TORTOISE ENERGY INFRASTRUCTURE CORP
Form N-30B-2
April 22, 2014

Company at a Glance

Tortoise Energy Infrastructure Corp. (NYSE: TYG) is a pioneering closed-end investment company investing primarily in equity securities of publicly-traded Master Limited Partnerships (MLPs) and their affiliates in the energy infrastructure sector.

Investment Goals: Yield, Growth and Quality

TYG seeks a high level of total return with an emphasis on current distributions paid to stockholders.

In seeking to achieve **yield,** we target distributions to our stockholders that are roughly equal to the underlying yield on a direct investment in MLPs. In order to accomplish this, we maintain our strategy of investing primarily in energy infrastructure MLPs with attractive current yields and growth potential.

We seek to achieve distribution **growth** as revenues of our underlying companies grow with the economy, with the population and through rate increases. This revenue growth generally leads to increased operating profits, and when combined with internal expansion projects and acquisitions, is expected to provide attractive growth in distributions to us. We also seek distribution growth through timely debt and equity offerings.

TYG seeks to achieve **quality** by investing in companies operating energy infrastructure assets that are critical to the U.S. economy. Often these assets would be difficult to replicate. We also back experienced management teams with successful track records. By investing in us, our stockholders have access to a portfolio that is diversified through geographic regions and across product lines, including natural gas, natural gas liquids, crude oil and refined products.

About Energy Infrastructure Master Limited Partnerships

MLPs are limited partnerships whose units trade on public exchanges such as the New York Stock Exchange (NYSE), the NYSE Alternext US and NASDAQ. Buying MLP units makes an investor a limited partner in the MLP. There are currently more than 100 MLPs in the market in industries related to energy and natural resources.

We primarily invest in MLPs and their affiliates in the energy infrastructure sector. Energy infrastructure MLPs are engaged in the transportation, storage and processing of crude oil, natural gas and refined products from production points to the end users. Our investments are primarily in midstream (mostly pipeline) operations, which typically produce steady cash flows with less exposure to commodity prices than many alternative investments in the broader energy industry. With the growth potential of this sector, along with our disciplined investment approach, we endeavor to generate a predictable and increasing distribution stream for our investors.

A TYG Investment Versus a Direct Investment in MLPs

We provide our stockholders an alternative to investing directly in MLPs and their affiliates. A direct MLP investment potentially offers an attractive distribution with a significant portion treated as return of capital, and a historically low correlation to returns on stocks and bonds. However, the tax characteristics of a direct MLP investment are generally undesirable for tax-exempt investors such as retirement plans. We are structured as a C Corporation accruing federal and state income taxes, based on taxable earnings and profits. Because of this innovative structure, pioneered by Tortoise Capital Advisors, institutions and retirement accounts are able to join individual stockholders as investors in MLPs.

Additional features include:

- ♦ One Form 1099 per stockholder at the end of the year, thus avoiding multiple K-1s and multiple state filings for individual partnership investments;
- ♦ A professional management team, with more than 130 years combined investment experience, to select and manage the portfolio on your behalf;

- The ability to access investment grade credit markets to enhance stockholder return; and
- Access to direct placements and other investments not available through the public markets.

March 24, 2014

Dear Fellow Stockholders,

The first fiscal quarter ending Feb. 28, 2014 was generally positive for midstream MLPs, which continued to benefit from the energy infrastructure build-out underway to support robust North American oil and natural gas production. The quarter did provide a few headwinds, however, in the form of mixed earnings across the sector and some market volatility.

From a broader perspective, the equity market was uneven, with stocks recording strong gains in December following the Federal Reserve s decision to begin tapering its asset purchases, but then falling sharply in January on concern of a slowdown in emerging markets. However, February saw equities back in positive territory as those concerns abated and U.S. companies delivered generally upbeat earnings reports.

Master Limited Partnership Sector Review and Outlook

The Tortoise MLP Index® posted a 3.0 percent total return for the first fiscal quarter. In a reversal from most of their 2013 performance, upstream MLPs outperformed midstream MLPs during the fiscal quarter, as reflected by the Tortoise Upstream MLP Index s 5.2 percent return relative to the Tortoise Midstream MLP Index s 2.9 percent gain. The bulk of that outperformance was delivered in December and January due to higher commodity prices, somewhat offset by weather-related disruptions affecting upstream earnings in February.

Impressive production is driving the need for more and enhanced infrastructure, which continues to support midstream MLPs. The Energy Information Administration (EIA) projects annual average domestic crude oil production will approach 8.4 million barrels per day (bbl/d) in 2014 and as much as 9.2 million bbl/d in 2015. Domestic natural gas production averaged 66.5 billion cubic feet per day in 2013,[1] with the sources of supply shifting and driving the need for more infrastructure in certain areas. Within natural gas pipeline MLPs, location of assets is increasingly important, as is careful portfolio selection. We believe the best opportunities among natural gas pipeline MLPs are those with strategically located assets that are benefiting from demand needs i.e. pipelines that are transporting natural gas away from those areas where production growth is accelerating to areas of demand.

Although the pace of funding slowed in the first fiscal quarter of 2014 relative to the same quarter of 2013, capital markets continued to support sector strength, with MLPs raising more than $5.0 billion in equity and $6.6 billion in debt offerings, including two MLP IPOs. MLP mergers and acquisitions totaling approximately $3.3 billion were announced during the quarter. The largest of these was a dropdown of multiple assets valued at $700 million by Phillips 66 to its MLP, Phillips 66 Partners.

Fund Performance Review

The fund s total assets increased from approximately $2.2 billion on Nov. 30, 2013, to $2.3 billion on Feb. 28, 2014, primarily from net realized and unrealized gains on investments as well as approximately $4 million in new equity and $46 million in new leverage proceeds. Leverage (including bank debt, senior notes and preferred stock) increased slightly from 18.6 percent to 19.8 percent of total assets during the fiscal quarter.

At fiscal quarter end, the fund paid a distribution of $0.5775 per common share ($2.31 annualized) to stockholders, an increase of 0.4 percent quarter over quarter and 1.8 percent year over year. This distribution represented an annualized distribution rate of 5.2 percent based on the fund s fiscal quarter closing price of $44.65. In managing the fund, Tortoise places particular emphasis on distribution coverage: distributable cash flow (DCF) earned by the fund divided by distributions paid to stockholders. Our goal is to declare what we believe to be sustainable quarterly distributions with increases safely covered by earned distributable cash flow. The distribution payout coverage was 106.3 percent for the fiscal quarter and 111.4 percent for the last four quarters.

For the fiscal quarter, the fund s market-based total return was -9.1 percent and its NAV-based total return was 3.8 percent (both including the reinvestment of distributions). The difference between the market value total return and the NAV total return reflected a decrease in the premium of the fund s stock price relative to its NAV during the quarter. This was the case for many closed-end funds in recent months, as they came under pressure as the market continued to factor in concern over rising interest rates, with the average discount nearly doubling from last May through February.

(Unaudited)

Key Performance Drivers

- Robust crude oil and natural gas production out of North American shales continued to be a catalyst for pipeline infrastructure expansion projects, which in turn supported the fund s asset performance during the fiscal quarter.
- An overweight exposure to and astute selection among crude oil pipeline MLPs that benefited from greater volume stemming from production growth contributed significantly to performance. The fund s overweight stake in and better selection among refined products pipeline MLPs benefited additionally from recent dropdowns and the anticipation of more dropdowns in the months ahead.
- Natural gas pipeline MLPs detracted from performance as the group was challenged by contract renewals and rate cases, including Boardwalk Pipeline Partners, which significantly reduced its distribution during the quarter.

Additional information about the fund s financial performance, distributions and leverage is available in the Key Financial Data and Management s Discussion sections of this report.

Proposed Fund Mergers

On Jan. 28, 2014, Tortoise announced the proposed mergers of Tortoise Energy Capital Corporation (TYY) and Tortoise North American Energy Corporation (TYN) into Tortoise Energy Infrastructure Corporation (TYG), given the funds similar investment objectives and strategies. We urge you to review the definitive joint proxy statement/prospectus you recently received, which is also available at www.tortoiseadvisors.com, for more information.

Concluding Thoughts

We continue to believe that now is a great time to invest in North American energy. Production is growing at a healthy pace and driving the critical need for supporting midstream infrastructure. Although challenges exist, we believe that the transformation underway in North America bodes well for the fund s long-term investment strategy, U.S. security, our economy and our energy future.

Sincerely,
The Managing Directors
Tortoise Capital Advisors, L.L.C.
The adviser to Tortoise Energy Infrastructure Corp.

[1] Energy Information Administration

The Tortoise MLP Index® is a float-adjusted, capitalization-weighted index of energy master limited partnerships (MLPs). The Tortoise Midstream MLP Index, a sub-index of the Tortoise MLP Index®, is comprised of all constituents included in the following sub sectors: Crude Oil Pipelines, Gathering & Processing, Natural Gas Pipelines and Refined Products Pipelines. The Tortoise Upstream MLP Index is comprised of all constituents included in the Tortoise MLP Index s Coal and Oil & Gas Production sub sector indices. The S&P 500 Index® is a unmanaged market-value-weighted index of stocks, which is widely regarded as the standard for measuring large-cap U.S. stock market performance.

(Unaudited)

Key Financial Data *(Supplemental Unaudited Information)*

(dollar amounts in thousands unless otherwise indicated)

The information presented below regarding Distributable Cash Flow and Selected Financial Information is supplemental non-GAAP financial information, which we believe is meaningful to understanding our operating performance. The Distributable Cash Flow Ratios include the functional equivalent of EBITDA for non-investment companies, and we believe they are an important supplemental measure of performance and promote comparisons from period-to-period. This information is supplemental, is not inclusive of required financial disclosures (e.g. Total Expense Ratio), and should be read in conjunction with our full financial statements.

	2013				2014
	Q1[1]	Q2[1]	Q3[1]	Q4[1]	Q1[1]
Total Income from Investments					
Distributions received from master limited partnerships	$24,594	$25,525	$25,660	$27,024	$26,172
Dividends paid in stock	1,811	1,492	1,537	1,597	1,637
Distributions from common stock					52
Other income				94	
Total from investments	26,405	27,017	27,197	28,715	27,861
Operating Expenses Before Leverage Costs and Current Taxes					
Advisory fees, net of fees waived	4,166	4,752	4,895	4,957	5,119
Other operating expenses	348	348	351	349	362
	4,514	5,100	5,246	5,306	5,481
Distributable cash flow before leverage costs and current taxes	21,891	21,917	21,951	23,409	22,380
Leverage costs[2]	4,243	3,816	3,835	4,184	4,691
Current income tax expense[3]					
Distributable Cash Flow[4]	$17,648	$18,101	$18,116	$19,225	$17,689
As a percent of average total assets[5]					
Total from investments	5.94%	5.41%	5.28%	5.44%	5.01%
Operating expenses before leverage costs and current taxes	1.02%	1.02%	1.02%	1.00%	0.99%
Distributable cash flow before leverage costs and current taxes	4.92%	4.39%	4.26%	4.44%	4.02%
As a percent of average net assets[5]					
Total from investments	10.10%	9.04%	8.91%	9.51%	9.03%
Operating expenses before leverage costs and current taxes	1.73%	1.71%	1.72%	1.76%	1.78%
Leverage costs and current taxes	1.62 %	1.28 %	1.26 %	1.39 %	1.52 %
Distributable cash flow	6.75%	6.05%	5.93%	6.36%	5.73%
Selected Financial Information					
Distributions paid on common stock	$16,101	$16,225	$16,321	$16,442	$16,643
Distributions paid on common stock per share	0.5675	0.5700	0.5725	0.5750	0.5775
Distribution coverage percentage for period[6]	109.6%	111.6%	111.0%	116.9%	106.3%
Net realized gain, net of income taxes, for the period	20,300	32,768	3,363	31,391	8,609
Total assets, end of period	1,900,047	1,974,131	2,031,736	2,188,730	2,294,312
Average total assets during period[7]	1,803,562	1,981,853	2,043,631	2,118,177	2,253,941
Leverage[8]	314,700	315,900	339,400	407,600	454,000
Leverage as a percent of total assets	16.6%	16.0%	16.7%	18.6%	19.8%
Net unrealized appreciation, end of period	603,431	630,465	660,779	705,678	749,365
Net assets, end of period	1,121,950	1,167,024	1,180,576	1,245,761	1,280,942
Average net assets during period[9]	1,060,308	1,185,578	1,210,359	1,211,261	1,251,952
Net asset value per common share	39.54	40.98	41.41	43.36	44.41
Market value per share	47.25	44.43	43.34	49.76	44.65
Shares outstanding (000 s)	28,372	28,481	28,509	28,733	28,844

[1] Q1 is the period from December through February. Q2 is the period from March through May. Q3 is the period from June through August. Q4 is the period from September through November.

[2] Leverage costs include interest expense, distributions to preferred stockholders, and other recurring leverage expenses.

(3) Includes taxes paid on net investment income and foreign taxes, if any. Taxes related to realized gains are excluded from the calculation of Distributable Cash Flow (DCF).

(4) Net investment income (loss), before income taxes on the Statement of Operations is adjusted as follows to reconcile to DCF: increased by the return of capital on distributions, the value of paid-in-kind distributions, premium on redemption of MRP stock, amortization of debt issuance costs and non-recurring merger expenses; and decreased by current taxes paid on net investment income.

(5) Annualized for periods less than one full year.

(6) Distributable Cash Flow divided by distributions paid.

(7) Computed by averaging month-end values within each period.

(8) Leverage consists of long-term debt obligations, preferred stock and short-term borrowings.

(9) Computed by averaging daily net assets within each period.

