GRUPO TELEVISA, S.A.B.
Form 20-F
June 23, 2010

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009**

OR

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

OR

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report
FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 1-12610

Grupo Televisa, S.A.B.
(Exact name of Registrant as specified in its charter)

N/A
(Translation of Registrant s name into English)

United Mexican States
(Jurisdiction of incorporation or organization)

Av. Vasco de Quiroga No. 2000
Colonia Santa Fe
01210 Mexico, D.F.
Mexico
(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
A Shares, without par value (A Shares)	New York Stock Exchange (for listing purposes only)
B Shares, without par value (B Shares)	New York Stock Exchange (for listing purposes only)
L Shares, without par value (L Shares)	New York Stock Exchange (for listing purposes only)
Dividend Preferred Shares, without par value (D Shares)	New York Stock Exchange (for listing purposes only)
Global Depositary Shares (GDSs), each representing five Ordinary Participation Certificates *(Certificados de Participación Ordinarios)* (CPOs)	New York Stock Exchange
CPOs, each representing twenty-five A Shares, twenty-two B Shares thirty-five L Shares and thirty-five D Shares	New York Stock Exchange (for listing purposes only)

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

None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None.

The number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2009 was:

111,529,976,540 A Shares
51,580,618,803 B Shares
82,060,017,146 L Shares
82,060,017,146 D Shares

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

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

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

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other þ

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 þ

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

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Part I

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We publish our financial statements in accordance with Mexican Financial Reporting Standards (*Normas de Información Financiera*), or Mexican FRS, which differ in some significant respects from generally accepted accounting principles in the United States, or U.S. GAAP, and accounting procedures adopted in other countries.

Unless otherwise indicated, (i) information included in this annual report is as of December 31, 2009 and (ii) references to Ps. or Pesos in this annual report are to Mexican Pesos and references to Dollars, U.S. Dollars, dollars, $, or U.S.$ are to United States dollars.

In this Annual Report, we, us, our or Company refer to Grupo Televisa, S.A.B. and, where the context requires consolidated entities. Group refers to Grupo Televisa, S.A.B. and its consolidated entities.

Part I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected Financial Data

The following tables present our selected consolidated financial information as of and for each of the periods indicated. This data is qualified in its entirety by reference to, and should be read together with, our audited year-end financial statements. The following data for each of the years ended December 31, 2005, 2006, 2007, 2008 and 2009 has been derived from our audited year-end financial statements, including the consolidated balance sheets as of December 31, 2008 and 2009, the related consolidated statements of income and of changes in stockholders equity for the years ended December 31, 2007, 2008 and 2009, the related consolidated statements of changes in financial position for the year ended December 31, 2007, and of cash flows for the years ended December 31, 2008 and 2009, and the accompanying notes appearing elsewhere in this annual report. Beginning on January 1, 2008, we discontinued recognizing the effects of inflation in our consolidated financial statements in accordance with Mexican FRS. Accordingly, our financial information through December 31, 2007 is stated in Mexican Pesos in purchasing power as of December 31, 2007. The financial information as of and for the years ended December 31, 2008 and December 31, 2009 is not directly comparable to prior periods due to the recognition of inflation effects in financial information in prior periods. Our financial information for the years ended December 31, 2008 and December 31, 2009 maintained the inflation adjustments recognized in prior years in our consolidated stockholders equity, and the inflation-adjusted amounts for nonmonetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods. This data should also be read together with Operating and Financial Review and Prospects .

The exchange rate used in translating Pesos into U.S. Dollars for calculating the convenience translations included in the following tables is determined by reference to the interbank free market exchange rate, or the Interbank Rate, as reported by Banco Nacional de México, S.A., or Banamex, as of December 31, 2009, which was Ps.13.0800 per U.S. Dollar. This annual report contains translations of certain Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. The exchange rate translations contained in this annual report should not be construed as representations that the Peso amounts actually represent the U.S. Dollar amounts presented or that they could be converted into U.S. Dollars at the rate indicated.

Our year-end financial statements have been prepared in accordance with Mexican FRS, which became effective beginning on January 1, 2006, and differ in some significant respects from U.S. GAAP. Prior to 2006, Mexican generally accepted accounting principles, or Mexican GAAP, were followed. The adoption of Mexican FRS did not have a significant effect on our consolidated financial statements. Note 23 to our year-end financial statements provides a description of the relevant differences between Mexican FRS, the accounting and reporting standards used in Mexico as of December 31, 2009, and U.S. GAAP as they relate to us, and a reconciliation to U.S. GAAP of net income and other items for the years ended December 31, 2007, 2008 and 2009 and stockholders equity at December 31, 2008 and 2009. Any reconciliation to U.S. GAAP may reveal certain differences between our stockholders equity, net income and other items as reported under Mexican FRS and U.S. GAAP. See Key Information Risk Factors Risk Factors Related to Mexico Differences Between Mexican FRS and U.S. GAAP May

Have an Impact on the Presentation of Our Financial Information .

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In 2007, we changed the names of two of our segments Sky Mexico to Sky , because we began operations in Central America and the Dominican Republic, and Cable Television to Cable and Telecom due to the consolidation of Bestel, a telecommunications company, into this segment.

Effective December 2007, we began consolidating Letseb, S.A. de C.V. and its subsidiaries and Bestel USA, Inc., collectively Bestel, in accordance with Mexican FRS; in June 2008, we began consolidating Cablemás, S.A. de C.V. and its subsidiaries, collectively Cablemás, in accordance with Mexican FRS; and in October 2009, we began consolidating Televisión Internacional, S.A. de C.V. and its subsidiaries, collectively TVI, in accordance with Mexican FRS. Bestel, Cablemás and TVI are under the Cable and Telecom segment.

Beginning on September 30, 2008, we reported the Publishing Distribution segment under the Other Businesses segment since this operation was no longer significant to our consolidated financial statements taken as a whole. We have restated our segment results for the prior periods to reflect this change in segment reporting.

	Year Ended December 31,					
	2005	2006	2007	2008	2009	2009
	(Millions of Pesos or millions of U.S. Dollars)(1)					
(Mexican GAAP/FRS)						
Income Statement Data:						
Net sales	Ps. 35,068	Ps. 39,358	Ps. 41,562	Ps. 47,972	Ps. 52,353	U.S.$ 4,003
Operating income	11,663	14,266	14,481	15,128	15,157	1,159
Integral cost of financing, net(2)	1,924	1,141	410	831	2,973	227
Income from continuing operations	8,330	9,519	9,018	8,731	6,583	503
Cumulative effect of accounting change, net	(546)					
Controlling interest net income	6,613	8,909	8,082	7,804	6,007	459
Income from continuing operations per CPO(3)	2.46	3.07	2.84	2.77	2.14	
Controlling interest net income per CPO(3)	2.27	3.07	2.84	2.77	2.14	
Weighted-average number of shares outstanding (in millions)(3)(4)	341,158	339,776	333,653	329,580	329,304	
Cash dividend per CPO(3)	1.49	0.37	1.50	0.75	3.10	
Shares outstanding (in millions, at year end)(4)	339,941	337,782	329,960	328,393	327,231	
(U.S. GAAP)(5)						
Income Statement Data:						
Net sales	Ps. 35,068	Ps. 39,358	Ps. 41,562	Ps. 47,972	Ps. 52,353	U.S.$ 4,003
Operating income	10,806	14,068	14,322	14,492	13,008	994
Income from continuing operations	8,550	8,917	9,167	9,049	5,561	425
Consolidated net income	8,550	8,917	9,167	9,049	5,561	425
Net income attributable to the noncontrolling interest	1,182	609	934	919	575	44
Net income attributable to the controlling interest	7,368	8,308	8,233	8,130	4,986	381
	2.44	2.76	2.86	2.82	1.98	

Income from continuing operations per CPO(3)						
Net income attributable to the controlling interest per CPO(3)	2.44	2.76	2.86	2.82	1.98	
Weighted-average number of shares outstanding (in millions)(3)(4)	341,158	339,776	333,653	329,580	329,304	
Shares outstanding (in millions, at year end)(4)	339,941	337,782	329,960	328,393	327,231	
(Mexican GAAP/FRS)						
Balance Sheet Data (end of year):						
Cash and temporary investments	Ps. 15,955	Ps. 16,405	Ps.	Ps.	Ps.	U.S.$
Cash and cash equivalents			25,480	33,583	29,941	2,289
Temporary investments			1,825	8,321	8,902	681
Total assets	81,162	86,186	98,703	122,852	126,568	9,676
Current portion of long-term debt and other notes payable(6)	367	1,023	489	2,270	1,433	110
Long-term debt, net of current portion(7)	19,581	18,464	25,307	36,631	41,983	3,210
Customer deposits and advances	19,484	17,807	19,810	18,688	20,913	1,599
Capital stock issued	10,677	10,507	10,268	10,061	10,020	766
Total stockholders equity (including noncontrolling interest)	32,242	38,015	40,650	47,252	44,472	3,400
(U.S. GAAP)(5)						
Balance Sheet Data (end of year):						
Cash and cash equivalents	Ps. 15,833	Ps. 15,461	Ps. 25,480	Ps. 33,583	Ps. 29,941	U.S.$ 2,289
Total assets	88,724	91,806	103,728	127,966	131,344	10,042
Current portion of long-term debt and other notes payable(6)	367	1,023	489	2,270	1,433	110
Long-term debt, net of current portion(7)	19,581	18,464	25,307	36,631	41,983	3,210
Controlling interest stockholders equity	30,589	35,799	36,580	41,539	37,357	2,856
Noncontrolling interest stockholders equity	965	1,688	3,655	5,269	6,339	485
Total stockholders equity	31,554	37,487	40,235	46,808	43,696	3,341
(Mexican FRS)						
Cash Flow Data(15):						
Net Cash provided by operating activities	Ps.	Ps.	Ps.	Ps. 22,258	Ps. 15,136	U.S.$ 1,157
Net Cash used in investing activities				(12,884)	(11,052)	(845)
				(1,886)	(7,641)	(584)

Net Cash used in financing activities											
Increase (decrease) in cash and cash equivalents								7,620		(3,663)		(280)
(U.S. GAAP)(5)												
Cash Flow Data:												
Net cash provided by operating activities		10,478		11,542		12,107		19,851		12,328		942
Net cash (used in) provided by financing activities		(9,412)		(3,088)		(1,395)		522		(4,833)		(369)
Net cash used in investing activities		(2,392)		(8,216)		(294)		(12,884)		(11,052)		(845)
(Decrease) increase in cash and cash equivalents		(1,326)		237		10,418		7,488		(3,558)		(272)
(Mexican GAAP/FRS)												
Other Financial Information:												
Capital expenditures(8)	Ps.	2,849	Ps.	3,346	Ps.	3,878	Ps.	6,627	Ps.	6,531	U.S.$	499
Other Data (unaudited):												
Average prime time audience share (TV broadcasting)(9)		68.5%		69.5%		69.0%		71.2%		69.8%		
Average prime time rating (TV broadcasting)(9)		36.5		35.5		33.4		35.2		34.8		
Magazine circulation (millions of copies)(10)		145		155		165		174		153		
Number of employees (at year end)		15,100		16,200		17,800		22,500		24,300		
Number of Sky subscribers (in thousands at year end)(11)		1,251		1,430		1,585		1,760		1,960		
Number of Cablevisión RGUs (in thousands at year end)(12)		475		583		695		844		1,016		
Number of Cablemás RGUs (in thousands at year end)(12)(13)								1,170		1,348		
Number of TVI RGUs (in thousands at year end)(12)(14)										425		

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Notes to Selected Consolidated Financial Information:

(1) Except per Certificado de Participación Ordinario, or CPO, average audience share, average rating, magazine circulation, employee, subscriber and Revenue Generating Units, or RGUs. Amounts in Mexican Pesos for the years ended December 31, 2005, 2006, and 2007 are stated in Mexican Pesos in purchasing power as of December 31, 2007, in accordance with Mexican FRS. Beginning on January 1, 2008, we discontinued recognizing the effects of inflation in our financial information in accordance with Mexican FRS.

(2) Includes interest expense, interest income, foreign exchange gain or loss, net, and through December 31,

2007, gain or loss from monetary position. See Note 18 to our year-end financial statements.

(3) For further analysis of income from continuing operations per CPO and net income per CPO (as well as corresponding amounts per A Share not traded as CPOs), see Note 20 (for the calculation under Mexican FRS) and Note 23 (for the calculation under U.S. GAAP) to our year-end financial statements. In April and December 2009, our stockholders approved the payment of a dividend of Ps. 1.75 and Ps. 1.35 per CPO, respectively.

(4) As of December 31, 2005, 2006, 2007, 2008 and 2009, we had four classes of common stock: A Shares, B Shares, D Shares and L Shares.

Our shares are publicly traded in Mexico, primarily in the form of CPOs, each CPO representing 117 shares comprised of 25 A Shares, 22 B Shares, 35 D Shares and 35 L Shares; and in the United States in the form of GDSs, each GDS representing 5 CPOs. Before March 22, 2006, each GDS represented 20 CPOs.

