



# Garda World Security Corporation

## Management's discussion and analysis

### For the year ended January 31, 2010

(All amounts are in thousands of dollars, except per share amounts and unless otherwise indicated)

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of financial position and results of operations ("MD&A") by the management of Garda World Security Corporation (the "Corporation" or "Garda") for the year ended January 31, 2010 was prepared as of April 29, 2010. The information contained herein takes into account all important events up to this date. This MD&A should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the year ended January 31, 2010 included in Garda's 2010 Annual Report. The annual report, the annual information form and the management proxy circular are also available through the SEDAR systems at [www.sedar.com](http://www.sedar.com).

### INTRODUCTION

The purpose of this MD&A is to explain management's point of view on Garda's operating results and financial situation as well as its performance for the year ended January 31, 2010. It aims to provide readers with a better understanding of our objectives, future prospects, risk factors and management of our financial resources.

All financial information in this MD&A, including amounts in the financial tables, is expressed in thousands of Canadian dollars, except where otherwise indicated. The financial information included in this MD&A also contains certain measures that are not accepted performance measures as per Canadian GAAP. Specifically, the Corporation uses revenues after deduction of operating costs, fixed costs, general and administrative expenses (Operating profit<sup>1</sup>), adjusted net income (loss) as well as cash flows from operations to evaluate operational and financial results of each of its business segments.

### FORWARD-LOOKING STATEMENTS

With the exception of historical data, certain information and statements in this report that cover expected results of the Corporation should be considered forward-looking. Such forward-looking statements involve risks, uncertainties and other factors, which may cause actual results, performance or achievements of the Corporation to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Some of the factors contributing to those uncertainties are fluctuations in quarterly and annual results and the ability of the Corporation to reduce its debt leverage in the current credit environment. Other contributing factors are fluctuations of interest rate and foreign exchange rate, government

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<sup>1</sup> While Operating profit (Revenues after deduction of operating costs, fixed costs, general and administrative expenses) and adjusted net income (loss) are not a recognized measure under Canadian generally acceptable accounting principles (GAAP), management believes it to be a useful supplemental measure. It is provided to assist in determining the ability of the Corporation to generate cash flow from its operations. Investors should also note that our presentation of operating profit and adjusted net income (loss) may not be comparable to similarly titled measures of other companies.

<sup>2</sup> The Corporation adopted the CICA Handbook section 3064 retroactively with restatement of consolidated financial statements (see note 4 of the consolidated financial statements).





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regulations, permits and licenses, capacity to manage growth, collective agreements, insurance, contracts not renewed or terminated, demand for the services offered by the Corporation, industry pricing pressure, as well as market forces, economic cycles and the strength of regional economies where the Corporation conducts its business. The foregoing list of important factors is not exhaustive.

#### OVERVIEW

Garda, with headquarters in Montreal, Canada, is one of the largest cash logistics, physical security and global risk consulting companies in the world. The firm's 45,000 dedicated professionals are among the most highly qualified and best-trained in the industry, serving clients in countries throughout North America, Europe, Latin America, North Africa, Asia and the Middle East.

Our strategy is to build business platforms from which we can achieve leadership positions. On these platforms we focus our business development, operational expertise and dedicated employees to achieve the singular goal of becoming the best operator in the industry.

Our decentralized management philosophy and structure focuses employees on performance and excellence, with a particular emphasis on client service and operational efficiency. Garda's experts take the time to fully understand their clients' business goals and objectives in order to customize solutions designed to improve their operational performance.

With proven expertise and our commitment to ethical standards, Garda has earned a reputation for integrity, leadership and uncompromising safety standards. Most importantly, Garda is a firm in which businesses, governments and individuals place their trust.

#### OPERATING SEGMENTS

The Corporation's operating segments are cash logistics and physical security services.

##### Cash Logistics

With our national coverage in the United States and our leadership position in Eastern Canada, Garda is the second largest cash logistics provider in North America. Our platform is comprised of more than 150 locations, 2,500 vehicles and 172 cargo aircraft serving more than 13,000 customers, none of which represents more than 10% of revenues.

Garda's clientele includes banks and financial institutions, retailers, restaurants and government agencies.

Our commitment is to make it easier for our clients to manage and grow their businesses. Garda uses innovative technology and logistical expertise to securely and efficiently move and manage information, cash and other valuables. Our solutions include a combination of armored transportation services, cargo aircraft, deposit processing, cash vaults services, in-store cash



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control systems and check imaging, as well as ATM services. Our strong expertise helps our clients minimize risks, increase their productivity and add value to their processes and systems.

We differentiate ourselves by offering enhanced technologies, innovative products and quality of service.

#### **Physical Security**

Our physical security segment comprises varied security services in Canada and internationally, detailed as follows:

##### *Security Officer Services*

Garda is a market leader in the Canadian physical security sector. We offer a wide range of premium services to address our clients' needs including security officers to protect the people and assets of more than 4,500 clients including office buildings, large oil and gas installations, industrial parks and other high-value locations. Our services also include airport pre-board security screening in 26 airports across Canada including four of the five largest. Finally, we offer asset protection, security, crisis management and patrol response, as well as other tactical and specialized services. We differentiate ourselves by providing premium services to clients who clearly value the importance of security.

##### *Global Risk Consulting Services*

Increasingly organizations are expanding outside their core markets to stimulate growth and revenue. But doing business in high-risk or emerging markets that are prone to violence, corruption or instability requires a comprehensive approach to planning, managing and responding to risks. Garda World, our global risk consulting group, helps clients mitigate risk by providing insight into local business, geopolitical, economic and cultural conditions and their potential impact on operations. Our highly qualified team contributes to the business continuity and the development of new markets for its clientele at local, national and international levels.