Management s Discussion *(Unaudited)*

*The information contained in this section should be read in conjunction with our Financial Statements and the Notes thereto. In addition, this report contains certain forward-looking statements. These statements include the plans and objectives of management for future operations and financial objectives and can be identified by the use of forward-looking terminology such as may, will, expect, intend, anticipate, estimate, or continue or the negative thereof or other variations thereon or comparabl terminology. These forward-looking statements are subject to the inherent uncertainties in predicting future results and conditions. Certain factors that could cause actual results and conditions to differ materially from those projected in these forward-looking statements are set forth in the Risk Factors section of our public filings with the SE*C.

Overview

Tortoise Energy Infrastructure Corp. s (the Company) primary investment objective is to seek a high level of total return for our stockholders, with an emphasis on distribution income paid to stockholders. We seek to provide our stockholders with an efficient vehicle to invest in the energy infrastructure sector. While we are a registered investment company under the Investment Company Act of 1940, as amended (the 1940 Act), we are not a regulated investment company for federal tax purposes. Our distributions do not generate unrelated business taxable income (UBTI) and our stock may therefore be suitable for holding by pension funds, IRAs and mutual funds, as well as taxable accounts. We invest primarily in master limited partnerships (MLPs) through private and public market purchases. MLPs are publicly traded partnerships whose equity interests are traded in the form of units on public exchanges, such as the NYSE or NASDAQ. Tortoise Capital Advisors, L.L.C. serves as our investment adviser.

Company Update

Total assets increased approximately $106 million during the 1st quarter, primarily as a result of higher market values of our MLP investments as well as increased leverage utilization. While distribution increases from our MLP investments were generally in-line with our expectations, overall distributions received declined from the prior quarter due to the sale of one portfolio company that announced a reduced distribution rate during the quarter. Asset-based expenses increased from the previous quarter along with average managed assets. Total leverage as a percent of total assets increased and we increased our quarterly distribution to $0.5775 per share. Additional information on these events and results of our operations are discussed in more detail below.

On January 28, 2014, we announced that our Board of Directors approved the proposed mergers of Tortoise Energy Capital Corporation (TYY) and Tortoise North American Energy Corporation (TYN) into the Company given their similar investment objectives and strategies. We urge you to read the definitive joint proxy statement/prospectus you recently received, which is also available at www.tortoiseadvisors.com, for more information.

Critical Accounting Policies

The financial statements are based on the selection and application of critical accounting policies, which require management to make significant estimates and assumptions. Critical accounting policies are those that are both important to the presentation of our financial condition and results of operations and require management s most difficult, complex, or subjective judgments. Our critical accounting policies are those applicable to the valuation of investments, tax matters and certain revenue recognition matters as discussed in Note 2 in the Notes to Financial Statements.

Determining Distributions to Stockholders

Our portfolio generates cash flow from which we pay distributions to stockholders. Our Board of Directors has adopted a policy of declaring what it believes to be sustainable distributions. In determining distributions, our Board of Directors considers a number of current and anticipated factors, including, among others, distributable cash flow (DCF), realized and unrealized gains, leverage amounts and rates, current and deferred taxes payable, and potential volatility in returns from our investments and the overall market. While the Board considers many factors in determining distributions to stockholders, particular emphasis is given to DCF and distribution coverage. Distribution coverage is DCF divided by distributions paid to stockholders and is discussed in more detail below. Over the long-term, we expect to distribute substantially all of our DCF to holders of common stock. Our Board of Directors reviews the distribution rate quarterly and may adjust the quarterly distribution throughout the year.

Determining DCF

DCF is distributions received from investments, less expenses. The total distributions received from our investments include the amount received by us as cash distributions from investments, paid-in-kind distributions, and dividend and interest payments. The total expenses include current or anticipated operating expenses, leverage costs and current income taxes. Current income taxes include taxes paid on our net investment income, in addition to foreign taxes, if any. Taxes incurred from realized gains on the sale of investments, expected tax benefits and deferred taxes are not included in DCF.

The Key Financial Data table discloses the calculation of DCF and should be read in conjunction with this discussion. The difference between distributions received from investments in the DCF calculation and total investment income as reported in the Statement of Operations, is reconciled as follows: the Statement of Operations, in conformity with U.S. generally accepted accounting principles (GAAP), recognizes distribution income from MLPs and common stock on their ex-dates, whereas the DCF calculation may reflect distribution income on their pay dates; GAAP recognizes that a significant portion of the cash distributions received from MLPs and other investments are characterized as a return of capital and therefore excluded from investment income, whereas the DCF calculation includes the return of capital; and distributions received from investments in the DCF calculation include the value of dividends paid-in-kind (additional stock or MLP units), whereas such amounts are not included as income for GAAP purposes, and includes distributions related to direct investments when the purchase price is reduced in lieu of receiving cash distributions. The treatment of expenses in the DCF calculation also differs from what is reported in the Statement of Operations. In addition to the total operating expenses, including fee waiver, as disclosed in the Statement of Operations, the DCF calculation reflects interest expense, distributions to preferred stockholders, other recurring leverage expenses, as well as taxes paid on net investment income. Non-recurring expenses related to the proposed mergers are excluded from DCF. A reconciliation of Net Investment Loss, before Income Taxes to DCF is included below.

Management s Discussion *(Unaudited)*

(Continued)

Distributions Received from Investments

Our ability to generate cash is dependent on the ability of our portfolio of investments to generate cash flow from their operations. In order to maintain and grow distributions to our stockholders, we evaluate each holding based upon its contribution to our investment income, our expectation for its growth rate, and its risk relative to other potential investments.

We concentrate on MLPs we believe can expect an increasing demand for services from economic and population growth. We seek well-managed businesses with hard assets and stable recurring revenue streams. Our focus remains primarily on investing in fee-based service providers that operate long-haul, interstate pipelines. We further diversify among issuers, geographies and energy commodities to seek a distribution payment which approximates an investment directly in energy infrastructure MLPs. In addition, many crude/refined products and natural gas liquids pipeline companies are regulated and currently benefit from a tariff inflation escalation index of PPI + 2.65 percent. Over the long-term, we believe distributions from our investments will outpace inflation and interest rate increases, and produce positive real returns.

Total distributions received from our investments for the 1st quarter 2014 were approximately $27.9 million, representing a 5.5 percent increase as compared to 1st quarter 2013 and a 3.0 percent decrease as compared to 4th quarter 2013. These changes reflect increases in per share distribution rates on our investments, the distributions received from additional investments funded from equity and leverage proceeds, the impact of various portfolio trading activity and non-recurring income received in 4th quarter 2013. In addition, distributions received in the 1st quarter 2014 were negatively impacted as only a portion of the proceeds from our sale of Boardwalk Pipeline Partners, LP prior to its ex-date were reinvested to earn distributions during the quarter.

Expenses

We incur two types of expenses: (1) operating expenses, consisting primarily of the advisory fee, and (2) leverage costs. On a percentage basis, operating expenses before leverage costs and current taxes were an annualized 0.99 percent of average total assets for the 1st quarter 2014, a decrease of 0.03 percent as compared to 1st quarter 2013 and a decrease of 0.01 percent as compared to 4th quarter 2013. Advisory fees for the 1st quarter 2014 increased 3.3 percent from 4th quarter 2013 as a result of increased average managed assets for the quarter. Yields on our investments are currently below their 5-year historical average of approximately 7 percent. All else being equal, if yields on our investments decrease and distributions remain constant or grow, asset values will increase as will our managed assets and advisory fees. Other operating expenses increased approximately $13,000 as compared to 4th quarter 2013, mainly due to increased directors fees during the quarter.

Leverage costs consist of two major components: (1) the direct interest expense on our senior notes and short-term credit facility, and (2) distributions to preferred stockholders. Other leverage expenses include rating agency fees and commitment fees. Total leverage costs for DCF purposes were approximately $4.7 million for the 1st quarter 2014, an increase of 12.1 percent as compared to 4th quarter 2013 due to increased leverage utilization.

The weighted average annual rate of our leverage at February 28, 2014 was 4.25 percent. This rate includes balances on our bank credit facility which accrue interest at a variable rate equal to one-month LIBOR plus 1.125 percent. We have entered into $110 million notional amount of interest rate swap contracts with an effective date of March 15, 2015 in an attempt to reduce the refinance risk associated with long-term debt that matures in April 2015. Our weighted average rate may vary in future periods as a result of changes in LIBOR, the utilization of our credit facility and as our leverage matures or is redeemed. Additional information on our leverage and amended credit facility is disclosed below in Liquidity and Capital Resources and in our Notes to Financial Statements.

Distributable Cash Flow

For 1st quarter 2014, our DCF was approximately $17.7 million, a slight increase as compared to 1st quarter 2013 and a decrease of 8.0 percent as compared to 4th quarter 2013. The changes are the net result of changes in distributions and expenses as outlined above. We paid a distribution of $16.6 million, or $0.5775 per share, during the quarter. This represents an increase of $0.01 per share as compared to 1st quarter 2013 and an increase of $0.0025 per share as compared to 4th quarter 2013.

Our distribution coverage ratio was 106.3 percent for 1st quarter 2014, a decrease in the coverage ratio of 3.3 percent as compared to 1st quarter 2013 and a decrease of 8.7 percent as compared to 4th quarter 2013 excluding non-recurring income received during 4th quarter 2013. Our goal is to pay what we believe to be sustainable distributions with any increases safely covered by earned DCF. A distribution coverage ratio of greater than 100 percent provides flexibility for on-going management of the portfolio, changes in leverage costs, the impact of taxes from realized gains and other expenses. An on-going distribution coverage ratio of less than 100 percent will, over time, erode the earning power of a portfolio and may lead to lower distributions. We expect to allocate a portion of the projected future growth in DCF to increase distributions to stockholders while also continuing to build critical distribution coverage to help preserve the sustainability of distributions to stockholders for the years ahead.

Net investment loss before income taxes on the Statement of Operations is adjusted as follows to reconcile to DCF for 1st quarter 2014 (in thousands):

	1st Qtr 2014
Net Investment Loss, before Income Taxes	$ (8,499)
Adjustments to reconcile to DCF:	
Dividends paid in stock	1,637
Distributions characterized as return of capital	24,390
Amortization of debt issuance costs	82
Expenses related to proposed fund mergers	79
DCF	$17,689

Liquidity and Capital Resources

We had total assets of $2.3 billion at quarter-end. Our total assets reflect the value of our investments, which are itemized in the Schedule of Investments. It also reflects cash, interest and other receivables, if any, and any expenses that may have been prepaid. During 1st quarter 2014, total assets increased approximately $106 million, primarily due to an increase in the value of our investments as reflected by the change in realized and unrealized gains on investments (excluding return of capital on distributions) of approximately $60 million as well as net purchases of approximately $42 million funded through increased leverage utilization.

We issued 86,387 shares of our common stock during the quarter under our at-the-market equity program for a net total of approximately $4.1 million. We are waiving our advisory fees on the net proceeds from shares issued under our at-the-market equity program for six months.

Total leverage outstanding at February 28, 2014 was $454.0 million, an increase of $46.4 million as compared to November 30, 2013. Outstanding leverage is comprised of $330 million in senior notes, $80 million in preferred shares and $44 million outstanding under the credit facility, with 84.8 percent of leverage with fixed rates and a weighted average maturity of 5.8 years. Total leverage represented 19.8 percent of total assets at February 28, 2014, as compared to 18.6 percent as of November 30, 2013 and 16.6 percent as of February 28, 2013. We issued $30 million of senior notes on January 22, 2014. Our leverage as a percent of total assets remains below our long-term target level of 25 percent, allowing the opportunity to add leverage when compelling investment opportunities arise. Temporary increases to up to 30 percent of our total assets may be permitted, provided that such leverage is consistent with the limits set forth in the 1940 Act, and that such leverage is expected to be reduced over time in an orderly fashion to reach our long-term target. Our leverage ratio is impacted by increases or decreases in investment values, issuance of equity and/or the sale of securities where proceeds are used to reduce leverage.

Our longer-term leverage (excluding our bank credit facility) of $410 million is comprised of 80 percent private placement debt and 20 percent publicly traded preferred equity with a weighted average rate of 4.55 percent and remaining weighted average laddered maturity of approximately 6.4 years.

Our Mandatory Redeemable Preferred Stock has an optional redemption feature allowing us to redeem all or a portion of the stock after December 31, 2015 and on or prior to December 31, 2016 at $10.10 per share. Any optional redemption after December 31, 2016 and on or prior to December 31, 2017 will be at $10.05 per share. Any redemption after December 31, 2017 will be at the liquidation preference amount of $10.00 per share.

During the quarter, we entered into an amendment to our credit facility, increasing the borrowing capacity under the facility from $85 million to $107.5 million to allow us to increase leverage closer to our long-term target. Other terms of the facility were unchanged.

We have used leverage to acquire MLPs and common stock consistent with our investment philosophy. The terms of our leverage are governed by regulatory and contractual asset coverage requirements that arise from the use of leverage. Additional information on our leverage and asset coverage requirements is discussed in Notes 8, 9 and 10 in the Notes to Financial Statements. Our coverage ratios are updated each week on our Web site at www.tortoiseadvisors.com.

Subsequent to quarter-end, we entered into an agreement to issue $35,000,000 of Series U Notes which carry a floating interest rate based on 3-month LIBOR plus 1.35 percent and mature on April 17, 2019. We issued $20,000,000 of Series U Notes on April 17, 2014 and expect to issue the remaining $15,000,000 on or about May 8, 2014. The proceeds will be used to fund the maturity of the $15,000,000 Series H Notes on May 12, 2014, with the remainder of the proceeds used to purchase additional portfolio investments consistent with our investment philosophy and to reduce the balance of our short-term credit facility.