The number of CPOs and shares issued and outstanding for financial reporting purposes under Mexican GAAP/FRS and U.S. GAAP is different than the number of CPOs issued and outstanding for legal purposes, because under Mexican GAAP/FRS and U.S. GAAP shares owned by subsidiaries and/or the trusts created to implement our Stock Purchase Plan and our Long-Term Retention Plan are not considered outstanding for financial reporting purposes.

As of December 31, 2009, for legal purposes, there were approximately 2,424.8 million CPOs issued and outstanding, each of which was represented by 25 A Shares, 22 B Shares, 35 D Shares and 35 L Shares, and an additional number of approximately 58,926.6 million A Shares and 2,357.2 million B Shares (not in the form of CPO units). See Note 12 to our year-end financial statements.

(5) See Note 23 to our year-end financial statements.

(6) See Note 8 to our year-end financial statements.

(7) See Operating and Financial Review and Prospects Results of Operations

Liquidity, Foreign Exchange and Capital Resources Indebtedness and Note 8 to our year-end financial statements.

(8) Capital expenditures are those investments made by us in property, plant and equipment, which U.S. Dollar equivalent amounts set forth in Information on the Company Capital Expenditures are translated into Mexican Pesos at the year-end exchange rate for convenience purposes only. The aggregate amount of capital expenditures in Mexican Pesos does not indicate the actual amounts accounted for in our consolidated financial statements.

(9) Average prime time audience share for a period refers to the average daily prime time audience share

for all of our networks and stations during that period, and average prime time rating for a period refers to the average daily rating for all of our networks and stations during that period, each rating point representing one percent of all television households. As used in this annual report, prime time in Mexico is 4:00 p.m. to 11:00 p.m., seven days a week, and weekday prime time is 7:00 p.m. to 11:00 p.m., Monday through Friday. Data for all periods reflects the average prime time audience share and ratings nationwide as published by the Mexican subsidiary of the Brazilian Institute of Statistics and Public Opinion, or Instituto Brasileño de Opinión Pública y Estadística, or IBOPE. The Mexican subsidiary of IBOPE is referred to as IBOPE Mexico in this annual report. For further information regarding audience share and ratings information and IBOPE Mexico, see Information on the Company Business Overview Television Television Broadcasting .

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(10) The figures set forth in this line item represent total circulation of magazines that we publish independently and through joint ventures and other arrangements and do not represent magazines distributed on behalf of third parties.

(11) Sky commenced operations in Mexico in 1996, and in Central America and the Dominican Republic in 2007. The figures set forth in this line item represent the total number of gross active residential and commercial subscribers for Innova at the end of each year presented. For a description of Innova s business and results of operations and financial condition, see Information on the Company Business Overview DTH

Joint Ventures Mexico and Central America .

(12) An RGU is defined as an individual service subscriber who generates recurring revenue under each service provided by Empresas Cablevisión, S.A.B. de C.V., or Cablevisión and Cablemás (pay-TV, broadband internet and digital telephony). For example, a single subscriber paying for cable television, broadband internet and digital telephony services represents three RGUs. We believe it is appropriate to use the number of RGUs as a performance measure for Cablevisión, Cablemás and TVI given that these businesses provide other services in addition to pay-TV. See

Operating and Financial Review and Prospects Results of Operations Total Segment Results Cable and Telecom and Information on the Company Business Overview Cable and Telecom .

(13) Beginning June 2008, we started to consolidate Cablemás, a significant cable operator in Mexico, operating in 49 cities.

(14) Beginning October 2009, we started to consolidate TVI, a leading provider of triple-play services in northern Mexico.

(15) Through December 31, 2007, under Mexican FRS, the changes in financial position for operating, financing and investing activities, were presented through the

statements of changes in financial position. On January 1, 2008, Mexican FRS NIF B-2, Statement of Cash Flows became effective on a prospective basis. Therefore, we have included the statement of cash flows for the years ended December 31, 2008 and 2009. See Note 1 to our year-end financial statements for further detail regarding this change. Due to the adoption of Mexican FRS NIF B-2, Statement of Cash Flows , the 2008 and 2009 information is not directly comparable to the information for the year ended 2007 and prior years. The criteria for determining net cash provided by, or used in, operating, investing and financing activities under the new Mexican FRS NIF B-2, Statement of Cash Flows is different from that used in prior years.

Dividends

Decisions regarding the payment and amount of dividends are subject to approval by holders of a majority of the A Shares and B Shares voting together, generally, but not necessarily, on the recommendation of the Board of Directors, as well as a majority of the A Shares voting separately. Emilio Azcárraga Jean indirectly controls the voting of the majority of the A Shares and, as a result of such control, both the amount and the payment of dividends require his affirmative vote. See Major Stockholders and Related Party Transactions The Major Stockholders . The amounts in this section are presented in nominal historical figures and therefore have not been restated in constant currency units due to a change in Mexican FRS whereby beginning on January 1, 2008 we discontinued recognizing the effects of inflation on our results. On March 25, 2004, our Board of Directors approved a dividend policy under which we currently intend to pay an annual regular dividend of Ps.0.35 per CPO. Also, on May 21, 2004, the Company s Board of Directors approved a Ps.3,850.0 million cash distribution to stockholders, equivalent to Ps.1.219 per CPO, which included the annual regular dividend of Ps.0.35 per CPO, that is the dividend corresponding to the Series A and L shares and the cumulative preferred dividend corresponding to the Series D shares. On February 22, 2005, our Board of Directors approved a cash distribution to stockholders, equivalent to Ps.1.35 per CPO, equivalent to approximately Ps.4,250.0 million. On April 29, 2005, at a general stockholders meeting, our stockholders approved the payment of an extraordinary dividend of Ps.1.00 per CPO, which is in addition to our ordinary dividend of

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Ps.0.35 per CPO, for a total dividend of Ps.1.35 per CPO. On April 28, 2006 at a general stockholders meeting, our stockholders approved a cash distribution to stockholders for up to Ps.1,104 million, equivalent to Ps.0.00299145 per share, or Ps.0.35 per CPO. On April 27, 2007, at a general stockholders meeting, our stockholders approved a cash distribution to stockholders for up to Ps.4,401 million, which includes the payment of an extraordinary dividend of Ps.1.10 per CPO, which is in addition to our ordinary dividend of Ps.0.35 per CPO, for a total dividend of Ps.1.45 per CPO, equivalent to Ps.0.01239316239 per share. On April 30, 2008, at a general stockholders meeting, our stockholders approved a cash distribution to stockholders for up to Ps.2,276.3 million, which includes the payment of an extraordinary dividend of Ps.0.40 per CPO, which is in addition to our ordinary dividend of Ps.0.35 per CPO, for a total dividend of Ps.0.75 per CPO, equivalent to Ps.0.00641025641 per share. On April 30, 2009, at a general stockholders meeting, our stockholders approved a cash distribution to stockholders of up to Ps.5,204.6 million, which includes the payment of an extraordinary dividend of Ps.1.40 per CPO, which is in addition to our ordinary dividend of Ps.0.35 per CPO, for a total dividend of Ps.1.75 per CPO, equivalent to Ps.0.014957264957 per share. In addition to the dividend payment approved by our stockholders on April 30, 2009, and based on the proposal by our Board of Directors, on December 10, 2009, at a general stockholders meeting, our stockholders approved a cash distribution to stockholders for up to Ps.4.0 billion, which includes the payment of an extraordinary dividend of Ps.1.0 per CPO, which is in addition to our ordinary dividend of Ps.0.35 per CPO, for a total dividend of Ps.1.35 per CPO, equivalent to Ps.0.011538461538 per share. The dividend payment approved on December 10, 2009 would have generally been paid in April 2010. We do not expect payment of any additional dividends during 2010. All of the recommendations of the Board of Directors related to the payment and amount of dividends were voted and approved at the applicable general stockholders meetings. The agreements related to some of our outstanding indebtedness contain covenants that restrict, among other things, the payment of dividends, under certain conditions.

Exchange Rate Information

Since 1991, Mexico has had a free market for foreign exchange and, since 1994, the Mexican government has allowed the Peso to float freely against the U.S. Dollar. There can be no assurance that the government will maintain its current policies with regard to the Peso or that the Peso will not depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period end Mexican Official FIX Rate, or FIX Rate, published by the Mexican Central Bank, expressed in Pesos per U.S. Dollar. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Period	High	Low	Average(1)	Period End
2005	11.4018	10.4097	10.8895	10.6344
2006	11.4809	10.4303	10.9034	10.8116
2007	11.2676	10.6639	10.9274	10.9157
2008	13.9183	9.9180	11.1455	13.8325
2009	15.3650	12.5969	13.4983	13.0659
2010 (June 17, 2010)	13.1819	12.1575	12.6662	12.5925
January	13.0098	12.6478	12.8019	13.0098
February	13.1753	12.7769	12.9424	12.7769
March	12.7454	12.3306	12.5737	12.3306
April	12.7259	12.1575	12.4019	12.2626
May	13.1819	12.2605	12.7428	12.9146
June (through June 17, 2010)	12.9288	12.5878	12.7572	12.5925

(1) Annual average rates reflect the average of the daily exchange rate during the relevant period.

The above rates may differ from the actual rates used in the preparation of the financial statements and the other financial information appearing in this Form 20-F.

In the past, the Mexican economy has had balance of payment deficits and decreases in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos to U.S. Dollars, we cannot assure you that the Mexican government will not institute restrictive exchange control policies in the future, as has occurred from time to time in the past. To the extent that the Mexican government institutes restrictive exchange control policies in the future, our ability to transfer or to convert Pesos into U.S. Dollars and other currencies for the purpose of making timely payments of interest and principal of indebtedness, as well as to obtain foreign programming and other goods, would be adversely affected. See Key Information Risk Factors Risk Factors Related to Mexico Currency Fluctuations or the Devaluation and Depreciation of the Peso Could Limit the Ability of Our Company and Others to Convert Pesos into U.S. Dollars or Other Currencies, Which Could Adversely Affect Our Business, Financial Condition or Results of Operations .

On June 17, 2010 the FIX Rate was Ps. 12.5925 per U.S.$1.00.

Risk Factors

The following is a discussion of risks associated with our company and an investment in our securities. Some of the risks of investing in our securities are general risks associated with doing business in Mexico. Other risks are specific to our business. The discussion below contains information, among other things, about the Mexican government and the Mexican economy obtained from official statements of the Mexican government as well as other public sources. We have not independently verified this information. Any of the following risks, if they actually occur, could materially and adversely affect our business, financial condition, results of operations or the price of our securities.

Risk Factors Related to Mexico

Economic and Political Developments in Mexico May Adversely Affect Our Business

Most of our operations and assets are located in Mexico. As a result, our financial condition, results of operations and business may be affected by the general condition of the Mexican economy, the devaluation of the Peso as compared to the U.S. Dollar, Mexican inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico over which we have no control.

Mexico Has Experienced and is Currently Experiencing Adverse Economic Conditions, Which Could Have a Negative Impact on Our Results of Operations and Financial Condition

Mexico has historically experienced uneven periods of economic growth. Mexican gross domestic product, or GDP, increased 3.3% and 1.5% in 2007 and 2008, respectively, and decreased by 6.5% in 2009. Mexican GDP growth fell short of Mexican government estimates in 2009; however, according to Mexican government estimates, Mexican GDP is expected to increase by approximately 4.0% in 2010. We cannot assure you that these estimates will prove to be accurate.

Mexico has been adversely affected by the global economic crisis that started in the summer of 2007. The country s main economic indicators have been negatively affected, including a rise in unemployment, decline of interest rates, higher inflation and a devaluation of the Peso against the U.S. Dollar. This current global economic downturn and/or any future economic downturn, including downturns in the United States and Europe, could affect our financial condition and results of operations. We cannot predict what impact this crisis will have. For example, demand for advertising may decrease both because consumers may reduce expenditures for our advertisers products and because advertisers may reduce advertising expenditures and demand for publications, cable television, direct-to-home, or DTH satellite services, pay-per-view programming, telecommunications services and other services and products may decrease because consumers may find it difficult to pay for these services and products.

Developments in Other Emerging Market Countries or in the U.S. May Adversely Affect the Mexican Economy, the Market Value of Our Securities and Our Results of Operations

The market value of securities of Mexican companies, the economic and political situation in Mexico and our financial condition and results of operations are, to varying degrees, affected by economic and market conditions in other emerging market countries and in the United States. Although economic conditions in other emerging market countries and in the United States may differ significantly from economic conditions in Mexico, investors reactions to developments in any of these other countries may have an adverse effect on the market value or trading price of securities of Mexican issuers, including our securities, or on our business. In recent years, for example, prices of Mexican debt securities dropped substantially as a result of developments in Russia, Asia, Brazil and the U.S.

Our operations, including the demand for our products or services, and the price of our securities, have also historically been adversely affected by increases in interest rates in the United States and elsewhere. Economic downturns in the United States often have a significant adverse effect on the Mexican economy and other economies globally, which in turn, could affect our financial condition and results of operations.

