***

Would you expect to build that facility, own that facility and then would you be funding it most likely with your own balance sheet or public bond financing?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Our intent is first the latter that it would be bond finance.

Patrick Swindel - ***Avondale Partners — Analyst***

Okay. And then would you consider the environmental survey effectively a formality? Would you believe that there's anything that could arise during that survey that would impact the ultimate award?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Well, I won't say it's a formality. It's part of the normal process, which we have gone through now several times.

Patrick Swindel - ***Avondale Partners — Analyst***

Sure. Understood. You've talked about and it's pretty well recognized that you've got some repricing opportunities during 2007 and 2008 as some of your contracts come to expiration and you get to revisit that pricing. In the current demand environment, it would seem, there would be a significant amount of pricing leverage for you as a vendor particularly in those situations where you own or lease the beds. How much of that repricing opportunity have you built into the guidance, if any,?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

None.

Patrick Swindel - ***Avondale Partners — Analyst***

Am I thinking about the industry appropriately and that there should be pricing opportunities?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Well, we will be pricing our California contracts that we now own to reflect the embedded purchase price of the individual facilities, as a result of having acquired them from CPT.

Patrick Swindel - ***Avondale Partners — Analyst***

In other words you'll be repricing a replacement cost as opposed to original build cost?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Well, purchase costs, not replacement costs. Verses original build cost.

Patrick Swindel - ***Avondale Partners — Analyst***

But that should be higher and should allow you to recapture some of the repurchase?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

It will be higher because they were built almost 10 years ago.

Patrick Swindel - ***Avondale Partners — Analyst***

Exactly. All right. Perfect. Thank you very much.

Operator

Your next question comes from the line of Andrew Ken with Perry Capital. Please proceed.

Andrew Ken - ***Perry Capital — Analyst***

Yes, could you just comment on the developments in California with the courts and the prison outsourcing?

George Zoley - ***The GEO Group — Chairman and CEO***

Okay. But I want to reiterate that presently our guidance does not assume any use of beds by the state of California.

Andrew Ken - ***Perry Capital — Analyst***

Sure. Sure.

Pablo Diaz - ***The GEO Group — Director of Corporate Relations***

But there was a lower court ruling, I believe indicating that the Governor's emergency proclamation was improper and that's being appealed right now to a higher court. And I believe there's a stay on that order. And the state is obviously hoping that they will prevail in the appellate courts and continue with their transfer of inmates out of state.

Andrew Ken - ***Perry Capital — Analyst***

Okay. Thank you.

Operator

[OPERATOR INSTRUCTIONS]. Your next question comes from the line of Bill. Please proceed.

Bill Gillcrest - ***Hartford Investment Management — Analyst***

Hi, guys. Thanks a lot for taking my question. Just a quick question on what the plan is to do with your debt level. Just trying to get your strategy there, what you're thinking about in terms of reducing that? Is it at a good level to build out some of these facilities?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

We're obviously leveraged up and as you can see from one of the questions on how would we handle Loredo. We'd like bond finance projects, we've announced a couple of them recently, most recently Montgomery County, Texas is also a bond financing. That will be our first inclination to the extent we can. We will use bond financing. If necessary, we'll use the company's balance sheet and all other available techniques to finance our company's growth.

Bill Gillcrest - ***Hartford Investment Management — Analyst***

Okay. Thanks a lot.

Operator

Your next question will come from the line of Todd Van Fleet with First Analysis, Please proceed.

Todd Van Fleet - ***First Analysis — Analyst***

Hi, guys. Figured I'd jump on with a few. First with respect to Loredo and in regards to the pricing, is there any reason to believe that the pricing there will be any different than what we saw recently, with what was it was a CAR7 in Reeves County, or was it CAR6? I'm losing track of my CARs. So that's the question on Loredo. Second Question is kind of broadly speaking about what the gross margin shook out at least the way it turned out in Q4. I think if you strip off the construction revenue on a sequential basis, the gross margin showed a little bit of contraction. I'm just wondering why would that be given the positive pre announcement and related to that positive preannouncement the occupancy levels and the nature of the contracts and so forth. Why would we see a sequential deterioration in the gross margin? Thanks.

George Zoley - ***The GEO Group — Chairman and CEO***

With respect to your first question, the project 1500 bed project — although I can't give you specific per diem rates, it will be as I said among our largest contracts and the analyzed revenues will exceed $30 million.

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

And on the compression pricing, we're not seeing the compression. We've actually got at the net income bottom line about 4.3% net income verses revenue without the construction revenue in there. That was the third quarter. And the fourth quarter up at 5%.

Todd Van Fleet - ***First Analysis — Analyst***

Well, I was referring to — to actually the gross margin as we'll call it. Your operating expenses if you factor off, I guess the lease expense that you recorded in Q4? So if you strip that off, the gross margin was, I think about 21.1 relative to, if I can recall 21.9 % in Q3. Maybe we can follow-up offline about that, but it was just a general question I had. One more I guess if I can, on Michigan, who is the likely customer there? Who are you targeting that facility for?