Taxation of our Distributions and Income Taxes

We invest in partnerships that generally have cash distributions in excess of their income for accounting and tax purposes. Accordingly, the distributions include a return of capital component for accounting and tax purposes. Distributions declared and paid by us in a year generally differ from taxable income for that year, as such distributions may include the distribution of current year taxable income or return of capital.

The taxability of the distribution you receive depends on whether we have annual earnings and profits (E&P). E&P is primarily comprised of the taxable income from MLPs with certain specified adjustments as reported on annual K-1s, fund operating expenses and net realized gains. If we have E&P, it is first allocated to the preferred shares and then to the common shares.

In the event we have E&P allocated to our common shares, all or a portion of our distribution will be taxable at the Qualified Dividend Income (QDI) rate, assuming various holding requirements are met by the stockholder. The QDI rate is variable based on the taxpayer s taxable income. The portion of our distribution that is taxable may vary for either of two reasons. First, the characterization of the distributions we receive from MLPs could change annually based upon the K-1 allocations and result in less return of capital and more in the form of income. Second, we could sell an MLP investment and realize a gain or loss at any time. It is for these reasons that we inform you of the tax treatment after the close of each year as the ultimate characterization of our distributions is undeterminable until the year is over.

E&P for 2013 exceeded total distributions to stockholders. As a result, for tax purposes, distributions to common stockholders for the year ended 2013 were 100 percent qualified dividend income. This information is reported to stockholders on Form 1099-DIV and is available on our Web site at www.tortoiseadvisors.com. For book purposes, the source of distributions to common stockholders for the year ended 2013 was 100 percent return of capital.

The unrealized gain or loss we have in the portfolio is reflected in the Statement of Assets and Liabilities. At February 28, 2014, our investments are valued at $2.284 billion, with an adjusted cost of $1.098 billion. The $1.186 billion difference reflects unrealized gain that would be realized for financial statement purposes if those investments were sold at those values. The Statement of Assets and Liabilities also reflects a net deferred tax liability primarily due to unrealized gains (losses) on investments. At February 28, 2014, the balance sheet reflects a net deferred tax liability of approximately $541 million or $18.76 per share. Accordingly, our net asset value per share represents the amount which would be available for distribution to stockholders after payment of taxes.

To the extent we have taxable income in the future, we will owe federal and state income taxes. Tax payments can be funded from investment earnings, fund assets or borrowings. Details of our taxes are disclosed in Note 5 in our Notes to Financial Statements.

Schedule of Investments

February 28, 2014

(Unaudited)

	Shares	Fair Value
Master Limited Partnerships and Related Companies 177.4%[1]		
Crude/Refined Products Pipelines 83.4%[1]		
United States 83.4%[1]		
Buckeye Partners, L.P.	1,868,700	$ 136,844,901
Enbridge Energy Partners, L.P.	2,287,200	62,943,744
Genesis Energy L.P.	322,156	17,718,580
Holly Energy Partners, L.P.	1,232,000	41,395,200
Magellan Midstream Partners, L.P.	3,227,500	218,404,925
MPLX LP	950,733	46,405,278
NuStar Energy L.P.	806,600	40,265,472
Oiltanking Partners, L.P.	666,500	46,128,465
Phillips 66 Partners LP	319,300	14,630,326
Plains All American Pipeline, L.P.	3,807,100	206,230,607
Rose Rock Midstream, L.P.	146,157	5,688,431
Sunoco Logistics Partners L.P.	2,030,300	167,987,022
Tesoro Logistics LP	812,500	48,912,500
Valero Energy Partners LP	374,151	13,839,846
		1,067,395,297
Natural Gas/Natural Gas Liquids Pipelines 62.7%[1]		
United States 62.7%[1]		
Crestwood Midstream Partners LP	1,575,037	35,265,079
El Paso Pipeline Partners, L.P.	1,038,821	31,216,571
Energy Transfer Equity, L.P.	1,408,800	61,494,120
Energy Transfer Partners, L.P.	1,759,295	97,693,651
Enterprise Products Partners L.P.	2,358,900	158,305,779
EQT Midstream Partners, LP	464,400	30,608,604
Kinder Morgan Energy Partners, L.P.	181,105	13,450,668
Kinder Morgan Management, LLC[2]	1,071,600	74,797,699
ONEOK Partners, L.P.	1,550,167	82,329,369
Regency Energy Partners LP	2,915,700	76,537,125
Spectra Energy Partners, LP	1,661,500	79,286,780
Williams Partners L.P.	1,267,100	62,860,831
		803,846,276
Natural Gas Gathering/Processing 31.3%[1]		
United States 31.3%[1]		
Access Midstream Partners, L.P.	1,929,700	108,931,565
Crosstex Energy, L.P.	884,208	27,313,185
DCP Midstream Partners, LP	1,256,400	61,312,320
MarkWest Energy Partners, L.P.	1,045,052	66,726,570
Targa Resources Partners LP	892,367	47,911,184
Western Gas Partners LP	1,396,358	88,375,498
		400,570,322
Total Master Limited Partnerships and Related Companies (Cost $1,088,550,014)		2,271,811,895
Common Stock 0.9%[1]		
Crude/Refined Products Pipelines 0.9%[1]		
United States 0.9%[1]		

Plains GP Holdings, L.P. (Cost $9,069,201)	414,593	11,608,604
Short-Term Investment 0.0%(1)		
United States Investment Company 0.0%(1)		
Fidelity Institutional Money Market Portfolio		
Class I, 0.04%(3) (Cost $96,039)	96,039	96,039
Total Investments 178.3%(1)		
(Cost $1,097,715,254)		2,283,516,538
Interest Rate Swap Contracts 0.2%(1)		
$110,000,000 notional Unrealized Appreciation(4)		2,931,699

	(4,133)
$	11,887

Amortization expense was $0.4 million and $0.4 million for the thirteen weeks ended March 30, 2008 and April 1, 2007, respectively. Amortization is recognized on a straight-line basis over the estimated useful lives of the intangible assets.

9. LONG TERM DEBT AND DERIVATIVE FINANCIAL INSTRUMENTS

Senior Debt

The Senior Credit Facility

On January 24, 2007, the Company completed the refinancing of its senior secured credit facility through the execution of a Third Amended and Restated Credit Agreement (the Senior Credit Facility), by and among the Company, as Borrower, BNP Paribas, as Administrative Agent, BNP Paribas Securities Corp. as Lead Arranger and Syndication Agent, and the lenders who are, or may from time to time become, a party thereto. The Senior Credit Facility consists of a $365.0 million, seven-year term loan (the Term Loan B) and a $150.0 million five-year revolver (the Revolver). The interest rate for the Term Loan B is LIBOR plus 1.50% (the Company s weighted average interest rate on borrowings outstanding under the Term Loan portion of the facility as of March 30, 2008 was 4.25%) and the Revolver currently bears interest at LIBOR plus 1.75% or at the base rate (prime rate) plus ..75%. The Company used the $365.0 million in borrowings under the Term Loan B to finance its acquisition of CentraCore Properties Trust, (CPT) in January of 2007. In connection with the Term Loan B and the refinancing of the Senior Credit Facility, the Company recorded $9.1 million in deferred financing costs. In March 2007, the Company utilized $200.0 million of the net proceeds from the follow on equity offering to repay a portion of the outstanding debt under the Term Loan B. In 2007, the Company wrote off $4.8 million in deferred financing costs in connection with this repayment of outstanding debt.

As of March 30, 2008, the Company had $161.4 million outstanding under the Term Loan B. The Company s $150.0 million Revolver had $20.0 million outstanding in loans, $56.1 million outstanding in letters of credit and $73.9 million available for borrowings. The Company intends to use future borrowings from the Revolver for the purposes permitted under the Senior Credit Facility, including to fund general corporate purposes.

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

	Interest Rate under the Revolver
LIBOR borrowings	LIBOR plus 1.50% to 2.50%.
Base rate borrowings	Prime rate plus 0.5% to 1.50%.
Letters of credit	1.50% to 2.50%.
Available borrowings	0.38% to 0.5%.

The Senior Credit Facility contains financial covenants which require the Company to maintain the following ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period:

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

In addition, the Senior Credit Facility prohibits the Company from making capital expenditures greater than $55.0 million in the aggregate during fiscal year 2007 and $25.0 million during each of the fiscal years thereafter, provided that to the extent that its capital expenditures during any fiscal year are less than the limit, such amount will be added to the maximum amount of capital expenditures that it can make in the following year. In addition, certain capital expenditures, including those made with the proceeds of any future equity offerings, are not subject to numerical limitations.

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

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

Events of default under the Senior Credit Facility include, but are not limited to, (i) the Company s failure to pay principal or interest when due, (ii) the Company s material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental state of claims which are asserted against it, and (viii) a change of control. The Company believes it was in compliance with all of the covenants in the Senior Credit Facility as of March 30, 2008.

Senior 8 1/4% Notes

To facilitate the completion of the purchase of the interest of the Company s former majority shareholder in 2003, the Company issued $150.0 million aggregate principal amount, ten-year, 8 1/4% senior unsecured notes, (the Notes). The Notes are general, unsecured, senior obligations. Interest is payable semi-annually on January 15 and July 15 at 8 1/4%. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between the Company and the Bank of New York, as trustee, referred to as the Indenture. Additionally, after July 15, 2008, the Company may redeem, at the Company s option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the redemption occurs. The Indenture contains covenants that limit the Company s ability to incur additional indebtedness, pay dividends or distributions on its common stock, repurchase its common stock, and prepay subordinated indebtedness.

The Indenture also limits the Company s ability to issue preferred stock, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets. The Company believes it was in compliance with all of the covenants of the Indenture governing the notes as of March 30, 2008.

As of March 30, 2008, the Notes are reflected net of the original issues discount of approximately $2.9 million which is being amortized over the ten-year term of the Notes using the effective interest method.

Non-Recourse Debt

South Texas Detention Complex

The Company has a debt service requirement related to the development of the South Texas Detention Complex, a 1,904-bed detention complex in Frio County, Texas acquired in November 2005 from Correctional Services Corporation (CSC). CSC was awarded the contract in February 2004 by the Department of Homeland Security, U.S. Immigration and Customs Enforcement (ICE) for development and operation of the detention center. In order to finance its construction, South Texas Detention Center Local Development Corporation (STLDC) was created and issued $49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 3.47% and 5.07%. Additionally, the Company is owed $5.0 million of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

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

On February 1, 2008, STLDC made a payment from its restricted cash account of $4.3 million for the current portion of its periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of March 30, 2008, the remaining balance of the debt service requirement under the STDLC financing agreement is $41.1 million, of which $4.4 million is due within the next twelve months. Also, as of March 30, 2008, $4.2 million is included in non-current restricted cash and $6.3 million is included in current restricted cash as funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

On June 30, 2003, CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington, referred to as the Northwest Detention Center, which was completed and opened for operation in April 2004. The Company began to operate this facility following its acquisition in November 2005. In connection with the original financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a $57.0 million note payable to the Washington Economic Development Finance Authority, referred to as WEDFA, an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance back to CSC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to the Company and the loan from WEDFA to CSC is non-recourse to the Company. These bonds mature in February 2014 and have fixed coupon rates between 2.90% and 4.10%.

The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the fiscal quarter ended March 30, 2008 in relation to the WEDFA bond indenture. As of March 30, 2008, the remaining balance of the debt service requirement is $42.7 million, of which $5.4 million is due within the next 12 months.

As of March 30, 2008, included in current restricted cash and non-current restricted cash is $7.0 million and $7.1 million, respectively, of funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

The Company s wholly-owned Australian subsidiary financed the development of a facility and subsequent expansion in 2003 with long-term debt obligations. These obligations are non-recourse to the Company and total $54.3 million and $53.0 million at March 30, 2008 and December 30, 2007, respectively. The term of the non-recourse debt is through 2017 and it bears interest at a variable rate quoted by certain Australian banks plus 140 basis points. Any obligations or liabilities of the subsidiary are matched by a similar or corresponding commitment from the government of the State of Victoria. As a condition of the loan, the Company is required to maintain a restricted cash balance of AUD 5.0 million, which, at March 30, 2008, was approximately $4.6 million. This amount is included in restricted cash and the annual maturities of the future debt obligation is included in non-recourse debt.

Guarantees

In connection with the creation of South African Custodial Services Ltd., referred to as SACS, the Company entered into certain guarantees related to the financing, construction and operation of the prison. The Company guaranteed certain obligations of SACS under its debt agreements up to a maximum amount of 60.0 million South African Rand, or approximately $7.4 million, to SACS senior lenders through the issuance of letters of credit. Additionally, SACS is required to fund a restricted account for the payment of certain costs in the event of contract termination. The Company has guaranteed the payment of 50% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 7.5 million South African Rand, or approximately $0.9 million, as security for its guarantee. The Company s obligations under this guarantee expire upon SACS release from its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in the Company s outstanding letters of credit under its Revolving Credit Facility.

The Company has agreed to provide a loan, of up to 20.0 million South African Rand, or approximately $2.5 million, referred to as the Standby Facility, to SACS for the purpose of financing SACS obligations under its contract with the South African government. No amounts have been funded under the Standby Facility, and the Company does not currently anticipate that such funding will be required by SACS in the future. The Company s obligations under the Standby Facility expire upon the earlier of full funding or SACS s release from its obligations under its debt agreements. The lenders ability to draw on the Standby Facility is limited to certain circumstances, including termination of the contract.