Our profitability is affected by numerous factors, including changes in viewing preferences, priorities of advertisers and reductions in advertisers budgets. Historically, advertising in most forms of media has correlated positively with the general condition of the economy and thu006 Plan vest in equal 25% increments on each of the four anniversary dates immediately following the date of grant. The following is a summary of restricted stock issued as of September 30, 2007 and changes during the thirty-nine week period ended September 30, 2007:

	Shares	Wtd. Avg. Grant date Fair value
Restricted stock outstanding at January 1, 2007	445,500	$ 13.07
Granted	300,000	25.75
Vested	(110,360)	13.07
Forfeited/canceled	(8,628)	13.07
Restricted stock outstanding at September 30, 2007	626,512	$ 19.14

During the thirteen weeks and thirty-nine weeks ended September 30, 2007, the Company recognized $0.8 million and $1.7 million of compensation expense respectively related to its outstanding shares of restricted stock. As of September 30, 2007, the Company had $10.2 million of unrecognized compensation expense.

6. COMPREHENSIVE INCOME

The components of the Company s comprehensive income, net of tax, are as follows (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Net income	$ 12,738	$ 8,642	$ 30,368	$ 19,516
Change in foreign currency translation, net of income tax (expense) benefit of $(761) , $252, $(1,160) and $(704), respectively	1,367	(411)	2,083	1,148
Pension liability adjustment, net of income tax benefit of $24, $0, $102 and $56, respectively	36		156	95
Unrealized gain on derivative instruments, net of income tax expense benefit of $16, $1,068, $597 and $578, respectively	24	2,445	953	1,627
Comprehensive income	$ 14,165	$ 10,676	$ 33,560	$ 22,386

7. EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net income available to shareholders by the weighted average number of outstanding common shares. The calculation of diluted earnings per share is similar to that of basic earnings per share, except that the denominator includes dilutive common share equivalents such as stock options and shares of restricted stock.

Basic and diluted earnings per share (EPS) were calculated for the thirteen and thirty-nine weeks ended September 30, 2007 and October 1, 2006 as follows (in thousands, except per share data):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 30, 2007	**October 1, 2006**	**September 30, 2007**	**October 1, 2006**
Net income	$ 12,738	$ 8,642	$ 30,368	$ 19,516
Basic earnings per share:				
Weighted average shares outstanding	50,331	38,526	46,853	32,986
Per share amount	$ 0.25	$ 0.22	$ 0.65	$ 0.59
Diluted earnings per share:				
Weighted average shares outstanding	50,331	38,526	46,853	32,986
Effect of dilutive securities:				
Stock options and restricted stock	1,439	1,494	1,467	1,262
Weighted average shares assuming dilution	51,770	40,020	48,320	34,248
Per share amount	$ 0.25	$ 0.22	$ 0.63	$ 0.57

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Thirteen Weeks

No options or shares of restricted stock were excluded from the computation of diluted EPS for the thirteen weeks ended September 30, 2007 and the thirteen weeks ended October 1, 2006 because their effect would be anti-dilutive.

Thirty-nine Weeks

No options were excluded from the computation of diluted EPS for the thirty-nine weeks ended September 30, 2007 because their effect would be anti-dilutive. Of 3,042,450 options outstanding at October 1, 2006, options to purchase 3,000 shares of the Company s common stock, with an exercise price of $13.74 per share and expiration year of 2016, were excluded from the computation of diluted EPS because their effect would be anti-dilutive.

Of 626,512 shares of restricted stock outstanding at September 30, 2007, none of the shares of common stock were excluded from the computation of diluted EPS because their effect would be anti-dilutive. Of 448,500 restricted shares outstanding at October 1, 2006, 422,280 were excluded in the computation of diluted EPS because their effect was anti-dilutive.

8. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Changes in the Company s goodwill balances for the thirty-nine weeks ended September 30, 2007 were as follows (in thousands):

	Balance as of December 31, 2006	Foreign Currency Translation	Balance as of September 30, 2007
U.S. Corrections	$ 23,999	$	$ 23,999
International Services	3,075	191	3,266
Total Segments	$ 27,074	$ 191	$ 27,265

No goodwill resulted from the acquisition of CPT on January 24, 2007.

Intangible assets consisted of the following (in thousands):

	Description	Asset Life
Facility management contracts	$ 14,550	7-17 years
Covenants not to compete	1,470	4 years
	16,020	
Less accumulated amortization	(3,276)	
	$ 12,744	

Amortization expense was $1.7 million and $1.3 million for the thirty-nine weeks ended September 30, 2007 and October 1, 2006, respectively. The expense for the thirty-nine weeks ended September 30, 2007 includes a write-off of $0.4 million (net of accumulated amortization of $0.1 million) related to the termination of our contract with Dickens County Correctional Center in July 2007. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets.

9. LONG-TERM DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

Senior Debt

The Senior Credit Facility

On January 24, 2007, the Company completed the refinancing of its senior secured credit facility through the execution of a Third Amended and Restated Credit Agreement (the Senior Credit Facility), by and among the

Company, as Borrower, BNP Paribas, as Administrative Agent, BNP Paribas Securities Corp., as Lead Arranger and Syndication Agent, and the lenders who are, or may from time to time become, a party thereto. The Senior Credit Facility consists of a $365.0 million, seven-year term loan (the Term Loan B) and a $150 million five-year revolver (the Revolver). The initial interest rate for the Term Loan B is at the London Interbank Offered Rate, (LIBOR) plus 1.5% and the Revolver bears interest at LIBOR plus 2.25% or at the base rate plus 1.25%. On January 24, 2007, the Company used the $365.0 million in borrowings under the Term Loan B to finance its acquisition of CPT, as discussed in Note 4 Acquisition.

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On March 26, 2007, the Company used $200.0 million of the aggregate net proceeds of $227.5 million from its recent equity offering
(see Note 3 Equity Offering) to repay debt outstanding under the Term Loan B. As a result of the debt repayment, the Company wrote off approximately $4.8 million in deferred financing fees during the quarter ended April 1, 2007. As of September 30, 2007, the Company had $163.2 million outstanding under the Term Loan B, no amounts outstanding under the Revolver and $69.0 million outstanding in letters of credit under the Revolver. Because amounts outstanding under letters of credit reduce the availability of borrowings, as of September 30, 2007, the Company had $81.0 million available under the Revolver. The Company intends to use future borrowings thereunder for general corporate purposes.
Indebtedness under the Revolver bears interest in each of the instances below at the stated rate:

	Interest Rate Under the Revolver
Borrowings	LIBOR plus 2.25% or base rate plus 1.25%.
Letters of credit	1.50% to 2.50%.
Available borrowings	0.38% to 0.05%.

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:

Period	**Leverage Ratio**
Through December 30, 2008	Total leverage ratio £ 5.50 to 1.00
From December 31, 2008 through December 31, 2011	Reduces from 4.75 to 1.00, to 3.00 to 1.00
Through December 30, 2008	Senior secured leverage ratio £ 4.00 to 1.00
From December 31, 2008 through December 31, 2011	Reduces from 3.25 to 1.00, to 2.00 to 1.00
Four quarters ending June 29, 2008, to December 30, 2009	Fixed charge coverage ratio of 1.00, thereafter 1.10 to 1.00

All of the obligations under the Senior Credit Facility are unconditionally guaranteed by each of the Company s existing material domestic subsidiaries. The Senior Credit Facility and the related guarantees are secured by substantially all of the Company s present and future tangible and intangible assets and all present and future tangible and intangible assets of each guarantor, 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.
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 its 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 capital stock, (viii) transact with affiliates, (ix) make changes in accounting treatment, (x) amend or modify the terms of any subordinated indebtedness, (xi) enter into debt agreements that contain negative pledges on its assets or covenants more restrictive than those contained in the Senior Credit Facility, (xii) alter the business it conducts, and (xiii) materially impair the Company s lenders security interests in the collateral for its loans.
Events of default under the Senior Credit Facility include, but are not limited to, (i) the Company s failure to pay principal or interest when due, (ii) the Company s material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental state of claims which are asserted against it, and (viii) a change of control.
Senior 8 1/4% Notes

To facilitate the completion of the purchase of the interest of the Company s former majority shareholder in 2003, the Company issued $150.0 million aggregate principal amount, ten-year, 8 1/4% senior unsecured notes (the Notes). The Notes are general, unsecured, senior obligations. 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 the Company and the Bank of New York, as trustee, referred to as the Indenture. 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.

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Non-Recourse Debt

South Texas Detention Complex

The Company has a debt service requirement related to the development of the South Texas Detention Complex. This detention center was acquired in November 2005 from Correctional Services Corporation (CSC), now a wholly-owned subsidiary of the Company, who was awarded the contract in February 2004 by the Department of Homeland Security, Bureau of Immigration and Customs Enforcement (ICE) for the development and operation of a 1,020 bed detention complex in Frio County, Texas. In order to finance the construction of the detention center, South Texas Local Development Corporation, a non-profit corporation (STLDC) was created and issued $49.5 million in taxable revenue bonds. Additionally, CSC provided $5.0 million of subordinated notes to STLDC for initial development.

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 operating expenses and management fees. 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. The Company has determined that it is the primary beneficiary of STLDC and consolidates the entity as a result.

On February 1, 2007, the Company made a payment of $4.1 million for the current portion of our periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of September 30, 2007, the remaining balance of the debt service requirement is $45.3 million, of which $4.3 million is due within the next twelve months. Also as of September 30, 2007, $15.4 million is included in non-current restricted cash 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, referred to as 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, referred to as 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. No payments were made during the thirty-nine weeks ended September 30, 2007 in relation to the WEDFA bond indenture. As of September 30, 2007, the remaining balance of the debt service requirement is $47.8 million, of which $5.1 is due within the next 12 months.

As of September 30, 2007, $6.7 million is included in non-current restricted cash equivalents and investments 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, the Company s wholly owned Australian subsidiary financed the 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 Australian Dollar (AUD) 5.0 million, which, at September 30, 2007, was $4.4 million and is included in non-current restricted cash. 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.

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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. The Company s 50% owned South African joint venture in South African Custodial Services Pty. Limited (SACS), is a variable interest entity. The Company has determined that it is not the primary beneficiary of SACS and as a result 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 s joint venture partner to provide purchasing, programs and maintenance services upon completion of the construction phase, which concluded in February 2002. The Company s maximum exposure for loss under this contract is $15.6 million, which represents its initial investment and the guarantees.

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. 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 costs. 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 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.

Guarantees

In connection with the creation of South African Custodial Services Ltd., referred to as SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. The Company guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or approximately $8.8 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 7.0 million South African Rand, or approximately $1.0 million, as security for its guarantee. The Company s 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 the Company s outstanding letters of credit under its Revolver.

The Company has agreed to provide a loan of up to 20.0 million South African Rand, or approximately $2.9 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 the Company does not currently anticipate that such funding will be required by SACS in the future. The Company s obligations under the Standby Facility expire upon the earlier of full funding or SACS s release from its obligations under its debt agreements. The lenders abilities to draw on the Standby Facility are limited to certain circumstances, including termination of the contract.

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

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is Canadian Dollar (CAN) 2.5 million, or approximately $2.5 million, commencing in 2017. The Company has a liability of approximately $0.8 million related to this exposure as of September 30, 2007 and December 31, 2006. To secure this guarantee, the Company has purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its balance sheet. The Company does not currently operate or manage this facility.

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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 $54.6 million and $50.0 million at September 30, 2007 and December 31, 2006, 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 September 30, 2007, was approximately $4.4 million. This amount is included in non-current restricted cash and the annual maturities of the future debt obligation is included in non-recourse debt. At September 30, 2007, the Company also had outstanding seven letters of guarantee totaling approximately $6.9 million under separate international facilities.

Derivatives

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 LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of September 30, 2007 and December 31, 2006 the fair value of the swap liabilities totaled $1.1 million and $1.7 million, respectively, and are included in other non-current 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 period ended September 30, 2007.

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 asset as of September 30, 2007 and December 31, 2006 was approximately $5.2 million and $3.2 million, respectively, and was recorded as a component of other assets within the consolidated financial statements. There was no material ineffectiveness of the Company s interest rate swap for the fiscal periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses of amounts associated with this swap which are currently reported in accumulated other comprehensive income.

10. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

Australia Property Damage

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that the 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 August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUS 18 million or $16 million. The Company believes that it has several defenses to the allegations underlying the litigation and the amounts sought, and intends to vigorously defend its rights with respect to this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and its preliminary review of the claim, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on its financial condition, results of operations and cash flows. Furthermore, the Company is unable to determine the losses, if any, that it will incur under the litigation should the matter be resolved unfavorably to it. 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 established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of its legal counsel in connection with this matter.

