FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the quarterly period ended April 2, 2006

OR

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

For the transition period from __________ to __________

Commission file number 1-14260

The GEO Group, Inc.

(Exact name of registrant as specified in its charter)

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

(561) 893-0101

(Registrant's telephone number, including area code)

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 twelve (12) months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☑ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No ☑

At May 1, 2006, 9,733,653 shares of the registrant's common stock were issued and outstanding.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THIRTEEN WEEKS ENDED
APRIL 2, 2006 AND APRIL 3, 2005
(In thousands, except per share data)
(UNAUDITED)

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Revenues	$ 185,881	$ 148,255
Operating expenses	153,746	125,813
Depreciation and amortization	5,664	3,668
General and administrative expenses	14,009	11,401
Operating income	12,462	7,373
Interest income	2,216	2,330
Interest expense	7,579	5,454
Income before income taxes, minority interest, equity in earnings of affiliate and discontinued operations	7,099	4,249
Provision for income taxes	2,693	1,723
Minority interest	(9)	(184)
Equity in earnings of affiliate, net of income tax expense (benefit) of $18 and $(16)	277	49
Income from continuing operations	4,674	2,391
Income (loss) from discontinued operations, net of income tax expense (benefit) of $(65) and $187	(118)	505
Net income	$ 4,556	$ 2,896
Weighted-average common shares outstanding:		
Basic	9,700	9,525
Diluted	10,034	10,002
Income per common share:		
Basic:		
Income from continuing operations	$ 0.48	$ 0.25
Income (loss) from discontinued operations	(0.01)	0.05
Net income per share-basic	$ 0.47	$ 0.30
Diluted:		
Income from continuing operations	$ 0.46	$ 0.24
Income (loss) from discontinued operations	(0.01)	0.05
Net income per share-diluted	$ 0.45	$ 0.29

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

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THE GEO GROUP, INC.
CONSOLIDATED BALANCE SHEETS
APRIL 2, 2006 AND JANUARY 1, 2006
(In thousands)

	April 2, 2006 (Unaudited)	January 1, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 56,169	$ 57,094
Restricted cash	10,633	8,882
Accounts receivable, less allowance for doubtful accounts of $224 and $224	137,468	127,612
Deferred income tax asset	19,756	19,755
Other current assets	12,366	15,826
Current assets of discontinued operations	6	123
Total current assets	236,398	229,292
Restricted Cash	20,317	17,484
Property and Equipment, Net	287,145	282,236
Assets Held for Sale	1,265	5,000
Direct Finance Lease Receivable	37,394	38,492
Goodwill and Other Intangible Assets, Net	56,780	52,127
Other Non Current Assets	14,680	14,880
	$ 653,979	$ 639,511
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$ 39,761	$ 27,762
Accrued payroll and related taxes	30,204	26,985
Accrued expenses	64,028	70,177
Current portion of deferred revenue	1,810	1,894
Current portion of capital lease obligations, long-term debt and non-recourse debt	12,399	8,441
Current liabilities of discontinued operations	1,216	1,260
Total current liabilities	149,418	136,519
Deferred Revenue	2,899	3,267
Deferred Tax Liability	2,121	2,085
Minority Interest	1,325	1,840
Other Non Current Liabilities	21,268	19,601
Capital Lease Obligations	17,262	17,072
Long-Term Debt	217,992	219,254
Non-Recourse Debt	126,245	131,279
Commitments and Contingencies		
Shareholders' Equity		
Preferred stock, $0.01 par value, 10,000,000 shares authorized, none issued or outstanding	—	—
Common stock, $0.01 par value, 30,000,000 shares authorized, 21,723,653 and 21,691,143 issued and 9,723,653 and 9,691,143 outstanding	97	97
Additional paid-in capital	71,635	70,784
Retained earnings	176,221	171,666
Accumulated other comprehensive loss	(624)	(2,073)
Treasury stock 12,000,000 shares	(131,880)	(131,880)
Total shareholders' equity	115,449	108,594
	$ 653,979	$ 639,511

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

THE GEO GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THIRTEEN WEEKS ENDED
APRIL 2, 2006 AND APRIL 3, 2005
(In thousands)
(UNAUDITED)

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Cash Flow from Operating Activities:		
Income from continuing operations	$ 4,674	$ 2,391
Adjustments to reconcile income from continuing operations to net cash provided by operating activities		
Depreciation and amortization expense	5,664	3,668
Amortization of debt issuance costs	281	79
Stock-based compensation expense	177	—
Deferred tax liability (benefit)	(56)	534
Major maintenance reserve	57	41
Equity in earnings of affiliates, net of tax	(277)	(49)
Minority interests in earnings of consolidated entity	(515)	184
Tax benefit related to employee stock options	—	180
Changes in assets and liabilities		
Accounts receivable	(10,180)	11,935
Other current assets	2,951	(8,024)
Other assets	(642)	1,928
Accounts payable and accrued expenses	5,764	(11,788)
Accrued payroll and related taxes	3,375	1,694
Deferred revenue	(452)	(461)
Other liabilities	636	351
Net cash provided by operating activities of continuing operations	11,457	2,663
Net cash provided by operating activities of discontinued operations	73	854
Net cash provided by operating activities	11,530	3,517
Cash Flow from Investing Activities*:*		
Proceeds from sales of short-term investments	—	39,000
Purchases of short-term investments	—	(29,000)
Change in restricted cash	(4,666)	—
Proceeds from sale of assets	19	33
Capital expenditures	(7,432)	(1,841)
Net cash provided by (used in) investing activities	(12,079)	8,192
Cash Flow from Financing Activities:		
Payments on long-term debt	(586)	(1,417)
Proceeds from the exercise of stock options	674	402
Net cash (used in) provided by financing activities	88	(1,015)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(464)	(564)
Net Increase (Decrease) in Cash and Cash Equivalents	(925)	10,130
Cash and Cash Equivalents, beginning of period	57,094	92,005
Cash and Cash Equivalents, end of period	$ 56,169	$ 102,135

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

THE GEO GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements of The GEO Group, Inc., a Florida corporation (the "Company"), included in this Form 10-Q have been prepared in accordance with accounting principles generally accepted in the United States and the instructions to Form 10-Q and consequently do not include all disclosures required by Form 10-K. Additional information may be obtained by referring to the Company's Form 10-K for the year ended January 1, 2006. In the opinion of management, all adjustments (consisting only of normal recurring items) necessary for a fair presentation of the financial information for the interim periods reported in this Form 10-Q have been made. Results of operations for the thirteen weeks ended April 2, 2006 are not necessarily indicative of the results for the entire fiscal year ending December 31, 2006.