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

In connection with a design, build, finance and maintenance contract for a facility in Canada, the Company guaranteed certain potential tax obligations of a not-for-profit entity. The potential estimated exposure of these obligations is Canadian Dollar (CAN) 2.5 million, or approximately $2.4 million commencing in 2017. The Company has a liability of $1.5 million related to this exposure as of March 30, 2008. To secure this guarantee, the Company has purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. The Company has recorded an asset and a liability equal to the current fair market value of those securities on its consolidated balance sheet. The Company does not currently operate or manage this facility.

At March 30, 2008, the Company also had outstanding five letters of guarantee totaling approximately $6.5 million under separate international facilities. The Company does not have any off balance sheet arrangements.

Derivatives

The Company uses derivative instruments to manage interest rate risk. The Company s primary objective in holding derivatives is to reduce the volatility of earnings and cash flows associated with changes in interest rates. Effective September 18, 2003, the Company entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. The Company has designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the Notes. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, the Company receives a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while the Company makes a variable interest rate payment to the same counterparties equal to the six-month LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of March 30, 2008 and December 30, 2007, the fair value of the swaps totaled approximately $1.4 million and $0, respectively, and are included in other non-current liabilities and as an adjustment to the carrying value of the Notes in the accompanying consolidated balance sheets.

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, which has a notional amount of

$50.9 million, payment and expiration dates, and call provisions that coincide with the terms of the non-recourse debt to be an effective cash flow hedge. Accordingly, the Company records the change in the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap asset as of March 30, 2008 and December 30, 2007 was approximately $5.5 million and $5.8 million, respectively, and is recorded as a component of other assets within the consolidated financial statements.

There was no material ineffectiveness of the Company s interest rate swap for the fiscal periods presented. The Company does not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings or losses associated with this swap currently reported in accumulated other comprehensive income.

10. COMMITMENTS AND CONTINGENCIES

Litigation, Claims and Assessments

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a $47.5 million verdict against the Company. In October 2006, the verdict was entered as a judgment against the Company in the amount of $51.7 million. The lawsuit is being administered under the insurance program established by The Wackenhut Corporation, the Company s former parent company, in which the Company participated until October 2002. Policies secured by the Company under that program provide $55.0 million in aggregate annual coverage. As a result, the Company believes it is fully insured for all damages, costs and expenses associated with the lawsuit and as such has not taken any reserves in connection with the matter. The lawsuit stems from an inmate death which occurred at the Company s former Willacy County State Jail in Raymondville, Texas, in April 2001, when two inmates at the facility attacked another inmate. Separate investigations conducted internally by the Company, The Texas Rangers and the Texas Office of the Inspector General exonerated the Company and its employees of any culpability with respect to the incident. The Company believes that the verdict is contrary to law and unsubstantiated by the evidence. The Company s insurance carrier has posted a supersedeas bond in the amount of approximately $60.0 million to cover the judgment. On December 9, 2006, the trial court denied the Company s post trial motions and the Company filed a notice of appeal on December 18, 2006. The appeal is proceeding. On March 26, 2008, oral arguments were made before the Thirteenth Court of Appeals, which took the matter under advisement pending the issuance of its ruling.

In June 2004, the Company received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that its Australian subsidiary formerly operated. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUS 18.0 million or $16.5 million, plus interest. The Company believes that it has several defenses to the allegations underlying the litigation and the amounts sought and intends to vigorously defend its rights with respect to this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and the Company s preliminary review of the claim, the Company believes that, if settled unfavorably, this matter could have a material adverse effect on its financial condition, results of operations and cash flows. The Company is uninsured for any damages or costs that it may incur as a result of this claim, including the expenses of defending the claim. The Company has established a reserve based on its estimate of the most probable loss based on the facts and circumstances known to date and the advice of legal counsel in connection with this matter.

On January 30, 2008, a lawsuit seeking class action certification was filed against the Company by an inmate at one of its jails. The case is entitled Bussy v. The GEO Group, Inc. (Civil Action No. 08-467) and is pending in the U.S. District Court for the Eastern District of Pennsylvania. On March 28, 2008, an amended complaint was filed altering the case to Allison and Hocevar v. The GEO Group, Inc. The amended complaint substituted the named plaintiffs but did not amend any of the substantive allegations. The lawsuit alleges that the Company has a companywide blanket policy at its immigration/detention facilities and jails that requires all new inmates and detainees to undergo a strip search upon intake into each facility. The plaintiff alleges that this practice, to the extent implemented, violates the civil rights of the affected inmates and detainees. The lawsuit seeks monetary damages for all purported class members, a declaratory judgment and an injunction barring the alleged policy from being implemented in the future. The Company is in the initial stages of investigating this claim. However, following its preliminary review, the Company believes it has several defenses to the allegations underlying this litigation, and the Company intends to vigorously defend its rights in this matter. Nevertheless, the Company believes that, if resolved unfavorably, this matter could have a material adverse effect on its financial condition and results of operations.

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.

Commitments

The Company is currently self-financing the simultaneous construction or expansion of several correctional and detention facilities in multiple jurisdictions. As of March 30, 2008, the Company was in the process of constructing or expanding eight facilities representing 5,247 total beds, one of which it will lease to another party and seven of which it will operate. The Company is providing the financing for four of the eight facilities, representing 3,280 beds. Total capital expenditures related to these projects is expected to be $150.3 million, of which $123.4 million was completed through the first fiscal quarter 2008. The Company expects to incur the remaining $26.9 million in capital expenditures relating to these owned projects during the fiscal year 2008. Additionally, financing for the remaining four facilities representing 1,967 beds is being provided for by state or counties for their ownership. The Company is managing the construction of these projects with total costs of $188.0 million, of which $126.0 million has been completed through the first fiscal quarter end 2008 and $62.0 million remains to be completed through 2009.

11. BUSINESS SEGMENT AND GEOGRAPHIC INFORMATION

Operating and Reporting Segments

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

	Thirteen Weeks Ended	
	March 30, 2008	**April 1, 2007**
Revenues:		
U.S. corrections	$ 179,378	$ 164,349
International services	34,651	28,842
GEO Care	31,345	22,134
Facility construction and design	29,586	21,679
Total revenues	$ 274,960	$ 237,004
Depreciation and amortization:		
U.S. corrections	$ 8,174	$ 6,834
International services	387	259
GEO Care	512	188
Facility construction and design		
Total depreciation and amortization	$ 9,073	$ 7,281
Operating income:		
U.S. corrections	$ 35,818	$ 32,404
International services	2,612	1,739
GEO Care	2,974	1,636
Facility construction and design	147	(161)

Operating income from segments	41,551	35,618
General and administrative expenses	(17,024)	(15,053)
Total operating income	$ 24,527	$ 20,565

	March 30, 2008	December 30, 2007
Segment assets:		
U.S. corrections	$ 995,231	$ 962,090
International services	91,978	91,692
GEO Care	28,305	19,334
Facility construction and design	24,352	16,385
Total segment assets	$ 1,139,866	$ 1,089,501

Pre-Tax Income Reconciliation of Segments

The following is a reconciliation of the Company s total operating income from its reportable segments to the Company s income before income taxes, equity in earnings of affiliates, discontinued operations and minority interest, in each case, during the thirteen weeks ended March 30, 2008 and April 1, 2007, respectively.

	Thirteen Weeks Ended	
	March 30, 2008	April 1, 2007
Total operating income from segments	$ 41,551	$ 35,618
Unallocated amounts:		
General and Administrative Expenses	(17,024)	(15,053)
Net interest expense	(5,732)	(7,824)
Write-off of deferred financing fees from extinguishment of debt		(4,794)
Income before income taxes, equity in earnings of affiliates, discontinued operations and minority interest	$ 18,795	$ 7,947

Asset Reconciliation of Segments

The following is a reconciliation of the Company s reportable segment assets to the Company s total assets as of March 30, 2008 and December 30, 2007, respectively.

	March 30, 2008	December 30, 2007
Reportable segment assets:	$ 1,139,866	$ 1,089,501
Cash	33,462	44,403
Deferred tax asset, net	24,623	24,623
Restricted cash	29,207	34,107
Total Assets	$ 1,227,158	$ 1,192,634

Sources of Revenue

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

	Thirteen Weeks Ended	
	March 30, 2008	April 1, 2007
Revenues:		
Correction and detention	$ 214,029	$ 193,191
GEO Care	31,345	22,134
Facility construction and design	29,586	21,679
Total revenues	$ 274,960	$ 237,004

Equity in Earnings of Affiliate

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

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

	Thirteen Weeks Ended	
	March 30, 2008	April 1, 2007
Statement of Operations Data		
Revenues	$ 9,165	$ 8,380
Operating income	3,531	3,357
Net income	1,136	796

	March 30, 2008	December 30. 2007
Balance Sheet Data		
Current assets	17,450	21,608
Non-current assets	44,025	53,816
Current liabilities	5,628	6,120
Non-current liabilities	48,925	62,401
Shareholders equity	6,922	6,903

As of March 30, 2008 and December 30, 2007, the Company s investment in SACS was $3.5 million and $3.5 million, respectively. The investment is included in other non-current assets in the accompanying consolidated balance sheets.

12. BENEFIT PLANS

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

In 2001, the Company established non-qualified deferred compensation agreements with three key executives. These agreements were modified in 2002, and again in 2003. The current agreements provide for a lump sum payment when the executives retire, no sooner than age 55. All three executives have reached age 55 and are eligible to receive the payments upon retirement.

The Company adopted FAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), (FAS 158) at December 30, 2006. FAS 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability on its balance sheet and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. FAS 158 requires an employer to measure the funded status of a plan as of its year-end date.

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

In accordance with FAS 158, the Company has disclosed contributions and payment of benefits related to the plans. There were no assets in the plan at March 30, 2008 or December 30, 2007. All changes as a result of the adjustments to the accumulated benefit obligation are included below and are shown net of tax as a component of comprehensive income in Note 6 Comprehensive Income. There were no significant transactions between the employer or related parties and the plan during the period.

The following table summarizes key information related to these pension plans and retirement agreements which includes information as required by FAS 158. The table illustrates the reconciliation of the beginning and ending balances of the benefit obligation showing the effects during the period attributable to each of the following: service cost, interest cost, plan amendments, termination benefits, actuarial gains and losses. The assumptions used in the Company s calculation of accrued pension costs are based on market information and the Company s historical rates for employment compensation and discount rates, respectively.

	March 30, 2008	December 30, 2007
	(in thousands)	
Change in Projected Benefit Obligation		
Projected benefit obligation, beginning of period	$ 17,938	$ 17,098

Service cost		133		551
Interest cost		163		619
Plan amendments				
Actuarial gain				(287)
Benefits paid		(11)		(43)
Projected benefit obligation, end of period	$	18,223	$	17,938
Change in Plan Assets				
Plan assets at fair value, beginning of period	$		$	
Company contributions		11		43
Benefits paid		(11)		(43)
Plan assets at fair value, end of period	$		$	
Unfunded Status of the Plan	$	(18,223)	$	(17,938)
Amounts Recognized in Accumulated Other Comprehensive Income				
Prior service cost		112		123
Net loss		2,493		2,554
Accrued pension cost	$	2,605	$	2,677

	March 30, 2008	April 1, 2007
Components of Net Periodic Benefit Cost		
Service cost	$ 133	$ 138
Interest cost	163	125
Amortization of:		
Prior service cost	10	10
Net loss	62	76
Net periodic pension cost	$ 368	$ 349
Weighted Average Assumptions for Expense		
Discount rate	5.75%	5.75%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	5.50%	5.50%

13. RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161). FAS 161 applies to all derivative instruments accounted for under FAS 133 and requires entities to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments are accounted for under FAS 133 and related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early adoption encouraged. The Company does not expect that the adoption of this pronouncement will have a significant impact on its financial condition, results of operations and cash flows.

In December 2007, the FASB issued FAS No. 141(R) Applying the Acquisition Method (FAS 141R), which is effective for fiscal years beginning after December 15, 2008. This statement retains the fundamental requirements in FAS 141 that the acquisition method be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141R broadens the scope of FAS 141 by requiring application of the purchase method of accounting to transactions in which one entity establishes control over another entity without necessarily transferring consideration, even if the acquirer has not acquired 100% of its target. Among other changes, FAS 141R applies the concept of fair value and more likely than not criteria to accounting for contingent consideration, and preacquisition contingencies. As a result of implementing the new standard, since transaction costs would not be an element of fair value of the target, they will not be considered part of the fair value of the acquirer s interest and will be expensed as incurred. The Company does not expect that the impact of this standard will have a significant effect on its financial condition, results of operations and cash flows.

In December 2007, the FASB also issued FAS No. 160, Accounting for Noncontrolling Interests , which is effective for fiscal years beginning after December 15, 2008. This statement clarifies the classification of noncontolling interests in the consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and the holders of non-controlling interests. The Company does not expect that the adoption of this standard will have a significant impact on its financial condition, results or operations and cash flows.

14. SUBSEQUENT EVENT

North Lake Correctional Facility

On May 1, 2008, the Company announced plans to complete a 1,225-bed expansion of its existing 500-bed North Lake Correctional Facility located in Baldwin, Michigan (Michigan Facility). The Company expects the expansion of this company-owned facility, which is currently idle, to cost approximately $60.0 million. The Company expects construction to be complete by the second quarter of 2009 and plans to market the Michigan Facility to federal and state agencies around the country.

