



CORNELL COMPANIES, INC. CORPORATE GOVERNANCE GUIDELINES

(As Adopted December 18, 2008)

INTRODUCTION

The Board of Directors of Cornell Companies, Inc. (“Cornell” or the “Company”) recognizes the importance of sound corporate governance as a means of addressing the needs of Cornell’s shareholders, employees, customers and other stakeholders. These guidelines, along with the Governance Committee charter and the other charters and key practices of the Board committees, provide the overall framework for the Cornell’s corporate governance.

SIZE & COMPOSITION OF THE BOARD

The Company’s Restated Certificate of Incorporation provides that the number of directors shall be fixed from time to time by the Board of Directors but in no event shall be less than 3 or more than 13. The Board believes that the size of the Board should remain flexible, growing or contracting as circumstances dictate. The Board believes that the size of the Board should be large enough to allow diversity of perspectives without being so large as to impede effective discussion.

INDEPENDENCE OF DIRECTORS

Cornell’s Board shall maintain a majority of independent directors. In determining “independence,” the Board will use such criteria established by the New York Stock Exchange (“NYSE”). In order to be considered independent, the Board shall affirmatively determine that the director has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) other than as a director.

SELECTION OF CEO & BOARD MEMBERS

The Board is responsible for selecting and replacing the CEO, as necessary.

The Board of Directors has delegated to the Governance Committee the responsibility for recommending to the Board the nominees for election as directors at the annual meetings of shareholders, and recommending persons to fill any vacancy on the Board. The Governance Committee is responsible for reviewing the appropriate skills and characteristics required of Board members, taking into consideration the current board members. The Board shall ensure that new directors receive an effective orientation to the Company.



BOARD COMMITTEES

The Board currently has three standing committees: Audit, Compensation, and Governance Committees. Only independent directors are to serve on these Committees. The responsibilities of each Committee and their membership requirements are contained in the Company's by-laws and/or respective Committee charters, which have been previously approved by the Board. The Company shall comply with all NYSE and regulatory requirements concerning the membership of these committees. The Board may establish additional committees and disband committees in existence from time to time as it deems advisable for fulfilling its duties and subject to applicable laws, regulations and rules. Each committee will perform its duties as assigned by the Board, in compliance with the committee's charter, if any, and in compliance with any applicable legal, regulatory, accounting or governance rules.

LEAD DIRECTOR

If the Board determines that the Chairman is not to be an independent director, the independent directors shall elect a lead director who shall be independent and whose responsibilities shall include: presiding at all Board executive sessions, acting as the liaison between the non-management directors and the Chairman and Chief Executive Officer and serving as the contact person to facilitate communications by shareholders directly with the non-management members of the Board. The Governance Committee has developed a procedure for recommending a lead director to the Board of Directors, and the Board has adopted Lead Director Qualifications and Responsibilities Guidelines.

RESPONSIBILITIES OF INDIVIDUAL DIRECTORS

In addition to the qualifications for individual directors, directors are expected to understand the Company's business and markets, to attend regularly and be prepared for Board and committee meetings, to participate actively in Board deliberations and decisions.

ETHICS AND CONFLICTS OF INTEREST

The Board expects all directors, officers and employees to act ethically at all times and to acknowledge their adherence to the Company's code of business conduct and ethics and conflicts of interest policies. All directors must recuse themselves from any deliberation or decision affecting their personal, business or professional interests. The Board will not permit the waiver of any ethics policy for any director or executive officer.

BOARD AGENDA

The Chairman of the Board develops the Board's agenda, with input from the lead director, other Board members and Cornell's management.



EXECUTIVE SESSIONS OF INDEPENDENT DIRECTORS

The independent directors of the Board are to meet periodically in executive session without management, which generally shall be at each regularly scheduled Board meeting. The Chairman of the Board, if independent, chairs executive sessions. Otherwise, the Lead Director chairs these sessions.

DISTRIBUTION OF BOARD MATERIALS

Information is important to the Board's understanding of the business and is essential to prepare Board members for productive meetings. Presentation materials relevant to each meeting are to be distributed to the Board members in advance of the meeting with sufficient time to allow for due consideration and preparation. In order to have real-time information, the Board will receive some materials at Board meetings.

ATTENDANCE OF NON-DIRECTORS AT BOARD MEETINGS

The Board may invite non-Board management members to Board meetings to provide information about items being discussed by the Board and the Company generally. The Chairman and the lead director shall confer to determine, in coordination with the proposed agenda and Board preferences, the non-Board members to invite to each meeting.