George Zoley - ***The GEO Group — Chairman and CEO***

I think that would be a state customer.

Todd Van Fleet - ***First Analysis — Analyst***

And the nature of that facility given it was housing, I guess juvenile offenders previously. Is there anything that has to happen from a structural standpoint to make that facility ready for another population?

George Zoley - ***The GEO Group — Chairman and CEO***

No, it's a — it's a sell type facility. It's maximum security. It can house high security prisoners and it's ready to go.

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Todd, can I go back to your other question?

Todd Van Fleet - ***First Analysis — Analyst***

Sure.

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

I think while you're seeing the compression activity in the quarter we had $860,000 worth of start-up activity. Contrasting the third quarter, it was 1.5 million, so that's causing a little bit of compression, driven basically by the start-up activity, which is good for — But, yeah. I understand that. Like I said we can follow-up offline on that, if you'd like. Okay. Thanks, guys.

Operator

[OPERATOR INSTRUCTIONS] Your next question will come from the line of Patrick. Please proceed.

Patrick Swindel - ***Avondale Partners — Analyst***

Just to follow-up on that last question. Jerry, you mentioned earlier that you had to reclassify some D&A. I would assume that would be reclassified in the facility level operating expenses, Is that correct? In other words, absolute D&A would not diminish the classification of the D&A line verses another line of the income state?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Another line of the income statement, is correct.

Patrick Swindel - ***Avondale Partners — Analyst***

And that would effect sequential decline in gross margin if some of those some of that expense is reclassified into that operating expense line?

George Zoley - ***The GEO Group — Chairman and CEO***

Right.

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Correct.

Patrick Swindel - ***Avondale Partners — Analyst***

Which in theory is what, I guess in fact is what happened, I would assume.

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

Correct.

Patrick Swindel - ***Avondale Partners — Analyst***

Okay. So, rather than being a sequential decline, there was a reclassification of depreciation expense, some of that flowed through the operating expense some of that flowed through the operating expense line, in fact apples-to-apples, there should not necessarily have been a decline in absolute gross margin. Is that fair?

Jerry O'Rourke - ***The GEO Group — CFO, SVP Financing and Treasurer***

You're right on target.

Patrick Swindel - ***Avondale Partners — Analyst***

Okay.

Todd Van Fleet - ***First Analysis — Analyst***

Perfect. And last — next question. George, you mentioned a couple of contracts had been restructured so that it reduced or maybe eliminated the quarterly volatility that you typically see from in the fourth quarter. Is that something that you see on a going forward basis as you look at your pipeline? You're going to be able to price then to other contracts so you're not as exposed to volatility and populations?

George Zoley - ***The GEO Group — Chairman and CEO***

Yes. We will be pricing so that whatever the guaranty is, whether it's 50%,60, 70, 80 that we want the pricing to reflect a more normalized financial return for us without unnecessary exposure to occupancy fluxuations. And I think we've done that successfully over the last 2 years now. And it's particularly reflected in the fourth quarter, which historically has been the most prone to have those occupancy fluxuations and negative impacting the financial results, but it did not occur this last time. And I don't think it's going to occur in the future.

Patrick Swindel - ***Avondale Partners — Analyst***

Do you think that the leverage, your leverage to restructure those contracts or to mitigate your own risk from population fluxuations is a function of scarcity of beds and that plays into the overall pricing power that you have?

George Zoley - ***The GEO Group — Chairman and CEO***

It's a reflection of what's available in the marketplace, yeah. We're — we're pricing according to our needs and the marketplace is accepting it.

Patrick Swindel - ***Avondale Partners — Analyst***

All right. Perfect. Thank you very much.

Operator

Your next question comes from the line of [Eduardo Abush] with the GEO group Please proceed.

Eduardo Abush - ***The GEO Group — Analyst***

Yes, hi. Congratulations on the quarter. Was just wondering, I don’t think I caught this, but talking about the Loredo project. Do you guys include any of this in terms of guidance for this year? What is the timing on that?

George Zoley - ***The GEO Group — Chairman and CEO***

No, the Loredo project is a brand new project we’ve just now announced on this conference call.

Eduardo Abush - ***The GEO Group — Analyst***

Could you just repeat kind of what the timing is or when do you think you’ll sart receiving inmates?

George Zoley - ***The GEO Group — Chairman and CEO***

Well, as I said earlier, there is a public comment period, which will take another approximate 30 days. And hoping for that contract award at the end of that time period. It will require a construction period of 16-18 months and therefore place the opening of the facility in late ‘08 or early ‘09.

Eduardo Abush - ***The GEO Group — Analyst***

Thank you very much for that.

Operator

At this time, there are no more questions in the queue. I would now like to turn the call back to Mr. George Zoley.

George Zoley - ***The GEO Group — Chairman and CEO***

We thank everyone for joining us on this call and look forward to addressing you next quarter. Thank you very much.

Operator

Ladies and gentlemen, this concludes your presentation. You may now disconnect. Have a great day.