Fort Bayard Medical Center

In April 2008, GEO Care Inc., the Company s wholly-owned subsidiary operating in the privatized mental health and residential treatment service business, decided to no longer participate in the construction of the New Fort Bayard Medical Center. The Company has managed the existing facility under a contract with the State of New Mexico (the State) since 2005 and development on the project was scheduled to be complete by January 2008. Under the terms of an agreement reached between the Company and the State, the contract will be transitioned to a third party so that the project will proceed once the State obtains financing. The Company will be reimbursed for certain costs as specified in the agreement and will participate in the contract transition. The Company has extended the management agreement through May 31, 2008.

Tri-County Justice and Detention Center

On April 30 2008, the Company exercised its contractual right to terminate its contract for the operation and management of Tri-County Justice and Detention Center located in Ullin, Illinois. The Company will continue to manage the facility through October 2008. We do not expect that the termination of this contract will have a material adverse impact on our financial condition or results of operations.

THE GEO GROUP, INC.

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

Forward-Looking Information

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

our ability to timely build and/or open facilities as planned, profitably manage such facilities and successfully integrate such facilities into our operations without substantial additional costs;

the instability of foreign exchange rates, exposing us to currency risks in Australia, the United Kingdom, and South Africa, or other countries in which we may choose to conduct our business;

our ability to reactivate the North Lake Correctional Facility in Michigan;

an increase in unreimbursed labor rates;

our ability to expand, diversify and grow our correctional mental health and residential treatment services;

our ability to win management contracts for which we have submitted proposals and to retain existing management contracts;

our ability to raise new project development capital given the often short-term nature of the customers commitment to use newly developed facilities;

our ability to estimate the government s level of dependency on privatized correctional services;

our ability to accurately project the size and growth of the U.S. and international privatized corrections industry;

our ability to develop long-term earnings visibility;

our ability to obtain future financing at competitive rates;

our exposure to rising general insurance costs;

our exposure to claims for which we are uninsured;

our exposure to rising employee and inmate medical costs;

our ability to maintain occupancy rates at our facilities;

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

our ability to accurately estimate on an annual basis, loss reserves related to general liability, workers compensation and automobile liability claims;

our ability to identify suitable acquisitions, and to successfully complete and integrate such acquisitions 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 quarterly report on Form 10-Q, our annual report on Form 10-K and our Form 8-Ks filed with the SEC.

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

Introduction

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of numerous factors including, but not limited to, those described under Risk Factors in our Form 10-K for the fiscal year ended December 30, 2007, filed with the Securities and Exchange Commission on February 15, 2008. The discussion should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in this Form 10-Q.

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

As of the fiscal quarter ended March 30, 2008, we managed 59 facilities totaling approximately 50,600 beds worldwide and had an additional 6,800 beds under development at 10 facilities, including the expansion of five facilities we currently operate and five new facilities under construction. We also had approximately 730 additional inactive beds available to meet our customers potential future demand for bed space. We maintained an average companywide facility occupancy rate of 97.1% for the thirteen-weeks ended March 30, 2008.

Reference is made to Part II, Item 7 of our annual report on Form 10-K filed with the SEC on February 15, 2008, for further discussion and analysis of information pertaining to our financial condition and results of operations for the fiscal year ended December 30, 2007.

Fiscal 2008 Developments

Contracts and facility openings

Robert A. Deyton Detention Facility

In January 2008, we executed a 20-year contract, inclusive of three five-year option periods, effective January 2, 2008 with the Office of the Federal Detention Trustee (OFDT) for the housing of up to 768 U.S. Marshals Service (USMS) detainees at the Robert A. Deyton Detention Facility (the Facility) located in Clayton County, Georgia (the County). We lease the Facility from the County under a 20-year agreement, with two five-year renewal options. The Facility currently has a capacity of 576 beds, and we have begun construction on a 192-bed expansion.

We commenced the intake of 576 detainees in February of 2008. At the 576-bed occupancy level, the Facility is expected to generate approximately $16.0 million in annualized operating revenues with an 80 percent occupancy guarantee. We expect the 192-bed expansion to be completed in the fourth quarter of 2008. At full occupancy of 768 beds, the Facility is expected to generate approximately $20.0 million in annualized operating revenues with an 80 percent occupancy guarantee.

Fort Bayard Medical Facility

In April 2008, GEO Care Inc., our wholly-owned subsidiary operating in the privatized mental health and residential treatment services business, decided to no longer participate in the construction of the New Fort Bayard Medical Center. We have managed this facility under a contract with the State of New Mexico (the State) since 2005 and development on the project was scheduled to be complete by January 2008. Under the terms of an agreement reached between us and the State, the contract will be transitioned to a third party so that the project will proceed once the State obtains financing. We will be reimbursed for certain costs as specified in the agreement and will participate in the contract transition. We have extended the management agreement through May 31, 2008.

Coke County Juvenile Justice Center

On October 2, 2007, we received a notice of termination of our contract with the Texas Youth Commission for the housing of juvenile inmates at our 200-bed Coke County Juvenile Justice Center located in Bronte, Texas. We formerly leased the facility under the terms of an agreement with Coke County. On March 17, 2008, we purchased the land and the existing facility from Coke County at a cost of $3.2 million, terminating any further obligations of the Company under the lease. We intend to retain the facility and the related land for future business purposes and has renamed the facility Oak Creek Confinement Center.

Tri-County Justice and Detention Center

On April 30 2008, we exercised our contractual right to terminate our contract for the operation and management of Tri-County Justice and Detention Center located in Ullin, Illinois. We will continue to manage the facility through August 28, 2008. We do not expect that the termination of this contract will have a material adverse impact on our financial condition, results of operations or cash flows.

North Lake Correctional Facility

On May 1, 2008, we announced plans to complete a 1,225-bed expansion of our existing 500-bed North Lake Correctional Facility located in Baldwin, Michigan, which we refer to as the Michigan Facility. We expect the expansion of this company-owned facility, which is currently idle, to cost approximately $60.0 million. We expect construction to be complete by the second quarter of 2009 and plan to market the Michigan Facility to federal and state agencies around the country.

2008 and 2009 Facility Project Activations

There are seven projects representing approximately 5,300 beds and generating approximately $92.0 million in annualized revenues that are expected to become active during fiscal 2008. During fiscal 2009, there are two projects in addition to our 1,725-bed Michigan Facility representing approximately 1,500 beds and $35.0 million in estimated annualized revenues that are expected to become active. We will continue to pursue opportunities to expand our worldwide operations and expect to announce additional projects in 2008.

Fiscal 2007 Developments

Acquisition of CentraCore Properties Trust

On January 24, 2007, we completed the acquisition of CentraCore Properties Trust (CPT), a real estate investment trust from which we formerly leased 11 facilities. We paid an aggregate purchase price of approximately $421.6 million for the acquisition of CPT, inclusive of the payment of approximately $368.3 million in exchange for the outstanding CPT common stock and stock options, the repayment of approximately $40.0 million in CPT debt and the payment of approximately $13.3 million in transaction related fees and expenses. We financed the acquisition through the use of $365.0 million in new borrowings under a new Term Loan B and approximately $65.7 million in cash on hand. We deferred debt issuance costs of $9.1 million related to the $365 million term loan. These costs are being amortized over the term of the loan. In March 2007, we utilized $200.0 million of the net proceeds from the follow on equity offering to repay a portion of the outstanding debt under the Term Loan B. We wrote off $4.8 million in deferred financing costs in connection with this repayment of outstanding debt. As a result of the acquisition, we acquired direct ownership of the 11 facilities we had previously been leasing from CPT and we no longer have ongoing lease expense related to those properties. However, we have had an increase in depreciation expense reflecting our ownership of the properties and also have higher interest expense as a result of borrowings used to fund the acquisition. By virtue of the CPT acquisition, we also acquired ownership of two additional correctional/detention facilities that CPT had been leasing to third parties.

Stock Split

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

Public Offering

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

Shelf Registration Statement

On March 13, 2007, we filed a universal shelf registration statement with the SEC, which became effective immediately upon filing. The universal shelf registration statement provides for the offer and sale by us, from time to time, on a delayed basis, of an indeterminate aggregate amount of our common stock, preferred stock, debt securities, warrants, and/or depositary shares. These securities, which may be offered in one or more offerings and in any combination, will in each case be offered pursuant to a separate prospectus supplement issued at the time of the particular offering that will describe the specific types, amounts, prices and terms of the offered securities. Unless otherwise described in the applicable prospectus supplement relating to the offered securities, we anticipate using the net proceeds of each offering for general corporate purposes, including debt repayment, capital expenditures, acquisitions, business expansion, investments in subsidiaries or affiliates, and/or working capital.

Critical Accounting Policies

The accompanying unaudited consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We routinely evaluate our estimates based on historical experience and on various other assumptions that management believes are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A summary of our significant accounting policies is contained in Note 1 to our financial statements on Form 10-K for the fiscal year ended December 30, 2007.

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. Certain of our contracts have provisions upon which a portion of the revenue is based on our performance of certain targets, as defined in the specific contract. In these cases, we recognize revenue when the amounts are fixed and determinable and the time period over which the conditions have been satisfied has lapsed. In many instances, we are a party to more than one contract with a single entity. In these instances, each contract is accounted for separately.

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. When evaluating multiple element arrangements, we follow the provisions of Emerging Issues Task Force (EITF) Issue 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). EITF 00-21 provides guidance on determining if separate contracts should be evaluated as a single arrangement and if an arrangement involves a single unit of accounting or separate units of accounting and if the arrangement is determined to have separate units, how to allocate amounts received in the arrangement for revenue recognition purposes.

In instances where we provide project development services and subsequent management services, the amount of the consideration from an arrangement is allocated to the delivered element based on the residual method and the elements are recognized as revenue when revenue recognition criteria for each element is met. The fair value of the undelivered elements of an arrangement is based on specific objective evidence.

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

The nature of our business exposes us to various types of third-party legal claims, including, but not limited to, civil rights claims relating to conditions of confinement and/or mistreatment, sexual misconduct claims brought by prisoners or detainees, medical malpractice claims, claims relating to employment matters (including, but not limited to, employment discrimination claims, union grievances and wage and hour claims), property loss claims, environmental claims, automobile liability claims, contractual claims and claims for personal injury or other damages resulting from contact with our facilities, programs, personnel or prisoners, including damages arising from a prisoner s escape or from a disturbance or riot at a facility. In addition, our management contracts generally require us to indemnify the governmental agency against any damages to which the governmental agency may be subject in connection with such claims or litigation. We maintain insurance coverage for these general types of claims, except for claims relating to employment matters, for which we carry no insurance.

We currently maintain a general liability policy for all U.S. corrections operations with limits of $62.0 million per occurrence and in the aggregate. On October 1, 2004, we increased our deductible on this general liability policy from $1.0 million to $3.0 million for each claim occurring after October 1, 2004. Our wholly owned subsidiary, GEO Care, Inc., is separately insured for general and professional liability. Coverage is maintained with limits of $10.0 million per occurrence and in the aggregate subject to a $3.0 million self-insured retention. We also maintain insurance to cover property and casualty risks, workers compensation, medical malpractice, environmental liability and automobile liability. Our Australian subsidiary is required to carry tail insurance on a general liability policy providing an extended reporting period through 2011 related to a discontinued contract. We also carry various types of insurance with respect to our operations in South Africa, United Kingdom and Australia. There can be no assurance that our insurance coverage will be adequate to cover all claims to which we may be exposed.

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

Since our insurance policies generally have high deductible amounts, losses are recorded when reported and a further provision is made to cover losses incurred but not reported. Loss reserves are undiscounted and are computed based on independent actuarial studies. Because we are significantly self-insured, the amount of our insurance expense is dependent on our claims experience and our ability to control claims experience. If actual losses related to insurance claims significantly differ from management s estimates, our financial condition and results of operations could be materially adversely impacted.

Income Taxes

We account for income taxes in accordance with FAS No. 109, Accounting for Income Taxes (FAS 109) as clarified by FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). Under this method, deferred income taxes are determined based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, 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 the deferred tax assets and liabilities may be required. Valuation allowances are recorded related to deferred tax assets based on the more likely than not criteria of FAS 109.

FIN 48 requires that we recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Property and Equipment

As of March 30, 2008, we had $819.8 million in long-lived property and equipment held for use. Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Buildings and improvements are depreciated over 2 to 40 years. Equipment and furniture and fixtures are depreciated over 3 to 10 years. Accelerated methods of depreciation are generally used for income tax purposes. Leasehold improvements are amortized on a straight-line basis over the shorter of the useful life of the improvement or the term of the lease. We perform ongoing evaluations of the estimated useful lives of the property and equipment for depreciation purposes. The estimated useful lives are determined and continually evaluated based on the period over which services are expected to be rendered by the asset. Maintenance and repairs are expensed as incurred. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset s estimated useful life. During fiscal quarters ended March 30, 2008 and April 1, 2007, we capitalized $1.3 million and $0.3 million of interest cost, respectively.

We review long-lived assets to be held and used for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable in accordance with FAS No. 144, (FAS 144) Accounting for the Impairment of Disposal of Long-Lived Assets. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has reviewed our long-lived assets and determined that there are no events requiring impairment loss recognition for the period ended March 30, 2008. 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.

Stock-Based Compensation Expense

We account for stock-based compensation in accordance with the provisions of FAS 123R, Share-Based Payment (FAS123R). Under the fair value recognition provisions of FAS 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense ratably over the requisite service period of the award. Determining the appropriate fair value model and calculating the fair value of the stock-based awards, which includes estimates of stock price volatility, forfeiture rates and expected lives, requires judgment that could materially impact our operating results.

Fair Value Measurements

We adopted Statement No. 157, Fair Value Measurements (FAS 157) on December 31, 2007. This Statement establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. We determine fair value based on quoted market prices in active markets for identical assets or liabilities. If quoted market prices are not available, we use valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs. In measuring fair value, we may make adjustments for risks and uncertainties, if a market participant would include such an adjustment in pricing.