Florida Department of Management Services Matter

On May 19, 2006, the Company, along with Corrections Corporation of America, referred to as CCA, was sued by an individual plaintiff in the Circuit Court of the Second Judicial Circuit for Leon County, Florida (Case No. 2005CA001884). The complaint alleged that, during the period from 1995 to 2004, the Company and CCA over-billed the State of Florida by an amount of at least $12.7 million by submitting false claims to the State for various items under the management contracts at the Company s South Bay and Moore Haven, Florida correctional facilities. The complaint appeared to be largely based on the same set of issues raised by a Florida Inspector General s Evaluation Report released in late June 2005, referred to below as the IG Report, which alleged that the Company and CCA over billed the State of Florida by over $12.0 million. On August 10, 2007, the plaintiff voluntarily dismissed the lawsuit without prejudice. No payment was made by the Company.

As a result of the set of issues raised by the Florida Inspector General, the Florida Department of Management Services (DMS) conducted a detailed analysis of the allegations raised by the IG Report which included a comprehensive written response to the IG Report prepared by the Company. In September 2005, the DMS provided a letter to the Company stating that, although its review had not yet been fully completed, it did not find any indication of any improper conduct by the Company. On October 17, 2006, DMS provided a letter to the Company stating that its review had been completed. The Company and DMS then agreed to settle this matter for $0.3 million. This amount was accrued at December 31, 2006 and paid in the first quarter of 2007. Subsequently, the Florida Department of Law Enforcement also completed its investigation of this matter and found no wrongdoing on behalf of the Company.

Texas Wrongful Death Action

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a $47.5 million verdict against the Company. Recently, the verdict was entered as a judgment against the Company in the amount of $51.7 million. The lawsuit is being administered under the insurance program established by The Wackenhut Corporation, the Company s former parent company, in which the Company participated until October 2002. Policies secured by the Company under that program provide $55 million in aggregate annual coverage. As a result, the Company believes it is fully insured for all damages, costs and expenses associated with the lawsuit and as such has not taken any reserves in connection with the matter. The lawsuit stems from an inmate death which occurred at the Company s former Willacy County State Jail in Raymondville, Texas, in April 2001, when two inmates at the facility attacked another inmate. Separate investigations conducted internally by the Company, The Texas Rangers and the Texas Office of the Inspector General exonerated the Company and its employees of any culpability with respect to the incident. The Company believes that the verdict awarded in 2006 is contrary to law and unsubstantiated by the evidence. The Company s insurance carrier has posted a supersedeas bond in the amount of approximately $60 million to cover the judgment. On December 9, 2006, the trial court denied the Company s post trial motions and the Company filed a notice of appeal on December 18, 2006. The appeal is proceeding.

Other Legal Proceedings

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.

Contracts

Taft Correctional Institution

On April 26, 2007, the Company announced that the Federal Bureau of Prisons awarded a contract for the management of the 2,048-bed Taft Correctional Institution, which has been managed by the Company since 1997, to another private operator. The management contract, which was competitively re-bid, was transitioned to the alternative operator effective August 20, 2007. The loss of this contract did not have a material adverse effect on its financial condition or results of operations.

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Dickens County Correctional Center
In July 2007, the Company cancelled the Operations and Management contract with Dickens County for the management of the 489-bed facility located in Spur, Texas. GEO has operated the management contract since the acquisition of CSC in November 2005. The Company does not expect that the termination of this contract, effective December 28, 2007, will have a significant impact on its results of operations or cash flows.

Insurance claims
The Company maintains general liability insurance for property damages incurred, property operating costs during downtimes, business interruption and incremental costs incurred during inmate disturbances. In April 2007, the Company incurred significant damages at one of its managed-only facilities in New Castle, Indiana as a result of a disturbance. The total amount of impairments, losses recognized and expenses incurred has been recorded in the accompanying statements of income as operating expenses and is partially offset by $1.1 million which management believes is probable of being collected from the Company s insurance carrier. The expenses incurred are in excess of the amount recorded as a receivable from the claim. When the Company and its insurance carrier agree on the final amount of the insurance proceeds to which it is entitled, any excess, should there be any excess, will be recorded in these accounts.

Construction Projects
The Company s total commitment for construction projects as of September 30, 2007 is approximately $230 million, of which approximately $48 million has been paid.

11. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments
The Company conducts its business through three reportable business segments: its U.S. corrections segment; its international services segment; and its GEO Care segment. The U.S. corrections segment primarily encompasses the U.S.-based privatized corrections and detention business. The international services segment primarily consists of privatized corrections and detention operations in South Africa, Australia and the United Kingdom. The GEO Care segment, which is operated by the Company s wholly-owned subsidiary GEO Care, Inc., comprises privatized mental health and residential treatment services business, all of which is currently conducted in the United States. Other primarily consists of activities associated with the Company s construction business. Set forth below is certain financial and other information regarding each of the Company s reportable segments. U.S. corrections operating income for the thirty-nine weeks ended September 30, 2007 includes $1.1 million related to certain contingencies established during the preliminary purchase price allocation that are no longer necessary due to the resolution of those matters in the Second Quarter of 2007. The segment information presented below with respect to prior periods has been reclassified to conform to the Company s current presentation (in thousands):

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenues:				
U.S. corrections	$ 169,369	$ 153,877	$ 502,765	$ 451,358
International services	33,510	26,797	95,672	74,814
GEO Care	30,943	19,770	82,590	50,202
Other	33,187	18,465	81,168	37,104
Total revenues	$ 267,009	$ 218,909	$ 762,195	$ 613,478
Depreciation and amortization:				
U.S. corrections	$ 8,318	$ 5,192	$ 22,951	$ 15,222
International services	461	723	995	2,136
GEO Care	400	165	985	410
Other				

Total depreciation and amortization	$ 9,179	$ 6,080	$ 24,931	$ 17,768
Operating income:				
U.S. corrections	$ 35,367	$ 26,105	$ 103,419	$ 75,021
International services	2,375	2,060	8,151	5,418
GEO Care	3,292	2,685	7,608	7,117
Other	284	208	97	222
Operating income from segments	41,318	31,058	119,275	87,778
Corporate expenses	(16,054)	(14,073)	(46,849)	(42,374)
Total operating income	$ 25,264	$ 16,985	$ 72,426	$ 45,404

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	September 30, 2007	December 31, 2006
Segment assets:		
U.S. corrections	$ 924,203	$ 457,545
International services	92,574	79,641
GEO Care	22,835	15,606
Other	19,330	21,057
Total segment assets	$ 1,058,942	$ 573,849

Pre-Tax Income Reconciliation of Segments

The following is a reconciliation of the Company s total operating income from its reportable segments to the Company s income before income taxes, equity in earnings of affiliates, discontinued operations and minority interest, in each case, during the thirteen weeks and thirty-nine weeks ended September 30, 2007 and October 1, 2006, respectively.

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Total operating income from segments	$ 41,318	$ 31,058	$ 119,275	$ 87,778
Unallocated amounts:				
Corporate expenses	(16,054)	(14,073)	(46,849)	(42,374)
Net interest expense	(6,055)	(3,804)	(21,513)	(14,189)
Write off of deferred financing fees from extinguishment of debt			(4,794)	(1,295)
Income before income taxes, minority interest, equity in earnings of affiliates and discontinued operations	$ 19,209	$ 13,181	$ 46,119	$ 29,920

Asset Reconciliation of Segments

The following is a reconciliation of the Company s reportable segment assets to the Company s total assets as of September 30, 2007 and December 31, 2006, respectively.

	September 30, 2007	December 31, 2006
Reportable segment assets	$ 1,039,612	$ 552,792
Cash	56,276	111,520
Deferred tax asset, net	19,010	24,433
Restricted cash	39,575	33,651
Other	19,330	21,057
Total Assets	$ 1,173,803	$ 743,453

Sources of Revenue

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

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Revenues:				
Correctional and detention	$ 202,879	$ 180,674	$ 598,437	$ 526,172
Residential treatment	30,943	19,770	82,590	50,202
Construction	33,187	18,465	81,168	37,104
Total revenues	$ 267,009	$ 218,909	$ 762,195	$ 613,478

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Equity in Earnings of Affiliate

Equity in earnings of affiliate includes our joint venture in South Africa, SACS. This entity is accounted for under the equity method of accounting.

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

	Thirty-nine Weeks Ended	
	September 30, 2007	October 1, 2006
Statement of Operations Data		
Revenues	$ 26,660	$ 25,866
Operating income	10,808	9,956
Net (loss) income	(2,087)	2,093

	September 30, 2007	December 31, 2006
Balance Sheet Data		
Current assets	16,144	15,396
Non-current assets	52,166	60,023
Current liabilities	5,649	5,282
Non-current liabilities	59,443	63,919
Shareholders equity	3,218	6,217

SACS commenced operations in fiscal 2002. Total equity in undistributed income for SACS before income taxes, for the thirty-nine weeks ended September 30, 2007 and October 1, 2006 was $4.3 million, and $2.2 million, respectively.

12. BENEFIT PLANS

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

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 Company adopted FAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), (FAS 158) at December 31, 2006. FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multi-employer plan) as an asset or liability on its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. FAS 158 requires an employer to measure the funded status of a plan as of its year-end date.

FAS 158 also requires an entity to measure a defined benefit postretirement plan s assets and obligations that determine its funded status as of the end of the employer s fiscal year, and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. Since the Company currently has a measurement date of December 31 for all plans, this provision did not have a material impact in the year of adoption.

In accordance with FAS 158, the Company has disclosed contributions and payment of benefits related to the plans. There were no assets in the plan at September 30, 2007 or December 31, 2006. There were no significant transactions between the employer or related parties and the plan during the period.

The following table summarizes key information related to these pension plans and retirement agreements which includes information as required by FAS 158. 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.

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	September 30, 2007	December 31, 2006
	(in thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	$ 17,098	$ 15,702
Service cost	413	671
Interest cost	393	546
Plan amendments		
Actuarial gain		215
Benefits paid	(33)	(36)
Projected benefit obligation, end of period	$ 17,871	$ 17,098
Change in Plan Assets		
Plan assets at fair value, beginning of period	$	$
Company contributions	33	36
Benefits paid	(33)	(36)
Plan assets at fair value, end of period		
Unfunded Status of the Plan	$ (17,871)	$ (17,098)
Amounts Recognized in Accumulated Other Comprehensive Income		
Prior service cost	133	164
Net loss	2,801	3,028
Accrued pension cost	$ 2,934	$ 3,192

	Thirteen Weeks Ended		Thirty-nine Weeks Ended	
	September 30, 2007	October 1, 2006	September 30, 2007	October 1, 2006
Components of Net Periodic Benefit Cost (in thousands)				
Service cost	$ 138	$ 133	$ 413	$ 398
Interest cost	188	171	393	479
Amortization of:				
Prior service cost	10	36	30	108
Net loss	76	10	227	30
Net periodic pension cost	$ 412	$ 350	$ 1,063	$ 1,015
Weighted Average Assumptions for Expense				
Discount rate	5.75%	5.50%	5.75%	5.50%
Expected return on plan assets	N/A	N/A	N/A	N/A
Rate of compensation increase	5.50%	5.50%	5.50%	5.50%

In fiscal 2006, the Company reported total comprehensive income of approximately $34.5 million which included the effect of the adoption of FAS 158 of approximately ($1.9) million. The effect of the adoption of FAS 158 should not have been reported as an adjustment to comprehensive income which, if excluded, would have resulted in total comprehensive income in 2006 of approximately $36.4 million. The ending accumulated other comprehensive income balance of approximately $2.4 million and total stockholders equity of approximately $248.6 million reported in the consolidated statements of stockholders equity at December 31, 2006 are correct as reported. The Company will adjust the presentation of the 2006 comprehensive income amounts in its 2007 10-K filing.

13. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued FAS No. 157 (FAS 157), Fair Value Measurements, which establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. FAS 157 is effective for fiscal years beginning after November 15, 2007. The Company will adopt FAS 157 effective January 1, 2008 and is currently evaluating the impact this standard will have on its financial condition, results of operations, cash flows or disclosures.

In February 2007, the FASB issued FAS No. 159 (FAS 159), Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of FAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by FAS 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent

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reporting date. FAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact this standard will have on its financial condition, results of operations, cash flows or disclosures.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). The Company adopted the provisions of FIN 48, on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies.* As required by FIN 48, which clarifies Statement 109, *Accounting for Income Taxes,* the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, the Company recognized an increase of approximately a $2.5 million in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of retained earnings.

The amount of unrecognized tax benefits as of January 1, 2007, was $5.7 million. That amount includes $3.4 million of unrecognized tax benefits which, if ultimately recognized, will reduce the Company s annual effective tax rate. As a result of a South African tax law change enacted in February 2007, a liability for unrecognized tax benefits in the amount of $2.4 million is no longer required resulting in a material change in unrecognized tax benefits during the first quarter of 2007. The reduction in the liability resulted in an increase to equity in earnings of affiliate for the first quarter of 2007. During the second and third quarters of 2007 there have been no material changes to the amount of unrecognized tax benefits.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2002.

The Internal Revenue Service commenced an examination of the Company s U.S. income tax returns for 2002 through 2004 in the third quarter of 2005 that is anticipated to be completed during 2008. The Company does not expect to recognize any further significant changes to the total amount of unrecognized tax benefits during the remaining quarters of the year.