The accounting policies followed for quarterly financial reporting are the same as those disclosed in the Notes to Consolidated Financial Statements included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 17, 2006 for the fiscal year ended January 1, 2006, with the exception of the Company's implementation of Financial Accounting Standards ("FAS") No. 123(R) as discussed in Note 3 below. Certain amounts in the prior period have been reclassified to conform to the current presentation.

2. ACQUISITION

On November 4, 2005, the Company completed the acquisition of Correctional Services Corporation ("CSC"), a Florida-based provider of privatized jail, community corrections and alternative sentencing services. The allocation of purchase price at January 1, 2006 was preliminary. During the quarter ended April 2, 2006, the Company received information from its independent valuation specialists and finalized the purchase price allocation related to property and equipment, other assets and capital lease obligations. This information resulted in an increase in goodwill of $4.8 million. The purchase price allocations related to certain tax elections as well as certain exit activities are still tentative at this time and information that will enable the Company to finalize these items is expected to be received by the third quarter of 2006.

Additionally, in connection with the CSC acquisition and related sale of Youth Services International ("YSI"), the Company has determined that an adjustment will be made to the purchase price based on an unresolved matter relating to the closing balance sheet of YSI. The adjustment is expected to result in additional cash consideration to the Company and will reduce goodwill when finally determined, expected no later than the third quarter of 2006.

3. EQUITY INCENTIVE PLANS

On January 2, 2006, the Company adopted the provisions of FAS No. 123(R), "Share-Based Payment" using the modified prospective method. FAS No. 123(R) requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based upon the grant date fair value of those awards. Under the modified prospective method of adopting FAS No. 123(R), the Company will recognize compensation cost for all share-based payments granted after January 1, 2006, plus any awards granted to employees prior to January 2, 2006 that remain unvested at that time. Under this method of adoption, no restatement of prior periods is made. The Company uses a Black-Scholes option valuation model to estimate the fair value of each option awarded. The impact of forfeitures that may occur prior to vesting is also estimated and considered in the amount recognized. The adoption of FAS No. 123(R) did not have a significant impact on income from continuing operations, income before income taxes, net income, cash flow from operations, or earnings per share during the period. Financial statement disclosures relating to the Company's various stock option plans under FAS 123(R) can be found in the Company's annual report, which was filed with the Securities and Exchange Commission on March 17, 2006, for the year ended January 1, 2006.

Prior to January 2, 2006, the Company recognized the cost of employee services received in exchange for equity instruments in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". APB No. 25 required the use of the intrinsic value method, which measures compensation cost as the excess, if any, of the quoted market price of the stock over the amount the employee must pay for the stock. Compensation expense for all of the Company's equity-based awards was measured under APB No. 25 on the date the shares were granted. Under APB No. 25, no compensation expense has been recognized for stock options.

During the thirteen weeks ended April 3, 2005, had the cost of employee services received in exchange for equity instruments been recognized based on the grant date fair value of those instruments in accordance with the provisions of FAS No. 123, "Accounting for

Stock-based Compensation," the Company's net income and earnings per share would have been impacted as shown in the following table (in thousands, except per share data):

	Thirteen Weeks Ended April 3, 2005
Net income	$ 2,896
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	$ (186)
Pro forma net income	$ 2,710
Basic earnings per share	
As reported	$ 0.30
Pro forma	$ 0.28
Diluted earnings per share	
As reported	$ 0.29
Pro forma	$ 0.27

For the purposes of the pro forma calculations above, the fair value of each option is estimated on the date of the grant using the Black-Scholes option-pricing model, assuming no expected dividends and the following assumptions:

	Thirteen Weeks Ended April 3, 2005
Risk free interest rates	3.96%
Expected lives	3.3 years
Expected volatility	39%
Expected dividend	—

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

Under the Second Plan and Fourth Plan, the Company may grant options to key employees for up to 1,500,000 and 1,150,000 shares of common stock, respectively. Under the terms of these plans, the exercise price per share and vesting period is determined at the sole discretion of the Board of Directors. All options that have been granted under these plans are exercisable at the fair market value of the common stock at the date of the grant. Generally, the options vest and become exercisable ratably over a four-year period, beginning immediately on the date of the grant. However, the Board of Directors has exercised its discretion and has granted options that vest 100% immediately. All options under the Second Plan and Fourth Plan expire no later than ten years after the date of the grant.

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

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

	April 2, 2006			
Fiscal Year	Shares (in thousands)	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of period	1,407	$ 15.53		$
Granted	15	22.53		
Exercised	33	20.75		
Forfeited/Cancelled	33	22.65		
Options outstanding at end of period	1,356	15.31	5.2	24,448
Options exercisable at end of period	1,233	$ 15.09	4.9	$ 22,496

The weighted average grant date fair value of options granted during the thirteen weeks ended April 2, 2006 was $0.1 million.

The total intrinsic value of options exercised during the thirteen weeks ended April 2, 2006 was $0.2 million.