Commitments and Contingencies

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a $47.5 million verdict against us. In October 2006, the verdict was entered as a judgment against us in the amount of $51.7 million. The lawsuit is being administered under the insurance program established by The Wackenhut Corporation, our former parent company, in which we participated until October 2002. Policies secured by us under that program provide $55.0 million in aggregate annual coverage. As a result, we believe we are fully insured for all damages, costs and expenses associated with the lawsuit and as such we have not taken any reserves in connection with the matter. The lawsuit stems from an inmate death which occurred at our former Willacy County State Jail in Raymondville, Texas, in April 2001, when two inmates at the facility attacked another inmate. Separate investigations conducted internally by us, The Texas Rangers and the Texas Office of the Inspector General exonerated us and our employees of any culpability with respect to the incident. We believe that the verdict is contrary to law and unsubstantiated by the evidence. Our insurance carrier has posted a supersedeas bond in the amount of approximately $60.0 million to cover the judgment. On December 9, 2006, the trial court denied our post trial motions and we filed a notice of appeal on December 18, 2006. The appeal is proceeding. On March 26, 2008, oral arguments were made before the Thirteenth Court of Appeals, which took the matter under advisement pending the issuance of its ruling.

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that our Australian subsidiary formerly operated. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUS 18.0 million or $16.5 million, plus interest. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. We are uninsured for any damages or costs that we may incur as a result of this claim, including the expenses of defending the claim. We have established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our legal counsel in connection with this matter.

On January 30, 2008, a lawsuit seeking class action certification was filed against us by an inmate at one of our jails. The case is entitled Bussy v. The GEO Group, Inc. (Civil Action No. 08-467) and is pending in the U.S. District Court for the Eastern District of Pennsylvania. On March 28, 2008 an amended complaint was filed altering the case to Allison and Hocevar v. The GEO Group, Inc. The amended complaint substituted the named plaintiffs but did not amend any of the substantive allegations. The lawsuit alleges that we have a companywide blanket policy at our immigration/detention facilities and jails that requires all new inmates and detainees to undergo a strip search upon intake into each facility. The plaintiff alleges that this practice, to the extent implemented, violates the civil rights of the affected inmates and detainees. The lawsuit seeks monetary damages for all purported class members, a declaratory judgment and an injunction barring the alleged policy from being implemented in the future. We are in the initial stages of investigating this claim. However, following our preliminary review, we believe we have several defenses to the allegations underlying this litigation and intend to vigorously defend our rights in this matter. Nevertheless, we believe that, if resolved unfavorably, this matter could have a material adverse effect on our financial condition and results of operations.

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.

We are currently self-financing the simultaneous construction or expansion of several correctional and detention facilities in multiple jurisdictions. As of March 30, 2008, we were in the process of constructing or expanding eight facilities representing 5,247 total beds, one of which we will lease to another party and seven of which we will operate. We are providing the financing for four of the eight facilities, representing 3,280 beds. Total capital expenditures related to these projects is expected to be $150.3 million, of which $123.4 million was completed through the first fiscal quarter 2008. We expect to incur at least another approximately $26.9 million in capital expenditures relating to these owned projects during the fiscal year 2008. Additionally, financing for the remaining four facilities representing 1,967 beds is being provided for by state or counties for their ownership. We are managing the construction of these projects with total costs of $188.0 million, of which $126.0 million has been completed through the first fiscal quarter end 2008 and $62.0 million remains to be completed through 2009.

We are currently under examination by the Internal Revenue Service for our U.S. income tax returns for fiscal years 2002 through 2005. We currently expect this examination to be concluded in 2009. Based on the status of the audit to date, we do not currently expect the outcome of the audit to have a material adverse impact on our financial condition, results of operation or cash flows.

Results of Operations

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

Comparison of Thirteen Weeks Ended March 30, 2008 and Thirteen Weeks Ended April 1, 2007

Revenues

	2008	% of Revenue	2007	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
U.S. corrections	$ 179,378	65.2%	$ 164,349	69.3%	$ 15,029	9.1%
International services	34,651	12.6%	28,842	12.2%	5,809	20.1%
GEO Care	31,345	11.4%	22,134	9.3%	9,211	41.6%
Facility construction and design	29,586	10.8%	21,679	9.2%	7,907	36.5%
Total	$ 274,960	100.0%	$ 237,004	100.0%	$ 37,956	16.0%

U.S. corrections

The increase in revenues for U.S. corrections facilities in the thirteen weeks ended March 30, 2008 (First Quarter 2008) compared to the thirteen weeks ended April 1, 2007 (First Quarter 2007) is primarily attributable to five items: (i) revenues increased $5.1 million due to the opening of our Graceville Correctional Facility, located in Graceville, Florida, in September 2007; (ii) revenues increased $3.0 million as a result of the opening of our Robert A. Deyton Detention Facility located in Clayton County, Georgia in February 2008; (iii) revenues increased $2.5 million as a result of the reactivation of the LaSalle Detention Facility in Jena, Louisiana in October 2007; (iv) revenues increased $4.0 million as a result of the increase in inmate populations at our New Castle Correctional Facility; and (v) revenues increased $1.6 million and $1.7 million, respectively, at our Northwest Detention Center and at our Central Arizona Correctional Facility as a result of increases in our contractual per diem rates as well increases in mandays.

The number of compensated mandays in U.S. corrections facilities increased by approximately 86,000 mandays in First Quarter 2008 from First Quarter 2007 due to the addition of new facilities and capacity increases. The total number of compensated mandays for First Quarter 2008 remained consistent with First Quarter 2007 at approximately 3.7 million. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our U.S. correction and detention facilities was 96.5% of capacity in First Quarter 2008, excluding our vacant North Lake Correctional Facility in Baldwin, Michigan and our Oak Creek Confinement Center in Bronte, Texas (previously known as Coke County Juvenile Justice Center). The average occupancy in our U.S correction and detention facilities was 96.9% in First Quarter 2007, excluding our vacant North Lake Correctional Facility and our LaSalle Detention Facility in Jena, Louisiana.

International services

The increase in revenues for international services facilities in First Quarter 2008 compared to First Quarter 2007 was primarily attributable to following items: (i) South African revenues increased by approximately $0.3 million due to a contractual adjustment for inflation which was slightly offset by a decrease in the foreign exchange rate;

(ii) Australian revenues increased $5.3 million due to several factors including favorable fluctuations in foreign currency exchange rates during the period, contractual adjustments for inflation and an increase in compensated mandays at our Arthur Gorrie Correctional Centre in Wacol, Australia and at our Fulham Correctional Centre in Victoria, Australia; and (iii) United Kingdom revenues increased approximately $0.3 million due to construction revenues generated from the refurbishment of the Campsfield House and favorable foreign exchange rates.

The number of compensated mandays in international services facilities increased to 525,200 in First Quarter 2008 from 507,200 in First Quarter 2007 due to capacity increases at Arthur Gorrie Correctional Centre and the Campsfield House. We look at the average occupancy in our facilities to determine how we are managing our available beds. The average occupancy is calculated by taking compensated mandays as a percentage of capacity. The average occupancy in our international services facilities was 100% of capacity in First Quarter 2008 compared to 100% in First Quarter 2007.

GEO Care

The increase in revenues for GEO Care in First Quarter 2008 compared to First Quarter 2007 is primarily attributable to three items: (i) the Treasure Coast Forensic Treatment Center in Indiantown, Florida, which commenced operations in March 2007, increased revenues by $5.2 million; (ii) the South Florida Evaluation and Treatment Center Annex in Miami, Florida, which commenced operations in January 2007, contributed an increase in revenues of $2.6 million; and (iii) the Florida Civil Commitment Center in Arcadia, Florida, which commenced operations in July 2006, and is currently undergoing expansion, contributed an increase in revenues of $1.0 million primarily due to an increase in compensated mandays.

Facility construction and design

The increase in revenues from the Facility construction and design segment is mainly due to an increase in construction activities in First Quarter 2008 compared to First Quarter 2007 and is primarily attributable to three items: (i) the construction of the Florida Civil Commitment Center in Arcadia, Florida increased revenues by $10.6 million; (ii) the construction of the new South Florida Evaluation and Treatment Center in Miami, Florida, which commenced construction in November 2005, increased revenues by $1.6 million; (iii) the construction of Clayton Correctional Facility located in Clayton County, New Mexico, which commenced construction in September 2006, increased revenues by $2.7 million. These increases over the same period in the prior year were offset by decreases in construction revenue for the Graceville Correctional Facility in Graceville, Florida for which construction was complete in September 2007, decreases in construction revenue related to the Central Arizona Correctional Facility in Florence, Arizona which was substantially complete in Fourth Quarter 2006 and also decreases related to the Moore Haven Correctional Facility in Moore Haven, Florida for which the expansion was completed in May 2007. These three facilities represent $4.8 million, $0.7 million and $0.9 million, respectively, of the decrease.

Operating Expenses

	2008	% of Segment Revenue	2007	% of Segment Revenue	$ Change	% Change
			(Dollars in thousands)			
U.S. corrections	$ 135,386	75.5%	$ 125,108	76.1%	$ 10,278	8.2%
International services	31,652	91.3%	26,845	93.1%	4,807	17.9%
GEO Care	27,859	88.9%	20,312	91.8%	7,547	37.2%
Facility construction and design	29,439	99.5%	21,840	100.7%	7,599	34.8%
Total	$ 224,336	81.6%	$ 194,105	81.9%	$ 30,231	15.6%

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

U.S. corrections

The increase in U.S. corrections operating expenses reflects the new openings and expansions discussed above as well as general increases in labor costs and utilities. Operating expense as a percentage of segment revenues decreased in First Quarter 2008 compared to First Quarter 2007 due to higher margins at certain facilities. Start-up expenses were $1.7 million and $1.5 million for the fiscal quarters ended March 30, 2008 and April 1, 2007, respectively. In First Quarter 2007, we incurred approximately $1.8 million in rental expense related to facilities we formerly leased from CPT. This rental expense was eliminated following the CPT acquisition in January 2007 and therefore did not affect First Quarter 2008 operating expenses. However, the resulting decrease in facility lease expense has been partially offset by an increase in depreciation expense for the acquired facilities.

International services

Operating expenses for international services facilities increased in the First Quarter 2008 compared to the First Quarter 2007 primarily as a result of an increase in operating expenses at our Australian subsidiary. Increases of $3.8 million for the quarter ended March 30, 2008 were related to favorable fluctuations in foreign currency exchange rates and to increases in compensated mandays at certain of our Australian facilities.

GEO Care

Operating expenses for residential treatment increased approximately $7.5 million during First Quarter 2008 from First Quarter 2007 primarily due to the opening of new facilities and new contracts as discussed above. Overall operating expenses for GEO Care decreased as a percentage of segment revenues due to the overall growth as discussed above.

Facility construction and design

Operating expenses for facility construction and design increased $7.6 million during the First Quarter 2008 compared to the First Quarter 2007 primarily due to costs associated with our facilities under construction.

Other Unallocated Operating Expenses

	2008	% of Revenue	2007	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
General and Administrative Expenses	$ 17,024	6.2%	$ 15,053	6.4%	$ 1,971	13.1%

General and administrative expenses comprise substantially all of our other unallocated expenses. General and administrative expenses consist primarily of corporate management salaries and benefits, professional fees and other administrative expenses. General and administrative expenses increased by $2.0 million in First Quarter 2008 compared to First Quarter 2007, and remained consistent as a percentage of revenues. The increase in general and administrative costs is mainly due to increases in direct labor costs as a result of increased administrative staff.

Non-Operating Expenses

Interest Income and Interest Expense

	2008	% of Revenue	2007	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Interest Income	$ 1,755	0.6%	$ 3,240	1.4%	$ (1,485)	(45.8%)
Interest Expense	$ 7,487	2.7%	$ 11,064	4.7%	$ (3,577)	(32.3%)

The decrease in interest income is due to lower invested cash balances and lower interest rates.

The decrease in interest expense is primarily attributable to the decrease in our debt as a result of the paydown of $200.0 million on our Term Loan in March 2007 with the proceeds from the equity offering as well as a decrease in LIBOR rates. Interest is capitalized in connection with the construction of correctional and detention facilities. Capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset s estimated useful life. During the fiscal quarters ended March 30, 2008 and April 1, 2007, the Company capitalized $1.3 million and $0.2 million of interest cost, respectively.

Provision for Income Taxes

	2008	% of Revenue	2007	% of Revenue	$ Change	% Change
			(Dollars in thousands)			
Income Taxes	$ 6,906	2.5%	$ 3,141	1.3%	$ 3,765	119.9%

The effective tax rate during First Quarter 2008 was approximately 37%, as a result of certain non-recurring items, compared to the effective income tax rate of 38% for the same period in the prior year. We estimate our annual effective tax rate for fiscal 2008 to be 38% to 39%.