In adopting FIN 48, the Company changed its previous method of classifying interest and penalties related to unrecognized tax benefits as income tax expense to classifying interest accrued as interest expense and penalties as operating expenses. Because the transition rules of FIN 48 do not permit the retroactive restatement of prior period financial statements, the Company s third quarter 2006 financial statements continue to reflect interest and penalties on unrecognized tax benefits as income tax expense. The Company accrued approximately $0.9 million for the payment of interest and penalties at January 1, 2007. Subsequent changes to accrued interest and penalties have not been significant.

Subsequently, in May 2007, the FASB published FSP FIN 48-1. FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of our adoption date of FIN 48, our accounting is consistent with the guidance in FSP FIN 48-1.

14. SUBSEQUENT EVENTS

Contracts

Coke County

On October 2, 2007, the Company received notice of the termination of its contract with the Texas Youth Commission for the housing of juvenile inmates at the 200-bed Coke County Juvenile Justice center located in Bronte, Texas. The Company is in the preliminary stages of reviewing the termination of this contract however, does not expect that the termination, or any liability that may arise with respect to such termination, will have a material adverse impact on its results of operations and cash flows.

Aurora

On October 15, 2007 the Company announced the expansion of the 400-bed Aurora ICE Processing Center (the Center) located in Aurora, Colorado. The Company will begin a 1,100 bed expansion of the Company-owned Center in the Fourth Quarter of 2007 and expects to complete construction in the Third Quarter of 2009.

Cost of Acquisition Opportunities

In November 2007, the Company wrote off approximately $1.0 million of costs associated with unsuccessful negotiations related to acquisition opportunities.

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THE GEO GROUP, INC.

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

Forward-Looking Information

This report and our other filings with the Securities and Exchange Commission, which we refer to as the SEC, 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, anticipat intend, plan, believe, seek, estimate or continue or the negative of such words or variations of such words anc expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or cautionary statements, include, but are not limited to:

- our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;
- the instability of foreign exchange rates, exposing us to currency risks in Australia, the United Kingdom, and South Africa, or other countries in which we may choose to conduct our business;
- our ability to reactivate the North Lake Correctional Facility in Michigan;
- an increase in unreimbursed labor rates;
- our ability to expand, diversify and grow our correctional and 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 estimate the government s level of dependency on privatized correctional services;
- our ability to grow our mental health and residential treatment services;
- our ability to accurately project the size and growth of the U.S. and international privatized corrections industry;
- our ability to develop long-term earnings visibility;
- our ability to 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 employee and inmate medical costs;

our ability to maintain occupancy rates at our facilities;

our ability to manage costs and expenses relating to ongoing litigation arising from our operations;

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 SEC including, but not limited to, those detailed in this quarterly report on Form 10-Q, our annual report on Form 10-K and our 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.

FINANCIAL CONDITION

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 under Risk Factors in our Form 10-K for the year ended December 31, 2006, filed with the SEC on March 2, 2007. The discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Form 10-Q.

We are a leading provider of government-outsourced services specializing in the management of correctional, detention and mental health and residential treatment facilities in the United States, Australia, South Africa, the United Kingdom and Canada. We operate a broad range of correctional and detention facilities including maximum, medium and minimum security prisons, immigration detention centers, minimum security detention centers and mental health and residential treatment facilities. Our correctional and detention management services involve the provision of security, administrative, rehabilitation, education, health and food services, primarily at adult male correctional and detention facilities. Our mental health and residential treatment services 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.

As of September 30, 2007, we operated a total of 60 correctional, detention and mental health and residential treatment facilities and had approximately 59,000 beds under management or for which we had been awarded contracts. We maintained an average facility occupancy rate of 96.8% for the thirteen weeks ended September 30, 2007 excluding our vacant Michigan and Jena facilities.

Reference is made to Part II, Item 7 of our annual report on Form 10-K filed with the SEC on March 2, 2007, for further discussion and analysis of information pertaining to our financial condition and results of operations for the fiscal year ended December 31, 2006.

Recent Developments

Re-activation of LaSalle Detention Facility

On July 25, 2007, we announced that the LaSalle Economic Development District (the LEDD) had signed a contract with U.S. Immigration and Customs Enforcement (ICE) for the housing of up to 1,160 immigration detainees at our Company-owned LaSalle Detention Facility (the Facility) located in Jena, Louisiana. We will house and manage the immigration detainee population at the Facility pursuant to an agreement with LEDD.

The intake of 416 detainees began on October 22, 2007. The Facility is expected to ramp-up to 416 detainees by year-end 2007. As announced previously, we are currently expanding the Facility by 744 beds. The 744-bed expansion, which will cost approximately $32.0 million, is expected to be completed by the end of the second quarter of 2008. Following the completion of construction, we will begin intake of the additional 744 detainees. The Facility is expected to ramp-up to full occupancy of 1,160 beds by the end of the third quarter of 2008. The agreement is expected to generate approximately $23.4 million in annualized operating revenues at full occupancy.

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Transition of Taft Correctional Institution
On April 26, 2007, we announced that the Federal Bureau of Prisons awarded a contract for the management of the 2,048-bed Taft Correctional Institution, which has been managed by us since 1997, to another private operator. The management contract, which was competitively re-bid, was transitioned to the alternative operator effective August 20, 2007.

Stock Split
On May 1, 2007 our Board of Directors declared a two-for-one stock split of our common stock. The stock split took effect on June 1, 2007 with respect to stockholders of record on May 15, 2007. Following the stock split, our shares outstanding increased from 25.4 million to 50.8 million. All share and per share data included in this quarterly report on Form 10-Q have been adjusted to reflect the stock split.

Acquisition of CentraCore Properties Trust
On January 24, 2007, we completed the acquisition of CentraCore Properties Trust, which we refer to as CPT, pursuant to the merger of CPT with and into GEO Acquisition II, Inc., our wholly-owned subsidiary. We paid an aggregate purchase price of $421.6 million for the acquisition of CPT, inclusive of the payment of $368.3 million in exchange for the outstanding CPT common stock and stock options, the repayment of $40.0 million in CPT debt and the payment of $13.3 million in transaction related fees. We financed the acquisition through the use of $365.0 million in new borrowings under a new seven-year Term Loan B (defined below) and $65.6 million in cash on hand. The Company deferred debt issuance costs of $9.1 million related to the new $365 million term loan. These costs are being amortized over the life of the term loan. As a result of the merger we no longer have ongoing lease expense related to the properties we previously leased from CPT. However, we have increased depreciation expense reflecting our ownership of the properties and higher interest expense as a result of borrowings used to fund the acquisition.

Recent Financings
On January 24, 2007, in connection with our acquisition of CPT, we completed the refinancing of our senior credit facility through the execution of an amended senior credit facility, which we refer to as the Senior Credit Facility. The Senior Credit Facility initially consisted of a $365.0 million seven-year term loan, referred to as the Term Loan B, and a $150 million five-year revolver, referred to as the Revolver. The initial interest rate for the Term Loan B is LIBOR plus 1.50% and any future borrowings under the Revolver would bear interest at LIBOR plus 2.25% or at the base rate plus 1.25%. On January 24, 2007, we used the $365.0 million in borrowings under the Term Loan B to finance our acquisition of CPT.

On March 23, 2007, we sold in a follow-on public equity offering 5,462,500 shares of our common stock at a price of $43.99 per share, (10,925,000 shares of our common stock at a price of $22.00 per share reflecting the two-for-one stock split). All shares were issued from treasury. The aggregate net proceeds to us from the offering (after deducting underwriter s discounts and expenses of $12.8 million) were $227.5 million. On March 26, 2007, we utilized $200.0 million of the net proceeds from the offering to repay outstanding debt under the Term Loan B portion of the Senior Credit Facility. We intend to use the balance of the proceeds from the offering for general corporate purposes, which may include working capital, capital expenditures and potential acquisitions of complementary businesses and other assets.

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 Management s Discussion and Analysis of Financial Condition and Results of Operations 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 $15.6 million, which represents our initial investment and the guarantees discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations.

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In February 2004, Correctional Services Corporation, now our wholly-owned subsidiary which we refer to as 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 March 13, 2007, we filed a universal shelf registration statement with the SEC, which became effective immediately upon filing. The universal shelf registration statement provides for the offer and sale by us, from time to time, on a delayed basis, of an indeterminate 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.

Critical Accounting Policies

The accompanying unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is contained in Note 1 to our financial statements on Form 10-K for the fiscal year ended December 31, 2006.

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 the 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 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.

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.

Reserve for Insurance Losses

We currently maintain a general liability policy for all U.S. corrections operations with limits of $62.0 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 occurring after October 1, 2004. GEO Care, Inc. is separately insured for general and professional liability. Coverage is maintained with limits of $10.0 million per occurrence and in the aggregate subject to a $3.0 million self-insured retention. We also maintain insurance to cover property and casualty risks, workers compensation, medical malpractice, environmental liability and automobile liability. Our Australian subsidiary is required to carry tail insurance on a general liability policy providing an extended reporting period through 2011 related to a discontinued contract. We also carry various types of insurance with respect to our operations in South Africa, United Kingdom and Australia. There can be no assurance that our insurance coverage will be adequate to cover all claims to which we may be exposed.

Since our insurance policies generally have high deductible amounts (including a $3.0 million per claim deductible for general liability, $1.0 million per claim for auto liability and $2.0 million per claim deductible for our workers compensation policy), losses are recorded when reported and a further provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. If actual losses related to insurance claims significantly differ from our estimates, our financial condition and results of operations could be materially impacted.

Certain of our facilities located in Florida and determined by insurers to be in high-risk hurricane areas carry substantial windstorm deductibles of up to $3.8 million. Since hurricanes are considered unpredictable future events, no reserves have been established to pre-fund for potential windstorm damage. Limited commercial availability of certain types of insurance relating to windstorm exposure in coastal areas and earthquake exposure mainly in California may prevent us from insuring our facilities to full replacement value.

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 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.

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Property and Equipment

As of September 30, 2007, we had $740.4 million in long-lived property and equipment held for use. 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 10 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing 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, (FAS 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. 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. Management has reviewed long-lived assets and determined that there was an impairment to the intangible asset acquired in the 2005 CSC acquisition as a result of the termination of the Dickens Correctional Center management contract in July 2007. As of and for the thirteen week and thirty-nine week periods ended September 30, 2007, we wrote off $0.4 million, net of accumulated amortization of $0.1 million, of assets. This amount is included in depreciation and amortization in the accompanying consolidated financial statements and is included in the U.S. Corrections segment. There were no other events requiring impairment loss recognition for the period ended September 30, 2007.

Stock-based Compensation Expense

We account for stock-based compensation in accordance with the provisions of SFAS 123R using the modified prospective method. Under the fair value recognition provisions of SFAS 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. Determining the appropriate fair value model and calculating the fair value of the stock-based awards, which includes estimates of stock price volatility, forfeiture rates and expected lives, requires judgment that could materially impact our operating results.

Commitments and Contingencies

Australia Property Damage

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 August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia (the Plaintiff) seeking damages of up to AUS 18 million or $16 million. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. Furthermore, we are unable to determine the losses, if any, that we will incur under the litigation should the matter be resolved unfavorably to us. 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 established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our legal counsel in connection with this matter.

Florida Department of Management Services Matter

On May 19, 2006, we, along with Corrections Corporation of America, referred to as CCA, were sued by an individual plaintiff in the Circuit Court of the Second Judicial Circuit for Leon County, Florida (Case No. 2005CA001884). The complaint alleged that, during the period from 1995 to 2004, we and CCA over billed the State of Florida by an amount of at least $12.7 million by submitting false claims to the State for various items under the management contracts at the our South Bay and Moore Haven, Florida correctional facilities. The complaint appeared to be largely based on the same set of issues raised by a Florida Inspector General s Evaluation Report released in late June 2005, referred to below as the IG Report, which alleged that the we and CCA over billed the State of Florida by over $12.0 million. On August 10, 2007, the plaintiff voluntarily dismissed to lawsuit. No payment was made by us.

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As a result of the set of issues raised by the Florida Inspector General, the Florida Department of Management Services (DMS) conducted a detailed analysis of the allegations raised by the IG Report which included a comprehensive written response to the IG Report prepared by us. In September 2005, the DMS provided a letter to us stating that, although its review had not yet been fully completed, it did not find any indication of any improper conduct. On October 17, 2006, DMS provided a letter to us stating that its review had been completed. We and DMS then agreed to settle this matter for $0.3 million. This amount was accrued at December 31, 2006 and paid in the first quarter of 2007. Subsequently, the Florida Department of Law Enforcement also completed its investigation of this matter and found no wrongdoing on our behalf.