Our services include market entry strategy, project risk assessment, contingency planning, close protection, crisis response and risk analysis services. We differentiate ourselves by providing a low-profile approach, information focus, the use of local strategic partners and talented, high-quality teams, in order to plan and provide a low-profile, low-risk and avoidance-based security service.

##### *Pre-employment Screening Services*

Garda's pre-employment screening services assist clients in managing risks, reduce losses and enhance security by providing information necessary for optimal decision making. In addition to pre-employment screening services that include relevant reports on a potential employee's legal, financial and academic background, Garda also offers value-added services to insurance companies and financial institutions. Providing the right information to our clients is an important way we can help them manage their risks.



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#### SELECTED FINANCIAL INFORMATION

	2010	2009	2008
	\$	\$	\$
		(restated) <sup>(2)</sup>	(restated) <sup>(2)</sup>
<b>Revenues from continuing operations</b>			
<b>Physical security</b>			
Canada	418,380	409,548	413,297
United States and other	71,888	73,515	67,451
	490,268	483,063	480,748
<b>Cash logistics</b>			
Canada	74,977	72,975	66,225
United States and other	517,842	548,750	467,191
	592,819	621,725	533,416
<b>Total</b>			
Canada	493,357	482,523	479,522
United States and other	589,730	622,265	534,642
	1,083,087	1,104,788	1,014,164
<b>Operating profit from continuing operations</b>			
Physical security	31,971	26,990	24,608
Cash logistics	96,263	89,553	70,120
	128,234	116,543	94,728
<b>Net income (loss) from continuing operations</b>			
	(27,453)	(73,471)	11,244
<b>Adjusted net income (loss)<sup>(1)</sup></b>			
	10,002	(839)	6,836



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Adjusted net income (loss) <sup>(1)</sup> is reconciled in the financial statements as follow:

	2010	2009	2008
	\$	\$	\$
		(restated) <sup>(2)</sup>	(restated) <sup>(2)</sup>
Net income (loss) as per financial statements	(35,292)	(98,148)	14,696
Adjustments for specific items:			
Settlement of litigation	5,192	-	-
Goodwill impairment	-	55,089	-
Adjustment related to carrying value of long-term debt	20,035	-	-
Change in fair value of derivative instruments	27,649	23,998	-
Gain on disposal of assets	-	-	(5,156)
Loss from discontinued operations	2,717	24,677	(3,452)
Loss on disposal of discontinued operations	5,122	-	-
Taxes adjustments on specific items	(15,421)	(6,455)	748
Adjusted net income (loss) <sup>(1)</sup>	10,002	(839)	6,836



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	2010 \$	2009 \$ (restated) <sup>(2)</sup>	2008 \$ (restated) <sup>(2)</sup>
<b>Other operating data</b>			
<b>Gross profit</b>			
Physical security	15.1%	13.9%	12.7%
Cash logistics	34.8%	33.7%	31.5%
Consolidated	25.9%	25.1%	22.6%
<b>Operating profit</b>			
Physical security	6.5%	5.6%	5.1%
Cash logistics	16.2%	14.4%	13.1%
Consolidated	11.8%	10.5%	9.3%
<b>Per share data from continuing operations</b>			
Basic net income (loss) per share from continuing operations	(0.87)	(2.34)	0.36
Diluted net income (loss) per share from continuing operations	(0.87)	(2.34)	0.35
<b>Per share data</b>			
Basic net income (loss) per share	(1.12)	(3.12)	0.47
Diluted net income (loss) per share	(1.12)	(3.12)	0.46
<b>Adjusted per share data</b>			
Basic adjusted net income (loss) per share	0.32	(0.03)	0.22
Diluted adjusted net income (loss) per share	0.32	(0.03)	0.21
<b>Balance sheets data</b>			
Total assets	804,135	986,030	953,447
Total long-term debt	552,289	661,002	623,148
Cash flow from operations	56,676	43,025	57,017

## 2010 PERFORMANCE

As stated previously, our strategy is to establish platforms and then continually improve them with a combination of business development, operational excellence and focused entrepreneurial leadership in order to achieve our goal of becoming the best operator in our industry.

In 2010 we focused on this strategy. With the difficult US economic environment which affected our banking and retail customers, as well as the general uncertainty affecting Canadian businesses and development projects, we focused on making improvements and positioning ourselves to take advantage of the economic recovery.



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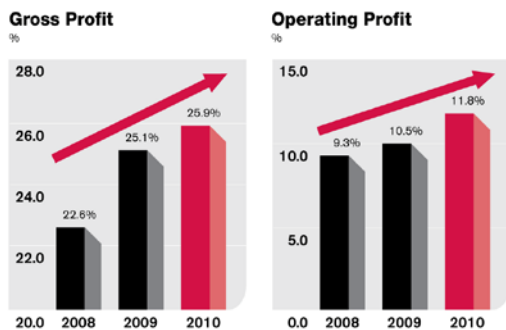
#### For the year ended January 31, 2010

(All amounts are in thousands of dollars, except per share amounts and unless otherwise indicated)

During the year, our divisions applied pricing discipline, improved profitability through increased efficiency, signed new customers and secured long-term contracts with existing customers.

For the third consecutive year, we improved our operational performance (see graphic 1) with a gross profit level of 25.9%, an improvement of 14.6% since 2008, and an operating profit level of 11.8%, an increase of 26.9% over the same three-year period.