Financial Condition

Capital Requirements

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

We are currently incurring significant capital expenditures in connection with the simultaneous construction or expansion of three company-owned correctional and detention facilities and one leased facility, representing an aggregate of 3,280 new beds. Total capital expenditures related to these projects is expected to be $150.3 million, of which $123.4 million had been incurred through the first fiscal quarter end 2008. We expect to incur at least another approximately $26.9 million in capital expenditures relating to these projects during the remainder of fiscal year 2008. In addition to projects under development, we expect capital expenditures related to facility maintenance costs to range between $10.0 million and $15.0 million for 2008, of which approximately $2.7 million had been incurred as of the end of the first quarter 2008. In addition to our commitments related to the four construction and expansion projects discussed above, we have also recently planned and internally approved expansions at two additional company-owned facilities. Although we have not secured construction contracts with respect to these two projects, we have estimated total costs for the completion of these projects to total $125.3 million during fiscal years 2008 and 2009. After taking into account the three company-owned facilities and one leased facility currently under construction or expansion, the two new additional recently approved facility expansions and excluding estimated facility maintenance expenditures, we estimate our remaining capital requirements for 2008 to total approximately $80.0 million, of which we estimate $32.0 million will be incurred in the second quarter of 2008, $21.0 million will be incurred in the third quarter of 2008, and $27.0 million will be incurred in the fourth quarter of 2008. We expect that the remaining $97.0 million of these expenditures will be incurred in fiscal year 2009. In addition to these current estimated capital requirements for fiscal 2008 and 2009, we are currently in the process of bidding on, or evaluating potential bids for, the design, construction and management of a number of new projects. In the event that we win bids for these projects and decide to self-finance their construction, our capital requirements in 2008 and/or 2009 could materially increase.

Liquidity and Capital Resources

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

As of March 30, 2008, with respect to our Senior Credit Facility, we had borrowings outstanding under the term loan portion of our Senior Credit Facility of $161.4 million. Also as of March 30, 2008, with respect to our $150.0 million revolving credit facility (referred to as our Revolver), after giving effect to $20.0 million outstanding in loans and $56.1 million in letters of credit outstanding , we had the ability to borrow an additional $73.9 million. In addition, subject to certain conditions set forth in the Senior Credit Facility, we also have the ability to borrow an additional aggregate amount of $150.0 million under an accordion feature of our Senior Credit Facility. However, any such additional borrowings are not required to be made available under the terms of the Senior Credit Facility and would be subject to adequate lender demand at the time of the loans. As a result of our significant capital requirements for 2008 and 2009 outlined above, we currently expect to be seeking additional borrowings under the accordion feature of our Senior Credit Facility in 2008. We will need such additional borrowings or financing from other sources in order to complete all of our pending and approved capital projects. We cannot assure that such borrowings or financing will be made available to us on satisfactory terms, or at all.

Assuming that we are able to finance our capital requirements for 2008 and 2009 from additional borrowings under our Senior Credit Facility, our management believes that cash on hand, cash flows from operations and borrowings available under our Senior Credit Facility will be adequate to support our currently identified capital needs described above and to meet our various obligations incurred in the ordinary operation of our business, both on a near and long-term basis. However, additional expansions of our business may require additional financing from external sources. There is no assurance that such financing will be available on satisfactory terms, or at all.

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

In the future, our access to capital could be significantly limited by the amount of our existing indebtedness. As of March 30, 2008, we had $330.0 million of consolidated debt outstanding, excluding $135.3 million of non-recourse debt, $56.1 million outstanding in letters of credit under our Revolver and capital lease liability balances of $16.4 million. Our significant debt service obligations could, under certain circumstances, prevent us from accessing additional capital necessary to sustain or grow our business. Additionally, our future access to capital and our ability to compete for future capital-intensive projects will be dependent upon, among other things, our ability to meet certain financial covenants in the indenture governing our outstanding Notes and in our Senior Credit Facility. A decline in our financial performance could cause us to breach our debt covenants, limit our access to capital and have a material adverse affect on our liquidity and capital resources and, as a result, on our financial condition and results of operations.

Executive Retirement Agreements

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

The Senior Credit Facility

On January 24, 2007, we completed the refinancing of our Senior Credit Facility. The Company intends to use future borrowings thereunder for general corporate purposes. The Senior Credit Facility consists of a $365.0 million 7-year term loan, referred to as the Term Loan B, and a $150.0 million 5-year revolver, expiring September 14, 2010, referred to as the Revolver. The initial interest rate for the Term Loan B is LIBOR plus 1.5% and the Revolver currently bears interest at LIBOR plus 1.75% (our weighted average rate on outstanding borrowings under the Term Loan portion of the facility as of March 30, 2008 was 4.25%) or at the base rate (prime rate) plus 0.75%.As of March 30, 2008, we have $161.4 million outstanding under the Term Loan B, $20.0 million outstanding under the Revolver, $56.1 million outstanding in letters of credit under the Revolver, and $73.9 million available for borrowings under the Revolver.

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

	Interest Rate under the Revolver
LIBOR Borrowings.	LIBOR plus 1.50% to 2.50%.
Base rate borrowings.	Prime rate plus 0.5% to 1.50%.
Letters of Credit	1.50% to 2.50%.
Available Borrowings.	0.38% to 0.5%.

The Senior Credit Facility contains financial covenants which require us to maintain the following ratios, as computed at the end of each fiscal quarter for the immediately preceding four quarter-period:

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

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

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

Events of default under the Senior Credit Facility include, but are not limited to, (i) our failure to pay principal or interest when due, (ii) our material breach of any representation or warranty, (iii) covenant defaults, (iv) bankruptcy, (v) cross default to certain other indebtedness, (vi) unsatisfied final judgments over a specified threshold, (vii) material environmental claims which are asserted against it, and (viii) a change of control. We believe we were in compliance with all of the covenants in the Senior Credit Facility as of March 30, 2008.

Senior 8 1/4% Notes

To facilitate the completion of the purchase of the interest of our former majority shareholder in 2003, we issued $150.0 million aggregate principal amount, ten-year, 8 1/4% senior unsecured notes, (the Notes). The Notes are general, unsecured, senior obligations. Interest is payable semi-annually on January 15 and July 15 at 8 1/4%. The Notes are governed by the terms of an Indenture, dated July 9, 2003, between us and the Bank of New York, as trustee, referred to as the Indenture. Additionally, after July 15, 2008, we may redeem, at our option, all or a portion of the Notes plus accrued and unpaid interest at various redemption prices ranging from 104.125% to 100.000% of the principal amount to be redeemed, depending on when the redemption occurs. The Indenture contains covenants that limit our ability to incur additional indebtedness, pay dividends or distributions on our common stock, repurchase our common stock, and prepay subordinated indebtedness. The Indenture also limits our ability to issue preferred stock, make certain types of investments, merge or consolidate with another company, guarantee other indebtedness, create liens and transfer and sell assets. We believe we were in compliance with all of the covenants of the Indenture governing the notes as of March 30, 2008.

Non-Recourse Debt

South Texas Detention Complex

We have a debt service requirement related to the development of the South Texas Detention Complex, a 1,904-bed detention complex in Frio County, Texas acquired in November 2005 from Correctional Services Corporation, referred to as CSC . CSC was awarded the contract in February 2004 by the Department of Homeland Security, U.S. Immigration and Customs Enforcement, referred to as ICE , for development and operation of the detention center. In order to finance its construction, South Texas Detention Center Local Development Corporation, referred to as STLDC , was created and issued $49.5 million in taxable revenue bonds. These bonds mature in February 2016 and have fixed coupon rates between 3.47% and 5.07%. Additionally, we are owed $5.0 million of subordinated notes by STLDC which represents the principal amount of financing provided to STLDC by CSC for initial development.

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

On February 1, 2008, STLDC made a payment from its restricted cash account of $4.3 million for the current portion of its periodic debt service requirement in relation to the STLDC operating agreement and bond indenture. As of March 30, 2008, the remaining balance of the debt service requirement under the STLDC financing agreement is $41.1 million, of which $4.4 million is due within the next twelve months. Also, as of March 30, 2008, $4.2 million is included in non-current restricted cash and $6.3 million is included in current restricted cash as funds held in trust with respect to the STLDC for debt service and other reserves.

Northwest Detention Center

On June 30, 2003, CSC arranged financing for the construction of the Northwest Detention Center in Tacoma, Washington, referred to as the Northwest Detention Center, which was completed and opened for operation in April 2004. We began to operate this facility following our acquisition of CSC in November 2005. In connection with the original financing, CSC of Tacoma LLC, a wholly owned subsidiary of CSC, issued a $57.0 million note payable to the Washington Economic Development Finance Authority, referred to as WEDFA, an instrumentality of the State of Washington, which issued revenue bonds and subsequently loaned the proceeds of the bond issuance back to CSC for the purposes of constructing the Northwest Detention Center. The bonds are non-recourse to us and the loan from WEDFA to CSC is non-recourse to us. These bonds mature in February 2014 and have fixed coupon rates between 2.90% and 4.10%.

The proceeds of the loan were disbursed into escrow accounts held in trust to be used to pay the issuance costs for the revenue bonds, to construct the Northwest Detention Center and to establish debt service and other reserves. No payments were made during the fiscal quarter ended March 30, 2008 in relation to the WEDFA bond indenture. As of March 30, 2008, the remaining balance of the debt service requirement is $42.7 million, of which $5.4 million is due within the next 12 months.

As of March 30, 2008, included in current restricted cash and non-current restricted cash is $7.0 million and $7.1 million, respectively, as funds held in trust with respect to the Northwest Detention Center for debt service and other reserves.

Australia

In connection with the financing and management of one Australian facility, our wholly owned Australian subsidiary financed the facility s development and subsequent expansion in 2003 with long-term debt obligations, which are non-recourse to us. As a condition of the loan, we are required to maintain a restricted cash balance of AUD 5.0 million, which, at March 30, 2008, was approximately $4.6 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 $7.4 million, to SACS senior lenders through the issuance of letters of credit. Additionally, SACS is required to fund a restricted account for the payment of certain costs in the event of contract termination. We have guaranteed the payment of 50% of amounts which may be payable by SACS into the restricted account and provided a standby letter of credit of 7.5 million South African Rand, or approximately $0.9 million, as security for our guarantee. Our obligations under this guarantee expire upon the release from SACS of its obligations in respect of the restricted account under its debt agreements. No amounts have been drawn against these letters of credit, which are included in our outstanding letters of credit under our Revolver.

We have agreed to provide a loan, if necessary, of up to 20.0 million South African Rand, or approximately $2.5 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 CAN2.5 million, or approximately $2.4 million commencing in 2017. We have a liability of $1.5 million related to this exposure as of March 30, 2008 and December 30, 2007. To secure this guarantee, we purchased Canadian dollar denominated securities with maturities matched to the estimated tax obligations in 2017 to 2021. We have recorded an asset and a liability equal to the current fair market value of those securities on our consolidated balance sheet. We do not currently operate or manage this facility.

At March 30, 2008, we also have outstanding five letters of guarantee totaling approximately $6.5 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 London Interbank Offered Rate, (LIBOR) plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. As of March 30, 2008 and December 30, 2007 the fair value of the swaps totaled approximately $1.4 million and $0 million, respectively, and are included in other non-current liabilities and as an adjustment to the carrying value of the Notes in the accompanying consolidated balance sheets. There was no material ineffectiveness of our interest rate swaps for the period ended March 30, 2008.

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%. The Company has determined the swap, which has a notional amount of $50.9 million, to be an effective cash flow hedge. Accordingly, we record the change in the value of the interest rate swap in accumulated other comprehensive income, net of applicable income taxes. The total value of the swap asset as of March 30, 2008 and as of December 30, 2007 was approximately $5.5 million and $5.8 million, respectively, and was recorded as a component of other assets within the consolidated financial statements.

There was no material ineffectiveness of our interest rate swaps for the fiscal years presented. We do not expect to enter into any transactions during the next twelve months which would result in the reclassification into earnings of losses associated with this swap currently reported in accumulated other comprehensive loss.

Cash Flow

Cash and cash equivalents as of March 30, 2008 was $33.5 million, a decrease of $10.9 million from December 30, 2007.

Cash provided by operating activities of continuing operations amounted to $2.1 million in the Three Months 2008 versus cash provided by operating activities of continuing operations of $18.9 million in the Three Months 2007. Cash provided by operating activities of continuing operations in Three Months 2008 was negatively impacted by increases in accounts receivable and other assets and decreases in accrued payroll and accounts payable and accrued expenses. There was no cash impact from discontinued operations in First Quarter 2008. Cash provided by operating activities of continuing operations in Three Months 2007 was positively impacted by a decrease in accounts receivable. Cash provided by operating activities of continuing operations in First Quarter 2007 was negatively impacted by an increase in other assets and decreases in accounts payable and accrued expenses and accrued payroll.

Cash used in investing activities amounted to $27.0 million in the Three Months 2008 compared to cash used in investing activities of $424.4 million in the Three Months 2007. Cash used in investing activities in the Three Months 2008 primarily reflects capital expenditures of $32.3 million. Cash used in investing activities in the Three Months 2007 primarily reflects capital expenditures of $19.7 million and our acquisition of CPT, net of cash acquired of $409.9 million. This was offset by a decrease in restricted cash.

Cash provided by financing activities in the Three Months 2008 amounted to $13.7 million compared to cash provided by financing activities of $379.4 million in the Three Months 2007. Cash provided by financing activities in the Three Months 2008 reflects proceeds received from borrowings on our Revolver $37.0 million offset by payments on the Revolver of $17.0 million and payments on Long-term debt and Non-recourse debt of $6.5 million. Cash provided by financing activities in the Three Months 2007 reflects proceeds received from an equity offering of $227.5 million, borrowings of $375.0 million and payments on long-term debt of $214.4 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 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Information above, Item 1A. Risk Factors in our Annual Report on Form 10-K, the Forward-Looking Statements Safe Harbor section in our Annual Report on Form 10-K, as well as the other disclosures contained in our Annual Report on Form 10-K, for further discussion on forward-looking statements and the risks and other factors that could prevent us from achieving our goals and cause the assumptions underlying the forward-looking statements and the actual results to differ materially from those expressed in or implied by those forward-looking statements.