Texas Wrongful Death Action

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a $47.5 million verdict against us. Recently, the verdict was entered as a judgment against us in the amount of $51.7 million. The lawsuit is being administered under the insurance program established by The Wackenhut Corporation, our former parent company, in which we participated until October 2002. Policies secured by us under that program provide $55.0 million in aggregate annual coverage. As a result, we believe that we are fully insured for all damages, costs and expenses associated with the lawsuit and as such have not taken any reserves in connection with the matter. The lawsuit stems from an inmate death which occurred at our former Willacy County State Jail in Raymondville, Texas, in April 2001, when two inmates at the facility attacked another inmate. Separate investigations conducted internally by us, The Texas Rangers and the Texas Office of the Inspector General exonerated us and our employees of any culpability with respect to the incident. We believe that the verdict is contrary to law and unsubstantiated by the evidence. Our insurance carrier has posted a supersedeas bond in the amount of approximately $60.0 million to cover the judgment. On December 9, 2006, the trial court denied our post trial motions and we filed a notice of appeal on December 18, 2006. The appeal is proceeding.

Contracts

On April 26, 2007, we announced that the Federal Bureau of Prisons awarded a contract for the management of the 2,048-bed Taft Correctional Institution, which we have managed since 1997, to another private operator. The management contract, which was competitively re-bid, will be transitioned to the alternative operator effective August 20, 2007. We do not expect the loss of this contract to have a material adverse effect on our financial condition or results of operations.

In July 2007, we cancelled the Operations and Management contract with Dickens County for the management of the 489-bed facility located in Spur, Texas. We have operated the management contract since the acquisition of CSC in November 2005. We do not expect that the termination of this contract, effective December 28, 2007, will have a significant impact on our results of operations or cash flows.

Insurance claims

We maintain general liability insurance for property damages incurred, property operating costs during downtimes, business interruption and incremental costs incurred during inmate disturbances. In April 2007, we incurred significant damages at one of our managed-only facilities in New Castle, Indiana as a result of a disturbance. The total amount of impairments, losses recognized and expenses incurred has been recorded in the accompanying statements of income as operating expenses and is offset by $1.1 million which we believe is probable of being collected from our insurance carriers. When we and our insurance carrier agree on the final amount of the insurance proceeds we are entitled to, we will also record any excess, should there be any excess, in these accounts.

Construction Projects

Our total commitment for construction projects as of September 30, 2007 is approximately $230 million, of which approximately $48 million has been paid.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our unaudited consolidated financial statements and the notes to our unaudited consolidated financial statements included in Part I, Item 1, of this report.

Comparison of Thirteen Weeks Ended September 30, 2007 and Thirteen Weeks Ended October 1, 2006:

Revenues

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
U.S. Corrections	$ 169,369	63.4%	$ 153,877	70.3%	$ 15,492	10.1%
International Services	33,510	12.6%	26,797	12.3%	6,713	25.1%
GEO Care	30,943	11.6%	19,770	9.0%	11,173	56.5%
Other	33,187	12.4%	18,465	8.4%	14,722	79.7%
Total	$ 267,009	100.0%	$ 218,909	100.0%	$ 48,100	22.0%

U.S. Corrections

The increase in revenues for U.S. corrections facilities in the thirteen weeks ended September 30, 2007 (Third Quarter 2007) compared to the thirteen weeks ended October 1, 2006 (Third Quarter 2006) is primarily attributable to five items: (i) revenues increased $6.0 million in Third Quarter 2007 due to increases in capacity at the Central Arizona Correctional Facility which was completed in Forth Quarter 2006; (ii) revenues increased $3.1 million in Third Quarter 2007 as a result of capacity increases in Lawton Correctional Facility located at Lawton, Oklahoma; (iii) revenues increased $0.9 million in Third Quarter 2007 due to the commencement of our contract with the Arizona Department of Corrections (ADOC) at our New Castle, Indiana facility in March 2007; (iv) revenues increased $2.5 million in the Third Quarter 2007 as a result of the capacity increases in August 2006 in our South Texas Detention Complex and capacity increases in December 2006 in our Northwest Detention Center located in Tacoma, Washington and (v) other revenue increases due to contractual adjustments for inflation, and improved terms negotiated into a number of contracts.

The number of compensated mandays in U.S. corrections facilities increased to 3.7 million in Third Quarter 2007 from 3.4 million in Third Quarter 2006 due to the addition of new facilities and capacity increases. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. correction and detention facilities was 96.4% of capacity in Third Quarter 2007 compared to 97.7% in Third Quarter 2006, excluding our vacant Michigan and Jena facilities due in part to a delay in the ramp-up of the New Castle contract.

International Services

The increase in revenues for international services facilities in the Third Quarter 2007 compared to the Third Quarter 2006 was primarily attributable to the following items: (i) The United Kingdom revenues increased approximately $2.1 million due to favorable exchange rates and a capacity increase and increase in revenues from the acquisition of Recruitment Solutions International in the Fourth Quarter of 2006; (ii) Australian revenues increased approximately $4.3 million due to favorable fluctuations in foreign currency exchange rates during the period, contractual adjustments for inflation, the three-year renewal of the contract for the Fulham Correctional Centre at favorable terms and an increase of 50 beds at the Junee Correctional Centre; and (iii) South African revenues increased by approximately $0.3 million due to contractual adjustments for inflation and favorable exchange rates in the Third Quarter 2007.

The number of compensated mandays in international services facilities increased to 503,975 in Third Quarter 2007 from 501,335 million in Third Quarter 2006. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our international services facilities was 98.5% of capacity in both the Third Quarter 2007 and the Third Quarter 2006.

GEO Care

The increase in revenues for GEO Care in the Third Quarter 2007 compared to the Third Quarter 2006 is primarily attributable to three items: (i) the Florida Civil Commitment Center in Arcadia, Florida, which commenced operations in July 2006, contributed revenues of $5.8 million, an increase of $1.9 over the same period last year; (ii) the Treasure Coast Forensic Center in Martin County, Florida, which commenced operations in First Quarter 2007 and increased revenues by $5.2 million; (iii) the South Florida Evaluation and Treatment Center Annex in Miami, Florida which commenced operation in January 2007 increased revenues by $3.1 million.

Other

The increase in revenues from other activities is mainly due to an increase in construction activities in the Third Quarter 2007 compared to the Third Quarter 2006 and is primarily attributable to four items: (i) the construction of the Clayton Correctional facility located in Clayton County, New Mexico, which commenced construction in September 2006 and increased revenues by $15.6 million; (ii) the construction of the South Florida Evaluation and Treatment Center that we are building in Miami, Florida, which commenced construction in November 2005 and increased revenues by $8.1 million; (iii) the construction of the Florida Civil Commitment Center located in Arcadia, Florida which commenced construction in November 2006 and increased revenues by $5.5 million offset by (iv) a reduction in the construction activity related to Graceville Correctional Facility located in Graceville, Florida, which we commenced construction in February 2006 by $10.8 million.

Operating Expenses

	2007	% of Segment Revenue	2006	% of Segment Revenue	$ Change	% Change
			(Dollars in thousands)			
U.S. Corrections	$ 125,684	74.2%	$ 122,581	79.7%	$ 3,103	2.5%
International Services	30,674	91.5%	24,013	89.6%	6,661	27.7%
GEO Care	27,251	88.1%	16,921	85.6%	10,330	61.0%
Other	32,903	99.1%	18,256	98.9%	14,647	80.2%
Total	$ 216,512	81.1%	$ 181,771	83.0%	$ 34,741	19.1%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health and GEO Care facilities. Expenses also include construction costs which are included in Other.

U.S. Corrections

The increase in U.S. corrections operating expenses reflects the new openings and expansions discussed above as well as general increases in labor costs and utilities. Operating expense as a percentage of revenues decreased in Third Quarter 2007 compared to Third Quarter 2006 due to higher margins at certain facilities as well as the overall increase in revenue during the Third Quarter 2007.

International Services

Operating expenses for international services facilities increased in the Third Quarter 2007 compared to the Third Quarter 2006 largely as a result of the June 2006 commencement of the Campsfield House contract in the United Kingdom. The Campsfield House contract increased operating expenses in the United Kingdom by $2.2 million. Australian operating expenses also increased by $4.3 million mainly due to fluctuations in foreign currency exchange rates during the period as well as additional staffing and expenses related to contract variations and South African operating expenses increased $0.2 million for the Third Quarter 2007 compared to the Third Quarter 2006.

GEO Care

Operating expenses for residential treatment increased approximately $9.5 million during Third Quarter 2007 from Third Quarter 2006 primarily due to the new contracts discussed above. Operating expense as a percentage of revenues increased in Third Quarter 2007 as compared to Third Quarter 2006 primarily due to start-up costs related to new contracts at the Florida Civil Commitment Center, Treasure Coast Forensic Center and the South Florida Evaluation and Treatment Center.

Other

Other increased $14.6 million during the Third Quarter 2007 compared to the Third Quarter 2006 primarily due to the four construction contracts discussed above.

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Other Unallocated Operating Expenses

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
General and Administrative Expenses	$ 16,054	6.0%	$ 14,073	6.4%	$ 1,981	14.1%

General and administrative expenses comprise substantially all of our other unallocated expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses increased by approximately $2.0 million in Third Quarter 2007 compared to Third Quarter 2006, however decreased slightly as a percentage of revenues due to the overall increase in revenue during Third Quarter 2007. The increase in general and administrative costs is mainly due to increases in direct labor costs as a result of increased administrative staff.

Non Operating Expenses

Interest Income and Interest Expense

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Interest Income	$ 2,296	0.9%	$ 2,783	1.3%	$ (487)	(17.5)%
Interest Expense	$ 8,351	3.1%	$ 6,587	3.0%	$ 1,764	26.8%

The decrease in interest income is primarily due to lower average invested cash balances.

The increase in interest expense is primarily attributable to the increase in our debt as a result of the CPT acquisition, as well as the increase in LIBOR rates.

Provision (Benefit) for Income Taxes

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Income Taxes	$ 7,385	2.8%	$ 4,854	2.2%	$ 2,531	52.1%

The income tax expense is based on an estimated annual effective tax rate of approximately 38% for the Third Quarter 2007 and 2006.

Comparison of Thirty-nine Weeks Ended September 30, 2007 and Thirty-nine Weeks Ended October 1, 2006: Revenues

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
U.S. corrections	$ 502,765	66.0%	$ 451,358	73.6%	$ 51,407	11.4%
International services	95,672	12.6%	74,814	12.2%	20,858	27.9%
GEO Care	82,590	10.8%	50,202	8.2%	32,388	64.5%
Other	81,168	10.6%	37,104	6.0%	44,064	118.8%
Total	$ 762,195	100.0%	$ 613,478	100.0%	$ 148,717	24.2%

U.S. Corrections

The increase in revenues for U.S. corrections facilities in the thirty-nine weeks ended September 30, 2007 (Nine Months 2007) compared to the thirty-nine weeks ended October 1, 2006 (Nine Months 2006) is primarily attributable to five items: (i) revenues increased $15.7 million in 2007 due to the completion of the Central Arizona Correctional

Facility at the end of 2006 in Florence, Arizona; (ii) revenues increased $8.5 million in 2007 as a result of the capacity increase in September 2006 in our Lawton Correctional Facility located at Lawton, Oklahoma; (iii) revenues increased $5.5 million in 2007 as a result of the capacity increases in August 2006 in our South Texas Detention Facility; and in December 2006 in our Northwest Detention Center, located at Tacoma, Washington; (iv) revenues increased $1.2 million due to the commencement of our contract with the Arizona Department of Corrections (ADOC) located in New Castle, Indiana in March 2007 and (v) revenues increased due to contractual adjustments for inflation, and improved terms negotiated into a number of contracts.

The number of compensated mandays in U.S. corrections facilities increased to 11.0 million in Nine Months 2007 from 9.9 million in Nine Months 2006 due to the addition of new facilities and capacity increases. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. correction and detention facilities was 96.7% of capacity in Nine Months 2007 compared to 97.2% in Nine Months 2006, excluding our vacant Michigan and Jena facilities (reactivated June 2007).

International Services

The increase in revenues for international services facilities in the Nine Months 2007 compared to the Nine Months 2006 was primarily due to following items: (i) South African revenues increased by approximately $1.1 million due to a contractual adjustment for inflation; (ii) Australian revenues increased approximately $10.6 million due to the overall favorable fluctuations in foreign currency exchange rates during the period, contractual adjustments for inflation and improved terms; and (iii) The United Kingdom revenues increased approximately $9.1 million due to favorable fluctuations in foreign currency exchange rates, a construction project which began in Fourth Quarter 2006 and the acquisition by our U.K. subsidiary of Recruitment Solutions International also occurring in the Fourth Quarter 2006.

The number of compensated mandays in international services facilities remained constant at 1.5 million for Nine Months 2007 and Nine Months 2006. 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 international services facilities was 99.3% of capacity in Nine Months 2007 compared to 97.9% in Nine Months 2006.