**Graphic 1: Operational performance**



We also divested our US and Mexican guarding operations for net cash proceeds of \$42.2 million, applied to reduce debt. We generated cash flow from operations of \$56.7 million, an increase of 31.7% over 2009. As a result, total long-term debt was reduced by \$108.7 million during the year.

At the corporate level, subsequent to year-end, we successfully refinanced our bank debts, lowering interest rates and increasing capital availability for the future.

Adjusted net income totalled \$10.0 million in 2010 versus a loss of \$0.8 million in 2009, again a direct result of a more efficient organisation. Specific items in 2010 represent charges related to the refinancing transaction process, fair value of derivative instruments and discontinued operations. In 2009, specific items related to goodwill impairments, fair value of derivative instruments and discontinued operations.

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#### For the year ended January 31, 2010

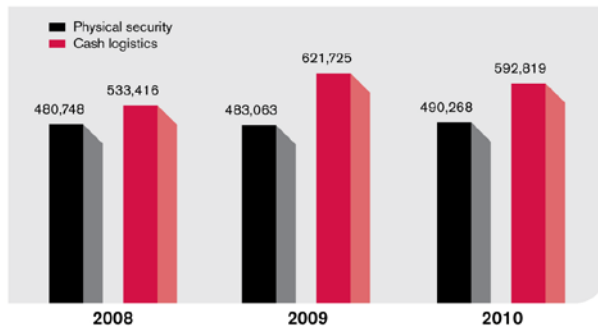
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#### Revenues

The decrease in revenues of 2% resulted essentially from the impact of a reduction of 5.6% in the level of activity in the US cash logistics operations due to economic conditions. Revenues in physical security continued to show growth of 1.5% despite extensive portfolio management efforts to improve of our book of business which positively impacted our margins.

#### Graphic 2: Revenues

##### Revenues from continuing operations



Physical security revenues increased by 2.2% in Canada, even as we performed extensive portfolio management to improve of our book of business and shift to more profitable accounts. Revenues have steadily increased throughout the year as business development initiatives were intensified. Revenues outside Canada dropped slightly as we redeployed resources with the completion of some contracts and reassigned them to new contracts in Iraq.

Cash logistics revenues decreased by 4.6% mainly because of the effects of the economic activity in the US.

After a difficult start of the year we saw activity levels stabilize in the second half of the year both in the US and in Canada.

## Garda World Security Corporation

### Management's discussion and analysis

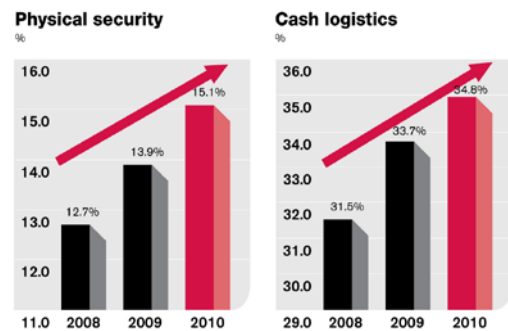
#### For the year ended January 31, 2010

(All amounts are in thousands of dollars, except per share amounts and unless otherwise indicated)

#### Gross profit

Our relentless focus on operational efficiencies has once again and for the third consecutive year, resulted in improvements in gross profit. Physical security gross profit amounted to 15.1%, an increase of 8.6% over 2009 and 18.9% over 2008 (see graphic 3). Cash logistics' gross profit, at 34.8%, showed an increase of 3.3% over 2009 and 10.5% over 2008 (see graphic 3) despite a loss of volume due to the economic slowdown in the US.

Graphic 3: Gross profit by sectors



#### Fixed costs, general and administrative expenses

The same focus was also applied to fixed costs, general and administrative expenses which decreased by 5.4% in 2010.

#### Operating profit

The continuous improvement of all our platforms in terms of efficiencies is a central part of our objective to become the best operator in the industry and the reason why we focus on operating profit as a key measurement of the performance of our platforms.

Operating profit was \$128.2 million, an increase of 10% from the prior year, a direct result of our improved gross margin of 25.9% and our focus on achieving efficiencies in our organisation which resulted in the decrease of fixed costs, general and administrative expenses.

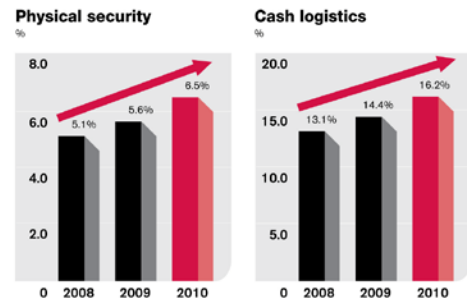
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Graphic 4: Operating profit by sectors



Physical security operating profit reached 6.5% of revenues in 2010 an increase of 16.1% over 2009 and 27.5% over 2008. Operating profit for cash logistics improved again in 2010 as we focused on efficiencies following the acquisition and integration of ATI Systems International, Inc. in 2007. It reached 16.2% of revenues in 2010, an improvement of 12.5% over 2009 and of 23.7% over the level of 2008.

#### Other elements of consolidated statements of loss

##### Settlement of litigation

After January 31, 2010, one of our divisions settled a legal action from a former employee related to wrongful termination allegations filed in prior year. As a result a charge of \$5,192 was recorded in the statement of loss including legal fees of \$2,063.