At year end 2006, approximately 7.2% of the estimated 1.6 million State and Federal prisoners incarcerated in the United States were held in private facilities, up from 6.5% in 2000. At year end 2006, the number of prisoners under state or federal jurisdiction increased approximately 3% from 2005. States such as Texas, California, Michigan, Georgia, Louisiana, Ohio, Illinois, Pennsylvania, Florida and New York experienced a combined increase in the growth rate of their populations during 2006 by an average of 3%. Also at year end 2006, approximately 114,000 state and federal prisoners were held in privately owned facilities, representing an increase of 5.4% over 2005 (data obtained from the Bureau of Justice Statistics). In addition to our strong positions in Texas and Florida and in the U.S.

market in general, we believe we are the only publicly traded U.S. correctional company with international operations. With the existing operations in South Africa and Australia and the management of the 215-bed Campsfield House Immigration Removal Centre in the United Kingdom beginning in the Second Quarter of 2006, we believe that our international presence positions us to capitalize on growth opportunities within the private corrections and detention industry in new and established international markets.

We intend to pursue a diversified growth strategy by winning new clients and contracts, expanding our government services portfolio and pursuing selective acquisition opportunities. We achieve organic growth through competitive bidding that begins with the issuance by a government agency of a request for proposal, or RFP. We primarily rely on the RFP process for organic growth in our U.S. and international corrections operations as well as in our mental health and residential treatment services. We believe that our long operating history and reputation have earned us credibility with both existing and prospective clients when bidding on new facility management contracts or when renewing existing contracts. Our success in the RFP process has resulted in a pipeline of new projects with significant revenue potential. In 2007, we announced 11 new contracts including a contract to reactivate the LaSalle Detention Facility in Jena, Louisiana. The new contracts represent 8,751 new beds. This compares to the 10 new projects announced in 2006 representing 4,934 new beds. In addition to pursuing organic growth through the RFP process, we will from time to time selectively consider the financing and construction of new facilities or expansions to existing facilities on a speculative basis without having a signed contract with a known client. We also plan to leverage our experience to expand the range of government-outsourced services that we provide. We will continue to pursue selected acquisition opportunities in our core services and other government services areas that meet our criteria for growth and profitability.

Revenue

Domestically, we continue to be encouraged by the number of opportunities that have recently developed in the privatized corrections and detention industry. The need for additional bed space at the federal, state and local levels has been as strong as it has been at any time during recent years, and we currently expect that trend to continue for the foreseeable future. Overcrowding at corrections facilities in various states, most recently California and Arizona and increased demand for bed space at federal prisons and detention facilities primarily resulting from government initiatives to improve immigration security are two of the factors that have contributed to the greater number of opportunities for privatization. We plan to actively bid on any new projects that fit our target profile for profitability and operational risk. Although we are pleased with the overall industry outlook, positive trends in the industry may be offset by several factors, including budgetary constraints, unanticipated contract terminations and contract non-renewals. In Michigan, the State cancelled our Baldwin Correctional Facility management contract in 2005 based upon the Governor s veto of funding for the project. Additionally, in 2007, certain contracts were terminated either by us or by the other parties to these contracts. Although we do not expect these terminations 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 2008. 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 2008 on favorable terms, or at all.

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

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

We currently have ten projects under various stages of construction with approximately 6,800 beds that will become available upon completion. Subject to achieving our occupancy targets these projects are expected to generate approximately $127.0 million in combined annual operating revenues when opened between the first quarter of 2008 and the third quarter of 2009. We believe that these projects comprise the largest and most diversified organic growth pipeline in our industry. In addition, we have approximately 730 additional empty beds available at two of our facilities to meet our clients potential future needs for bed space.

Operating Expenses

Operating expenses consist of those expenses incurred in the operation and management of our correctional, detention and mental health facilities. Consistent with our fiscal year ended December 30, 2007, in First Quarter 2008, operating expenses totaled approximately 81% of our consolidated revenues. Our operating expenses as a percentage of revenue for the remainder of fiscal 2008 will be impacted by several factors. We could experience continued savings under our general liability, auto liability and workers compensation insurance program, although the amount of these potential savings cannot be predicted. These savings, which totaled $0.9 million in fiscal year 2007 and are now reflected in our current actuarial projections, are a result of improved claims experience and loss development as compared to our results under our prior insurance program. In addition, as a result of our CPT acquisition, we no longer incur lease expense relating to the eleven facilities that we purchased in that transaction which we formerly leased from CPT. The savings in facility usage fees will be offset by an increase in depreciation and amortization expense in the U.S. corrections segment. In the future, these reductions in operating expenses may be offset by increased start-up expenses relating to a number of new projects, including our Joe Corley Detention Facility and Rio Grande Detention Center projects in Texas, Northeast New Mexico Detention Facility in New Mexico, and Maverick County Detention Center in Texas. 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.

General and Administrative Expenses

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

Recent Accounting Developments

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161). FAS 161 applies to all derivative instruments accounted for under FAS 133 and requires entities to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments are accounted for under FAS 133 and related interpretations, and (iii) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. This guidance is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early adoption encouraged. We do not expect that the adoption of this pronouncement will have a significant impact on our financial condition, results of operations and cash flows.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) to provide a one-year deferral of the effective date of FAS 157 for non-financial assets and non-financial liabilities. The purpose of the deferral is to provide companies with more time to resolve implementation issues related to fair value measurements of non-financial assets and non-financial liabilities such as those that are acquired in a business, reporting units and other long lived assets measured at fair value in an impairment test as described in FAS 142, *Goodwill and Other Intangible Assets* or FAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, asset retirement obligations initially measured at fair value under FAS 143, *Accounting for Asset Retirement Obligations*, non-financial liabilities for exit or disposal activities initially measured at fair value under FAS 146, *Accounting for Costs Associated with Exit or Disposal Activities*. This FSP defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. As a result of the issuance of FSP 157-2, we only partially adopted the provisions of FAS 157 and have elected to defer the adoption of this standard for non-financial assets and non-financial liabilities. We do not expect that the full adoption of this standard will have a material impact on our financial position, results of operations or cash flows.

In December 2007, the FASB issued FAS No. 141(R) Applying the Acquisition Method (FAS 141R), which is effective for fiscal years beginning after December 15, 2008. This statement retains the fundamental requirements in

FAS 141 that the acquisition method be used for all business combinations and for an acquirer to be identified for each business combination. FAS 141R broadens the scope of FAS 141 by requiring application of the purchase method of accounting to transactions in which one entity establishes control over another entity without necessarily transferring consideration, even if the acquirer has not acquired 100% of its target. Among other changes, FAS 141R applies the concept of fair value and more likely than not criteria to accounting for contingent consideration, and preacquisition contingencies. As a result of implementing the new standard, since transaction costs would not be an element of fair value of the target, they will not be considered part of the fair value of the acquirer s interest and will be expensed as incurred. We do not expect that the impact of this standard will have a significant effect on our financial condition, results of operations and cash flows.

In December 2007, the FASB also issued FAS No. 160, Accounting for Noncontrolling Interests , which is effective for fiscal years beginning after December 15, 2008. This statement clarifies the classification of noncontolling interests in the consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and the holders of non-controlling interests. We do not expect that the adoption of this standard will have a significant effect on our financial condition, results of operations and cash flows.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to market risks related to changes in interest rates with respect to our Senior Credit Facility. Payments under the Senior Credit Facility are indexed to a variable interest rate. Based on borrowings outstanding under the Term Loan B of our Senior Credit Facility of $161.4 million as of March 30, 2008, for every one percent increase in the interest rate applicable to the Amended Senior Credit Facility, our total annual interest expense would increase by $1.6 million.

Effective September 18, 2003, we entered into interest rate swap agreements in the aggregate notional amount of $50.0 million. We have designated the swaps as hedges against changes in the fair value of a designated portion of the Notes due to changes in underlying interest rates. Changes in the fair value of the interest rate swaps are recorded in earnings along with related designated changes in the value of the Notes. The agreements, which have payment and expiration dates and call provisions that coincide with the terms of the Notes, effectively convert $50.0 million of the Notes into variable rate obligations. Under the agreements, we receive a fixed interest rate payment from the financial counterparties to the agreements equal to 8.25% per year calculated on the notional $50.0 million amount, while we make a variable interest rate payment to the same counterparties equal to the six-month LIBOR plus a fixed margin of 3.45%, also calculated on the notional $50.0 million amount. Additionally, for every one percent increase in the interest rate applicable to the $50.0 million swap agreements on the Notes described above, our total annual interest expense will increase by $0.5 million.

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

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

Foreign Currency Exchange Rate Risk

We are also exposed to market risks related to fluctuations in foreign currency exchange rates between the U.S. dollar, the Australian dollar, the South African Rand and the U.K. Pound currency exchange rates. Based upon our foreign currency exchange rate exposure at March 30, 2008, every 10 percent change in historical currency rates would have approximately a $3.6 million effect on our financial position and approximately a $0.4 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 of interest income. 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

On September 15, 2006, a jury in an inmate wrongful death lawsuit in a Texas state court awarded a $47.5 million verdict against us. In October 2006, the verdict was entered as a judgment against us in the amount of $51.7 million. The lawsuit is being administered under the insurance program established by The Wackenhut Corporation, our former parent company, in which we participated until October 2002. Policies secured by us under that program provide $55.0 million in aggregate annual coverage. As a result, we believe we are fully insured for all damages, costs and expenses associated with the lawsuit and as such we have not taken any reserves in connection with the matter. The lawsuit stems from an inmate death which occurred at our former Willacy County State Jail in Raymondville, Texas, in April 2001, when two inmates at the facility attacked another inmate. Separate investigations conducted internally by us, The Texas Rangers and the Texas Office of the Inspector General exonerated us and our employees of any culpability with respect to the incident. We believe that the verdict is contrary to law and unsubstantiated by the evidence. Our insurance carrier has posted a supersedeas bond in the amount of approximately $60.0 million to cover the judgment. On December 9, 2006, the trial court denied our post trial motions and we filed a notice of appeal on December 18, 2006. The appeal is proceeding. On March 26, 2008, oral arguments were made before the Thirteenth Court of Appeals, which took the matter under advisement pending the issuance of its ruling.

In June 2004, we received notice of a third-party claim for property damage incurred during 2001 and 2002 at several detention facilities that our Australian subsidiary formerly operated. The claim relates to property damage caused by detainees at the detention facilities. The notice was given by the Australian government s insurance provider and did not specify the amount of damages being sought. In August 2007, legal proceedings in this matter were formally commenced when the Company was served with notice of a complaint filed against it by the Commonwealth of Australia seeking damages of up to approximately AUS 18.0 million or $16.5 million, plus interest. We believe that we have several defenses to the allegations underlying the litigation and the amounts sought and intend to vigorously defend our rights with respect to this matter. Although the outcome of this matter cannot be predicted with certainty, based on information known to date and our preliminary review of the claim, we believe that, if settled unfavorably, this matter could have a material adverse effect on our financial condition, results of operations and cash flows. We are uninsured for any damages or costs that we may incur as a result of this claim, including the expenses of defending the claim. We have established a reserve based on our estimate of the most probable loss based on the facts and circumstances known to date and the advice of our legal counsel in connection with this matter.

On January 30, 2008, a lawsuit seeking class action certification was filed against us by an inmate at one of our jails. The case is entitled Bussy v. The GEO Group, Inc. (Civil Action No. 08-467)) and is pending in the U.S. District Court for the Eastern District of Pennsylvania. On March 28, 2008 an amended complaint was filed altering the case to Allison and Hocevar v. The GEO Group, Inc. The amended complaint substituted the named plaintiffs but did not amend any of the substantive allegations. The lawsuit alleges that we have a companywide blanket policy at our immigration/detention facilities and jails that requires all new inmates and detainees to undergo a strip search upon intake into each facility. The plaintiff alleges that this practice, to the extent implemented, violates the civil rights of the affected inmates and detainees. The lawsuit seeks monetary damages for all purported class members, a declaratory judgment and an injunction barring the alleged policy from being implemented in the future. We are in the initial stages of investigating this claim. However, following our preliminary review, we believe we have several defenses to the allegations underlying this litigation and intend to vigorously defend our rights in this matter. Nevertheless, we believe that, if resolved unfavorably, this matter could have a material adverse effect on our financial condition and results of operations. Discovery has yet to ensue into the preliminary issue of the class composition.

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.

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ITEM 1A. RISK FACTORS

We have recently approved two substantial capital projects, including a significant expansion of our inactive North Lake Correctional Facility. We do not have management contracts with clients for the operation of these projects and cannot assure you that such contracts will be obtained.

We have recently approved and plan to proceed with two substantial capital projects, consisting of an 1,100 bed expansion of our Aurora Processing Center and an 1,225-bed expansion of our existing 500-bed North Lake Correctional Facility located in Baldwin, Michigan. These projects represent an aggregate of approximately 2,325 potential new beds. We estimate that the total costs for the completion of these projects will be approximately $125.3 million during fiscal years 2008 and 2009, which we intend to finance using company funds, including cash on hand, cash flow from operations and borrowings under our Senior Credit Facility. We believe that these facilities as expanded will be more attractive to clients seeking economies of scale and therefore better position us to help meet the increased demand for correctional and detention beds by federal and state agencies around the country. However, we do not yet have management contracts with clients for the operation of these facility expansions and we cannot in fact assure you that such contracts will be obtained. Any failure to secure management contracts for these expanded beds could have a material adverse impact on our financial condition, results of operations and/or cash flows.

There were no additional material changes to the risk factors previously disclosed in our Form 10-K, for the fiscal year ended December 30, 2007, filed on February 15, 2008.

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

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.

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 2, 2008

/s/ John G. O Rourke
John G. O Rourke
Senior Vice President & Chief Financial
Officer (principal financial officer)