GEO Care

The increase in revenues for GEO Care in the Nine Months 2007 compared to the Nine Months 2006 is primarily attributable to five items: (i) the Florida Civil Commitment Center in Arcadia, Florida, which commenced in July 2006 and increased revenues of $12.5 million; (ii) the Treasure Coast Forensic Center in Martin County, Florida, which commenced operations in First Quarter 2007 and increased revenues by $9.5 million and (iii) the South Florida Evaluation and Treatment Center Annex in Miami, Florida which commenced operation in January 2007 increased revenues by $6.8 million.

Other

The increase in revenues from other activities is mainly due to an increase in construction activities in the Nine Months 2007 compared to the Nine Months 2006 and is primarily attributable to four items: (i) the renovation of Treasure Coast Forensic Center located in Martin County, Florida, which we commenced construction in March, 2007 increased revenue by $2.1 million; (ii) the construction of the Clayton Correctional facility located in Clayton County, New Mexico, which commenced construction in September 2006 and increased revenues by $29.1 million; (iii) the construction of the expansion facility in the Florida Civil Commitment Center in Arcadia, Florida increased revenues by $9.1 million and (iv) the construction of the South Florida Evaluation and Treatment Center that we are building in Miami, Florida, which commenced construction in November 2005 and increased revenues by $17.0 million, offset by $9.8 million in decreased revenue for the Graceville Correctional Facility in Graceville, FL which commenced construction in February 2006.

Operating Expenses

	2007	% of Segment Revenue	2006	% of Segment Revenue	$ Change	% Change
			(Dollars in thousands)			
U.S. Corrections	$ 376,395	74.9%	$ 361,115	80.0%	$ 15,280	4.2%
International Services	86,526	90.4%	67,260	89.9%	19,266	28.6%
GEO Care	73,997	89.6%	42,676	85.0%	31,321	73.4%
Other	81,071	99.9%	36,881	99.4.%	44,190	119.8%

Total	$ 617,989	81.1%	$ 507,932	82.8%	$ 110,057	21.7%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health and GEO Care facilities. Expenses also include construction costs which are included in Other.

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U.S. Corrections

The increase in U.S. corrections operating expenses reflects the new openings and expansions discussed above as well as general increases in labor costs and utilities. This increase was partially offset by a decrease of $1.1 million in Second Quarter 2007 related to certain contingencies established during purchase accounting for CSC in 2005 that are no longer necessary. Operating expenses as a percentage of revenues decreased in Nine Months 2007 compared to Nine Months 2006 due to higher margins at certain facilities as well as the overall increase in revenue during the Nine Months 2007.

International Services

Operating expenses for international services facilities increased in the Nine Months 2007 compared to the Nine Months 2006 largely as a result of the June 2006 commencement of the Campsfield House contract in the United Kingdom. The Campsfield House contract increased operating expenses in the United Kingdom by $8.7 million. Australian operating expenses also increased by $10.7 million mainly due to unfavorable fluctuations in foreign currency exchange rates during the period as well as additional staffing and expenses related to contract variations. South African operating expenses decreased by $0.5 million for the Nine Months 2007 and the Nine Months 2006. Margins in Australia were consistent with margins for the same period in 2006 while margins in South Africa improved due to certain non-reoccurring costs incurred in the comparable period of the prior year partially offset by inflating costs in the current period.

GEO Care

Operating expenses for residential treatment increased approximately $29.9 million during Nine Months 2007 from Nine Months 2006 primarily due to the new contracts discussed above. Operating expenses as a percentage of revenues increased in Nine Months 2007 compared to Nine Months 2006 primarily due to start-up costs related to the new contracts discussed above.

Other

Other expenses increased $44.2 million during the Nine Months 2007 compared to the Nine Months 2006 primarily due to the four construction contracts discussed above.

Other Unallocated Operating Expenses

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
General and Administrative Expenses	$ 46,849	6.1%	$ 42,374	6.9%	$ 4,475	10.6%

General and administrative expenses comprise substantially all of our other unallocated expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses increased by $4.5 million in Nine Months 2007 compared to Nine Months 2006, however decreased slightly as a percentage of revenues due to the overall increase in revenue during 2007. The increase in general and administrative costs is mainly due to increases in direct labor costs as a result of increased administrative staff.

Non Operating Expenses

Interest Income and Interest Expense

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Interest Income	$ 6,536	0.9%	$ 7,806	1.3%	$ (1,270)	(16.3%)
Interest Expense	$ 28,049	3.7%	$ 21,995	3.6%	$ 6,054	27.5%

The decrease in interest income is primarily due to lower average invested cash balances.

The increase in interest expense is primarily attributable to the increase in our debt as a result of the CPT acquisition, as well as the increase in LIBOR rates.

Provision (Benefit) for Income Taxes

	2007	% of Revenue	2006	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Income Taxes	$ 17,530	2.3%	$ 11,142	1.8%	$ 6,388	57.3%

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The income tax expense is based on an estimated annual effective tax rate for Nine Months 2007 and 2006 of approximately 38%.

Liquidity and Capital Resources

Capital Requirements

Our current cash requirements consist of amounts needed for working capital, debt service, supply purchases, investments in joint ventures, and capital expenditures. Additional capital needs may also arise in the future with respect to possible acquisitions, other corporate transactions or other corporate purposes.

Capital expenditures currently comprise the largest component of our capital needs. 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, and expenditures relating to the maintenance of existing facilities. In addition, some of our management contracts require us to make substantial initial expenditures of cash in connection with opening or renovating a facility. Generally, these initial expenditures are subsequently fully or partially recoverable as pass-through costs or are billable as a component of the per diem rates or monthly fixed fees to the contracting agency over the original term of the contract. However, we cannot assure you that any of these expenditures will, if made, be recovered.

We believe that total capital expenditures for 2007 will range between $100 million and $120 million excluding maintenance capital expenditures, approximately $51 million of which we had incurred as of September 30, 2007. In addition, based on current estimates, we anticipate that capital expenditures excluding maintenance capital expenditures will range from $120.0 million to $130.0 million during the next 12 months. These amounts include expenditures relating to the following projects: (i) our construction of the 1,100-bed Aurora ICE Processing Center in Aurora, Colorado for approximately $68.8 million, which is expected to be completed in the third quarter of 2009; (ii) our funding of the expansion of Delaney Hall, a facility which we own as a result of the CPT acquisition but do not operate, for approximately $12.5 million, which is expected to be completed in the first quarter 2008; (iii) our construction of the 1500-bed Rio Grande Detention Center for approximately $85.9 million which is expected to completed in the third quarter of 2008; (iv) our renovation of the 576-bed Robert A. Deyton Detention Facility in Clayton County, GA for approximately $8.9 million; and (v) our 744-bed expansion of the 416 bed LaSalle Detention Facility for approximately $32.1 million which is expected to be completed in the third quarter 2008.

Capital expenditures related to other potential facility expansions and facility maintenance costs are expected to range between $20 million and $40 million.

Capital Sources

We plan to fund all of our capital needs, including our capital expenditures, from cash on hand, cash from operations, borrowings under our Senior Credit Facility and any other financings which our management and board of directors, in their discretion, may consummate.

With respect to our Senior Credit Facility, as of September 30, 2007, we had $163.2 million outstanding under the Term Loan B, no amounts outstanding under the Revolver, $69.0 million outstanding in letters of credit under the Revolver and $81.0 million available under the Revolver. In addition, subject to certain conditions set forth in the Senior Credit Facility, we also have the ability to borrow an additional aggregate amount of $150 million under the term loan portion of our Senior Credit Facility. However, any such additional term loans are not required to be made available under the terms of the Senior Credit Facility and would be subject to adequate lender demand at the time of the loans. We cannot assure that such demand will in fact exist if we desire to incur such additional term loans.

Our management believes that cash on hand, cash flows from operations and borrowings available under our Senior Credit Facility will be adequate to support our currently identified capital needs described above and to meet our various obligations incurred in the ordinary operation of our business, both on a near and long-term basis. However, additional expansions of our business may require additional financing from external sources. There is no assurance that such financing will be available on satisfactory terms, or at all.

In addition to our sources of capital described above, we may, at the discretion of our senior management and board of directors, consummate additional debt, equity or other financings on satisfactory terms if we deem such financings to be in the best interest of the company. The proceeds of such financings may be used for the corporate purposes identified above or for new business purposes.

In the future, our access to capital could be significantly limited by the amount of our existing indebtedness. As of September 30, 2007, we had $313.2 million of consolidated debt outstanding, excluding $144.6 million of non-recourse debt and $69.0 million outstanding in letters of credit under our Revolver. Our significant debt service obligations could, under certain circumstances, prevent us from accessing additional capital necessary to sustain or grow our business. Additionally, our future access to capital and our 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 our outstanding Notes and in our Senior Credit Facility. A decline in our financial performance could cause us to breach our debt covenants, 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.

Executive Retirement Agreements

We have entered into three 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 has 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 Revolver. Based on our current capitalization, we do not believe that making these payments in any one period, whether in separate installments or in the aggregate, would materially adversely impact our liquidity.

Description of Long-Term Debt and Derivative Financial Instruments

Senior Debt

The Senior Credit Facility

On January 24, 2007, we completed the refinancing of our Senior Credit Facility. The Company intends to use future borrowings thereunder for general corporate purposes. As of September 30, 2007, we have $163.2 million outstanding under the Term Loan B, no amounts outstanding under the Revolver, $69.0 million outstanding in letters of credit under the Revolver, and $81.0 million available for borrowings under the Revolver.

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

	Interest Rate under the Revolver
Borrowings	LIBOR plus 2.25% or base rate plus 1.25%.
Letters of Credit	1.50% to 2.50%.
Available Borrowings	0.38% to 0.05%.

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:

Period	Leverage Ratio
Through December 30, 2008	Total leverage ratio £ 5.50 to 1.00
From December 31, 2008 through December 31, 2011	Reduces from 4.75 to 1.00, to 3.00 to 1.00
Through December 30, 2008	Senior secured leverage ratio £ 4.00 to 1.00
From December 31, 2008 through December 31, 2011	Reduces from 3.25 to 1.00, to 2.00 to 1.00
Four quarters ending June 29, 2008, to December 30, 2009	Fixed charge coverage ratio of 1.00, thereafter 1.10 to 1.00

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.

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 its 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 capital stock,

(viii) transact with affiliates, (ix) make changes in accounting treatment, (x) amend or modify the terms of any subordinated indebtedness, (xi) enter into debt agreements that contain negative pledges on its assets or covenants more restrictive than those contained in the Senior Credit Facility, (xii) alter the business it conducts, and (xiii) materially impair our lenders security interests in the collateral for its 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 representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental claims which are asserted against it, and (viii) a change of control.

Senior 8 1/4% Notes

To facilitate the completion of the purchase of the interest of the our former majority shareholder in 2003, we issued $150.0 million aggregate principal amount, ten-year, 8 1/4% senior unsecured notes, (the Notes). The Notes are general, unsecured, senior obligations. 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. 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 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.

Non-Recourse Debt

South Texas Detention Complex

We have a debt service requirement related to the development of the South Texas Detention Complex. This detention center was acquired in November 2005 from Correctional Services Corporation (CSC) who was awarded the contract in February 2004 by the Department of Homeland Security, Bureau of Immigration and Customs Enforcement (ICE) for the development and operation of a 1,020-bed detention complex in Frio County, Texas. In order to finance the construction of the detention center, South Texas Local Development Corporation (STLDC) was created and issued $49.5 million in taxable revenue bonds. Additionally, CSC provided $5.0 million of subordinated notes to STLDC for initial development.

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 operating expenses and management fees. 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. We have determined that we are the primary beneficiary of STLDC and consolidate the entity as a result.

On February 1, 2007, we made a payment of $4.1 million for the current portion of our periodic debt service requirement in relation to STLDC operating agreement and bond indenture. As of September 30, 2007, the remaining balance of the debt service requirement is $45.3 million, of which $4.3 million is due within next twelve months. Also as of September 30, 2007, $15.4 million is included in non-current restricted 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, referred to as 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, referred to as 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.

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The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the thirty-nine weeks ended September 30, 2007 in relation to the WEDFA bond indenture. As of September 30, 2007, the remaining balance of the debt service requirement is $47.8 million, of which $5.1 is due within the next 12 months.

Included in non-current restricted cash equivalents and investments is $6.7 million as of September 30, 2007 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. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at September 30, 2007, was $4.4 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 South African Custodial Services Ltd., referred to as SACS, we entered into certain guarantees related to the financing, construction and operation of the prison. We guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or approximately $8.8 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 7.0 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 our Revolver.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or approximately $2.9 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 $2.5 million, commencing in 2017. We have recorded a liability of approximately $0.7 million related to this exposure as of September 30, 2007 and December 31, 2006. 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.

Our 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 us and total $54.6 million and $50.0 million at September 30, 2007 and December 31, 2006, 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, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at

September 30, 2007, was approximately $4.4 million. This amount is included in restricted cash and the annual maturities of the future debt obligation is included in non-recourse debt.

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At September 30, 2007, we also have outstanding seven letters of guarantee totaling approximately $6.9 million under separate international facilities.