SUCCESSION PLANNING

The Board is responsible for the oversight of Cornell's succession planning and has adopted a CEO Succession Policy. To assist the Board in its succession planning, the CEO annually provides the Board with an assessment of senior managers and their potential to succeed him or her, as well as the potential for outside candidates for the role. In addition, the CEO annually provides to the Board a report on the Company's program for management development. The Board also maintains, and discusses on a periodic basis, the CEO succession plan and the CEO's recommendation as a successor should the CEO position become unexpectedly vacant.

FORMAL EVALUATION OF CEO

The full Board (independent directors only) formally evaluates the CEO on an annual basis. The evaluation is based on, but not limited to, annual business performance, accomplishment of long-term strategic objectives, events during the year, the development of management, and other criteria established by the Board.

ASSESSING BOARD PERFORMANCE

The Board and the standing committees perform a self-evaluation on an annual basis. The primary purpose of the self-evaluation is to increase the effectiveness of the Board and the committees. In



addition, the Board will use its evaluation process in determining the characteristics and critical skills required of prospective nominees for election to the Board.

BOARD ACCESS TO MANAGEMENT AND INDEPENDENT ADVISORS

Board members are to have complete access to Cornell's management. It is assumed that this contact is not distracting to the business operation of the Company. The Chairman and CEO shall be copied on requests and inquiries sent to non-Board members, except where it would be inappropriate or improper to do so or where it is done in the routine course of Board and committee activities and interaction with senior executives.

RETIREMENT OR RESIGNATION OF CEO

In the event Cornell's CEO is a director at the time of their resignation or retirement, he/she shall tender their resignation from the Board at that time. Whether the resignation is accepted shall be determined by the Board with input from the new CEO.

DIRECTOR COMPENSATION

The Compensation Committee is responsible for recommending to the Board the compensation and benefits paid to directors for their Board service. The Board believes that no compensation for Board service shall be paid to directors who are employees of the Company.

In addition, the Board believes that any other compensation or benefit paid by the Company to, or derived as a result of a director's relationship with the Company may affect the independence of a director and should be critically evaluated and specifically approved by the Board. This includes charitable contributions to organizations with which a director is affiliated, or consulting contracts or other indirect forms of compensation to a director or an organization with which the director is affiliated.

MAJORITY ELECTION OF DIRECTORS

The Board has adopted a Majority Election of Directors Policy pursuant to which a nominee for director in an uncontested election (i.e., an election where the only nominees are those recommended by the Board) who receives more "withheld" and/or "against" votes than "for" votes shall tender his or her resignation following certification of the shareholder vote. The Board is then required to act on the tendered resignation after review and recommendation by the Governance Committee. The Majority Election of Directors Policy is posted on the Company's website at www.cornellcompanies.com under "Corporate Governance." The policy does not apply to a contested election.



STOCK OWNERSHIP GUIDELINES

The Board has adopted stock ownership guidelines for directors to align the interests of directors with the interests of shareholders and further promote Cornell's commitment to sound corporate governance. The Board has also adopted stock ownership guidelines for executives to similarly align their interests.

OPTION DATING

The Board has adopted an Option Dating Policy, which states that the Company shall not backdate or springload options, grant options retroactively or in any other way grant or modify options so as to take unfair advantage of favorable or unfavorable information or movements in the stock price. The policy also limits the circumstances under which an option may be repriced or modified and clarifies that no such adjustment shall increase the aggregate value of any outstanding award.

RELATED PERSON TRANSACTION POLICY

The Board has adopted a Related Person Transaction Policy to establish policy and procedures pursuant to which transactions with related parties are reviewed, approved or ratified. The policy applies to transactions in which the Company is a participant, a related person has a direct or indirect interest and the amount involved exceeds \$10,000. The Governance Committee, or another standing or ad hoc committee comprised of at least three independent directors not a party to the transaction, is responsible for reviewing, approving and ratifying related person transactions. Certain transactions specified in the policy are deemed pre-approved.

The policy also requires review of proposed contributions by the Company to charitable organizations where a related person works or serves on its board and requires reporting to the General Counsel of contributions to such an organization in excess of \$10,000 by executive officers and/or their spouses. The policy further requires that the Governance Committee approve the hiring of immediate family members of directors or executive officers.

BOARD INTERACTION WITH THIRD PARTIES

The Board firmly believes that Cornell's CEO and his or her designated representatives speaks for Cornell. Individual Board members may, from time to time, meet or communicate with various outside third parties such as the press, investors or customers. However, it is expected that this communication be made with the advance concurrence of the Chairman and the CEO. Where Board comments need to be made independently from management of the company, they should be made only by the Chairman, or by the Lead Director (if the Chairman and the CEO are the same person), or by another Board member or representative as designated by the Board. Routine inquiries should be referred to the Company's Public Policy Department.