The following table summarizes information about the stock options outstanding at April 2, 2006:

	Options Outstanding			Options Exercisable	
Exercise Prices	Number Outstanding	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Number Exercisable	Wtd. Avg. Exercise Price
$7.88 - $7.88	2,000	4.1	$ 7.88	2,000	$ 7.88
$8.44 - $8.44	184,500	3.9	8.44	184,500	8.44
$9.30 - $9.30	172,500	4.9	9.30	172,500	9.30
$9.51 - $12.51	80,091	6.8	9.61	68,451	9.63
$14.00 - $14.00	182,182	7.1	14.00	132,732	14.00
$14.69 - $14.69	15,000	3.4	14.69	15,000	14.69
$15.40 - $15.40	264,000	5.9	15.40	264,000	15.40
$15.90 - $18.63	166,127	4.1	18.46	150,743	18.48
$20.25 - $23.00	135,800	5.0	22.29	108,654	22.14
$23.09 - $32.20	153,747	4.2	25.26	134,100	25.54
	1,355,947	5.2	$ 15.31	1,232,680	$ 15.09

The Company had 1,200 options available to be granted at April 2, 2006 under the aforementioned stock plans.

As of April 2, 2006, the Company had $1.9 million of unrecognized compensation costs related to non-vested stock option awards that is expected to be recognized over a weighted average period of 7.6 years. Proceeds received from option exercises during the thirteen weeks ended April 2, 2006 were $0.7 million.

4. DISCONTINUED OPERATIONS

The Company formerly had, through its Australian subsidiary, a contract with the Department of Immigration, Multicultural and Indigenous Affairs (“DIMIA”) for the management and operation of Australia’s immigration centers. In 2003, the contract was not renewed, and effective February 29, 2004, the Company completed the transition of the contract and exited the management and operation of the DIMIA centers.

In New Zealand, the Company ceased operating the Auckland Central Remand Prison (“Auckland”) upon the expiration of the contract on July 13, 2005.

On January 1, 2006, the Company completed the sale of Atlantic Shores Hospital, a 72 bed private mental health hospital which the Company owned and operated since 1997 for approximately $11.5 million. The Company recognized a gain on the sale of this transaction of approximately $1.6 million or $1.0 million net of tax. The accompanying unaudited consolidated financial statements and notes reflect the operations of the DIMIA, Auckland and Atlantic Shores Hospital as discontinued operations. There were no cash flows from investing or financing activities for discontinued operations for the thirteen weeks ended April 2, 2006.

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

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Revenues—DIMIA	$ —	$ —
Revenues—Auckland	—	$ 3,797
Revenues—Atlantic Shores Hospital	—	$ 1,978

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5. COMPREHENSIVE INCOME

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

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Net income	$ 4,556	$ 2,896
Change in foreign currency translation, net of income tax (expense) benefit of $(833), and $874, respectively	1,359	(1,338)
Minimum pension liability adjustment, net of income tax expense of $0, and $16, respectively	—	25
Unrealized gain on derivative instruments, net of income tax expense of $39, and $362, respectively	90	828
Comprehensive income	$ 6,005	$ 2,411

6. EARNINGS PER SHARE

Basic and diluted earnings per share ("EPS") were calculated for the thirteen weeks ended April 2, 2006 and April 3, 2005 as follows (in thousands, except per share data):

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Net income	$ 4,556	$ 2,896
Basic earnings per share:		
Weighted average shares outstanding	9,700	9,525
Per share amount	$ 0.47	$ 0.30
Diluted earnings per share:		
Weighted average shares outstanding	9,700	9,525
Effect of dilutive securities:		
Employee and director stock options	334	477
Weighted average shares assuming dilution	10,034	10,002
Per share amount	$ 0.45	$ 0.29

Of 1,355,947 options outstanding at April 2, 2006, options to purchase 110,500 shares of the Company's common stock, with exercise prices ranging from $25.06 to $32.20 per share and expiration dates between 2006 and 2015, were not included in the computation of diluted EPS because their effect would be anti-dilutive. Of 1,574,796 options outstanding at April 3, 2005, options to purchase 13,500 shares of the Company's common stock, with an exercise price of $32.20 and an expiration date of 2015, were not included in the computation of diluted EPS because their effect would be anti-dilutive.

7. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Changes in the Company's goodwill balances for the thirteen weeks ended April 2, 2006 were as follows (in thousands):

	Balance as of January 1, 2006	Goodwill resulting from Business Combinations	Foreign Currency Translation	Balance as of April 2, 2006
Correction and detention facilities	$ 35,896	$ 5,107	$ (12)	$ 40,991
Total Segments	$ 35,896	$ 5,107	$ (12)	$ 40,991

The goodwill increase of $4.8 million during the thirteen weeks ended April 2, 2006 is a result of the finalization of purchase price allocation related to property and equipment, other assets and capital lease obligations of the CSC acquisition.

Intangible assets consisted of the following (in thousands):

	Description	Asset Life
Facility management contracts	$ 15,050	7-20 years
Covenants not to compete	1,470	4 years
	$ 16,520	
Less accumulated amortization	(731)	
	$ 15,789	

Amortization expense was $0.4 million for the thirteen weeks ended April 2, 2006. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets.

8. LONG TERM DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

The Senior Credit Facility

On September 14, 2005, the Company amended and restated its senior secured credit facility (the "Senior Credit Facility"), to consist of a $75 million, six-year term-loan bearing interest at London Interbank Offered Rate, ("LIBOR") plus 2.00%, and a $100 million, five-year revolving credit facility bearing interest at LIBOR plus 2.00%. The Company used the borrowings under the Senior Credit Facility to fund general corporate purposes and to finance the acquisition of CSC for approximately $62 million plus transaction-related costs. The acquisition of CSC closed in the fourth quarter of 2005. As of April 2, 2006, the Company had borrowings of $74.6 million outstanding under the term loan portion of the Senior Credit Facility, no amounts outstanding under the revolving portion of the Senior Credit Facility, and $46.5 million outstanding in letters of credit under the revolving portion of the Senior Credit Facility. As of April 2, 2006 the Company had $53.5 million available for borrowings under the revolving portion of the Senior Credit Facility.