##### Goodwill impairment

As of January 31 of each year, the Corporation performs an annual impairment test to establish whether the fair value of a reporting unit exceeds the net book value of the assets of that unit. The Corporation tests its goodwill using a two-step methodology which includes estimates and judgments that are subjective and may change over time. In 2009, the results of the step one analysis showed that a comprehensive step two analysis of both the physical security and cash logistics segments was required. Accordingly, a goodwill impairment of \$55,089 was recorded on January 31, 2009.

As at January 31, 2010, the step one analysis showed that the fair value of all reporting units exceeded the net value of its assets and no impairment charge was required.

##### Financing expenses

The Corporation performed a revaluation of the carrying value of its bank debt which was consistent with the refinancing transaction subsequent to year-end. This revaluation included the value of the contractual payments included in its former credit agreements and the value of deferred financing costs. The Corporation recorded a charge of \$20,035 which was included in financing expenses in relation to this revaluation.

Interest on long-term debt amounted to \$58,233, a decrease of \$1,177 or 2% compared with 2009.

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This is in relation with the reduction of the long-term debt. The average interest rate on the banking long-term debt was 12.0%.

Other interest included mostly bank and professional fees.

All these elements resulted in the increase of \$17,382 in financing expenses.

#### **Change in fair value of derivative instruments**

The change in fair value of derivative instruments represents the variation in fair value of interest rate swaps during the year and full amortization of the unrealized losses on the interest rate swaps. In prior years the Corporation entered into interest rate swaps to mitigate the risk presented by variable interest rates on its long-term bank debt. Following a change in terms of our long-term debt in the fourth quarter of 2009 these swaps no longer qualified as an effective hedge for accounting purposes. Since that time, these swaps have been accounted at their fair market value. All the swaps were repaid on March 12, 2010 as part of the refinancing.

#### **Recovery of income taxes**

Income taxes for the year amounted to a recovery of \$23,319 compared with a recovery of \$17,074 for 2009. The effective income tax rate conforms to the tax policy of the Corporation as well as its many jurisdictions and the effect of its financing structure.

#### **Discontinued operations**

During the fourth quarter of 2009, the Corporation identified its smart safe products known as "CashLINK" and its US and Mexican Guarding units as operations it wanted to divest. As a result, the assets and liabilities related to these operations were reclassified as assets and liabilities held for sale and the results of their operations were presented as a loss from discontinued operations.

On April 20, 2009, the Corporation sold all of the assets related to the CashLINK product line for a cash consideration based on the future sales of products and services made by the buyer during the next five years.

On June 2, 2009, the Corporation completed the sale of its US and Mexican Guarding operations for a net cash proceeds of \$42.2 million. The cash consideration received was applied against long-term debt. The Corporation incurred a loss of \$5,122 on this transaction.

#### **Net loss for the year**

Net loss for the year was \$35,292 (\$1.12 per share) compared with a loss of \$98,148 (\$3.12 per share) in 2009.

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#### LIQUIDITY

##### Cash flows

Cash position at the end of the year amounted to \$11,857, a decrease of \$13,333 versus the end of fiscal 2009. This decrease is explained by the following:

##### *Operating activities*

Cash flow from operations, which is in direct relation to the operating profit generated by the business segments of the Corporation, amounted to \$56,676, an increase of 31.7% over the cash flow generated by the operations in fiscal 2009. This is in direct relation to the increase of Garda's operating profit.

Net change in non-cash working capital balances items used cash of \$11,465 compared with cash generated in the amount of \$37,162 in fiscal 2009. This is attributable to timing of payroll in 2010, an increase in revenues to be billed due to new physical security contracts started in January 2010 and stabilization in accounts receivable after a large management effort in collections in 2009 particularly in the US.

##### *Financing activities*

Cash used for financing activities amounted to \$75,261 and represents mainly the repayment of long-term debt.

##### *Investing activities*

Investing activities generated \$14,904 in cash resulting from the proceeds of the sale of the US and Mexican Guarding operation for \$42,174. Additions to property plant and equipment were \$20,077 in 2010 versus \$24,586 in 2009 as the Corporation extended its strict control programs to capital expenditures. The Corporation also incurred \$7,523 in 2010 related to collateral for insurance provision (2009 - nil).

#### Balance sheet analysis

##### *Working Capital*

Working capital excluding the current portion of long-term debt amounted to \$39,570 as of January 31, 2010 compared with \$82,239 as of January 31, 2009. This decrease is mainly attributable to the sale of the discontinued operations for a net cash consideration of \$42,174.

##### *Property, plant and equipment*

Property, plant and equipment amounted to \$218,763 as of January 31, 2010 a decrease of \$52,442 over 2009, mainly due to the depreciation of \$47,219, the impact of the decrease in the foreign exchange rate used in the conversion of the self-sustaining foreign operations of \$30,983 and the addition of \$27,668 (including addition of \$7,591 funded with long-term debt).

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#### *Goodwill and Intangible assets*

Goodwill amounted to \$303,583 as of January 31, 2010, a reduction of \$31,622 over goodwill as of January 31, 2009 mainly due to the impact of the decrease in the foreign exchange rate used in the conversion of the self sustaining foreign operations.

Intangible assets mainly included service contracts and client relationships which are amortized on a straight-line basis over periods varying between 10 and 20 years. Intangible assets amounted to \$47,737 as of January 31, 2010, a reduction of \$9,879 over intangible assets as of January 31, 2009, mainly due to the amortization of intangible assets of \$4,496 and the impact of the decrease in the foreign exchange rate used in the conversion of self-sustaining foreign operations.