Derivatives

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 London Interbank Offered Rate, (LIBOR) plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of September 30, 2007 and December 31, 2006 the fair value of liabilities associated with the swaps totaled approximately $1.1 million and $1.7 million, respectively, and are included in other non-current liabilities and as an adjustment to the carrying value of the Notes in the accompanying consolidated balance sheets. There was no material ineffectiveness of our interest rate swaps for the period ended September 30, 2007.

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 asset as of September 30, 2007 and as of December 31, 2006 was approximately $5.2 million and $3.2 million, respectively, and was recorded as a component of other assets within the consolidated financial statements. There was no material ineffectiveness of our interest rate swaps for the fiscal years presented. We do not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses of amounts associated with this swap which are currently reported in accumulated other comprehensive income.

Cash Flows

Cash and cash equivalents as of September 30, 2007 were $56.3 million, a decrease of $55.2 million from December 31, 2006.

Cash provided by operating activities of continuing operations for the thirty-nine month period ended September 30, 2007 increased to $41.4 million from $30.0 million for the thirty-nine month period ended October 1, 2006. Cash provided by operating activities of continuing operations in thirty-nine week period ending 2007 was positively impacted by non-cash charges to income for depreciation and amortization offset by an increase in accounts receivable. Cash provided by operating activities of continuing operations in the comparable period of the prior year was positively impacted by increases in accounts payable and also by non-cash charges for depreciation and amortization (although to a lesser extent than in 2007) offset by a negative impact due to an increase in accounts receivable.

Cash used in investing activities amounted to $481.4 million in the Nine Months 2007 compared to cash used in investing activities of $12.5 million in the Nine Months 2006. Cash used in investing activities in the Nine Months 2007 primarily reflects capital expenditures of $68.0 million and the acquisition of CPT, net of cash acquired of $410.4 million in addition to an increase in restricted cash. Cash used in investing activities in the Nine Months 2006 primarily reflects capital expenditures of $25.8 million and an increase in restricted cash of $7.3 million.

Cash provided by financing activities in the Nine Months 2007 amounted to $383.9 million compared to cash provided by financing activities of $25.4 million in the Nine Months 2006. Cash provided by financing activities in the Nine Months 2007 reflects proceeds received from an equity offering of $227.5 million, borrowings of $380.0 million related to the CPT acquisition and payments on long-term debt of $218.1 million. Cash provided by financing activities in the Nine Months 2006 reflects proceeds received from equity offering of $100.0 million and proceeds received from employees for the exercise of stock options of $3.8 million offset by payments on long-term debt of $76.1 million.

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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 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Information above, Item 1A. Risk Factors in our Annual Report on Form 10-K, the Forward-Looking Statements Safe Harbor section in our Annual Report on Form 10-K, as well as the other disclosures contained in our Annual Report on Form 10-K, for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements.

With prison populations growing at 3% to 5% a year, the private corrections industry has played an increasingly important role in addressing U.S. detention and correctional needs. The number of State and Federal prisoners housed in private facilities increased 10.1% since mid-year 2005 with states such as Texas, Indiana, Colorado and Florida accounting for more than half of the increase. At June 2006, approximately 7.2% of the estimated 1.6 million State and Federal prisoners incarcerated in the United States were held in private facilities, up from 6.5% in 2000. In addition to our strong positions in Texas and Florida and in the U.S. market in general, we are the only publicly traded U.S. correctional company with international operations. With the existing operations in South Africa and Australia and the management of the 198-bed Campsfield House Immigration Removal Centre in the United Kingdom beginning in the Second Quarter of 2006, we believe that our international presence positions us to capitalize on growth opportunities within the private corrections and detention industry in new and established international markets.

We intend to pursue a diversified growth strategy by winning new customers and contracts, expanding our government services portfolio and pursuing selective acquisition opportunities. We achieve organic growth through competitive bidding that begins with the issuance by a government agency of a request for proposal, or RFP. We primarily rely on the RFP process for organic growth in our U.S. and international corrections operations as well as in our mental health and residential treatment services. We believe that our long operating history and reputation have earned us credibility with both existing and prospective clients when bidding on new facility management contracts or when renewing existing contracts. Our success in the RFP process has resulted in a pipeline of new projects with significant revenue potential. In 2007, we announced 7 new contracts including a contract to reactivate the LaSalle Detention Facility in Jena, Louisiana. The new contracts represent 5,713 new beds. In addition, the Company has announced the expansion of 4 facilities in 2007 which will provide 1,778 additional beds. This compares to the 10 new projects announced in 2006 representing 4,934 new beds. In addition to pursuing organic growth through the RFP process, we will from time to time selectively consider the financing and construction of new facilities or expansions to existing facilities on a speculative basis without having a signed contract with a known customer. We also plan to leverage our experience to expand the range of government-outsourced services that we provide. We will continue to pursue selected acquisition opportunities in our core services and other government services areas that meet our criteria for growth and profitability.

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 and local levels has been as strong as it has been at any time during recent years, and we currently expect that trend to continue for the foreseeable future. Overcrowding at corrections facilities in various states, most recently California and Arizona 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 cancelled our Michigan Youth Correctional Facility management contract in

2005 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 2007. 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 2007 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 continue to promote government procurements for the private 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.

We currently have nine projects under various stages of construction with approximately 7,567 beds that will become available upon completion. Subject to achieving our occupancy targets these projects are expected to generate approximately $142 million dollars in combined annual operating revenues when opened between the third quarter of 2007 and the First Quarter of 2008. We believe that these projects comprise the largest and most diversified organic growth pipeline in our industry. In addition, we have approximately 730 additional empty beds available at two of our facilities to meet our customers potential future needs for bed space.

Operating Expenses

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. In 2006, operating expenses totaled approximately 83.4% of our consolidated revenues. Our operating expenses as a percentage of revenue in 2007 will be impacted by several factors. 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 $4.0 million in fiscal year 2006 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. In addition, as a result of our CPT acquisition, we will no longer incur lease expense relating to the eleven facilities that we purchased in that transaction which we formerly leased from CPT. However; we will have increased depreciation expense reflecting our ownership of the properties and higher interest expense as a result of borrowings used to fund the acquisition. As a result, our operating expenses will decrease by the aggregate amount of that lease expense, which totaled $23.0 million in fiscal year 2006. 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 and the elimination of lease expense as a result of the CPT acquisition, we anticipate that operating expenses as a percentage of our revenue will remain relatively flat, consistent with our historical performance.

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 and 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 and residential treatment services business. We also plan to continue expending resources on the evaluation of potential acquisition targets.

Recent Accounting Developments

In February 2007, the Financial Accounting Standards Board (FASB) issued FAS No 159 (FAS 159), Fair Value Option for Financial Assets and Financial Liabilities, which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of FAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by FAS 159 permits all entities to choose to measure eligible items at fair value at specific election dates. A business entity shall report unrealized gain or loss on items for which the fair value option has been elected in earnings at each subsequent reporting date FAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this standard will have on our financial condition, results of operations, cash flows or disclosures.

In September 2006, the FASB issued FAS No. 157 (FAS 157), Fair Value Measurements, which establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. FAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact this standard will have on our financial condition, results of operations, cash flows or disclosures.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). We adopted the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes,* on January 1, 2007. Previously, we had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards 5, *Accounting for Contingencies.* As required by FIN 48, which clarifies Statement 109, *Accounting for Income Taxes,* we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, we applied FIN 48 to all tax positions for which the statute of limitations remained open. As a result of the implementation of FIN 48, we recognized an increase of approximately a $2.5 million in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007, balance of retained earnings.

The amount of unrecognized tax benefits as of January 1, 2007, was $5.7 million. That amount includes $3.4 million of unrecognized tax benefits which, if ultimately recognized, will reduce our annual effective tax rate. As a result of a South African tax law change enacted in February 2007, a liability for unrecognized tax benefits in the amount of $2.4 million is no longer required resulting in a material change in unrecognized tax benefits during the First Quarter 2007. The reduction in the liability resulted in an increase to equity in earnings of affiliate for First Quarter 2007. During Second and Third Quarters of 2007 there have been no material change to the amount of unrecognized tax benefits.

We are subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2002.

The Internal Revenue Service commenced an examination of our U.S. income tax returns for 2002 through 2004 in the third quarter of 2005 that is anticipated to be completed during 2008. We do not expect to recognize any further significant changes to the total amount of unrecognized tax benefits during the remaining quarters of the year.

In adopting FIN 48, we changed our previous method of classifying interest and penalties related to unrecognized tax benefits as income tax expense to classifying interest accrued as interest expense and penalties as operating expenses. Because the transition rules of FIN 48 do not permit the retroactive restatement of prior period financial statements, our first quarter 2006 financial statements continue to reflect interest and penalties on unrecognized tax benefits as income tax expense. We accrued approximately $0.9 million for the payment of interest and penalties at January 1, 2007. Subsequent changes to accrued interest and penalties have not been significant.

Subsequently, in May 2007, the FASB published FSP FIN 48-1. FSP FIN 48-1 is an amendment to FIN 48. It clarifies how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. As of our adoption date of FIN 48, our accounting is consistent with the guidance in FSP FIN 48-1.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risks related to changes in interest rates with respect to our Senior Credit Facility. Payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Term Loan B of our Senior Credit Facility of $163.2 million as of September 30, 2007, for every one percent increase in the interest rate applicable to the Amended Senior Credit Facility, our total annual interest expense would increase by $1.6 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. Additionally, 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 will 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 also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar and the Australian dollar, the South African rand and the U.K. Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at September 30, 2007, every 10 percent change in historical currency rates would have approximately a $4.3 million effect on our financial position and approximately a $0.8 million impact on our results of operations over the next fiscal year.

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.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures.

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

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

(b) Internal Control Over Financial Reporting.

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

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THE GEO GROUP, INC.
PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Australia Property Damage

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 August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia (the Plaintiff) seeking damages of up to approximately AUS 18 million or $16 million as of September 30, 2007. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. Furthermore, we are unable to determine the losses, if any, that we will incur under the litigation should the matter be resolved unfavorably to us. 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 established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our legal counsel in connection with this matter. We have taken no further reserves for any potential losses since it is not possible at this time to estimate the likelihood of loss or amount of potential exposure based on the uncertainties with respect to this matter.

Florida Department of Management Services Matter

On May 19, 2006, we along with Corrections Corporation of America, referred to as CCA, was sued by an individual plaintiff in the Circuit Court of the Second Judicial Circuit for Leon County, Florida (Case No. 2005CA001884). The complaint alleged that, during the period from 1995 to 2004, we and CCA over billed the State of Florida by an amount of at least $12.7 million by submitting false claims to the State for various items under the management contracts at our South Bay and Moore Haven, Florida correctional facilities. The complaint appeared to be largely based on the same set of issues raised by a Florida Inspector General s Evaluation Report released in late June 2005, referred to below as the IG Report, which alleged that we and CCA over billed the State of Florida by over $12.0 million. On August 10, 2007, the plaintiff voluntarily dismissed the lawsuit without prejudice. No payment was made by us.

As a result of the set of issues raised by the Florida Inspector General, the Florida Department of Management Services (DMS) conducted a detailed analysis of the allegations raised by the IG Report which included a comprehensive written response to the IG Report prepared by us. In September 2005, the DMS provided a letter to us stating that, although its review had not yet been fully completed, it did not find any indication of any improper conduct. On October 17, 2006, DMS provided a letter to us stating that its review had been completed. We and DMS then agreed to settle this matter for $0.3 million. This amount was accrued at December 31, 2006 and paid in the first quarter of 2007. Subsequently, the Florida Department of Law Enforcement also completed its investigation of this matter and found no wrongdoing on our behalf.

Texas Wrongful Death Action

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a $47.5 million verdict against us. Recently, the verdict was entered as a judgment against us in the amount of $51.7 million. The lawsuit is being administered under the insurance program established by The Wackenhut Corporation, our former parent company, in which we participated until October 2002. Policies secured by us under that program provide $55 million in aggregate annual coverage. As a result, we believe we are fully insured for all damages, costs and expenses associated with the lawsuit and as such we have not taken any reserves in connection with the matter. The lawsuit stems from an inmate death which occurred at our former Willacy County State Jail in Raymondville, Texas, in April 2001, when two inmates at the facility attacked another inmate. Separate investigations conducted internally by us, The Texas Rangers and the Texas Office of the Inspector General exonerated us and our employees of any culpability with respect to the incident. We believe that the verdict is contrary to law and unsubstantiated by the evidence. Our insurance carrier has posted a supersedeas bond in the amount of approximately $60 million to cover the judgment. On December 9, 2006, the trial court denied our post trial motions and we filed a notice of appeal on December 18, 2006. The appeal is proceeding.

Other Legal Proceedings

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

ITEM 1A. RISK FACTORS

There were no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K, for the fiscal year ended December 31, 2006, filed on March 2, 2007.

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

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

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.

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SIGNATURES

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

THE GEO GROUP, INC.

Date: November 9, 2007

/s/ John G. O Rourke
John G. O Rourke
Senior Vice President, Chief Financial Officer (Principal Financial Officer)

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