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. The Company was in compliance with all of the covenants of the Indenture governing the notes as of April 2, 2006.

Non-Recourse Debt

South Texas Detention Complex:

In February 2004, CSC was awarded a contract by the Department of Homeland Security, Bureau of Immigration and Customs Enforcement ("ICE") to develop and operate a 1,020 bed detention complex in Frio County Texas. South Texas Local Development Corporation ("STLDC") was created and issued $49.5 million in taxable revenue bonds to finance the construction of the detention center. Additionally, CSC provided a $5.0 million subordinated note to STLDC for initial development costs. The Company has determined that it is the primary beneficiary of STLDC and therefore, in accordance with FIN 46, has consolidated STLDC for accounting purposes. STLDC is the owner of the complex and entered into a development agreement with CSC to oversee the development of the complex. In addition, STLDC entered into an operating agreement providing CSC the sole and exclusive right to operate and manage the complex. The operating agreement and bond indenture require the revenue from CSC's contract with ICE be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to CSC to cover CSC's operating expenses and management fee. The bonds have a ten year term and are non-recourse to CSC and STLDC. CSC is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center.

Included in non-current restricted cash equivalents and investments is $10.9 million as of April 2, 2006 as funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

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

Included in non-current restricted cash equivalents and investments is $5.9 million as of April 2, 2006 as funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

In connection with the financing and management of one Australian facility, our wholly owned Australian subsidiary financed the facility's development and subsequent expansion in 2003 with long-term debt obligations, which are non-recourse to us. We have consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $39.0 million and $40.3 million as of April 2, 2006 and January 1, 2006, respectively. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at April 2, 2006, was approximately $3.6 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. ("SACS"), the Company entered into certain guarantees related to the financing, construction and operation of its prison in South Africa. The Company guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or approximately $9.8 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 6.5 million South African Rand, or approximately $1.1 million as security for the Company's guarantee. The Company's obligations under this guarantee expire upon SACS' release from its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in the Company's outstanding letters of credit under the revolving loan portion of the Senior Credit Facility.

The Company has agreed to provide a loan of up to 20.0 million South African Rand, or approximately $3.3 million (the "Standby Facility") to SACS for the purpose of financing SACS' obligations under its contract with the South African government. No amounts have been funded under the Standby Facility, and the Company does not anticipate that such funding will ever be required by SACS. The Company's obligations under the Standby Facility expire upon the earlier of full funding or SACS' release from its obligations under its debt agreements. The lenders' ability to draw on the Standby Facility is limited to certain 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, the Company guaranteed certain potential tax obligations of a special purpose entity. The potential estimated exposure of these obligations is CAN$2.5 million, or approximately $2.1 million commencing in 2017. The Company has a liability of $0.6 million related to this exposure as of April 2, 2006 and January 1, 2006. To secure this guarantee, the Company purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its balance sheet.

At April 2, 2006, the Company also had outstanding seven letters of guarantee totaling approximately $5.4 million under separate international facilities. The Company does not have any off balance sheet arrangements.

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 London Interbank Offered Rate, ("LIBOR") plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of April 2, 2006 and January 1, 2006 the fair value of the swaps totaled approximately $(2.2) million and $(1.1) million and is included in other non-current assets or liabilities and as an adjustment to the carrying value of the

Notes in the accompanying balance sheets. There was no material ineffectiveness of the Company's interest rate swaps for the period ended April 2, 2006.

The Company's Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. The Company has determined the swap to be an effective cash flow hedge. Accordingly, the Company records the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap liability as of April 2, 2006 and January 1, 2006 was approximately $0.3 million and $0.4 million, respectively, and is recorded as a component of other liabilities in the accompanying consolidated financial statements. There was no material ineffectiveness of the Company's interest rate swaps for the fiscal years presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings of losses associated with this swap currently reported in accumulated other comprehensive loss.

9. COMMITMENTS AND CONTINGENCIES

The Company owns the 480-bed Michigan Correctional Facility in Baldwin, Michigan, referred to as the Michigan Facility. The Company operated the Michigan Facility from 1999 until October 2005 pursuant to a management contract with the Michigan Department of Corrections, or the MDOC. Separately, the Company leased the Michigan Facility, as lessor, to the State, as lessee, under a lease with an initial term of 20 years followed by two five-year options. In September 2005, the Governor of the State of Michigan closed the Michigan Facility and terminated the Company's management contract with the MDOC. In October 2005, the State of Michigan also sought to terminate its lease for the Michigan Facility. The Company believes that the State did not have the right to unilaterally terminate the Michigan Facility lease. As a result, in November 2005, the Company filed a lawsuit against the State to enforce the Company's rights under the lease. On February 24, 2006, the Ingham County Circuit Court, the trial court with jurisdiction over the case, granted summary judgment in favor of the State and against the Company and granted the Company leave to amend the complaint. The Company has filed an amended complaint and is proceeding with the lawsuit. The Company has reviewed the Michigan Facility for impairment in accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and recorded an impairment charge in the fourth quarter of 2005 for $20.9 million based on an independent appraisal of fair market value.

Legal

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2002 and 2001 at several detention facilities that the Company's Australian subsidiary formerly operated pursuant to its discontinued operation. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In May 2005, the Company received additional correspondence indicating that the insurance provider still intends to pursue the claim against our Australian subsidiary. Although the claim is in the initial stages and the Company is still in the process of fully evaluating its merits, the Company believes that it has defenses to the allegations underlying the claim and intends to vigorously defend the Company's rights with respect to this matter. While the the insurance provider has not quantified its damage claim and the outcome of this matter discussed above cannot be predicted with certainty, based on information known to date, and management's preliminary review of the claim, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on the Company's financial condition, results of operations and cash flows. The Company is uninsured for any damages or costs that it may incur as a result of this claim, including the expenses of defending the claim. The Company has accrued a reserve related to this claim based on its estimate of the most probable loss based on the facts and circumstances known to date, and the advice of its legal counsel.