#### *Long-term debt*

On March 12, 2010, subsequent to year-end, Garda completed a refinancing of all of its bank debt. The new facilities were used to repay all of the existing bank debt as at January 31, 2010. Uses of the proceeds from the refinancing were also used to buy-back the interest rate swaps covering its senior and term loans for an amount of \$47,441.

The new credit facilities consist of:

- Revolving facilities of a maximum amount of \$125,000 bearing interests at the prime rate plus 4.00% or at Libor or Bankers' acceptance plus 5.00%, with both spreads reducing with corresponding reductions in the leverage ratio. Repayable in full at maturity in March 2013.
- Term loan of \$215,000 bearing interest at the same rates as the revolving facilities. Repayable in quarterly instalments of \$5,000 from July 31, 2010 to April 30, 2011 and of \$7,500 from July 31, 2011 to March 2013.
- Senior notes of US\$250,000 and CA\$75,000 bearing interests at a fixed rate of 9.75%, repayable in full in March 2017.

The revolving facilities and the term loan are secured by a general pledge of all assets, present and future, of the Corporation. The senior notes rank pari-passu and are unsecured.

These new facilities provide the Corporation with a more balanced capital structure both in terms of interest rates as well as maturity, and with long-term unsecured financing with the senior notes. Prior to the refinancing, more than 90% of the repaid term debt (excluding revolver) in combination with the interest rate swaps was at fixed rates ranging from 9.97% to 15.21%.

The Corporation incurred approximately \$19,000 in transaction costs related to this refinancing transaction.

The Corporation reassessed the carrying value of its long-term debt and deferred financing costs as at January 31, 2010 and registered an amount of \$20,035 as an adjustment related to the

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carrying value of the long-term debt which was consistent with the refinancing transaction subsequent to year-end.

Under the new bank financing agreement, the Corporation is subject to certain financial covenants which include a total leverage ratio, a senior debt leverage ratio and a fixed charges coverage ratio.

Payments required on long-term debt, commitments and capital leases obligations over the next five years reflecting the terms and conditions of the refinancing transaction occurred of March 12, 2010 are as follows:

	Commitments	Capital payment on long-term debt	Minimum payments on capital leases obligations
2011	24,744	18,262	23,696
2012	22,523	29,289	12,435
2013	16,434	31,015	10,196
2014	13,300	93,021	3,029
2015	11,504	170	98
2016 and thereafter	37,795	334,930	-
	126,300	506,687	49,454

*Other long-term liabilities*

Other long-term liabilities amounted to \$64,228 as of January 31, 2010 compared to \$93,665 as of January 31 2009, a reduction of \$29,437. This reduction is mainly due to a decrease in insurance provisions for retention of worker's compensation and automobile liability risks in the Cash Logistics segment of \$10,292 and a decrease in fair value of the interest rate swaps of \$16,783.

*Shareholders' equity*

Shareholders' equity amounted to \$44,374 as of January 31, 2010 a decrease of \$16,524 from the amount as of January 31, 2009. This decrease is mainly due to the net loss of \$35,292 for the year, an increase of \$3,712 in contributing surplus representing stock based compensation for the year and a reduction in accumulated other comprehensive loss of \$14,542.

Accumulated other comprehensive loss includes during the year unrealized gains or losses on translation of financial statements of self-sustaining foreign operations and the unrealized losses on the interest rate swaps at the date when the financial instruments stopped qualifying as hedging instruments. As at January 31, 2010, the amounts recognized in the accumulated comprehensive loss were fully amortized, which was consistent with the refinancing transaction subsequent to year-end.

**Garda World Security Corporation****Management's discussion and analysis****For the year ended January 31, 2010***(All amounts are in thousands of dollars, except per share amounts and unless otherwise indicated)**Capital stock and stock options*

As at March 31, 2010, 31,601,798 class "A" shares were issued. During fiscal 2010, 119,416 shares were issued following the exercise of options.

During the year, the Corporation granted 1,165,000 stock options to its directors, officers and employees at exercise prices ranging between \$4.00 and \$5.00. As of January 31, 2010, 2,752,001 options to purchase class "A" shares were outstanding at an average exercise price of \$11.18 and with an average remaining contractual life of 2.80 years.

The total number of options that can be issued by the Corporation is limited to a maximum of 10% of the shares issued and outstanding of the Corporation.

**SELECTED QUARTERLY FINANCIAL INFORMATION**

The following table contains selected quarterly financial information for the last eight (8) quarters:

*(Presented in million)*

	Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Revenues from continuing operations	267.5	263.4	273.0	279.2	290.7	281.5	268.9	263.6
Net income (loss) for the year from continuing operations	(40.4)	1.4	7.8	3.7	(77.4)	(1.4)	0.1	5.2
Basic and diluted net income (loss) from continuing operations per share	(1.28)	0.05	0.25	0.12	(2.46)	(0.04)	-	0.16

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**Adjusted net income (loss) by quarter <sup>(1)</sup>**

2010	Q1	Q2	Q3	Q4
Net income (loss) as per financial statements	2,529	4,044	1,379	(43,244)
Adjustments for specific items:				
Settlement of litigation	-	-	-	5,192
Adjustment related to carrying value of long-term debt	-	-	-	20,035
Change in fair value of derivative instruments	(1,050)	(5,172)	3,281	30,590
Loss from discontinued operations	1,149	885	54	629
Loss on disposal of discontinued operations	-	2,877	-	2,245
Taxes adjustments on specific items	282	1,391	(883)	(16,212)
Adjusted net income (loss) <sup>(1)</sup>	2,910	4,025	3,831	(765)
<b>2009</b>	<b>Q1</b>	<b>Q2</b>	<b>Q3</b>	<b>Q4</b>
	(restated) <sup>(2)</sup>	(restated) <sup>(2)</sup>	(restated) <sup>(2)</sup>	(restated) <sup>(2)</sup>
Net income (loss) as per financial statements	4,545	(1,202)	(2,166)	(99,325)
Adjustments for specific items:				
Goodwill impairment	-	-	-	55,089
Change in fair value of derivative instruments	-	-	-	23,998
Loss from discontinued operations	676	1,259	766	21,976
Taxes adjustments on specific items	-	-	-	(6,455)
Adjusted net income (loss) <sup>(1)</sup>	5,221	57	(1,400)	(4,717)

**FOURTH QUARTER PERFORMANCE****Revenues**

Revenues for the fourth quarter ended January 31, 2010 were \$267,463 compared with \$290,724 for the corresponding quarter of 2009, a decrease of 8% overall. Cash logistics revenues amounted to \$140,447, a decrease of \$28,830 over the same period last year of which \$21,669 is due to foreign exchange rates.

Revenues of the physical security segment amounted to \$127,016, an increase of 4.6% over the corresponding period last year.

**Gross profit**

Gross profit decreased from 26.6% of revenues to 24.9% due to the foreign exchange impact which reduced the weight of the cash logistics segment in our overall results.

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#### **Fixed costs, general and administrative expenses**

Fixed costs, general and administrative expenses amounted to \$32,345 for the quarter, a reduction of 27.1% over the same period of 2009.

#### **Operating profit**

Operating profit amounted to \$34,136 for the quarter compared to \$32,843 in the corresponding quarter of 2009, an increase of 3.9%. Operating profit on revenues, the main indicator used to assess the performance of our segments, reached 12.8% of revenues compared with 11.3% in the fourth quarter of 2009.

#### **Income before financing expenses, income taxes, discontinued operations and change in fair value of derivative instruments**

Income before financing expenses, income taxes, discontinued operations and change in fair value of derivative instruments increased from a loss of \$38,344 in the fourth quarter of 2009 to an income of \$15,808 in the same period of 2010.

This was mostly due to a goodwill impairment charge of \$55,089 in 2009, only partially compensated by the settlement of litigation of \$5,192 in 2010 resulting from the settlement of a claim for wrongful dismissal in one of our divisions. This claim was settled on March 10, 2010.

#### **Financing expenses**

Financing expenses amounted to \$36,926 for the fourth quarter of 2010, as the Corporation recorded a \$20,035 specific charge in the fourth quarter related to the revaluation of its long-term debt at its carrying value which is consistent with the refinancing of March 12, 2010.

#### **Change in fair value of derivative instruments**

Change in fair value of derivative instruments resulted in a loss of \$30,590 for the quarter, due to the revaluation of the fair market value of the interest rate swaps of the Corporation and the amortization of the unrealized losses recorded previously in the accumulated comprehensive loss.

#### **Net loss for the period**

Net loss for the quarter amounted to \$43,244 (\$1.37 basic and diluted per share) compared with a net loss of \$99,325 (\$3.16 basic and diluted per share) for the same quarter of 2009.

#### **Cash flows**

The fourth quarter of 2010 resulted in a decrease of \$3,178 of cash and cash equivalents. This is the result of a positive cash flow from operating activities of \$19,282 for the period, cash used for financing activities representing mostly repayment of debt of \$16,402, and cash used for investing activities of \$15,212 mostly the result of capital expenditures in the quarter.

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#### RISKS AND UNCERTAINTIES

The Corporation is subject to various risks and uncertainties as a result of its operations. Risks that could affect the Corporation's profitability are regularly identified, assessed and managed.

##### **Growth management**

The significant growth of the Corporation over the past years as our existing platforms were being established has required management to upgrade its operational and administrative structures, as well as its management information systems. In order to ensure that growth is managed effectively, the Corporation's management has implemented the following action plan:

- 1) Assign and hold accountable expert managers to lead each operating and geographical segments;
- 2) Assign experienced management team members to the operations of the US cash logistics segment, its newest platform;
- 3) Recruit experienced outside managers to upgrade administrative structures and management information systems.

##### **Market competition**

The Corporation operates in highly competitive sectors. As a market leader, the Corporation intends to concentrate on developing its clientele in more profitable sectors, focusing on clients who want and appreciate the value-added services offered by the Corporation.

##### **Cost of financing**

Under our new credit facilities, approximately 37% of our long-term debt is at variable interest rates and as a result is affected by variations in Canadian prime rate, LIBOR or bankers' acceptance rates in the market. The Corporation monitors its interest rates risks on a monthly basis to determine the effect of potential interest rate variations.

##### **Government regulations**

The Corporation's operations are subject to various government regulations, at the national, federal, provincial and municipal levels. These regulations affect taxes, labor, workplace safety, the environment and all other aspects that might have an impact on the Corporation's operations and performance. No government regulations have affected the Corporation materially and negatively during the year ending January 31, 2010. Moreover, the Corporation is not aware of any current regulations that could materially impact the fiscal 2011 results.

##### **Collective bargaining**

The Corporation's employees are governed by a total of approximately 80 collective bargaining agreements. The Corporation will have to renegotiate some of these agreements in the coming months. However, there is nothing at the present time that indicates that the outcome of the negotiations could significantly impact the financial results of the operating segments affected by the renewal of these collective bargaining agreements.