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

10. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Operating and Reporting Segment

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

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Revenues:		
Correction and detention facilities	$ 169,876	$ 136,339
Other	16,005	11,916
Total revenues	$ 185,881	$ 148,255
Depreciation and amortization:		
Correction and detention facilities	$ 5,564	$ 3,600
Other	100	68
Total depreciation and amortization	$ 5,664	$ 3,668
Operating income:		
Correction and detention facilities	$ 11,353	$ 7,276
Other	1,109	97
Total operating income	$ 12,462	$ 7,373

	Thirteen Weeks Ended	
Pre-Tax Income Reconciliation	April 2, 2006	April 3, 2005
Total operating income from segment	$ 11,353	$ 7,276
Unallocated amounts:		
Net interest expense	(5,363)	(3,124)
Other	1,109	97
Income before income taxes, equity in earnings of affiliates, Discontinued operations and minority interest	$ 7,099	$ 4,249

Sources of Revenue

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

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Revenues:		
Correction and detention facilities	$ 169,876	$ 136,339
Mental health	14,902	7,906
Construction	1,103	4,010
Total revenues	$ 185,881	$ 148,255

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

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Statement of Operations Data		
Revenues	$ 8,862	$ 8,383
Operating income	3,343	2,909
Net income (loss)	561	60
Balance Sheet Data		
Current assets	10,728	12,684
Noncurrent assets	69,850	64,750
Current liabilities	4,477	3,610
Non current liabilities	71,895	73,616
Shareholders' equity (deficit)	4,206	208

SACS commenced operations in fiscal 2002. Total equity in undistributed loss for SACS before income taxes, for the thirteen weeks ended April 2, 2006 and April 3, 2005 was $0.6 million, and $0.0 million, respectively.

11. BENEFIT PLANS

During the first quarter of fiscal 2004, the Company adopted the interim disclosure provisions of FAS No. 132 (revised 2003), "Employers' Disclosure about Pensions and Other Postretirement Benefits, an Amendment of FAS Statements No. 87, 88 and 106 and a Revision of FAS Statement No. 132." This statement revises employers' disclosures about pension plans and other postretirement benefit plans.

The following table summarizes the components of net periodic benefit cost for the Company (in thousands):

	Thirteen Weeks Ended	
	April 2, 2006	April 3, 2005
Service cost	$ 132	$ 109
Interest cost	244	136
Amortization of unrecognized net actuarial loss	36	30
Amortization of prior service cost	10	234
Net periodic benefit cost	$ 422	$ 509

THE GEO GROUP, INC.

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

This report and our earnings press release dated May 4, 2006 contain "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. "Forward-looking" statements are any statements that are not based on historical information. Statements other than statements of historical facts included in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs and plans and objectives of management for future operations, are "forward-looking" statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate" or "continue" or the negative of such words or variations of such words and similar expressions. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements and we can give no assurance that such forward-looking statements will prove to be correct. Important factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements, or "cautionary statements," include, but are not limited to:

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

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

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

FINANCIAL CONDITION

Reference is made to Part II, Item 7 of our annual report on Form 10-K for the fiscal year ended January 1, 2006, filed with the SEC on March 17, 2006, for further discussion and analysis of information pertaining to our results of operations, liquidity and capital resources.

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 year ended January 1, 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.

RESERVES FOR INSURANCE LOSSES

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

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

INCOME TAXES

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

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

PROPERTY AND EQUIPMENT

As of April 2, 2006, we had approximately $287.1 million in long-lived property and equipment. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 2 to 40 years. Equipment and furniture and fixtures are depreciated over 3 to 7 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight- line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing evaluations of the estimated useful lives of our property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repairs are expensed as incurred.

We review long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable in accordance with FAS No. 144 "Accounting for the Impairment of Disposal of Long-Lived Assets". Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed our long-lived assets and determined that there are no events requiring impairment loss recognition for the period ended January 1, 2006, other than the Michigan Facility charge. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations "Commitments and Contingencies." Events that would trigger an impairment assessment include deterioration of profits for a business segment that has long-lived assets, or when other changes occur which might impair recovery of long-lived assets.

IDLE LEASED FACILITIES

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

COMMITMENTS AND CONTINGENCIES

We own the 480-bed Michigan Correctional Facility in Baldwin, Michigan, referred to as the Michigan Facility. We operated the Michigan Facility from 1999 until October 2005 pursuant to a management contract with the Michigan Department of Corrections, or the MDOC. Separately, we leased the Michigan Facility, as lessor, to the State, as lessee, under a lease with an initial term of 20 years followed by two five-year options. In September 2005, the Governor of the State of Michigan closed the Michigan Facility and terminated our management contract with the MDOC. In October 2005, the State of Michigan also sought to terminate its lease for the Michigan Facility. We believe that the State did not have the right to unilaterally terminate the Michigan Facility lease. As a result, in November 2005, we filed a lawsuit against the State to enforce our rights under the lease. On February 24, 2006, the Ingham County Circuit Court, the trial court with jurisdiction over the case, granted summary judgment in favor of the State and against us and granted us leave to amend the complaint. We have filed an amended complaint and are proceeding with the lawsuit. We have reviewed the Michigan Facility for impairment in accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and recorded an impairment charge in the fourth quarter of 2005 for $20.9 million based on an independent appraisal of fair market value.

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.

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

Comparison of Thirteen Weeks Ended April 2, 2006 and Thirteen Weeks Ended April 3, 2005

	2006	% of Revenue	2005	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Revenue						
Correctional and Detention Facilities	$169,876	91.4%	$136,339	92.0%	$ 33,537	24.6%
Other	16,005	8.6%	11,916	8.0%	4,089	34.3%
Total	$185,881	100.0%	$148,255	100.0%	$ 37,626	25.4%

The increase in revenues in the thirteen weeks ended April 2, 2006 ("First Quarter 2006") compared to the thirteen weeks ended April 3, 2005 ("First Quarter 2005") is primarily attributable to four items: (i) the acquisition in November 2005 of Correctional Services Corporation, referred to as CSC, increased revenues by $27.7 million; (ii) revenues increased approximately $2.7 million in First Quarter 2006 as a result of the New Castle Correctional Facility in New Castle, Indiana, which we began managing in January 2006; (iii) Australian and South African revenues decreased approximately $0.2 million each. The weakening of the Australian dollar and South African Rand resulted in a decrease of $1.1 million, while higher occupancy rates and contractual adjustments for inflation accounted for an increase of $0.7 million; and (iv) domestic revenues also increased due to contractual adjustments for inflation, and improved terms negotiated into a number of contracts.

The number of compensated resident days in domestic facilities increased to 3.5 million in First Quarter 2006 from 2.6 million in

First Quarter 2005. Compensated resident days in Australian and South African facilities during First Quarter 2006 remained consistent at 0.5 million for the comparable periods. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our domestic, Australian and South African facilities combined was 100.5% of capacity in First Quarter 2006 compared to 99.0% in First Quarter 2005, excluding our vacant Michigan and Jena facilities.

	2006	% of Revenue	2005	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Operating Expenses						
Correctional and Detention Facilities	$138,925	74.7%	$114,062	76.9%	$ 24,863	21.8%
Other	14,821	8.0%	11,751	7.9%	3,070	26.1%
Total	$153,746	82.7%	$125,813	84.9%	$ 27,933	22.2%

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. The increase in operating expenses primarily reflects the acquisition of CSC in November 2005. There was also an increase in utilities expense, which was offset by a decrease in health insurance. Operating expenses remained at a consistent percentage of revenues in First Quarter 2006 compared to First Quarter 2005.

Other

Other primarily consists of revenues and related operating expenses associated with our mental health residential treatment and construction businesses. There was an increase of $7.0 million related to revenue from two new mental health facilities, the South Florida Evaluation & Treatment Center in Miami, Florida and the Fort Bayard Medical Center in Fort Bayard, New Mexico. The increase in 2006 is offset by approximately $2.9 million less construction revenue as compared to 2005. The construction revenue is related to our expansion of the South Bay Facility and the South Florida Evaluation & Treatment Center, two facilities that we manage. The expansion of South Bay was completed at the end of the second quarter of 2005, while the South Florida Evaluation & Treatment Center began in the fourth quarter of 2005.

Other Unallocated Operating Expenses

General and Administrative Expenses

	2006	% of Revenue	2005	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
General & Administrative Expenses	$14,009	7.5%	$11,401	7.7%	$ 2,608	22.9%

General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses remained at a consistent percentage of revenues in First Quarter 2006 compared to First Quarter 2005. The increase in general and administrative costs relates to increases in direct labor costs due to increased headcount, travel, an increase in the bonus accrual due to an increase in earnings and an increase in professional fees.

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Non Operating Expenses

Interest Income and Interest Expense

	2006	% of Revenue	2005	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Interest Income	$2,211	1.2%	$2,330	1.6%	$ (119)	-5.1%
Interest Expense	$7,579	4.1%	$5,454	3.7%	$ 2,125	39.0%

The decrease in interest income is primarily due to lower average invested cash balances. Interest income for 2006 and 2005 reflects income from interest rate swap agreements entered into September 2003 for our domestic operations, which increased interest income. The interest rate swap agreements in the aggregate notional amounts of $50.0 million are hedges against the change in the fair value of a designated portion of our outstanding senior unsecured 8 1/4% notes, referred to as the Notes, due to changes in the underlying interest rates. The interest rate swap agreements have payment and expiration dates and call provisions that coincide with the terms of the Notes.

The increase in interest expense is primarily attributable to the refinancing of the term loan portion of our senior credit facility, referred to as the Senior Credit Facility, in connection with the completion of the CSC acquisition.

Provision for Income Taxes

	2006	% of Revenue	2005	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Income Taxes	$2,693	1.4%	$1,723	1.2%	$ 970	56.3%

The effective tax rate for First Quarter 2006 was 38% comparable to 39% in First Quarter 2005.

Liquidity and Capital Resources

Current cash requirements consist of amounts needed for working capital, debt service, capital expenditures, supply purchases and investments in joint ventures. Our primary source of liquidity to meet these requirements is cash flow from operations and borrowings under the $100.0 million revolving portion of our Senior Credit Facility. As of April 2, 2006, we had $53.5 million available for borrowing under the revolving portion of the Senior Credit Facility.

We incurred substantial indebtedness in connection with the acquisition of CSC on November 4, 2005 and the share purchase in 2003. As of April 2, 2006, we had $224.9 million of consolidated debt outstanding, excluding $141.2 million of non-recourse debt. As of April 2, 2006, we also had outstanding seven letters of guarantee totaling approximately $5.4 million under separate international credit facilities. Our significant debt service obligations could, under certain circumstances, have material consequences. See "Risk Factors — Risks Related to Our High Level of Indebtedness" in our Form 10-K for the year ended January 1, 2006 filed on March 17, 2006. However, our management believes that cash on hand, cash flows from operations and borrowings available under our Senior Credit Facility will be adequate to support currently planned business expansion and various obligations incurred in the operation of our business, both on a near and long-term basis.

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

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

We have entered into individual executive retirement agreements with our CEO and Chairman, President and Vice Chairman, and Chief Financial Officer. These agreements provide each executive with a lump sum payment upon retirement. Under the agreements, each executive may retire at any time after reaching the age of 55. Each of the executives reached the eligible retirement age of 55 in 2005. None of the executives 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 revolving credit facility. Based on our current capitalization, we do not believe that making these payments in any one period, whether in separate installments or in the aggregate, would materially adversely impact our liquidity.