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#### **Currency fluctuations**

Transactions recorded in US dollars relate exclusively to self-sustaining foreign operations and do not result in foreign exchange gains or losses for the Corporation. In addition, the Corporation contracted a debt denominated in US dollars in approximately the same proportion as the cash flow stream from self-sustaining foreign operations. Consequently, the Corporation believes that its exposure to risk from currency fluctuations is controlled. The Corporation monitors its exposure to foreign exchange on a quarterly basis.

#### **Credit risk**

The Corporation sells the majority of its services in North America and its revenues are generated on a contractual basis and received on a recurring basis from one year to another. Due to the large number of clients the Corporation deals with and their geographic and economic distribution, the credit risk concentration to which the Corporation is exposed remains limited.

#### **Reputational risk**

We depend on our reputation for high quality security services to conduct our business successfully. Damage to our reputation caused by widely-publicised security incidents affecting our clients and their installations may affect our reputation. This is why our security management team constantly monitors security risks surrounding our operations and has instituted corporate communications protocols to prevent or reduce negative publicity.

#### **Financial covenant risk**

The Corporation is subject to certain covenants on its new credit agreement. The financial covenants contained in the new credit agreement are a Total Leverage ratio, a Senior Debt Leverage ratio and a Fixed Charge Coverage ratio.

The Corporation's management monitors compliance with the covenants on a monthly basis and the Corporation's Board of Directors reviews compliance with the covenants on a quarterly basis.

## **SIGNIFICANT ACCOUNTING POLICIES**

The Corporation prepares its consolidated financial statements in conformity with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include the allowance for doubtful accounts receivable, valuation of goodwill, service contracts and client relationships, certain accrued liabilities, insurance provision and residual value of property, plant and equipment. Actual results could differ from these estimates.

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#### CHANGES IN ACCOUNTING POLICIES

*Adopted in the current year:*

##### **Goodwill and Intangible Assets**

In February 2008, the CICA issued Handbook ("HB") Section 3064, Goodwill and Intangible Assets, which replaced the existing HB Section 3062, Goodwill and Other Intangible Assets, and HB Section 3450, Research and Development. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

The adoption of this Section was applied retrospectively with restatement of consolidated financial statements of prior periods. The impact of the adoption of these standards has been included in note 4 of the consolidated financial statements.

##### **Financial instruments - Disclosures**

In June 2009, the CICA amended Section 3862, "Financial Instruments - Disclosures", to enhance disclosure requirements about the liquidity risk of financial instruments. The amendment also includes new disclosure requirements about the fair value measurement of financial instruments. This amendment is effective for annual financial statements relating to fiscal years ending after September 30, 2009.

*To be adopted in future periods:*

##### **Business Combinations**

CICA issued HB 1582, Business Combinations, to establish new standards for accounting for business combinations. It is the Canadian equivalent to IFRS 3 (revised), Business Combinations (January 2008). The section is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier application is permitted. New HB 1582, HB 1601, Consolidated Financial Statements, and HB 1602, Non-Controlling Interests, are to be implemented concurrently.

This new section requires, among others, that most identifiable assets, liabilities, non-controlling interests and goodwill acquired in a business combination be recorded at "full fair value" and acquisition-related costs are recognized as expenses as incurred and that liabilities associated with restructuring or exit activities are recognized only if they meet the definition of a liability as of the acquisition date.

##### **Consolidated Financial Statements**

CICA issued HB 1601, Consolidated Financial Statements, which supersedes the like named HB 1600. This Section applies to interim and annual financial statement for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated

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financial statements. HB 1601 carries forward the consolidated guidance previously included in HB 1600.

#### **Non Controlling Interests**

CICA issued HB 1602, Non-Controlling Interests, to provide guidance on accounting for non-controlling interests subsequent to a business combination. The section is to be implemented concurrently with HB 1582, Business Combinations. HB 1602 is effective for fiscal years beginning on or after January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. HB 1602 is to be applied retrospectively, with certain exceptions.

HB 1602 replicates the provisions of IAS 27, Consolidated and Separate Financial Statements, other than the disclosure requirements. The key features are: non-controlling interests in subsidiaries are presented in the consolidated balance sheet with equity, separate from the parent shareholder's equity. In income statements, non-controlling interest is not deducted in arriving at consolidated net income, but is allocated to the controlling interest and the non-controlling interest according to their percentage ownership.

The Corporation does not expect these three new standards to have a material impact on the Corporation's consolidated financial statements.

#### **Accounting changes**

In June 2009, the CICA amended Section 1506, "Accounting Changes", to exclude from the scope of this Section changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. This amendment is effective for years beginning after July 1, 2009.

#### **Financial instruments - Recognition and measurement**

In June 2009, the CICA amended Section 3855, "Financial Instruments - Recognition and Measurement", to clarify the application of the effective interest rate method after a debt instrument has been impaired. The amendment also clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes. This amendment is effective January 1, 2011. At this point, the Corporation does not intend to early adopt this amendment. The Corporation is evaluating the impact of the adoption of this amendment.

#### **International Financial Reporting Standards (IFRS)**

In 2005, the Accounting Standards Board of Canada (ASBC) announced that accounting standards in Canada are to converge with International Financial Reporting Standards (IFRS). On February 13, 2008, the ASBC confirmed that publicly accountable enterprises would be required to apply, and report in accordance with IFRS, in full and without modification, effective in fiscal years beginning on or after January 1, 2011 (the "Changeover" date). In the Corporation's reporting in those periods following the Changeover date, the Corporation will be required to present comparative data for equivalent periods in the previous fiscal year, making February 1, 2010 the "Transition" date for the Corporation.