The Senior Credit Facility

On September 14, 2005, we amended and restated our Senior Credit Facility, to consist of a $75 million, six-year term-loan initially bearing interest at LIBOR plus 2.00%, and a $100 million, five-year revolving credit facility initially bearing interest at LIBOR plus 2.00%. We used the borrowings under the Senior Credit Facility to fund general corporate purposes and to finance the acquisition of CSC, which closed on November 4, 2005 for approximately $62 million in cash plus deal-related costs. As of April 2, 2006, we had borrowings of $74.6 million outstanding under the term loan portion of the Senior Credit Facility, no amounts outstanding under the revolving portion of the Senior Credit Facility, and $46.5 million outstanding in letters of credit under the revolving portion of the Senior Credit Facility.

Senior 8 1/4% Notes

To facilitate the completion of the purchase of the 12 million shares from Group 4 Falck, our former majority shareholder, we issued $150.0 million aggregate principal amount, ten-year, 8 1/4% senior unsecured notes, which we refer to as the Notes. The Notes are general, unsecured, senior obligations of ours. Interest is payable semi-annually on January 15 and July 15 at 8 1/4%. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between us and the Bank of New York, as trustee, referred to as the Indenture.

Non-Recourse Debt

South Texas Detention Complex:

In February 2004, CSC was awarded a contract by ICE to develop and operate a 1,020 bed detention complex in Frio County Texas. STLDC was created and issued $49.5 million in taxable revenue bonds to finance the construction of the detention center. Additionally, CSC provided a $5.0 million subordinated note to STLDC for initial development. We determined that we are the primary beneficiary of STLDC and consolidate the entity as a result. STLDC is the owner of the complex and entered into a development agreement with CSC to oversee the development of the complex. In addition, STLDC entered into an operating agreement providing CSC the sole and exclusive right to operate and manage the complex. The operating agreement and bond indenture require the revenue from CSC's contract with ICE be used to fund the periodic debt service requirements as they become due. The net revenues, if any, after various expenses such as trustee fees, property taxes and insurance premiums are distributed to CSC to cover CSC's operating expenses and management fee. CSC is responsible for the entire operations of the facility including all operating expenses and is required to pay all operating expenses whether or not there are sufficient revenues. STLDC has no liabilities resulting from its ownership. The bonds have a ten year term and are non-recourse to CSC and STLDC. The bonds are fully insured and the sole source of payment for the bonds is the operating revenues of the center.

Included in non-current restricted cash equivalents and investments is $10.9 million as of April 2, 2006 as funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

On June 30, 2003 CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington, 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.

Included in non-current restricted cash equivalents and investments is $5.9 million as of April 2, 2006 as funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

In connection with the financing and management of one Australian facility, our wholly owned Australian subsidiary financed the facility's development and subsequent expansion in 2003 with long-term debt obligations, which are non-recourse to us. We have consolidated the subsidiary's direct finance lease receivable from the state government and related non-recourse debt each totaling approximately $39.0 million and $40.3 million as of April 2, 2006 and January 1, 2006, respectively. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at January 1, 2006, was approximately $3.6 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 $9.8 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 6.5 million South African Rand, or approximately $1.1 million, as security for our guarantee. Our obligations under this guarantee expire upon the release from SACS of its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in our outstanding letters of credit under the revolving loan portion of our Senior Credit Facility.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or approximately $3.3 million, referred to as the Standby Facility, to SACS for the purpose of financing the obligations under the contract between SACS and the South African government. No amounts have been funded under the Standby Facility, and we do not currently anticipate that such funding will be required by SACS in the future. Our obligations under the Standby Facility expire upon the earlier of full funding or release from SACS of its obligations under its debt agreements. The lenders' ability to draw on the Standby Facility is limited to certain circumstances, including termination of the contract.

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

In connection with a design, build, finance and maintenance contract for a facility in Canada, we guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is CAN$2.5 million, or approximately $2.1 million commencing in 2017. We have a liability of $0.6 million related to this exposure as of April 2, 2006 and January 1, 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

At April 2, 2006, we also had outstanding seven letters of guarantee totaling approximately $5.4 million under separate international facilities. We do not have any off balance sheet arrangements.

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 LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of April 2, 2006 and January 1, 2006, the fair value of the swaps totaled approximately $(2.2) million and $(1.1) million, respectively, and is included in other non-current assets and other non-current liabilities in the accompanying balance sheets. There was no material ineffectiveness of our interest rate swaps for the period ended April 2, 2006.

Our Australian subsidiary is a party to an interest rate swap agreement to fix the interest rate on the variable rate non-recourse debt to 9.7%. We have determined the swap to be an effective cash flow hedge. Accordingly, we record the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap liability as of April 2, 2006 and January 1, 2006 was approximately $0.3 million and $0.4 million, respectively, and is recorded as a component of other liabilities in the accompanying consolidated financial statements. There was no material ineffectiveness of the interest rate swaps for the fiscal years presented. We do not expect to enter into any transactions during the next twelve months which will result in the reclassification into earnings of gains or losses associated with this swap that are currently reported in accumulated other comprehensive loss.

Cash Flows

Cash and cash equivalents as of April 2, 2006 were $56.2 million, a decrease of $0.9 million from January 1, 2006.

Cash provided by operating activities of continuing operations amounted to $11.5 million in the First Quarter 2006 versus cash provided by operating activities of continuing operations of $2.7 million in the First Quarter 2005. Cash provided by operating activities of continuing operations in First Quarter 2006 was positively impacted by an increase in accounts payable and accrued payroll and a decrease in other current assets. Cash provided by operating activities of continuing operations in First Quarter 2006 was negatively impacted by an increase in accounts receivable. Cash provided by operating activities of continuing operations in First Quarter 2005 was positively impacted by an increase in accrued payroll and a decrease in accounts receivable. Cash provided by operating activities of continuing operations in First Quarter 2005 was negatively impacted by an increase in other current assets and a decrease in accounts payable.