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IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles ("Canadian GAAP"), but presents significant differences on certain recognition, measurement and disclosure principles. In the period leading up to the Changeover, the ASBC will continue to issue accounting standards that are better aligned with IFRS, as illustrated by Section 3064, Goodwill and Intangible Assets, thus mitigating the impact of conversion to IFRS. Further, the International Accounting Standards Board (IASB) will also continue to issue new, or amend existing accounting standards during the conversion period, and, as a result, the final impact on the Corporation consolidated financial statements of applying IFRS in full will only be entirely measurable once all applicable IFRS standards at the final Changeover date are known.

The Corporation has developed a plan to convert its consolidated financial statements to IFRS. The Corporation has also set up an IFRS dedicated team. The Corporation is monitoring the impact of the transition on its business practices, systems and internal controls over financial reporting. A detailed analysis of the differences between IFRS and the Corporation's accounting policies, as well as an assessment of the impact of various alternatives are in progress. Changes in accounting policies are likely and may materially impact the Corporation consolidated financial statements.

The Corporation's transition to full implementation of IFRS consists of four phases:

#### Phase 1-Preliminary Study

This phase involves performing a high-level assessment to identify areas of accounting differences and their impact that may arise from the transition to IFRS.

#### Phase 2-Evaluation

During this phase the Corporation prioritizes the areas identified in phase 1 (high, medium or low priority) and performs an evaluation of the key areas that may be impacted by the transition to IFRS. A detailed conversion plan will be then developed. Since changes are expected to IFRS standards during the conversion period and could impact the conversion plan, a monitoring process will be established.

#### Phase 3-Conversion

In this phase, the Corporation designs and develops solutions to address the differences identified in phase 2. Changes required to the existing accounting policies, information systems, business processes and internal controls over financial reporting will be identified in order to perform conversion to IFRS. Impacts on contractual arrangements are evaluated and reported appropriately; modifications will be made as required. It also involves the development of a communication and training program for the Corporation's finance and other staff, as necessary.

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#### Phase 4-Implementation

The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. Changes identified in phase 3 are implemented and tested to ensure that any difference is addressed prior to the changeover date. Implementation also involves further training of staff as revised systems begin to take effect and will continue until completion of the implementation.

The project will culminate in the collection of financial information necessary to compile IFRS-compliant financial statements, embedding IFRS in business processes, eliminating unnecessary data collection processes and submitting IFRS financial statements to the Audit Committee for approval.

Progress reporting to the Audit Committee on the status of the IFRS implementation project has been instituted. The Corporation completed the phase 1 in October 2009 and began the phase 2 in December 2009. The IFRS team will now focus on the detailed conversion plan and, concurrently, will start the phase 3 in May 2010.

#### POTENTIAL IMPACT OF IMPLEMENTATION ON THE CORPORATION

IFRS 1, First-Time Adoption of International Financial Reporting Standards, provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective application of IFRS. The Corporation is analyzing the various accounting policy choices available and will implement those determined to be most appropriate in the circumstances.

Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as of the date of the first comparative balance sheet presented based on standards applicable at that time. Transitional adjustments relating to those standards where comparative figures are not required to be restated will only be made as of the first day of the year of adoption.

The following are selected key areas of accounting differences where changes in accounting policies in conversion to IFRS may impact the Corporation's consolidated financial statements. The list and comments should not be construed as a comprehensive list of changes that will result from transition to IFRS but rather highlights those areas of accounting differences the Corporation currently believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be made where choices relating to accounting policies are available. The areas of differences highlighted below are based on existing Canadian GAAP and IFRS effective at January 31, 2010. At that stage, the Corporation is not able to reliably quantify the full impact of these and other differences on Corporation's consolidated financial statements.

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#### Business combinations

IFRS 3- Business combinations requirements differ from the actual Canadian GAAP. See the new CICA HB 1582 at the beginning of this section.

#### Property, plant and equipment

IAS 16-Property, plant and equipment requires a more rigorously and broader separation accounting for asset's components. Other differences between IFRS and Canadian GAAP exist in relation to the guidance when accounting for the replacement of components and the capitalization of administration and services costs is not allowed under IFRS. At the date of Transition, the fair value can be used as deemed cost under IFRS 1.

#### Impairment of assets

Mainly IAS 36-Impairment of assets. IFRS contains a single comprehensive impairment standard under which assets are tested for impairment either individually or within cash-generating units (CGUs). CGUs will have to be established and are typically identified at a lower level within the Corporation than an operating unit under Canadian GAAP. Differences also exist in the measurement methods of impairment charges and rules may more frequently conclude to an impairment charge.

## ATTESTATIONS

### Internal controls over Financial Reporting

We maintain a system of internal controls over financial reporting designed to safeguard assets and ensure that financial information is reliable. We undertake ongoing evaluations of the effectiveness of internal controls over financial reporting and implement control enhancements, when appropriate.

We also maintain a system of disclosure controls and procedures designed to ensure the reliability, completeness and timeliness of the information we disclose in this MD&A and other public disclosure documents, by taking into account materiality. Disclosure controls and procedures are designed to ensure that information required to be disclosed by the Corporation's in reports filed with securities regulatory agencies is recorded and/or disclosed on a timely basis, as required by law, and is accumulated and communicated to the Corporation's management, including its Chief Executive Officer and its Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The CEO and CFO have evaluated whether or not there were any changes to the Corporation's ICFR during the year ended January 31, 2010 that have materially affected its ICFR. No such changes were identified through their evaluation.