Cash used in investing activities amounted to $12.1 million in the First Quarter 2006 compared to cash provided by investing activities of $8.2 million in the First Quarter 2005. Cash used in investing activities in the First Quarter 2006 reflects capital expenditures of $7.4 million and an increase in restricted cash. Cash provided by investing activities in the First Quarter 2005 reflect sales of short term investments of $39.0 million and purchases of short term investments of $29.0 million. Capital expenditures amounted to $1.8 million.

Cash provided by financing activities in the First Quarter 2006 amounted to $0.1 million compared to cash used in financing activities of $1.0 million in the First Quarter 2005. Cash provided by financing activities in the First Quarter 2006 reflects proceeds received from the exercise of stock options of $0.7 million and payments on long-term debt of $0.6 million. Cash used in financing activities in the First Quarter 2005 reflect payments on long-term debt of $1.4 million and proceeds received from the exercise of stock options of $0.4 million.

Outlook

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

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 and increased demand for bed space at federal prisons and detention facilities primarily resulting from government initiatives to improve immigration security are two of the factors that have contributed to the greater number of opportunities for privatization. We plan to actively bid on any new projects that fit our target profile for profitability and operational risk. Although we are pleased with the overall industry outlook, positive trends in the industry may be offset by several factors, including budgetary constraints, unanticipated contract terminations and contract non-renewals. In Michigan, the State recently cancelled our Baldwin Correctional Facility management contract based upon the Governor’s veto of funding for the project. Although we do not expect this termination to represent a trend, any future unexpected terminations of our existing management contracts could have a material adverse impact on our revenues. Additionally, several of our management contracts are up for renewal and/or re-bid in 2006. Although we have historically had a relative high contract renewal rate, there can be no assurance that we will be able to renew our management contracts scheduled to expire in 2006 on favorable terms, or at all.

Internationally, in the United Kingdom, we recently won our first contract since re-establishing operations. We believe that additional opportunities will become available in that market and plan to actively bid on any opportunities that fit our target profile for profitability and operational risk. In South Africa, we anticipate that the government will seek to outsource the development and operation of one or more correctional facilities in the near future. We expect to bid on any suitable opportunities.

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

Operating Expenses

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

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

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

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

Fourth, with respect to the other ten facilities that we lease from CPV, seven of those leases expire in April 2008, referred to as the Expiring Leases. We have until late October 2007 to exercise our option, in our discretion, to renew each of the Expiring Leases for an additional five-year term. We are under no obligation to renew any or all of the Expiring Leases, and may renew some of the Expiring Leases without renewing others. If we opt to renew any of the Expiring Leases, the Expiring Leases will be renewed on identical terms, except that the rental rate will be equal to the fair market rental value of the facility being renewed, as mutually agreed to by us and CPT or, in the absence of such an agreement, as determined through binding arbitration.

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

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

General and Administrative Expenses

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

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. Monthly payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Senior Credit Facility of $74.6 million as of April 2, 2006, for every one percent increase in the interest rate applicable to the Senior Credit Facility, our total annual interest expense would increase by $0.7 million.

Effective September 18, 2003, we entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. We have designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the Notes. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the six-month LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. 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.

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 and the South African rand currency exchange rates. Based upon our foreign currency exchange rate exposure at April 2, 2006, every 10 percent change in historical currency rates would have approximately a $2.3 million effect on our financial position and approximately a $0.2 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 Securities and Exchange Commission, or the SEC, under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

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

(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.

THE GEO GROUP, INC.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that our Australian subsidiary formerly operated. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government's insurance provider and did not specify the amount of damages being sought. In May 2005, we received additional correspondence indicating that the insurance provider still intends to pursue the claim against our Australian subsidiary. Although the claim is in the initial stages and we are still in the process of fully evaluating its merits, we believe that we have defenses to the allegations underlying the claim and intend to vigorously defend our rights with respect to this matter. However, although the insurance provider has not quantified its damage claim and the outcome of this matter cannot be predicted with certainty, based on information known to date, and our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. We are uninsured for any damages or costs that we may incur as a result of this claim, including the expenses of defending the claim. We have accrued a reserve related to the claim based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our legal counsel.

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

ITEM 1A. RISK FACTORS

During the thirteen weeks ended April 2, 2006, there were no material changes to the risk factors previously disclosed in our Form 10-K, filed on March 17, 2006.

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 AND REPORTS ON FORM 8-K

(a) Exhibits —

31.1 SECTION 302 CEO Certification.

31.2 SECTION 302 CFO Certification.

32.1 SECTION 906 CEO Certification.

32.2 SECTION 906 CFO Certification.

(b) Reports on Form 8-K — The Company filed a Form 8-K, Item 8, on January 6, 2006. The Company filed a Form 8-K/A, Item 9, on January 20, 2006. The Company filed a Form 8-K, Item 5, on February 14, 2006. The Company filed a Form 8-K, Items 2 and 9, on March 17, 2006. The Company filed a Form 8-K, Items 4 and 9, on March 27, 2006. The Company filed a Form 8-K/A, Items 4 and 9, on March 31, 2006.

SIGNATURES

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

THE GEO GROUP, INC.

Date: May 8, 2006

/s/ John G. O'Rourke

John G. O'Rourke
Senior Vice President — Finance and Chief Financial Officer (Principal Financial Officer)

EXHIBIT 31.1

THE GEO GROUP, INC.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George C, Zoley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The GEO Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2006

/s/ George C. Zoley
George C. Zoley
Chief Executive Officer

EXHIBIT 31.2

THE GEO GROUP, INC.

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John G. O'Rourke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of The GEO Group, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f), for the registrant and we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2006

/s/ John G. O'Rourke

John G. O'Rourke
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of The GEO Group, Inc. (the “Company”) for the period ended April 2, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Form 10-Q”), I, George, C. Zoley, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1932, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George C. Zoley
George C. Zoley
Chief Executive Officer

May 8, 2006

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of The GEO Group, Inc. (the "Company") for the period ended April 2, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, John G. O'Rourke, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1932, as amended; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John G. O'Rourke

John G. O'Rourke
Chief Financial Officer

May 8, 2006